Distressed Assets
INVESTOR
Providing Field-Level Guidance on the Acquisition and Disposition of Distressed Assets

An Interactive Digital Newsletter Published by GlobeSt.com & Real Estate Forum

VOTED BEST NEWSLETTER By the National Association of Real Estate Editors

JANUARY 2011

What Lies Ahead?

Lenders and borrowers alike may suffer as fundamentals lag a still-modest recovery, yet there's upside for deal seekers. How much, though, remains a mystery.

BY PAUL BUBNY

Ask Herrick, Feinstein LLP partner Gary Eisenberg what the distressed landscape will look like in 2011, and he recalls the movie *Rocky III* and the sneering response of Clubber Lang, the hulking boxer played by Mr. T, to a reporter's query about what Rocky Balboa could expect from the two fighters' upcoming match. "He curled his lips and said, 'Pain,'" Eisenberg relates. "The question is, whose pain? Somebody's pain may well be someone else's gain."

Another unknown continues to be the extent to which investment prospects will materialize. At the Bloomberg Real Estate Briefing in November, Daniel Neidich, CEO of Dune Real Estate Partners in New York City, said there would be distressed opportunities to come. The question, he noted, is "whether you're a vulture or a pigeon."

Although the next few years will see hundreds of billions of dollars in commercial mortgages and construction/development loans mature each year, totaling more than $1.6 trillion by 2014, it's not at all clear that this will lead to a flood of distressed assets, said panelist Neil Bluhm at the 43rd Annual Conference on Capital Markets in Real Estate sponsored by the New York University Schack Institute. "The product is coming out much more slowly and in a rational way" compared to the 1990s, said Bluhm, managing principal of Chicago-based Walton Street Capital. But from the vantage point of 2015, Neidich predicted, the kinds of opportunities becoming available in the next two or three years will look like "great, vintage deals."

Certainly the signs are there for the kind of widespread pain to which Eisenberg alludes. The CMBS default rate for November 2009 shot back up to 8.93% after declining the previous month. However, Trepp notes that the October hiatus was due solely to the resolution of the Extended Stay Hotels portfolio loan through a $3.8-billion sale that took the chain and its holdings out of bankruptcy. The sale also had the effect of removing the lodging sector from its perch as the asset class with the highest CMBS default rate.

Long term, Standard & Poor's predicts that the peak of defaults will be farther in the future than in previous downturns. "Unemployment is expected to remain elevated in the near term, at levels higher than we've seen in the two previous recessions," says S&P's Larry Kay, the New York

CONTINUED ON PAGE 6 ▸

YOU CAN CALL IT REO SLOW WAGON

GO WEST, INVESTOR

DISTRESSED PROPERTY LISTINGS FROM RCA, TREPP

UPDATE ON BULK LOAN SALES

CITY CONFIDENTIAL: A NATIONAL VIEW

ALSO IN THIS ISSUE

The Receiver: Questions To Ask

The Appraiser: Another Bubble?

This issue is sponsored by: Voit REAL ESTATE SERVICES

Take Your Best Shot

One curse this time of year is the slew of predictions pouring from virtually every media orifice. Truth is, no one knows how things will shape up this time next year. (Look how well we did forecasting this year.) We can take educated guesses about future capital flows (probably easier); consumer confidence (hopefully stronger); and employment (moderately more robust) based on the intelligence around us. But they are, ultimately, educated guesses.

Most pundits we speak with see CMBS as continuing its upward thrill-ride and the ever-elusive flood of distress to work its way smoothly through the pipeline. Paul Bubny goes in depth with likely scenarios in his cover story, "What Lies Ahead?"

No one disagrees that the distress markets will be with us for much longer than this year, and the question there is how to make the most of those opportunities. In a new feature, Markets In Depth, we look at specific regions of the country and list some of those opportunities. We begin this month in the West with a feature penned by Bob Howard.

Glass half-empty? Ethan Penner shares his rather sobering view of the coming months.

While we hope this recovery will fully take flight, not everyone is so convinced. And when those people are the likes of Ethan Penner, president of CBRE Capital Partners, it's worth a listen. We met with Ethan recently to hear his take. Click on the video link and let me know your thoughts.

