



REAL ESTATE

Property Prophet

Commercial real estate broker Kenneth Laub says the slump in the U.S. may last a decade. It will also create giant opportunities. **By BETH WILLIAMS and STUART BERN**

KENNETH LAUB has been through three commercial real estate boom and bust cycles during almost five decades as a broker and consultant to corporations such as Hess Corp. and International Paper Co. He says the current downturn will overshadow all of the others.

"It won't be a typical part of a cycle where we're down for two or three years and things recover," says Laub, 70, whose New York firm, Kenneth D. Laub & Co., says it has handled more than \$40 billion of real estate transactions since its inception in 1969. "It will be longer than we've gone through before."

As in past slumps, the weak U.S. economy is curbing demand for commercial space, increasing vacancies and causing rents and property values to fall. The key difference today is the explosion in debt financing and related derivatives that fueled a run-up in commercial real estate prices in the 2000s, Laub says. That's left property owners struggling to make mortgage payments. The overhang of debt will delay any recovery, Laub says. "It's not a supply-demand thing; it's an overleveraged condition," he says.

Laub, who scaled back his operations in 1997 amid a battle with thyroid cancer, now monitors the market from his office at his four-story town house on Manhattan's Upper East Side. He says that some deals that piled on too much debt were

done with a lack of foresight. "Some of this stuff could have been avoided," he says.

Laub expects a wave of restructurings by troubled commercial borrowers as hundreds of billions of dollars of loans come due annually during the next few years. Commercial real estate may still be recovering a decade from now, he says. "What you're going to see is a tremendously long workout period unprecedented in commercial real estate in this country," Laub says. "That's where we're going, and it's just beginning."

AS OF LATE DECEMBER, U.S. commercial property prices had plunged more than 40 percent from their October 2007 peak, while the default rate on commercial mortgages more than doubled in the third quarter of 2009 to 3.4 percent from a year earlier, according to data compiled by Moody's Investors Service and Real Estate Econometrics. Landlords in the U.S. will confront office vacancy rates approaching 20 percent in 2010 as employers hold off hiring, commercial property broker Jones Lang LaSalle Inc. predicted in mid-November.

You can track delinquencies with the Commercial

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Cheat Sheet

Type **RE <Go>** for a menu of functions and news on the real estate market.

MICHAEL LEWIS



Laub, shown here with his dog Moody, tracks the commercial real estate market from his office at his Upper East Side town house.

21) Top US-MSAs		22) Property Types		Page 1 of 2		Commercial Real Estate Delinquencies				
Region Type	Top US-MSAs	As of	12/2009	30Day	60Day	90D+	Forecl.	REO	WList	#Obsv
Region	Property Type									
1) Atlanta-Sandy Spn...	All Properties	1.10	0.70	1.32	1.55	1.51	25.79	1957		
2) Baltimore-Towson, MD	All Properties	1.42	1.04	1.34	0.25	0.24	18.11	192		
3) Boston-Cambridge...	All Properties	0.73	0.26	1.18	0.35	0.12	16.70	901		
4) Chicago-Naperville...	All Properties	0.39	0.70	2.25	0.78	0.71	18.59	2049		
5) Cleveland-Lima-Me...	All Properties	2.16	1.73	4.43	1.54	0.29	26.00	492		
6) Dallas-Fort Worth-A...	All Properties	2.32	0.77	2.02	0.82	1.40	26.26	2588		
7) Denver-Aurora, CO	All Properties	0.05	1.42	1.96	0.46	0.16	12.14	820		
8) Detroit-Warren-Liv...	All Properties	1.05	0.91	5.73	2.01	2.06	24.04	1168		
9) Houston-Sugar Land...	All Properties	3.01	1.93	3.14	0.95	1.02	21.34	2135		
10) Kansas City, MO-KS	All Properties	0.95	0.92	1.89	0.44	0.60	16.63	919		

TRACKING DELINQUENCIES

Type REDQ <Go> to monitor commercial mortgage delinquency rates for major U.S. metropolitan areas.

Real Estate Delinquencies (REDQ) function. Type REDQ <Go>, click on the arrow to the right of Region Type and select TOP US-MSAs to view delinquency data for the top U.S. metropolitan statistical areas. Click on New York-Northern New Jersey-Long Island, NY-NJ-PA, for example, and select View Historical Delinquency Graph to chart delinquency data for the region.

As bleak as Laub's outlook is, he sees a silver lining for investors who have cash on hand and are willing to wait as long as a decade for bets on real estate to pay off. "There will be giant opportunities that come out of this," he says. Laub predicts that some hedge funds, foreign investors and real estate companies will step in and take advantage of falling property values to make acquisitions at prices as low as one-third of their peak 2007 value. "Wouldn't you like to be in their position?" Laub says. "The money is going to talk."

Laub also sees new consulting and advisory services emerging in the industry as property owners seek ways to restructure their finances, lure tenants or sell off stakes to prospective buyers. "We're going to have a lot of new services that are going to evolve, things we haven't seen or done before," he says.

Laub found his calling in real estate almost 50 years ago. Born in Brooklyn and raised on New York's Long Island in Cedarhurst, Laub held jobs from the age of 13, starting as a grocery clerk and then working as a cabana boy and a tennis instructor at a local beach resort and country club during high school. "My father gave

me a bar mitzvah, and that's the last money he ever gave me," he says with a chuckle.

At first, Laub was set on becoming a veterinarian, so he enrolled at Cornell University's College of Veterinary Medicine in Ithaca, New York, in 1956. A year-and-a-half later, after achieving

passable though not top marks, he changed majors and transferred to New York University. He earned a degree in business while captaining NYU's bowling team, graduating in 1960. He says he was drawn to real estate because of what he could learn on the job—and for the potential for making money. He joined brokerage firm Collins Tuttle & Co. as a trainee. "There was a rainbow out there to make a lot of money and get an education," Laub says.

IN 1963, LAUB MOVED to New York developer Tishman Realty & Construction Co. He started in the leasing department and helped Tishman to develop a brokerage and consulting arm before leaving to start his own firm in 1969. Specializing in tenant brokerage—representing corporations in need of office space in New York and nationally—Laub attracted clients such as American Airlines. He placed some of the first tenants in the World Trade Center's twin towers. In 1987, Laub's company had the largest average transaction size—\$183 million—of any U.S. broker, according to an analysis by a unit of the firm now known as Deloitte LLP. Laub says he is currently representing an investment-banking firm seeking 500,000 square feet (46,000 square meters) of space. He declined to provide further details.

In his spare time, Laub enjoys golf, tennis and writing songs. "I enjoy the act of creating," he says. In November 2008, he helped direct a musical tribute to New York at Carnegie Hall that included standards and his own songs performed by Broadway stars and Laub himself.

Laub says the current downturn doesn't shake his faith in the city's prospects. That goes for the commercial real estate industry as a whole, even with the painful round of restructurings he foresees. "We're the last to feel it and we're the last to recover and we're just starting to feel it," he says. "My only thing is to be an optimist and look forward to being part of the workout in this difficult period." **B**

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Kenneth Laub

Kenneth D. Laub & Co.
Founder and president

EDUCATION

Enrolled at Cornell University's College of Veterinary Medicine in 1956; transferred to New York University in 1958, earning a bachelor's degree in 1960.

CAREER

Started at real estate brokerage Collins Tuttle in 1961. Joined Tishman Realty & Construction in 1963. Left Tishman in 1969 to start his own firm.

PERSONAL

Age 70. Enjoys golf, tennis and composing music.