



Real Diligence takes unique approach to loan workouts for distressed commercial property

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Interview with David Tesler, Esq., Real Diligence, LLC

Distressed commercial real estate continues to rise. Lenders and borrowers alike are desperately seeking viable alternatives to foreclosure. Real Diligence, a national financial due diligence firm based in N.J., has taken a unique approach to loan workouts and is achieving impressive results.

How is the approach unique? Combining commercial real estate, market and financial due diligence acumen with expertise and relationships within the special servicing and banking industries, Real Diligence is negotiating favorable loan workouts. "The foundation for our approach is to obtain a mastery of the distressed asset that far surpasses the bank's more limited understanding of the property," explained David Tesler, CEO of Real Diligence, LLC. "Such workouts are typically in the form of restructuring the debt or the discounted payoff of the debt on behalf of our clients. The cornerstone of our approach and the catalyst of our success is based, in large part, on the quality of our Distressed Asset Report."

Distressed Asset Report

Real Diligence; Distressed Asset Report is customized with the sole aim of achieving a successful restructuring of debt and/or establishing value for a discounted payoff. "As such, no two reports are alike," explained Tesler. "Nonetheless, there are common elements in each of our reports." The basic structure is as follows:

Executive Summary and Proposal. "Because many servicers and lenders do not have the time to comb through one hundred plus pages of analysis and reports, it is critical to have an executive summary and proposal that is clear and concise," said Tesler. Real Diligence's executive summary provides a (i) narrative of the property from purchase/ origination through today, (ii) meaningful explanation of the asset's distress, (iii) Gross Present Value, Net Present Value and Acquisition Present Value for the asset, (iv) compelling argument for the restructuring of debt or obtain a value for a discounted payoff solution.

Market Summary. "In our quest to gain a superior understanding of the asset, a Real Diligence site analyst visits the property for 36-48 hours," said Tesler. In that time, they are able to understand the property in a way that can never be accomplished solely by reviewing the financials including physically assessing the "bricks and mortar" of the asset, conducting a 10-15 mile radius search to understand the state of comparable assets, and speak with local brokers, leasing agents and management companies to establish an actual and realistic understanding of current and anticipated market comparables.

Financial Analysis. "In the Financial Analysis, we report on the results of financial due diligence conducted on the asset," said Tesler. In this situation, Real Diligence completely re-underwrites the asset. According to Tesler, "Only after intense discussion with ownership about the challenges

facing the property in the coming months and years, we are able to cast projections that are realistic, not merely hopeful. This due diligence along with the findings obtained in our site analysis is used for projecting the various valuations asserted in our Executive Summary."

Evaluation and Critique of Market Studies. Real Diligence knows servicers and lenders rely in part upon "Market Comp" reports obtained from industry leading experts such as Co-Star and Reis to help establish property values. But those companies cannot possibly understand all of the various nuances present in every market and certainly not on a property-specific basis. Real Diligence orders a market report for the sole purpose of reviewing and comparing its conclusions to actual and verifiable property valuations, thereby demonstrating the ineffectiveness of using standard market reports to accurately provide realistic property valuation.

Leveraging Bank Provided Documentation

Banks struggle to get a true picture of the asset. In fact, banks often order appraisals or other studies to assist in the process. Real Diligence reviews these reports and either critiques them or utilizes them to further the strategy of achieving a favorable restructuring of debt or discounted payoff.

A Different Approach

While loan workout services use industry contacts and some combination of finesse and hard ball tactics to work out a distressed loan, Real Diligence is unique in its focus on due diligence. "We feel greater success can be achieved by leveraging our expertise and 'on the ground' knowledge about the property and have the numbers and data speak for itself," Tesler explained. "Industry contacts and negotiation tactics are critical - and we utilize those same strategies - but they are no substitute for accurate valuation that allows us to cogently advocate for a specific valuation. We earn the respect of the servicer and lender because we are able to document and support our proposed solution and provide them with the distressed asset report as back up. In turn, this report provides the servicer or lender with cover with their credit and review committees."