

LAND Values are so low lenders face haircut of as much as 90%

Banks ponder what to do with seized, undervalued land

by Eric Kalis
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Vacant land in South Florida has become a vexing problem for banks stuck with large inventories of non-income producing properties on their books.

The dilemma bank executives face stems from regulatory pressure to balance loan portfolios. During the building boom of the middle of last decade, lenders were quick to provide construction financing for large-scale developers who gobbled up land throughout the region with plans to build condominiums. But the residential market collapsed, forcing many developers into default.

"A lot of banks are under extreme regulatory pressure because they have too much real estate owned (REO) land or too much land in their loan portfolios," said real estate attorney Michael Greene, a shareholder at Berger Singerman. Greene represents lenders and developers.

"Raw land is the worst thing to have now if it's not platted into lots or in a position where someone can step in without inheriting huge infrastructure costs," Greene said.

The size of vacant land inventories on a bank's books underscores its ability to weather the tu-



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Broker Tom Godart of Godart Florida Real Estate Investments says the biggest issue banks have is that property values have fallen below original loan amounts.

multuous economic cycle, said real estate attorney Mark Somerstein, a partner at Ruden McClosky. Somerstein mainly represents lenders.

"Banks that were proactive two years ago and sold many of their land loans were able to capitalize their balance sheets between then and now," he said. "Those are the ones who will be successful and survive the problems they're dealing with. It's more problematic for banks

who try to sell land loans now."

But bank executives remain reluctant — in some cases completely unwilling — to part with vacant land or loans secured by such properties. Values of raw land have dropped so precipitously that unloading the assets today would require a bank to take as much as a 90 percent haircut on a sale.

"The biggest issue is that property values have fallen well below whatever the

loan amount was," according to broker Tom Godart, managing director of Godart Florida Real Estate Investments in Fort Lauderdale. Godart's company invests in commercial real estate — including vacant properties zoned for multifamily development — and advises other investors.

"Land is one of those assets that on one

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LAND: Some lenders are looking to 'stretch out' bad loans

hand is easy to carry because it has no operating costs outside of taxes and cutting the lawn," Godart said. "Unfortunately in today's world, it is a depreciating asset that is based on the optimism of the buyer. Once a developer has lost optimism with regard to what it was going to do with the property, there might not be another group who can replace it and have the same vision."

The August foreclosure auction of more than 14 acres at the Jockey Club in North Miami reflects the decline in land values over the past few years and the unwillingness of lenders to part with vacant properties at a substantial discount.

A group of lenders led by Seacoast National Bank that had been awarded \$23.7 million in an April foreclosure judgment took title to the site with a bid of slightly more than \$5 million. Only one other investor made a smaller bid despite the prominence of the 11111 Biscayne Blvd. property, which includes a vacant 8.16-acre bayfront parcel once occupied by the Lear School, a private school for the children of seasonal residents, and a 16-slip, deep-water marina.

An attorney for Seacoast had said shortly after the auction that a deal to sell the site to a third party was in the works. But no sale has been completed.

With such a disconnect between original loan values and the current assessed values of vacant properties, bank executives must consider alternatives to stubbornly refusing to unload assets until values improve, Godart said.

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TOM GODART
MANAGING DIRECTOR
GODART FLORIDA REAL ESTATE
INVESTMENTS

past," he said.

One alternative to taking an extreme loss on a loan write-down would be to "stretch out" loans secured by vacant parcels with borrowers, Godart said. That would reduce both the number of land loans in default and how much REO land a bank has on its books.

Another approach is to allow a potential buyer to complete development site plans and obtain all necessary government approvals in place before closing, he said.

"The ideal guy to work with when you have a property under contract is a dependable, smart developer with a track record," Godart said. "Since raw land doesn't produce any income for a lender, if it has an interested buyer who is at least paying something close to a responsible appraisal, then it has a fair deal."

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