However the market shapes up, we at ALM's Real Estate Media Group wish you a healthy and happy new year! ■

John Salustri, Editor
jsalustri@alm.com

Distressed Assets INVESTOR

GROUP PUBLISHER | Michael G. Desiato

EDITORIAL
Editor & Content Director | John Salustri
jsalustri@alm.com

Contributing Editors
Paul Bubny, pbubny@alm.com
Sule Aygoren Carranza, saygoren@alm.com
Robert Carr, rcarr@alm.com
Ryan Clark, rclark@alm.com
Alyson Grala, agrala@alm.com
Bob Howard, bhoward@alm.com
Erika Morphy, emorphy@alm.com

ADVERTISING
Executive Publisher | Gregg W. Christensen
gchristensen@alm.com

Vice President, Strategic Development | Daniel Ceniceros
dceniceros@alm.com

Vice President, Integrated Marketing | Scott Thompson
sthompson@alm.com

PRODUCTION/ART
Print Production Manager | Jay Poon
astearns@alm.com

Art Director | Nick Koutoufas
nkoutoufas@alm.com

Art Director | Andrew Kwasny
akwasny@alm.com

SERVICES
All Editorial and Sales Inquiries
120 Broadway, 5th Floor, New York, NY 10271
Tel: 212.457.9400 Fax: 646.822.5365

Subscriptions & Back Issues
Call 212.457.9497 or e-mail: afaulkner@alm.com

Article Reprints, E-Prints & Licensing
Contact Alexa Faulkner at 410.571.5893
or afaulkner@alm.com
For more information, visit www.remreprints.com

ALM Senior Management

CEO **William L. Pollak**
Senior Vice President **Jack Berkowitz**
Senior Vice President **George Dillehay**
Senior Vice President/Chief Legal Officer **Allison Hoffman**
Senior Vice President/CFO **Eric Lundberg**
Senior Vice President **Kevin Vermeulen**
Vice President/Real Estate **Michael G. Desiato**
Vice President/Books & Information **Sara Diamond**
Vice President/Marketing **Patricia Crocker France**
Vice President/Finance **Robert Kondracki**

ALM, an Integrated Media Company, is a leading provider of news and information for the legal and commercial real estate markets. ALM's market-leading brands include *The American Lawyer*, *Corporate Counsel*, GlobeSt.com, Insight Conferences, Law.com, *Law Journal Press*, *LegalTech*, *The National Law Journal* and *Real Estate Forum*. **Learn more about ALM, visit http://www.alm.com.**

This issue is sponsored by: Voit REAL ESTATE SERVICES

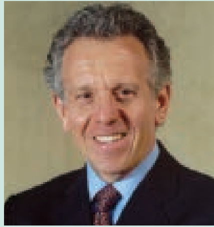
EDITORIAL ADVISORY BOARD

JIM AMORIN
Vice President
Atrium Real Estate

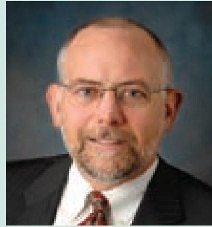
MARSHA L. BASS
President
Portfolio Property Management
Global LLC

JOHN I. BRALOWER
President
Carlton Hospitality Group

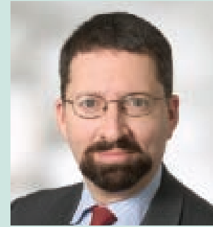
PHILIP BLUMBERG
Partner
Blumberg Capital



JOHN J. CUTICELLI JR.
CEO
Racebrook Capital Advisors



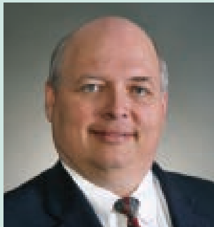
JOHN E. D'AMICO
President-Elect
Commercial Real Estate
Finance Council



MARK S. EDELSTEIN
Partner
Morrison & Foerster LLP

SCOTT FARB
Managing Principal
Reznick Group PC

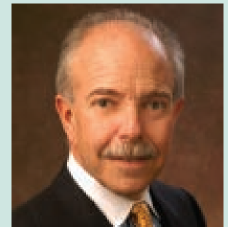
LEWIS G. FELDMAN
Partner
Goodwin Procter LLP



THOMAS A. FINK
Senior Vice President,
Managing Director
Trepp

MARK GRINIS
Distress Service
Group Leader
Ernst & Young

SPENCER LEVY
Sr. Mng. Dir. Eastern Division,
Capital Markets
CB Richard Ellis



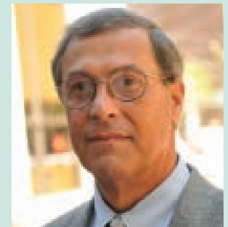
FRANK P. LIANTONIO
EVP, Capital Markets
Cushman & Wakefield

