

REITs bypass credit crisis

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New hotels, office buildings and other construction projects across the region will continue to be built despite the credit crisis — though some projects may be shelved because of challenges lining up financing.

Two factors helping to shelter the region's current pipeline of construction activity is that real estate investment trusts dominate the com-
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mercial market and two of the region's largest sectors — education and medicine — continue to thrive. That doesn't mean they are immune to the turmoil surrounding roiling credit markets and financial institutions.

"A tightening credit market makes it more difficult and more expensive for hospitals to borrow the money they need to stay current with technology and equipment, update their physical plants, and carry out planned renovation, expansion and new construction," said Priscilla Koutsouradis, communications director for the Delaware Valley Healthcare Council.

The DVHC is in the middle of surveying its members on building plans. Koutsouradis said about 60 percent of the region's hospitals have responded: "Virtually all of them have construction, renovation or expansion projects going on."

Koutsouradis said for fiscal 2008 and 2009, the responding hospitals have estimated their spending on those projects will top \$1.9 billion.

Those plans could change or be delayed, she said, because of difficulties hospitals have already started to experience in trying to obtain favorable rates for long-term tax-exempt hospital bond financings.

"It's extremely difficult, not having any kind of a crystal ball at this point, to know what the impact will be," Koutsouradis said. "Right now there is a wait-and-see attitude."

Real estate investment trusts (REITs) are well-capitalized with substantial lines

of credit they tap to proceed with projects. "We don't utilize construction loans," said Jeanne Leonard, spokeswoman at Liberty Property Trust, a Malvern REIT that builds office and industrial properties.

In essence, local REITs, such as Liberty, Brandywine Realty Trust and Pennsylvania Real Estate Investment Trust, can — for a time — skirt around the current credit crunch and tighter lending standards to fund office, industrial or retail developments.

For Brandywine, there's been no impact from the meltdown on any of its projects, Jerry Sweeney, president and CEO, said in an e-mail. The Radnor company broke ground last fall on Cira Centre South, an \$800 million complex in University City.

Other REITs not based here, such as HRPT Properties Trust and Thomas Properties Group, also have strong presence in the suburban and Center City real estate market.

"They are designed for times like these," said M. Walter D'Alessio, vice chairman of NorthMarq Capital, a real estate investment banking firm and member of Brandywine and PREIT's boards. "They are low leverage companies by virtue."

For some private developers, such as those building shopping centers, the shaky retail climate and lending environment will make building new stores difficult.

"For [shopping center] developers, your relationship with a bank as a borrower is probably out the window," said Steven H. Gartner, president of Metro Commercial Real Estate Inc. "A lot of developers had

relationships with Lehman Brothers. Now you ring that door bell and no one answers."

To fill a void in lending, some developers have turned to alternative sources of funding. The Reinvestment Fund (TRF) in Philadelphia made a record amount of loans totaling \$170 million between July 2007, when the credit crisis began, and this past July. The Reinvestment Fund



lends money for development such as residential and retail centers that can help revitalize neighborhoods.

"These are projects that normally would have gone to commercial banks," said Jeremy Nowak, president and CEO of TRF. "We have more demand than we can handle because of the withdrawal of credit."



Nowak

The deals were made on solid projects that met the fund's mission and strategy and bolstered its portfolio. "That's the good news," Nowak said.

But the TRF is vulnerable. While a portion of its capital comes from socially conscious investors, the majority of it is from institutions such as J.P. Morgan, Bank of America, Wachovia, Merrill Lynch, Citigroup and HSBC Bank, he said.

"While they aren't deserting us, they aren't quickly expanding the relationship because of their own caution of what they need to do," Nowak said. TRF is negotiating with Wachovia Corp., a portion of which is being bought by Citigroup, for a new credit facility.

"Maybe we get it done, maybe we won't," he said. "There's another part of this. All of us who lend, particularly in real estate and business, have to be extra cautious now. We're being very cautious and so far we're in good shape, but now we need to manage our own liquidity. For the first time in years and years, we can't do absolutely everything we want to do."

TRF has tightened its own lending standards and monitors and manages projects it has invested in more closely. "We're all over them," Nowak said.

Not every project is safe, even those with substantial state funding. Fanfare surrounding a ceremonial groundbreaking of the Philadelphia Regional Produce Market (See story: Page 10) nearly came to a halt in the last month. Though the new facility has more than \$100 million in state funds supporting it, a \$50 million loan from American International Group Inc. almost didn't materialize when the company faced its downfall two weeks ago.

In Philadelphia, some hotel developments may hit snags.

"Two prospective hotel projects that do not have financing in hand are being delayed at best, postponed or aborted at worst, due to certain industry lenders disappearing, and the remaining lenders becoming more conservative, pulling existing deals or staying out of the game temporarily," said Peter Tyson, hotel analyst and vice president of PKF Consulting in Philadelphia. "Despite this, some deals, including those with financing in hand, are being done and some developers with strong personal and/or professional ties with strong local and regional lenders or large funds continue to look for deals."

Indeed, other local developers, such as Keystone Property Group, BPG Properties Ltd., and local real estate investors, such as the Girard Estate, have massive private funds they use to fund activity here and elsewhere. BPG's eighth equity fund, which it is spending, totals \$850 million.

Others will continue to face a tough lending environment. For example, Hill International Real Estate Partners, which is proposing the American Commerce Center, a 2.2-million-square-foot mixed-use complex at 18th and Arch streets, figures if it lines up an anchor tenant for the building, it will seek out a construction loan from a foreign bank to fund the project. Rosskamp Management Co., the developer of a proposed \$220 million, 45-story tower next to the Walnut Street Theatre, hasn't deliberated about arranging financing since it is still designing the project.

Philly Live!, a proposed entertainment-sports complex on the Wachovia Spectrum site in South Philadelphia, is still on.

"Philly Live! is progressing exactly as planned," said David S. Cordish, chairman of the Cordish Co. in a statement. Cordish of Baltimore is teaming up with Comcast-Spectacor, a Philadelphia sports and entertainment company, to construct Philly Live!, which will have retail, entertainment and sports venues.

"We are working through the design

and due diligence phase of the development process and fully expect to break ground by the end of next year," Cordish said. The construction is expected to take about 18 months.

For those projects under way that have been financed by banks and other commercial lenders, developers will complete

them, D'Alessio said.

"No one wants an uncompleted building," he said. "For a lender, what are you going to own? You can't own a partially built building."

Staff writers John George and Peter Van Allen contributed to this article.



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