



Significant number of distressed asset opportunities remain available to savvy investors

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There is no doubt that commercial real estate markets nationwide are experiencing a significant recovery, as lenders return to the market and previously underwater loans on commercial assets are finding refinancing opportunities that were unavailable just a few years ago. However, there remain a significant number of distressed asset opportunities for investors.

In large part, we are considering distressed assets to be those that wound up in special servicing through technical default or are considered REO, etc. Based on the number of requests IVI is receiving that focus on opportunistic redevelopment or value-add propositions, there are still a good number of properties nationwide requiring attention.

In the New York and other primary markets, opportunities are diminishing, but in secondary and tertiary markets, more seem to have come to market. The last financial crisis was different than prior downturns in that many lenders and servicers were eager to keep borrowers and loans whole through restructured debt obligations and terms. This provided a period of time for borrowers to stabilize properties and move forward with payment terms without the lender going through REO, foreclosure and auction processes.

The pace of recovery has been fairly quick and steadier of late and will continue to trend in this manner so long as confidence and optimism remain. Favorable interest rates and a robust market have allowed foreclosures and REO properties to trade quickly. Where properties were encumbered with debt or fell victim to distress through technical default, these assets may have more than the usual amount of deferred maintenance, but may not have many egregious issues that would prevent a deal from changing hands. Where there is a strong desire to add value to a property and there is equity support in key markets, these distressed assets are easily absorbed.

As long as there is a value-add opportunity, the market and asset types seem to vary. Appealing land values and changes to less restrictive zoning in primary markets may make the environmental risks and higher construction costs worthwhile for some deals. For renovation projects that would appeal to market conditions and lead to increased rents, the focus on secondary and tertiary markets is very real.

We see a lot of retail (neighborhood shopping centers and malls), multifamily, office and conversion deals that were either brought to market through auction or other off-market procedures. These mixed portfolios range in location and market as well. Quick limited property condition assessments and Phase I reviews, as well as budget opinion letters and limited construction risk assessments for strategic solutions are a common theme IVI is seeing as competition for these deals increases.

There are still loans that are being worked out through special servicing, however, where a property is still cash-flowing and the borrower is committed to the deal, it is becoming easier for revised loan terms to materialize to stabilize the situation. IVI is often called in to assist with due diligence on

these transactions. Hospitality is heating up again as are retail projects. The primary markets are able to tolerate a bit more creativity and deals are trading at a greater return. For those that held on this long in the primary markets, they are looking to exit if it makes sense.

Without a doubt, competition in this arena is fierce nationwide. Cash transactions, foreign investments and creative funding solutions for those that need acquisition financing are all fueling the fire. Decisions are being made in less and less time to place capital and not lose out on opportunities that are desirable. Everyone is looking with a keen eye on what could be next and how to get more return.

Bargains are waning away in primary markets. For some transactions, there has to be confidence in the upside and ability to work through problem assets that are encumbered with any number of issues. Taking on an entire portfolio where a handful of properties are the trophy deals with some challenging ones interspersed makes for some creative planning and exit strategies. Due diligence may turn up further liabilities that need to be absorbed.

Unless there are constraints on the ability of borrowers to refinance current debt obligations that will mature this year, the supply of these distressed assets will start to wane away. Trends are that restructured debt product terms are being satisfied and properties are returning to master servicers for more conventional handling. There will always be an appetite for opportunistic development provided there is optimism in the markets, economy and real estate, and we expect a strong showing of this for the remainder of 2014.

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