BLISS A. MORRIS
CEO
First Financial Network

ALAN PONTIUS
National Director,
Special Assets
Marcus & Millichap

STEVEN E. PUMPER
Executive Managing Director,
Investment Services
Transwestern

DAVID SCHECHTMAN
Senior Director
Eastern Consolidated



ANTHONY THEOPHILOS
Attorney
Starr Finley LLP

RICHARD J. WALTER
President
Faris Lee Investments

ROBERT M. WHITE, JR.
President
Real Capital Analytics

R. JOHN WILCOX II
Senior Vice President
Savills LLC

Distress Takes a Dip As Economy Perks

BY ALAN L. PONTIUS

Fears of another recession, global debt levels, uncertainty regarding taxes and regulation are confidence-killers among US companies that must drive a fundamentals-based recovery to heal the consumer sector. The recovery may be lacking momentum, but evidence suggests contraction is unlikely, barring an unexpected shock. Companies have wrung maximum productivity from their operations and need more help, leading to improved, if below-average, job growth in 2011. Election results should contribute to reducing uncertainty and move the political agenda more to the center, with likely compromises on key issues. The impact of the Fed's bond purchases may be questionable, but the message of readiness to shore up near-term conditions is clear.

The apartment recovery rallied above expectations in 2010 thanks to the release of pent-up renter demand, lower tenant rollover and job growth. Occupancies in other property sectors are at or close to bottom, and gradual recovery will begin in 2011, led by industrial and retail, then office properties.

The concentration of sales in the upper end of the market reflects an intense flight to safety. In 2011, investors will likely move down the quality spectrum as premium property returns dip and the cap rate/interest rate gap, along with locking in cheap debt ahead of rent growth, provide a safety net. Financing will ease further, but tight underwriting is definitely here to stay, even as the commercial mortgage-backed securities market expands and banks become more willing to lend.

Lender response to distressed real estate has played out quite differently from the early 1990s. In the current cycle, lenders have minimized fire sales, especially for quality assets, thus limiting large-scale opportunistic buying and frustrating many vulture and opportunity funds. In 2009 and year to date, more than 80% of the distressed property sales were under $5 million.

In the third quarter of 2010, new additions of troubled assets totaled $13.7 billion, which represented a 61% decline from the same period last year and were offset by $11.3 billion in workouts and restructured loans, minimizing the net increase in outstanding distressed assets to the smallest in two years.

Approximately $281 billion of commercial real estate properties were classified as distressed assets in the most recent cycle; of those, one-third have been restructured or liquidated. About half of those resolved culminated in restructured or extended loan terms, with the remainder completed through new financing or sale. The balance of known outstanding distress is estimated at $158 billion, while the inventory of lender REO has reached approximately $34.3 billion. Opportunities exist in different forms of distressed acquisitions, ranging from note sales and sourcing fresh equity to restructuring deals; however, it requires far more work, sophistication and networking to identify and take advantage of distressed situations.

Currently, more than 20% of outstanding commercial debt is held in tranched CMBS, adding a level of complexity to the ownership of underperforming assets. This dilemma has resulted in limited offerings and, consequently, the broader commercial real estate market resetting at a slower pace. A suspended animation has fostered gradual price rediscovery, especially when compared to the early 1990s, which were marked by massive and highly discounted dispositions of commercial property by the US government via the Resolution Trust Corp.

Core, quality assets fetch a true premium in today's market, while lesser-quality and more illiquid properties in secondary or tertiary markets remain hindered by risk-averse buyers and lenders. Sales velocity, although substantially improved since its mid-2009 bottom, will stay sluggish for a while as a result. Generally, lenders remain less inclined to sell under-performing debt and assets, delaying the deleveraging process. The redistribution of noncore, dis-

This issue is sponsored by: Voit REAL ESTATE SERVICES

tressed and revalued assets will occur, but over a two-to-three-year period as loan maturities roll, lenders gain financial strength and fundamentals improve.

The availability of debt clearly improved in 2010, with sold dollar volume up 65% from 2009, due primarily to a resurgence in larger, high-quality transactions. While sales remain far below levels achieved in 2005 to 2007, overall dollar volume in 2010 is on pace to nearly match activity recorded in 2003. Plenty of equity and, increasingly, debt capital, has formed, ready to step back into the market. The majority seeks top-tier or high-quality assets in the most desirable markets, creating a highly competitive environment for the few such properties that become available, and pushing down yields ahead of growth in NOIs. Fannie Mae and Freddie Mac still support the apartment market with debt; however, some commercial banks have become more active on a limited basis. In addition, life insurance companies have re-entered the market, and more lenders have stepped back into the CMBS sector.

