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## Capmark bankruptcy a template

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Capmark Financial Group Inc.'s weekend bankruptcy filing surprised no one, but it was still a harsh reminder of the hard times ahead in the commercial real estate industry.

"It's not a turning point. The problems are only starting," Dennis Yeskey, a senior adviser at AlixPartners L.L.P., a business-advisory firm in New York, said yesterday.

Yeskey and other experts warned that as long as the economy keeps shedding jobs, the commercial real estate market will be plagued by declining demand and falling property prices.

In its Chapter 11 bankruptcy filing Sunday, the commercial-property lender listed assets of \$20.1 billion and debts of \$21 billion.

Capmark, which has 585 of its 1,000 employees in Horsham, relied heavily on selling loans it had made into the secondary market. When that froze and property values fell, the company got stuck owing more to its own lenders than its loans were worth.

"It's a template that you will see multiply itself many times over over the next three years," said Matthew McManus, chairman of NAI BlueStone Real Estate Capital, a real estate investment bank in Philadelphia.

The problem for the industry is that between now and 2013, more than \$2 trillion in commercial mortgages, which typically have a five- to 10-year term, will need to be refinanced, according to a July report by Richard Parkus, head

of commercial mortgage-backed securities at Deutsche Bank AG. It is not turmoil in the capital markets that is causing the bottleneck, but rather the fact that properties are not worth enough to retire the old debt in a refinancing, Parkus said.

The value of commercial properties has fallen 40 percent from their peak in October 2007 through August, according the Moodys/REAL Commercial Property Price Index.

The sharp decline in property values has contributed to a rapid deterioration of the \$7.8 billion loan book at the Capmark Bank unit. Most loans were made at the peak of the lending frenzy in 2006-07.

During the five quarters ended June 30, the percentage of loans on the bank's "watch list" for problems soared to 39 percent from 2 percent, according to a presentation posted on the firm's Web site.

Capmark had \$340.3 million in loans outstanding in the Philadelphia market, or 4.3 percent of its total, as of Sept. 30. Of those, \$35.6 million, or 10.5 percent, were behind on payments, according to the presentation.

Paul Halpern, a partner at Versa Capital Management Inc., of Philadelphia, said a lack of ready financing for commercial real estate had prevented properties from trading at depressed values.

That could help some lenders otherwise facing big write-offs. "By the time financing is available, asset prices will have recovered substantially, though not enough to save everybody," Halpern said.

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