RHarper Consulting Group

RHarper Consulting Update

What About All Those Distressed Assets?

Roger Harper, Principal of RHarper Consulting Group, provides development consulting services to the senior housing industry.

When the Great Recession of 2008 started, many of us in the industry believed the banks would be deluged with bad loans, REO properties, and were positioning ourselves for the Reincarnation of the RTC. We anxiously awaited the re-introduction of deep discount asset sales, desperate loan officers, "cash-flow mortgages", auctions and lease-to-own deals on commercial projects. In general, these opportunities have not come to pass. Why not - and is this a good thing?

Where are They and Why so Few Transactions?

There is no question the banks have real estate loans that are non-performing or under-performing. However, most of the foreclosures have occurred within residential markets. Further, the first wave of this activity has been concentrated in Florida, California, Nevada, and Michigan. In the remainder of the country, foreclosure activity is recently on the rise

For more information on RHarper Consulting Group please call as the impacts of unemployment begin to take effect. The government mortgage assistance plan is having little effect on residential foreclosures so far, and is not expected to provide significant relief.

To date, the reversion of commercial properties to the lenders have been limited. Anecdotally, it appears most lenders are allowing borrowers to "ride it out" as long as possible. While events of default are on the rise, banks seem to recognize the original borrower is not the problem—"it's the economy, stupid"; to coin a phrase. I have talked with many developers and property managers recently who see the same solution from lenders; "pay us what you can for as long as you can, we will deal with the deficiency later." Lenders recognize their losses will be much greater if they attempt to remarket the distressed properties today. Further, as long as the original borrower still has "skin in the game", the prospects for preservation of collateral are better.

Are Those More Dark Clouds on the Horizon?

Another factor limiting transactions is the impending mass of commercial real estate mortgages coming due within the next 18 months - published reports put the number around $700 billion. Several large event defaults and bankruptcies in the retail and office sectors have already occurred as this wave begins to crash onshore. Fear of this impact has led many banks with significant exposure to continue their de facto moratorium on commercial real estate lending for new projects and acquisitions.

Equity investors are hesitant due to a degree of political uncertainty. With Cap-and-Trade, health care reform, and the ever popular "tax the rich to pay for everything" solutions being advanced by the Administration, equity sources - a critical element to initiating real estate recovery, sit dormant on the sidelines until risk can be priced with more certainty.

So Where are the Opportunities?

Several areas are beginning to show potential as the markets continue to evolve:

- Capital improvements —As building owners have struggled in the recession, capital improvements have been deferred. Many borrowers are now seeking release of CapX funds to address building deficiencies.
- Energy efficiency retrofits and upgrades— Reform and Recovery Act funds are flowing into energy related upgrades and "green" initiatives.
- Lower Construction Costs—As demand has shrunk, contractors have become increasingly desperate for work. Pricing reflects this, and the few projects with funding are reaping windfalls.
- Emerging acquisitions—more projects are starting to

please call
615-218-4102
Or
rharper@rharperconsulting.com

raise the white flag and actively seek merger and acquisition partners for rescue. In the senior housing sector, several such transactions have occurred recently between not-for-profit CCRCs. This trend will continue as the senior market continues to feel the impact of the housing crisis.

While it appears the worst may be behind us, many believe rough seas are still ahead. The consensus opinion is the recovery will be a long haul with several plateaus and perhaps small setbacks along the way.

For more information please contact:

Roger Harper

615-218-4102

rharper@rharperconsulting.com

www.rharperconsulting.com

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.