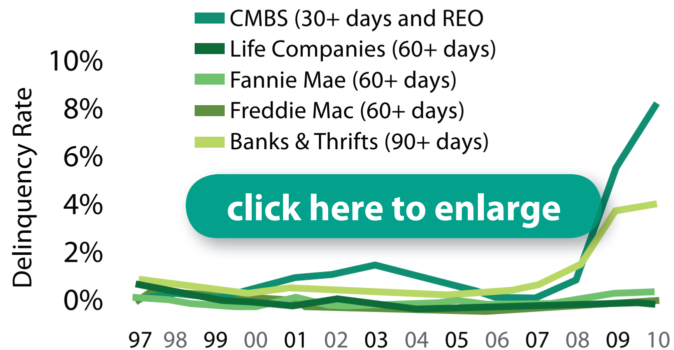
Notwithstanding the resurgence of institutional and REIT acquisition volume in 2010, 93% of transactions in the four major property types were below $20 million, reflecting the importance of private investors in the marketplace. Institutional debt sources share common criteria, including a preference for low-risk, high-quality assets and larger transactions with strong sponsors. This mandate leaves the majority of the transaction bell-curve, that being sales of $5 million to $20 million in the B-minus-to-C-quality range, with limited financing options. That is not to imply deals in these categories cannot get done, but the process and qualifications remain far more exhaustive and driven by the strength of buyer and lender relationships.

Risk aversion will persist for the foreseeable future. The sparks needed for broad-based easing in financing conditions include several consecutive quarters of solid job growth and sustained improvement in corporate capital expenditures. Current conditions suggest this will not materialize until mid-2011, resulting in more seller financing, loan assumptions and fresh equity injections to restructure existing deals. Well-capitalized buyers will have an array of opportunities, but they must be willing to move down the quality spectrum and assume more risk for the most competitive valuations, since stable assets in strong markets will not trade at discounts.

CMBS delinquency increased to 9.05% in September 2010, more than twice the rate reported one year earlier. Hotel and multifamily loans record the highest delinquency rates, nearly tripling to 19.3% and doubling to 14.4%, respectively, year over year. While the two sectors benefit from short-term lease structures and can quickly adjust rents upward when market conditions improve, they offer less protection on the downside when the reverse occurs. The rapid succession of lower occupancies and higher concessions reduces the NOI of an asset and often results in failure to meet debt obligations. Office and retail properties generally have longer lease terms, and it can take years, as opposed to days or months, for rents in well-leased properties to adjust to market conditions.

Currently, office and retail loans held in CMBS post 6.6% and 7.1% delinquency rates, respectively. US

CONTINUED ON PAGE 15 ▸



Banks & Thrifts Through 2Q; Others Estimated Through 3Q
Delinquency rates at end of each period
Sources: Marcus & Millichap Research Services, Mortgage Bankers Assoc.

Alan L. Pontius is managing director of the Special Assets Services division of Marcus & Millichap Real Estate Investment Services. Contact him at alan.pontius@marcusmillichap.com.

◂ CONTINUED FROM PAGE 1

City-based director of structured finance ratings. "That, coupled with the high vacancy rates and the severity of the recent recession, means it could take even longer" than the 25-month lag between the end of the 2001 recession and the peak of annual loan defaults.

Fitch Ratings said in December that property fundamentals and CMBS loan performance will begin to diverge in 2011. "While fundamentals are likely to enter a period of stabilization, loan performance will remain plagued by the effects of asset-specific tenant rollover and high leverage," according to Fitch. That will lead to a continuing, albeit moderating, stream of term defaults throughout the year.

One factor contributing to this growing divergence is the quality of the real estate backing the bulk of CMBS issues, notwithstanding large deals such as the Extended Stay portfolio. "CMBS consists largely of B- and C-quality underlying real estate," says William David Tobin, principal at Mission Capital Advisors in New York City. "A-quality tends to gravitate toward insurance companies. The recovery is sort of an emergence of the haves and have-nots."

Investment-grade properties with class A tenants "tend to do okay, with capital seeking those out and pushing down cap rates and bumping up trade prices," Tobin says. "It's the B- and C-quality retail centers, office and industrial, where the recovery hasn't taken hold. They had lower fundamentals to begin with, and the flaws in those sorts of properties get exposed a little more when you really have a marginal recovery."

What's next for distress? Bruce Schonbraun of FTI Schonbraun McCann gives Paul Bubny his take.

