

## Credit conditions tighten for shopping mall developers

by Ronette King, The Times-Picayune  
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When he took the podium to address the gathering of shopping center developers, retail managers and deal brokers, James Maurin, founder and chairman of Stirling Properties, was somber and blunt.

"I'm here to talk to you about the audacity of fear," he said, altering the title of President Barack Obama's memoir to reflect the situation faced by those gathered in New Orleans last week for a regional convention of the International Council of Shopping Centers.

The council's Gulf South Idea Exchange convened at a trying time for both retailers and the developers who build the shopping centers where they operate. They're facing a harsh confluence of events as lenders impose tighter restrictions on commercial credit, and consumers curb discretionary spending, which hurts retail sales and contributes to the rash of store closures.

Commercial borrowers are as anxious as consumers about their ability to borrow money on advantageous terms. Developers and retail operators must renegotiate short-term loans as they come due, and in the current environment, the bank that holds the loan might decide to pass on the deal.

"This is the first time we've had liquidity problems at the same time as a slowdown in economic activity," said Thomas Cunningham, vice president and associate director of research at the Federal Reserve Bank of Atlanta. The Federal Reserve has lowered interest rates and invested in mortgage-backed securities to free up lenders' cash. However, those moves have not prompted a flood of lending.

"The commercial paper markets aren't functioning," Cunningham said. "One of the problems is that counter-parties don't trust each other."

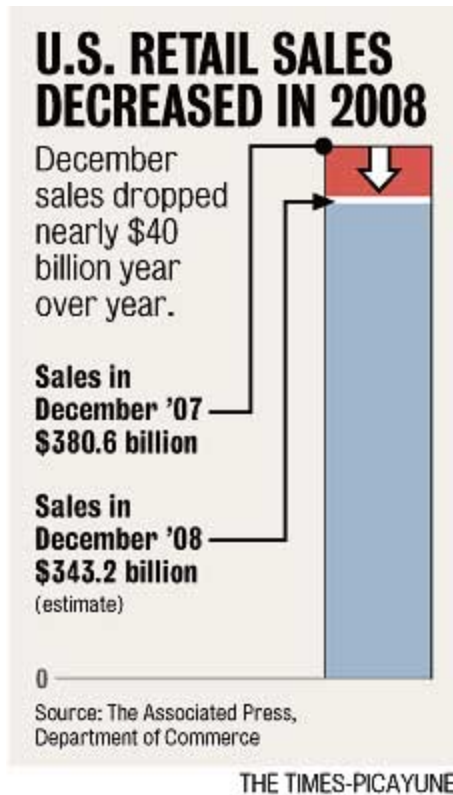
Still, Cunningham said federal monetary policy has helped stabilize the economy from becoming anything worse than a standard recession. Although job losses mount and the nation's unemployment rate is expected to reach 8.5 percent this year, it is still below the 1975 level, he said.

"It's ugly, but I'm fairly optimistic this is not the beginning of a horrible, long, drawn-out recession," he said.

In the interim, commercial borrowers will find it more difficult to get financing as lenders consider the prospects of a deal and decide many of them aren't viable, Cunningham said.

The consumer spending slowdown that began in August continued into the all-important holiday shopping season, Maurin said, adding that 2008 "may go down as the worst holiday shopping

season ever." Last year, roughly 148,000 retail locations closed nationwide, the highest level since 2001, when 151,000 doors shut, **Maurin** said.



Commercial real estate lenders have taken notice of those store closures. Lenders working on shopping center deals look at sales within the property's stores. Less money in the register can mean a loan is considered riskier and therefore warrants a higher interest rate or higher loan fees. Sometimes the lender will pass on the deal altogether, bankers said.

Lenders are going to take a "microscopic view" of how the borrower plans to pay the debt, said Paul Guichet, vice president of investor relations and corporate governance at Hancock Holding Co. in Gulfport, Miss., which operates Hancock Bank in Louisiana and three other states.

Before clearing a deal, a lender might require a retail developer to have tenants under contract or have recourse if a tenant walks away from the lease, said Lee Sher, a partner at the Sher Garner law firm in New Orleans, which specializes in commercial real estate and business law.

"Lenders want to underwrite a loan so the loan remains good in good times and not-so-good times and they can get paid," Sher said.

The Gulf Coast region has been somewhat shielded from the worst of job losses as hurricane recovery funds work through the local economy. Foreclosures also have been fairly moderate, and the unemployment rate is lower than in the rest of the country.

Still, bankers need to protect their balance sheets. They said they would closely monitor jumps in jobless claims in the first quarter.

"It's a concern to the banks," Guichet said. "Should unemployment levels start to spike, you could see a correlation in bankruptcies, and that is not in the best interest of the banking system."

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