

Q&A with Al Suguitan, President and Chief Operating Officer Greater Gateway Association of Realtors

IBJ: When did the real estate slump begin?

Suguitan: I'd say the spring of 2007. We were still high, but it wasn't sustainable. The market started to adjust itself to



Suguitan

increasing prices and some longer sales. A significant number of properties that were sold during 2007 were second homes. That's when the investment bug was biting people. But when you start to see a different type of participant in the marketplace, then you know the market is changing. In 2008 things started to really erupt. It was starting to implode on itself.

IBJ: What do we need to turn the real estate market around?

Suguitan: It's going to take job creations so that folks start feeling that they are now ready to move to that next level. But with this particular recession, we don't see that happening. Unemployment at the national level is still hovering around 10 percent.

IBJ: Is the market overbuilt? Do we have more housing units out there than what is normal for the population?

Suguitan: Probably 30 months ago that would have been true. Then, new housing starts and the number of units that contractors were speculating on was fairly high for the market. Now, if you talk to a builder they may venture out there and build one spec house, maybe. Homebuilders are looking for the custom made home where they can keep their crews together and keep themselves occupied. One of the things that I track is the number of units that are on the market from time to time. Right now, there are about 5,300 to 5,400 residential units on the market in Southwestern Illinois.

IBJ: How does that compare to normal times?

Suguitan: A normal period would probably be a little under 5,000. I would say that it's an indication that the market supply is meeting demand. What we have now is still a buyer's market.

IBJ: Is there a particular price range that's moving better than others in this market?

Suguitan: From about \$80,000 up to \$110,000 or \$115,000.

IBJ: Is that because of the first-time homebuyer incentives?

Suguitan: I think that's correct. One of the criteria for those \$8,000 credits was that you had not owned a home in five years. You're always going to find exceptions, but the majority of those customers are going to be looking in the lower price ranges.

IBJ: When do you think the market will turn around?

Suguitan: We're kind of bumping along the bottom for housing. It's an L-shaped recovery. You look at the numbers; you look at the statistics; you look at the future; and I think we're going to be in this for another couple of years. Before, I thought we'd be seeing clear signs of a housing recovery in the second half of 2010. Well, we're into the second half of 2010 and I don't see much changing. The chief economist for the National Association of Realtors is now predicting it will be 2014 or 2015 before we get back to a sustained market. There are still several hundred - if not many more than that - properties that are ready to go into foreclosure, and if those houses are dumped onto the market, it would be devastating.

IBJ: It would seem that now would be a great time to buy a home. Is it?

Suguitan: Yeah, there's plenty of inventory and super low interest rates but there are two problems. The first one is jobs and the second is that the standards that the lenders are using to qualify people have tightened up.

IBJ: It seems to me that I see more "For Sale By Owner" signs out there these days. Is that true?

Suguitan: I look for those myself because I'm trying to gauge what's happening with the market, and I would say it's just the reverse in my estimation. Now I don't go around counting or whatever, but this is the time - when times are tough - when consumers need as much help as they can get. I try to impress this upon our members all the time: realtors add value. They're not an expense. People say our commission is a big expense, but the realtor brings value to the table. I want to hammer that into the heads of my people, that you're not an expense, that you bring expertise, because that allows me to come up with the next statement. And that is...in order to be tops in this business - to be proficient - you've got to be educated. You have to take the continuing education courses. You have to improve yourself. If the last course you took was 10 years ago, man, have you missed the boat because there are things that are changing. We have more certificate programs on short sales, foreclosures, secondary properties, international properties, you name it. There's probably a program out there for you.

IBJ Business News

Louer to serve on SIUE advisory board

Jane Louer, president of Louer Facility Planning, has been invited to serve on the SIUE Athletic Advisory Committee. She received her Master's of Business Administration from SIUE and was chosen for her interest and support for the SIUE athletic groups.

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Southwestern Illinois would receive major economic impact from 2012 convention

By ALAN J. ORTBALS

If St. Louis wins the competition for the 2012 Democratic National Convention, hotels, restaurants and retailers in Southwestern Illinois will be winners as well.

As part of St. Louis' bid, the St. Louis 2012 Convention Host Committee needed to submit commitments for a minimum of 16,000 hotel rooms, according to Mack Bradley, a member of the committee. With just 7,600 hotel rooms in downtown St. Louis, attendees will need to be spread over a bi-state geography.

Stacy Cutler, general manager of the Doubletree Collinsville Hotel and the Four Points by Sheraton Fairview Heights, says she submitted both hotels.

"We've guaranteed them 80 percent of our inventory out of both hotels for that week," Cutler said. "Collinsville and Fairview Heights are just a hop, skip and a jump from downtown St. Louis. They're just minutes away."