The bifurcation exists not only between investment-grade and second-tier assets, but also between gateway markets and the rest of the US. "That tends to skew the figures," says Tobin. "You hear about these buildings trading at aggressive cap rates in New York; San Francisco; and Washington, DC, and maybe in Los Angeles and Chicago. But when you move out into the other primary cities, and the secondary and tertiary markets, there's still a lot of distress. So you've got a barbell effect in geography and asset quality. Those two factors are weighing heavily on CMBS."

Moving out beyond the realm of CMBS and into the larger sphere of commercial mortgages, Real Capital Analytics reported in December that the third quarter's nine-basis-point rise in the commercial mortgage default rate marked the 17th consecutive quarterly increase. In early 2006, the default rate bottomed at 0.58%, whereas the current rate is just 19 bps shy of 1992's record high of 4.55%, RCA says.

"Since banks have worked through only a subset of the $46.8 billion in bank-held defaulted commercial mortgages, the potential for losses related to resolutions of distress remains a key feature of the marketplace," according to RCA. Tom Melody, Chicago-based executive managing director of Jones Lang LaSalle's real estate investment banking business, told GlobeSt.com in November that lenders currently hold over $33 billion of REO inventory due to soured legacy loans from the last cycle. Melody's colleague, managing director of the special asset services division at JLL Peter Nicoletti, said, "Although the current outstanding level of troubled and REO apartment, industrial, office and retail properties appears to be leveling at approximately $120 billion, forced sales will continue to be a significant feature on the capital markets landscape."

"You've got a barbell effect in the geography and in the asset quality. Those two factors are weighing heavily on CMBS."

—William David Tobin, Mission Capital Advisors

Against this backdrop, Eisenberg says

CONTINUED ON PAGE 19 ▸

This issue is sponsored by: Voit REAL ESTATE SERVICES

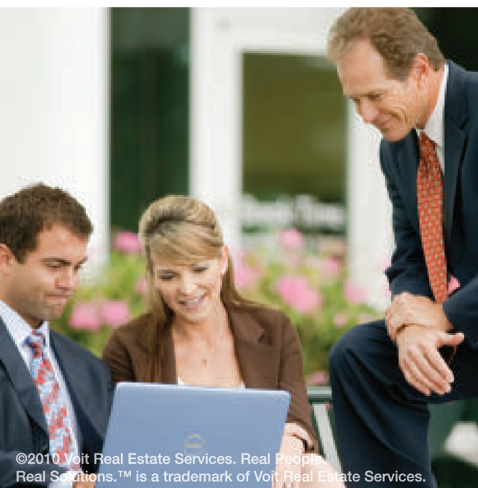
Real Estate Operators. Surrogate Owners.

At Voit Real Estate Services, we are just as committed to your business as you are. We are a privately held **REAL ESTATE OPERATOR**, placing a premium on creating client-focused solutions that stem from an **OWNER'S PERSPECTIVE.** Offering a single point of contact, we provide our clients with an organized disposition process. With our business focused in the Western United States, we have successfully navigated through multiple market cycles over the last 38 years and think of ourselves as **SURROGATE OWNERS** helping our clients define and execute their real estate strategies.

RECENT REAL ESTATE OPERATOR ASSIGNMENTS INCLUDE:

- $150 Million Distressed Commercial Real Estate Portfolio in Northern California
- $100 Million Commercial Real Estate Portfolio of 180 Properties Spanning 5 Western States
- 300,000 Square Foot Asset/Disposition/Association Management of 84 properties
- 230,000 Square Foot Asset/Disposition/Property/Receivership Management Services for 3 Office Buildings

IN NEED OF A REAL ESTATE OPERATOR & EXECUTION? VISIT VOITCO.COM.



Voit
REAL ESTATE SERVICES

101 Shipyard Way
Newport Beach, CA 92663
(949) 644-VOIT
(949) 644-8648
www.voitco.com

Asset Services • Brokerage Services • Construction Services
Development Services • Property Management

Voit is a Western United States firm, with office locations in
Anaheim | Inland Empire | Irvine | Las Vegas | Los Angeles | Newport Beach | Phoenix | Sacramento | San Diego

Real People. Real Solutions.™

Go West, Investor

The tally of distress is biggest in the West. The challenge for investors is finding the deals.

BY BOB HOWARD

Judging solely by the numbers, it's clear that the Western US is home to plenty of distress: the most of any region in the US, with nearly $59 billion worth in 3,280 properties, according to a November report from New York City-based Real Capital Analytics. Despite the consensus that the problem properties will not hit the market in a flood, the distress is there. The challenge for investors is how to find the deals they want.

