RHarper Consulting Update

Observations From the Distressed Asset Trail

In a previous newsletter, I commented on the challenges of finding distressed assets. I have recently experienced several more REO/distressed asset encounters, as well as collected anecdotes from many of my fellow travelers, and some common themes and traits are emerging that I would like to share.

Banks are now finding themselves in the unfamiliar position of foreclosing on commercial properties. Most institutions have not had a Special Asset or Real Estate Owned (REO) department since the 1990s. The few projects that got into trouble were usually quickly disposed of to an ever-growing economy that was usually willing to pay something close to the outstanding loan balance. Now, prospective buyers are severely limited by the uncertainty of the recession and the

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Unfortunately, in their haste to remove these assets from their books and a lack of experience with asset disposal, banks are failing to effectively maximize the sale price of their REO properties. The negative impact to a bank's capitalization when they take title to a property is forcing them to rush properties to market without proper preparation or with sufficient time in the market for adequate exposure to qualified buyers. The following are observations and comments from my experiences or of others:

Professional Representation - Many banks are opting to market properties themselves to avoid paying broker commissions. This is usually false economy. A professionally prepared presentation of a property is, alone, worth the commission, when compared to the packages produced by banks internally. Further, the ability of a group with an effective marketing platform to quickly reach a national base of users and investors assures the bank of obtaining the highest offer from qualified buyers. Banks simply are not geared to meet the demands for information, conduct site visits, and manage the offer process.

Information is King - Almost without exception, the information provided is grossly inadequate, outdated, and flat-out incorrect. In the haste to get assets to the market place, banks are unable to package and update information about current operations, property conditions, zoning, entitlements, and other information critical to a prospective buyer attempting to reach a decision on an offer.

Access to the Property - Sounds pretty basic, but it is very common for the bank to restrict access to the property and not allow prospective buyers to adequately inspect and perform reasonable due diligence. Once again, it is generally a result of the bank being unfamiliar with the process prospective buyers need to prepare an offer. Today, if a buyer is unable to quickly and properly assess risk, they take a pass, and move on to the next opportunity.

Unreasonable Time Constraints - Today, properties require more exposure time in the market in order to reach all the qualified buyers, and, more importantly, require adequate time to close the transaction once an offer is accepted. We are often seeing requirements for closings in less than thirty days, which is impractical in today's debt market, and often not possible even with a cash buyer.

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Based upon my recent experience, and feedback from others, shows that offerings for distressed properties are increasing—both from institutions and from owner/developers. While the transaction between buyer and seller is an adversarial one, a proper presentation and marketing of a property is in the best interests of all the parties. Hopefully, lessons learned will be quickly applied to future transactions.

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RHarper Consulting Group provides development consulting, program management, and owner representation services focused on the senior living and mixed use sectors. In addition, Mr. Harper is a listed mediator and arbitrator and provides dispute resolution services for the construction and real estate industries.