Cutler says that while she thought it was unlikely that any of the political people would be staying outside of downtown, thousands of other people ranging from news teams to security personnel will be involved in the Democratic National Convention.

Bradley says St. Louis had not gone after a national political convention since 1988 when it lost the Republican National Convention to New Orleans. The last national political convention held in St. Louis was in 1916 at the St. Louis Coliseum. Woodrow Wilson was nominated. The Coliseum was hyped to be the largest public building in the United States when it was built at the corner of Washington and Jefferson in 1908.

Bradley says that since the terrorist

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Mack Bradley

St. Louis 2012 Convention Host Committee Member

attack of Sept. 11, 2001, changes have been made that allow "second-tier" cities like St. Louis to compete. No longer does the host city have to bear the full financial burden.

"Post 9/11, the host cities themselves don't foot the bill entirely for the convention, and that didn't used to be the case," Bradley said. "It used to be that the host city had to spend a great deal of money on its own. If you look at the cities that are bidding this year for the convention, they're all cities that more or less are peers of St. Louis. These are cities that in the past couldn't afford to go after a national convention. Now we can because there's a certain amount of money that comes from the federal government for both parties as it relates to local services for a national convention. So now the economics of it work for a city like St. Louis, whereas before it really only worked for much bigger cities."

According to Bradley, the Denver host committee raised about \$50 million to put on the 2008 Democratic National Convention but most of that money came

from donors around the nation. Only a small percentage came from local donors. He says he expects that same thing would happen here in St. Louis, with national donors footing most of the bill. The city would also get a grant from the Dept. of Homeland Security to cover costs of police overtime and other security considerations.

Bradley says that the economic impact on the Denver metropolitan area was more than \$265 million. Of that, about \$153 million was generated inside the city and county of Denver with the balance of it in other outlying areas. By comparison, Bradley says that the Major League Baseball All-Star game that was held in St. Louis last year generated an economic impact of about \$60 million.

"That was one of the reasons why we've been looking at this as very much of a Missouri-Illinois effort - both politically and economically - because we think the economic benefits will be spread over a very wide area in both Missouri and Illinois. We think St. Charles County, St. Clair County and Madison County will certainly benefit from it and areas even beyond that."

Bradley says it's been a bi-state effort to land the convention, with support coming from as far away as Chicago Mayor Richard Daley.

"It certainly helps to have the political support of people like Senator (Dick) Durbin and Congressman (Jerry) Costello from Illinois," Bradley said. "In fact, we got a letter of support for our bid signed by the entire Illinois Democratic Congressional delegation."

Three other cities are vying for the convention: Charlotte, N.C.; Cleveland, Ohio; and Minneapolis, Minn. A decision is expected before the end of the year.

St. Louis has come a long way in recent years, Bradley says, and there's been a huge investment in downtown St. Louis.

"We think this is our time," said Bradley. "St. Louis has spent the last several years burnishing its credentials as it relates to conventions and as it relates to hotels. I think it would be tremendously exciting for both Missouri and Illinois."

IBJ Business News

PohlmanUSA earns green certification

St. Louis, Mo.-based litigation support firm PohlmanUSA Court Reporting has earned its Green Business certification from the Green Business Bureau. It is the first court reporting agency in the United States to be certified by the GBB.

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LOANS

Continued from page 1

long-term leases and excellent locations, such as the Class A office buildings in Clayton...there's increased demand for that type of investment from pension fund advisors, private REITs (real estate investment trusts) and private capital sources. At the other extreme, on the high-risk distressed side, we have not seen a whole lot of change. Those investors are still looking for high returns, but they're generally the speculative, entrepreneurial type of buyer."

David Wittenauer, vice president at NAI DESCO in St. Louis and Southwestern Illinois, has brokered commercial real estate transactions in Southwestern Illinois for years. Wittenauer says a lot of five-year commercial loans written from 2004 through 2007 - during the heydeys - are now coming due and new appraisals are showing a significant drop in the assessed value of the properties. What this can mean to the borrower, he says, is that a loan that was performing now needs an increased amount of cash infused into it. With lending restrictions much tighter than they were five years ago, the borrower will need to pump more equity into the property - a requirement the borrower may be unable to meet, especially if his cash flow is

hampered by vacancies - meaning fewer paying tenants.

"When many of these loans were originated, they were made with lenient financing guidelines," said Wittenauer. "Often times, very little equity was put in by the borrower. In turn, when these loans balloon, they're going to be upside down and will require cash to be infused by the borrowers who may not have it. That's a major concern over this large amount of debt coming due," he added. Even though the borrower's loan had been performing, if he doesn't have the cash his bank now requires, now that property may become distressed."

Distressed properties are defined as those that suffer a reduction in their market price because of pressures operating on the owner, such as threatened foreclosure or fear of economic changes that might decrease the value.

