The following is an overview of the November 2007 Gerald Fogelson Forum on Real Estate presented by the Chicago School of Real Estate at Roosevelt University.

Fogelson Panelists Analyze the Spiraling Housing Market

The housing market is in turmoil, loan defaults and foreclosures are soaring, the dollar is weak and a growing number of analysts and economists say the United States already entered a recession that may be long and painful.

Against this uncertain backdrop, four top professionals with wide experience in the housing and lending industries recently gathered to sift through the data and offer their insights at the Gerald Fogelson Forum on Real Estate at Roosevelt University in Chicago. Since its founding in 1999, the Fogelson Forum has become a unique opportunity for top dealmakers and industry influencers to network and share ideas and practices in a prestigious, academic environment.

The experts participating in the November forum met or exceeded those criteria. All four are unquestioned thought leaders in their arenas, highly regarded professionals who bring intellect and expertise to bear on the challenges and opportunities the housing industry confronts.

- **Frank J. Bolgnia**, senior executive vice-president at AmTrust Bank in Cleveland, is responsible for all acquisition, development and construction real estate activity.
- **Tracy Cross,** president of Tracy Cross and Associates Inc. in Schaumburg, Ill., is a highly regarded research expert in areas of market analysis, strategy development and marketing.
- **Faye T. Pantazelos**, president and chief executive officer of New Century Bank in Chicago, is well-known for her expertise in all forms of real estate lending including development and construction funding for commercial, residential and industrial projects.
- **Milda S. Roszkiewicz**, senior vice-president and manager, middle-market real estate, commercial real estate division at Wells Fargo and Co., oversees loans and other banking products to middle-market real estate developers and investors.

Moderator Gerald Fogelson set the tone by noting the many obstacles confronting the real estate industry. "We have a very, very unusual period of time right now," he said, adding it wasn't the first time the markets have been roiled and doom has been predicted.

"With problems come opportunities," he declared. "This is the sixth recession we've gone through in my company and we're still here. I see a lot of friends here who have been through the same, so the world's not coming to an end, but the previous paradigm has changed."

Cross was the most pessimistic among the panelists. He charted the ups and downs of real estate cycles over the past 40 years and their links to economic and political events including the Vietnam war, the oil embargo, the market crash of 1987 and the dot.com boom. He traced the genesis of the current downturn to September 2005, when Ford Motor Co. and General Motors of the current downturn to September 2005, when Ford Motor Co. and General Motors announced the first of many layoffs just as interest rates hit 6 percent.

Total housing sales began to fall, he said, but that didn't deter builders from constructing more houses, condominiums and townhomes, which created more inventory as the market was shrinking. The Chicago market didn't match the overbuilding now plaguing California and Florida, but still, there still was more than enough to create a substantial headache.

"This is not intended to be funny, but we're in a frozen market," Cross said, evoking the Antarctic explorer Ernest Shackleton, whose ship "Endurance" became stuck in ice during a trip to the South Pole in 1914. "This is the `Endurance,' okay? It took them 22 months to get out all the crew. It will take us 22 months to get out, and hopefully, most of us will live. So, how are we going to break the ice?"

Cross argued that both the Chicago and national housing markets are overvalued by about 12 percent. The only way to break the impasse, he added, is to aggressively cut asking prices or allow them to remain unchanged and let the market catch up, a process he estimated would take at least 22 months and perhaps as many as 30 months.

"One of the biggest culprits in this whole scenario was price," Cross said, noting that for 20 years, average home price increases were in the 4.3 percent range. "We were starting to move at double-digit appreciation rates through the existing as well as the new home market. All of a sudden, we're up 13 percent or 14 percent."

Wells Fargo's Roszkiewicz acknowledged problems in the housing market, but took a more upbeat view, noting that her bank had financed 5,000 home purchases in Chicago and another 9,500 in the suburbs last year.

"Yes, we are down from an enormously exuberant period that should have never happened, and everyone knows why it did," she said. "But I think there's a positive message that there is still demand. People are still buying houses. They're still borrowing money and so I don't think the whole story is doom and gloom."

Roszkiewicz said a soft housing market for the few years would not be surprising, particularly if energy costs continue to soar. Yet, she said the weak dollar might encourage more foreign investment in American real estate.

"That's not to diminish that a lot of builders are feeling a lot of pain," she noted. "I think whether or not we're in a recession is based on your vantage point. I personally am glad this exuberant period is over for a financial institution like Wells, which tends to be more conservative. Maybe we're just back to where we should have been all along."

After joking about the rarity of bankers playing the role of optimists, Amtrust's Bolognia told the audience that no matter how tough conditions are in Chicago, many areas of the country are in far worse shape. He blamed the overall housing slump on avarice.

"Public companies got greedy. Land buyers got greedy. Land sellers got greedy. Financial institutions got greedy," he declared. "Everybody got greedy and they misidentified the market by underestimating the investor-buyer, and not really understanding the impact of these funky mortgages."

AmTrust didn't invest much in the sub-prime market, he said, but made other mistakes including an entrance into mortgage-backed securities, many of which have been downgraded by Moody's Investors Service.

"In addition to greed, we had a false market," he said. "In a lot of places, not necessarily in Chicago, investors made up between 10 percent and 20 percent of the market, and in our western markets, particularly, and Florida it was probably 40 percent to 50 percent of the market. All of a sudden, you have the start of an inventory problem as people believe they had to build to the market."

Those problems were exacerbated by unqualified buyers obtaining mortgages, he said, adding that one-quarter of homebuyers during the subprime craze would no longer qualify for a home loan.

Bolognia said the biggest crisis facing the housing industry is a lack of access to capital as investors exit and banks continue to deal with bad loans. He urged builders and developers to cultivate relationships with their lenders and to be honest when assessing any difficulties.

"If you're working with a banker, don't screw around with them. Work with them," Bolognia said. "Be prepared to give something. Maybe if you have multiple loans, put them together, so if one fails, the others help. It could be anything. A good real estate lender will hang in with you as long as possible."

New Century's Pantazelos also blamed greedy lenders for the housing industry woes, saying it was "beyond anything I have ever envisioned or had ever experienced before." She echoed Bolognia's call for more candor between bankers and developers, noting that her bank has three requirements before it takes on a client.

"We look for credibility," she said. "We look for responsiveness. If you have a problem, we expect you to raise your hand, come to the bank and let's try to solve it together. And we look for lasting relationships. That's why we work together. We have synergies."

Pantazelos, noting that New Century avoided the sub-prime market entirely, said the bank avoids working with developers who want to sell to investors. "Ladies and gentlemen, look at your cancellations," she added. "They're not the ones who are in love with your units or your product. They're the ones who bought it for appreciation. They've made a lot of money and can easily walk away from that 5 percent down."

Banks should become more stringent in dealing with builders and developers, Pantazelos said, and seek earnest money of 10 percent or 15 percent.

“Make sure they love the project,” she said. “Make sure they’re committed, because with 10 percent, they are putting up a sizeable amount of money. It could be a letter of credit, but we want to see real commitments and we want to see them prequalify. We’re not going to go ahead with a presale that hasn’t been qualified.”

The byword moving forward over the next few years is caution, panelists agreed. There are deals to be done and money to be made. The Chicago real estate market isn’t in the same kind of dire straits as many other American cities and likely will recover more quickly. But developers, lenders and brokers should be more demanding and put in plenty of due diligence before they proceed with any project.