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CNL founder: Market turmoil is nothing new

By Robert Pitts

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ORLANDO - We've been here before. That's the one thing Jim Seneff would have you remember about the troubling financial situation now facing the commercial real estate industry and the country as a whole. That - and the conviction that you can prosper in spite of the economy with the right mindset and tactics.

"Everyone is saying this is an unprecedented time. This is a precedent time,"

said the chairman and chief executive officer of CNL Financial Group Inc., now one of the largest privately owned real estate investment and development companies in the country.

Over the past 35 years, CNL has formed or acquired more than \$23 billion of real estate properties, but Seneff recounted that the company was born in a troubling time and that trouble has followed it - and the country - ever since.

"When I started the company in 1973, the market was down 50%," he said, adding that some kind of economic upheaval has marked the financial environment at every five-year anniversary of the company:

- 1978: Interest rates range from 15% to 21%.

- 1983: Prices of oil and gold collapse.

- 1988: The stock market drops 28% in one day.

- 1993: Recovery from the savings and loan industry collapse. Resolution Trust Corporation established. Residential and commercial real estate in a major downturn.

- 1998: Russian debt default. Long-Term Capital Management goes under.

- 2003: Market collapses in the aftermath of 9-11 and the war in Iraq.

- 2008: CNL's 35th anniversary. Dow is down 45%.

However, there are some key differences today from prior downturns, Seneff said. The global market is much more unified than ever before, he said, and both the public and private sectors are more highly leveraged than ever.

"Leverage is part of the problem, and because of it the solution will be more difficult. The U.S. government is highly leveraged. For them to be the lender of last resort will put a lot of pressure on the financial system," he said.

Also, prior recessions tended to vary by sector and geography, Seneff said. This time, everything is down across the board and globally.

But that makes having a sense of economic history all the more important, Seneff said. It provides the basis for understanding current events at the most fundamental level.

"It helps to take a look at what's been going on in prior times. It gives you perspective. In the real estate world, change is more gradual than it is in the stock market. We sometimes miss the lessons of how markets work. It's instructive to watch the capital markets and the stock market," he said.

"Here, we try to have a meta-narrative about things on an ongoing basis. If things deviate from that, then we analyze the lessons and change the meta-narrative. We live in a very complex society. Everybody needs to get beyond the complexity and come up with a simpler way to describe things."

Impact on CNL

Seneff said real estate investors today generally fall into two camps:

- Those with legacy assets who bought property from 2004-2007.

- Those who didn't buy during the period or were, in fact, sellers.

"It's going to be significantly different for those two players," Seneff said. "If you have legacy assets, you bought at lower cap

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CNL Center, shown with Orlando City Hall in the center, is headquarters for the 35-year-old CNL Financial Group.

rates and much higher prices - and probably used CMBS financing. You'll be carrying that burden for some time. The problems from the late '80s and early '90s also came from mispriced assets."

CNL falls into the latter category, however, selling some \$15 billion in assets from 2005 to 2007. That has helped position the company for growth now, Seneff said.

"We actually view this time as one of great opportunity. We felt that way in 2002 also. Now we are looking for opportunities, and we don't have legacy assets that are holding us down. The current situation is impacting us in a favorable way. There are now wonderful buying opportunities," he said.

"From what I've experienced, the market will find you if you become overly optimistic or overly pessimistic. (Investors) have gone to being overly pessimistic."

The CNL way

Seneff said application of the company's core values has gone a long way toward ensuring its success during troubled economic times.

"Ever since I started in the business, the No. 1 thing you have to do is protect the downside. So spend a lot of time asking ques-

tion in the U.S. financial system.

"If you go back to the 1990s, we did not have mark-to-market. I think mark-to-market has been one of the reasons we've been hurt so badly this time," he said.

"If an asset has income, you can put a value on that as opposed to the market value. When everything is down, market values don't represent the true value of that asset. They need to review that practice."

Seneff added that he believes the second half of the federal Troubled Asset Relief Program - valued at \$350 billion - should have been implemented before President Obama signed the recent \$787 billion stimulus bill.

"My concern is we've spent so much on the stimulus package that it might limit what's available for TARP II and what can be done to stabilize the banking system," he said.

Seneff said he recently read the 2008 Financial Report of the United States Government, issued in December by former Treasury Secretary Henry Paulson, and found it difficult for the average citizen to understand.

"One of the issues we've faced in the U.S. has been whether we've had the transparency we need in the financial arena. That lack of transparency has created some of the angst in the marketplace," he said.

"The American people should get a report every year from the U.S. government just like they would get from any company. Our understanding of the federal government's finances and transparency by the Obama administration would be very helpful."

tions," he said.

Those questions concern not only operation of the business but allocation of its resources - primarily talent, ideas and capital, Seneff said. Capital will be spent on good ideas, he said, and the economic downturn should make available talent looking for opportunity.

"We are in the arbitrage business. We look for opportunities that exist between prevailing thought, emotion and logic. What is the logical approach versus prevailing thought and emotion? That is something we constantly evaluate," he said.

"I think too many people look at business as a roller coaster. It's all good or all bad. We try to look at it as a set of railroad tracks. One track holds opportunity. The other represents obstacles. People tend to obsess about opportunities when times are good and obstacles when times are bad. We do the opposite. When things are good, we focus on what can go wrong - and when things are bad, we look for opportunity."

Stabilizing the system

Seneff said the application of common-sense principles - and a healthy dose of transparency - will go a long way toward restoring con-