Receiver Taylor Grant of California Real Estate Receiverships in Newport Beach, CA says that finding good distressed deals in 2011 may already be difficult in some property sectors. "I think we have worked our way through most of the quality residential land deals, with some exceptions," he says.

For the coming year, Grant expects "a tremendous amount of interest in pushing values on quality distressed assets," such as a 115-unit apartment complex in Glendale, CA for which he is the court-appointed receiver. The property, called 416 on Broadway, has generated 20 bids and is being sold as of this writing. What's not so clear, according to Grant, is what will happen to "properties at the other end of the food chain" in outlying markets. He cites the 10-unit apartment complex in the city of Twentynine Palms, CA for which he is also receiver.

A similar distinction between top and secondary markets, quality and lesser-quality properties drives the market for distressed hotel sales, according to Alan Reay, founder and president of Irvine, CA-based Atlas Hospitality Group, which publishes a quarterly survey of all the distressed hotels in California. The Q3 Atlas survey showed 529 hotels that were either in default or foreclosure, a 71.2% increase over the third quarter of 2009. But that number could increase significantly in 2011 because of a "huge shadow inventory of distressed deals that have yet to hit the default market," Reay says. The figure could rise by another 1,000 hotels.

Despite the rising tide of distress, Reay explains that some troubled luxury hotels have grown less so in the past year because of the rising prices that REITs and other well-heeled investors are paying for top-quality properties. He cites the 249-room Grand Del Mar resort in San Diego, which is encumbered by a $120-million loan, meaning that the debt amounts to nearly $482,000 per room.

"Based on that, the hotel is worth less than the debt," Reay says. However, "If we were talking last year, I would have said that the hotel's value was substantially lower than the debt. But given the hunger of the REITS, it's probably worth 80 to 90 cents on the dollar today." That compares to 50 cents last year, he adds.

Reay points out that the Grand Del Mar is still distressed in terms of not servicing its debt, but rising prices are one of the reasons that banks and special servicers are hanging onto such assets rather than selling them at fire-sale prices. What this ultimately means is that properties that once looked like distress opportunities may over time move out of the distressed column and look more like market-rate deals.

However, that's only the case for luxury, high-end properties in top-tier locales. "The secondary markets continue to get pummeled," Reay says, because REITs and overseas investors are not going to buy in these areas.

Some of those secondary markets are the places where distress is most likely to rise in 2011, according to Gordon Gerson, managing principal of Gerson Law Firm in San Diego. "The distressed assets are by and large wherever you have high unemployment and fractured local economies," he says. In the West, that means areas such as Phoenix, Las Vegas and the Inland Empire in California.

Gerson's comment is borne out by figures from Real Capital Analytics, which show that Las Vegas has the largest dollar volume of distress in the West, nearly $18 billion worth. That figure contrasts with much-larger Los Angeles, where the distress total is $8 billion. RCA figures also show distress as a significantly higher percentage of the market in Las Vegas, 44%, compared with 9% in Los Angeles.

Gerson points out that Los Angeles County has not been hit as hard by distress as some other parts of

This issue is sponsored by: Voit REAL ESTATE SERVICES

the country, but distress levels vary within submarkets in the county, with working-class communities more likely to suffer. "Long Beach has largely a working-class population, so consequently, you have more distressed assets there than in other parts of Los Angeles County," he says. "Wherever you have unemployment rising, you will also see the level of distress rising."

Similar to the hotel sector, Gerson describes the differences between top-tier and secondary markets for the multifamily market, where his firm is very active because its clients are lenders who originate a high volume of Fannie Mae and Freddie Mac loans. In Northern California, he contrasts the high level of distress in the Oakland multifamily market with that of the much stronger Silicon Valley, where his company has just closed four refinancings of apartment buildings.

The higher level of distress in secondary markets is also reflected in the receivership work at Gerson's firm. In recent weeks, it has put a receiver in place for a multifamily property in Palmdale, CA and coordinated with local counsel in Arizona and Nevada to have receivers put in place for assets in Phoenix and Tucson, AZ and Las Vegas.

Gerson says, "There have not been the fire-sale opportunities that everyone thought would exist," for lots of reasons. These include the extend-and-pretend practice that banks have followed, along with the relative reluctance of special servicers to foreclose, he says. "There are deals out there, but they are very hard to find, with probably 10 buyers racing for every asset."

