Retail industry braces for shopping center collapse

By SHANNON BEHNKEN | The Tampa Tribune

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TAMPA - The weakening commercial real estate market is braced for a bust that experts say could cause even more damage to the local economy than the housing collapse.

"Any projects built in the last five years, especially those built near new residential developments, are at risk," said Shari Olefson, a Tampa real estate attorney with Fowler, White and Boggs. "I'm hearing from a lot of owners who just want to walk away, just as homeowners are turning over the keys."

Florida cities already are among the nation's hardest-hit by home foreclosures. Similar problems in the commercial real estate market would cause the recovery of the economy to take even longer. That's worrisome because estimates call for the commercial real estate market, valued at about $6.7 trillion nationally, to see half of its loans due over the next three years.

At the same time, U.S. banks have been charging off soured commercial mortgages at the fastest pace in nearly 20 years, according to a recent analysis by The Wall Street Journal. At the current pace, losses on loans to finance offices, shopping malls, hotels, apartments and other commercial property could reach about $30 billion by the end of 2009.

All of this is a recipe for disaster for local and regional banks, which funded the majority of commercial projects. Compounding the problem is falling real estate values and tenants who don't pay their rent.

"We got overheated," said Scott Clendening, president of the Florida Gulf Coast Commercial Association of Realtors. "We don't have 1,000 people a day moving into Florida anymore, so retail is going to suffer."

Industry leaders have estimated that 200,000 businesses and 10 percent of the nation's shopping malls will shut their doors over the next year.

Even landlords who are able to make ends meet may soon run into trouble, said Christopher Jones, who owns shopping centers, office buildings and apartments in the Tampa Bay area.

The loan on his Largo shopping plaza, for example, is up for renewal next year. He has never missed a payment, but still fears he could lose the property in foreclosure. That's because lease rates have dropped from $16 a square-foot to $11 a square-foot and the vacancy rate has increased. The value of the property will likely be less than what he paid for it a year and half ago, he said.

"So why would my bank, or any other bank, renew the loan," Jones said. "They may renew it only if I bring a half a million dollars or more to the table. If I can't do that, though, I'm in a mess, and they're in a mess."

Part of the problem, Olefson said, is that credit is tight and lenders will either be unwilling to refinance commercial projects, or the projects won't qualify because owners owe more than the loan is worth.

In some cases, lenders are requiring the loan be paid early. Some commercial loans include clauses that give lenders the right to call the loan in early if the vacancy rate rises to a set percentage.

Lease agreements also can give landlords headaches. Some tenants have clauses in their contracts that would give them reduced or free rent if the vacancy rate rises or if the mix of tenants changes.

"Some companies have staffs that tour the country and keep track of this," Olefson said.

Clendening said he hopes that lenders will be more flexible and work out new loan terms with tenants.

"The banks have gotten their butts kicked on residential loans, and they don't want to put commercial loans on their books, too," he said.