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Walker & Dunlop senior vice president: Get ready for a tough 2010

by Dan Rafter
Chicago-> Loop

Vic Clark is senior vice president and central region manager with Walker & Dunlop, a real estate finance company and multi-family lender based in Bethesda, Md., that also runs a Chicago office. Clark, who is overseeing the company's activities in the Midwest, recently spoke to Midwest Real Estate News about the challenges that all multi-family lenders, and commercial real estate pros in general, will face in 2010.



Midwest Real Estate News: Let's start with the good news. It seems that 2009, despite all the turmoil, was still a solid one for your company.

Vic Clark: Walker & Dunlop has grown substantially in 2009. In the early part of the year, Walker & Dunlop along with Green Park Financial - an apartment lender - merged with Column Guaranteed, a subsidiary of Credit Suisse Group. That move made us one of the largest multi-family lenders in the country.

MWREN: Looking ahead to 2010, what do you see for your company and the industry as a whole?

Clark: We are excited that 2010 from a transactional standpoint should clearly exceed 2009, the markets just continue to struggle. I cover a 17-state region from Texas to Chicago. The region includes most of the Midwest cities. When I look at that territory, clearly there has been a substantial amount of job loss. Unemployment continues to increase. We don't see that changing significantly the first half of the year. Couple that with many overbuilt markets, and we anticipate further declines in rental rates. That's unfortunate, but I think that those declines will be specific to overbuilt markets. There are plenty of those. But there are also plenty of what we call second-tier markets, some of the not-so-major cities that have survived very well. There has been less job loss. There has been less overbuilding. We think that those markets will be where the bulk of the business in 2010 is generated.

MWREN: Can you give me an example of one of these second-tier markets that might see solid activity in 2010?

Clark: Omaha is doing well. The city has had a little bit of new construction lately but nothing to hurt the marketplace there. You see more banks there, like Mutual of Omaha bank, that are actively trying to grow and lend money. To a certain extent, banks like this had a client base that was less willing to take on leverage. When you look at the banks in the south, they didn't have a choice. If they wanted to win a customer, they had to get to that leverage.

MWREN: What do you expect 2010 to bring to multi-family lenders?

Clark: I think we'll see more rent compression and more concessions. We'll see a lot of that across the board, whether "A," "B" or "C"- quality multi-family assets. I don't think any category will be spared. When it comes to transactions, I see people lining up to bid on any good Class A or B deal that comes to the market. The difficulty that we're going to see is where the agencies, Fannie, Freddie and HUD, are going to be tightening up the most on is in the "B" and "C" product classes. These are the properties that were built in the '60s and '70s. You'll see things like higher replacement reserves. You'll see increased repair and maintenance expense requirements. You'll see higher debt-service coverage and lower loan-to-value ratios.

MWREN: Are people going to have to get used to this kind of market?

Clark: I absolutely believe they are going to have to get used to it. It hurts, though. Certainly over my career I've done more than my fair share of "B" and "C" product. It's unfortunate, but that is where the market is moving. That will create huge pressure on the owners of those products to either upgrade the assets, coming out of pocket with their own capital, or try to find a banking relationship that will lend them money. That will be very difficult.

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MWREN: How difficult will it be for developers to get financing in 2010?

Clark: It will get better as the stronger banks continue to gobble up some of these weak regional banks or purchase failed banks through the FDIC. They will bring new lending to different markets. That is a slow process. It's going to become a stricter world in which developers will have to find a way to operate. You have to adapt. You have to move your asset to the highest level that you can.

MWREN: It looks, then, like 2010 will be another tough year.

Clark: The toughest part as I see it, having lent money for the last 15 years, is that you have a lot of very good borrowers, repeat clients, who for better or worse got caught up in the market that existed from 2006 to 2008. They wanted to stay active. Unfortunately, those acquisitions are taking them now to new lows. They are hurting some of the best customers out there. That is unfortunate. As a lender, we are in the customer-service business. It is very difficult when you see good customers, long-term repeat customers that you are working with, rolling up your sleeves with and trying to help, but the market just continues to pick away at them. And unfortunately, I think we will see a continuation of that next year.

MWREN: Do you have any hope for good news in 2010?

Clark: I think it will take every bit of next year before we see the market come back. I am hopeful that the job losses will end next year and then start on a slow and modest recovery in 2011. I'm upbeat because I do think that lenders like ourselves are working on proprietary products, whether a securitized product or private equity, whatever products we can create. The difficulty with those products is that they will be limited in the dollar amount that you can do. There will be products offered by Walker & Dunlop and other groups like us who developed proprietary lending products on a more limited basis. We will solve some problems. But there is no one out there who will have enough to solve all the problems.