



There will be Blood: Why lenders are unleashing the floodgates

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The debate rages. Has the market recovered sufficiently? Or is it just being artificially propped up by the cabal at the Federal Reserve? Ask a broker or auctioneer and the answer will likely be that things are just getting better. Ask a private owner and you will probably be told that the market is so unpredictable that he or she does not know whether to buy or sell. Ask a fund manager and they will pitch you on the opportunity to acquire assets in today's market as a once in lifetime opportunity. (They do have to make fees, after all).

Obviously, everyone is looking out for themselves and nobody really has a clue as to where the market stands. However the question begs: where are the opportunities?

If I were a fund manager, I would be prepared to take advantage of significant opportunities coming down the pike. I am not saying that you will be able to capitalize on said opportunities, nor am I implying that the opportunities will be worthwhile. What I am saying is simply, be prepared.

Imagine you were a lender sitting on a significant portfolio of REO and distressed notes. The market has recovered somewhat to the point where the bad properties remain awful and the solid properties have overheated. For all the perceived recovery, it may be difficult for you to understand why this is occurring. The fundamentals of this country are at best deteriorating (what else do you call rising debt with no plan?) and job growth is sluggish. Furthermore, much of the recovery has been driven by the willingness of other lenders to essentially refinance out your distressed loan at close to PAR. Except in some core markets, office and retail rents are still depressed and landlords are still doling out concessions as if they are buying tenants. What to do?

Here is what you do know - this cannot be sustainable. Either the market must quickly find additional support (other than fed stimuli) or the trend will reverse itself. The last thing to do would be to miss the top of the bell curve and be left holding the bag - yet again. As a banker, I am going to do whatever I can to dispose of these assets as soon as practicable. More often than not, the time is now.

But wait, there's more. If you were to sell, as part of your servicing agreement, you can make a commission, or fee. So, as the guys overseeing the \$2.57 billion auction.com note sale are chanting, you must: SELL SELL SELL!

As for the buyers, some of the best deals you do are the ones you don't.

Shlomo Chopp is a managing partner at Case Property Services, New York, N.Y.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540