Opportunities in distress will be even harder to find in 2011 in top-quality markets, according to

Assets to Target

Any property that is in receivership is a likely candidate for a distress sale, with receivers like Douglas Wilson and Trigild often listing them on their websites. Commercial real estate brokerages are also a prime source. The list is ever-changing, however, as properties are sold out of receivership or foreclosure and new assets enter the list. Following are some properties in the West that are likely candidates for sale.

SE Hotel in San Diego

Hotels: Alan Reay, president of Irvine, CA-based Atlas Hospitality Group, names a group of San Diego hotels including:

- The 184-room SE Hotel (a hotel-condo combo)
- The 258-room luxury W Hotel
- The Courtyard by Marriott Old Town
- Holiday Express Old Town
- The Holiday Inn Stadium
- The 512-room Holiday Inn San Jose.

Retail: In Sunnyvale, CA, the receiver for the 36-acre Sunnyvale Town Center mixed-use development is Jerry Hunt of Danville, CA-based Quattro Realty Group. Thanks to changes over the past year, the property "is no longer a distressed asset," Hunt said in a prepared statement.

Office: San Diego-based Trigild was recently named receiver for California properties including Orange County office complexes totaling 11 structures and more than 800,000 square feet:

- 1201 Dove St., Newport Beach
- Bixby Office Park at 3010, 3020 and 3030 Old Ranch Parkway in Seal Beach
- Newport Summit at 19600 and 19700 Fairchild Rd. in Irvine
- Redstone Plaza at 1300 Dove St. and 4041 MacArthur Blvd. in Newport Beach
- Inwood Park, 17300, 17310
- 17320 Red Hill Ave., Irvine.

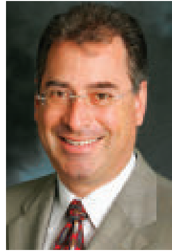
San Diego W Hotel

Industrial: Grant is the receiver for a 366,000-square-foot industrial building at 2001 E. Dyer Rd. in Santa Ana in the airport area of Orange County, vacant except for 10,000 square feet that is being rented as a data center.

Apartments: A 115-unit apartment complex called 416 Broadway in Glendale, CA is in the process of being sold, according to court-appointed receiver Taylor Grant of California Real Estate Receiverships in Newport Beach.

416 on Broadway

David Rifkind, principal and managing director with investment banking firm George Smith Partners in Century City, CA. Opportunities in distress are "spotty" in core markets like Southern California, which have already started to recover, he says: "There is no programmatic play in distress."



"Performing loans are now trading at the prices they traded before 2007."

— David Rifkind, George Smith Partners

Performing loans are now trading at the prices they traded at before 2007, at 98 to 99 cents on the dollar, "Because for banks, it's cheaper to buy a seasoned loan than it is for them to originate," Rifkind points out. "That doesn't leave a lot of margin for a distress investor, and it doesn't leave a lot of value-add for an intermediary." He uses as an example a $150-million package of 10 distressed bank loans that GSP took to market last year that generated 30 bids. "We were astonished at how close to par those bids were."

"If investors hit the lender at the right time, they might be able to get the deal of the year."

— Taylor Grant, California Real Estate Receiverships

Grant of California Real Estate Receiverships points out that one challenge for those pursuing distress this year is that there is no one central clearinghouse that lists all of the distress in the region or the country by location, property sector and type of distress, i.e.: whether a notice of default has been filed, whether a receiver is in place or the property has been foreclosed on. Even when that information is available, Grant says, finding distressed deals can be a hit-or-miss proposition.

For instance, the loan might be restructured before the investor gets there, it might still be listed as a note in default when the borrower has already given the lender the keys or there might be a workout in progress between the borrower and lender that will take the property out of the distress category.

Obviously, plenty of distressed properties are out there for the taking because they are listed with commercial real estate brokerages or receiverships or both, Grant points out, but those represent only a portion of what's in the pipeline. And investors looking for bargains often want to grab deals before they get to the listing stage.

"If the distress hasn't been listed and it's not officially for sale, the investor might be able to make an unsolicited offer to buy the property through the receiver or from the lender," Grant says. "If they hit the lender at the right time, they might be able to get the deal of the year." Often, he says, such deals are done very quietly with hardly anyone ever knowing about them.

Ultimately, regardless of whether investors want to find a "deal of the year" or just identify distress that has yet to be listed by brokers or receivers, "they have to do a lot of digging." Some investors shortcut the process because they've established relationships with the largest banks and special servicers. In addition, there are subscription programs that list the properties that go into special servicing, but an investor who then contacts the servicer will likely be competing against many prospective bidders, Grant points out.