According to Real Capital Analytics, the total value of distressed commercial real estate in the U.S. at the close of the second quarter 2010 was \$166.8 billion; this total includes properties in distress, foreclosure and lender REO or real estate-owned. It actually represents an 11 percent decrease from the close of the first quarter.

Rhyné Brown, executive vice president of The Special Asset Solutions group at NAI Global, the global network that NAI DESCO is affiliated with, says by comparison, the total value of distressed real estate in the U.S. was doubling every three months during the first half of 2009. Brown, whose New York City-based group focuses exclusively on work with large banks, says the commercial real estate industry is about to see some impacts of the Dodd-Frank Bill, the massive financial regulation reform bill that was enacted in mid July.

"The numbers of distressed assets have stopped going up...for the moment," Brown said. "But we have an incredible amount of debt rolling over during the next several years. Commercial mortgage backed securities represent one segment of the market that has provided financing for commercial real estate. My personal observation is that I think you're going to see a massive wave of note sales by institutions, where a bank won't actually take the property back but will sell the note to another entity so it won't hit their (the bank's) books. Up until this point, the strategy of many financial institutions has been 'a rolling loan gathers no loss.'"

NAI Global recently conducted a survey on the costliness of the foreclosure process. "We found that banks can easily spend up to 25 percent of the value of an asset in the process of foreclosure," said Brown. "To be quite candid, there's not enough capacity in the American banking system to manage all of the REO that banks probably have a legal right to foreclose upon. Rather, putting a bow around 100 or 200 commercial properties and offering them as a package to investors makes sense. I think that's what we're going to start to see," he added. "It's a more effective way for banks to find out what the market-clearing price is."

Bill Springer is chief credit officer at Reliance Bank. Springer says experienced commercial real estate investors have been preparing, as best they can, for the commercial loan maturity scenarios they are finding themselves in today.

"The savvy borrower, someone with more than one project who knows what's going on in the marketplace, when that loan comes due they're very aware that the bank is going to get a new appraisal and that in all likelihood the value will

have dropped." Springer said. "Hopefully they had amortization. What a regulator or bank is going to tell you is this: The most important thing today is cash flow. If you have tenants whose market rate is good and they're paying, then you're okay. But just as the value is repricing, so are lease rates and cap rates, and it has moved against the borrower."

Springer agrees with Brown's assessment that foreclosure costs can total upwards of at least 25 percent of the value of the asset. "If a bank has that asset on its books, the bank is also paying for the taxes and insurance and having to manage it. It requires a whole new level of due diligence. Managing and selling real estate is not what banks do," he said.

Ted Greenberg is CB Richard Ellis' vice president and a member of CBRE's Recovery and Restructuring Services group. Like Brown's specialized group in New York, Greenberg's St. Louis-based group also works with lenders. He says what has been happening of late in the commercial real estate market is that distressed sales are becoming the norm.

"Since there's very little activity taking place in the commercial real estate market overall, these distressed sales are, in reality, nearly the only sales that have been occurring at all," Greenberg said. "And in effect, these sales - these discounted prices - have become the market in the short-run."

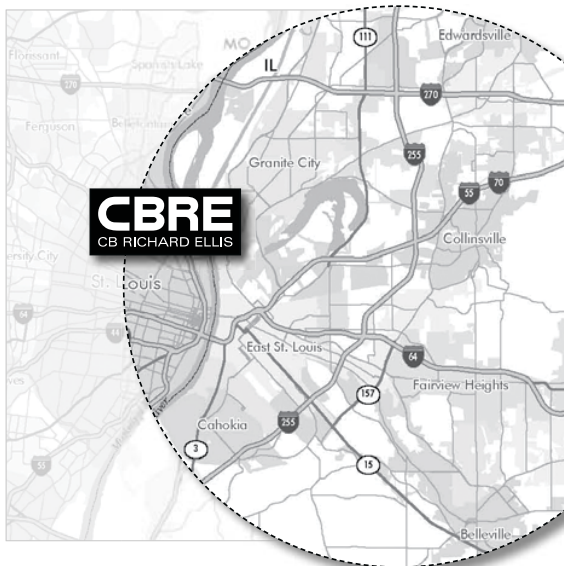
A catch phrase that gets bandied about the commercial lending and commercial real estate industry these days, says Greenberg, is "delay and pray," meaning that banks are simply rolling the debt over and hoping that the economy doesn't turn sour.

"The lender is really delaying and praying," he said in jest. "The buyer is actually just praying."

IBJ Business News

Dean joins First Mid-Illinois Bank & Trust

Clay Dean has joined First Mid-Illinois Bank & Trust as senior vice president, business development. Dean, a native of Coles County, obtained a bachelor's degree from the University of Illinois and a master's degree from Yale University.



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