One tack not to pursue, unless you have established connections, is calling the chief workout specialists at banks. Nick Mosich, managing partner at Ion Capital Partners, said at an industry event in Los Angeles recently that making that call is not likely to work because they are flooded with calls every day. Instead, "Focus on assets that are listed through brokerages where there is a clear mandate to sell," he said.

Says Grant, "Unless you know someone high enough in the food chain at the bank, they're not going to take your call." ■

***Bob Howard** is the West Coast correspondent for GlobeSt.com. He may be reached at bhoward@alm.com.*

This issue is sponsored by: Voit REAL ESTATE SERVICES

Asking Right Questions

BY ANDY SUNDGAARD

In acting as a receiver, today's challenges are as much about speed as they are about quality. Most special servicers, life companies and banks are looking for both speed and quality of information; when the asset's paperwork gets to the top of the pile, they need to act decisively. For property-management firms, acting as receiver has become a larger portion of their business, and the demands require a faster response.

Many assets come to us with significant complications. In many respects, the decision to proceed with the installation of receiver and foreclosure proceedings is the easy answer and decision. When receiving a property, the barriers to providing a fast takeover of the asset are often seen in documentation, accuracy of information, communication, physical issues and legal information. Recently, we had an experience where the records showing maintenance, tax and lease payments and tenant communication were non-existent. Thus, the first step in the receivership assignment was to assess all of those areas.

For the best transition leading to capturing the highest asset value, one must determine:

1. Does the court have all of the documentation needed to manage the asset?
2. Has the lender and its legal team assessed the accuracy of the information?
3. Who is handling the placement of insurance?
4. Is there a physical condition report for the asset?
5. What (if any) communication has been provided to the stakeholders at the property?

A review of whether the court has all of the correct documentation in advance of the receivership can be extremely helpful. Documents like a broker opinion of value; lease abstracts; loan documents; notifications from municipalities; and copies of liens, if any, are extremely valuable and should be reviewed by the project takeover team in advance. Any preliminary review can improve both efficiency and effectiveness, streamlining the process.

These details are important for a variety of reasons: Knowing the opinion of value can assist discussions with the lender; obtaining lease abstracts can accelerate an accurate billing process; and reviewing notifications and liens will help create a plan of action for the lender and court.

Often, while a significant amount of information on the asset is available, the accuracy of the information is questionable. The lender and its legal team will have assessments about the accuracy of what has been provided based on interaction with the borrower. When dependable, information can be used in action plans. It can also save time and require less rework in a sale.

Asking who is carrying the insurance is a simple question, but extremely important since a one-day lapse in coverage could prove to be disastrous. It is not always crystal clear in the court order or in communication with the lender who is responsible in proceeding in the placement of insurance. For obvious reasons, this needs to be on everyone's checklist. We have been involved in situations where borrowers' policies were left in place, lenders provided new blanket coverage or where the receiver needed to obtain new coverage.

The most cumbersome step in this process comes in accurate underwriting of the physical condition of the asset. If no recent reports are available, or those that are available are deemed unreliable, the physical assessment of the asset can take significantly more time. Any immediately obtainable accurate information vastly improves the takeover process. Whether it relates to the HVAC systems, roof(s), security, parking, or other structures or systems, any information in advance of takeover is valuable.

Understanding what communication has already transpired with both the tenants and service providers for the asset can be invaluable. The key is to both avoid duplication and confusion, while also critical to preserving tenants and vendors. Sometimes, previous communication can be obtained from the tenants or the legal teams. By gathering this information in advance, the team can avoid making a stressful and confusing situation worse and, ultimately, save time and money and eliminate duplication.

While most receivers have a detailed checklist, we have found that a few basic questions can improve both the speed and accuracy with which a receiver can provide service to the court. Much of the information needed can be obtained easily and assessed prior to management at a very low cost and lead to faster delivery of accurate information to the court. ■

Andy Sundgaard *is senior vice president of business development for NorthMarq's property management and special assets services. He may be contacted at andy.sundgaard@nothmarq.com. Views expressed in this article are the author's own.*

Call It REO Slow Wagon

REO is taking a long time to move to market, a situation that is fraught with frustration for just about everyone involved, especially those who are looking for high-quality distress

BY NATALIE DOLCE

Just before the start of the holiday season, philanthropist and investor Fred Kavli snagged a newly built REO property in Camarillo, CA for $10.8 million. The seller, Bank of America, shed the Creekside Executive Center in one of the largest transactions in Ventura County in the past few years. Another national bank also recently went to market with a portfolio of three REO properties and 22 performing and non-performing loans in California, Arizona, Nevada and Florida. The pack consisted of a golf course in California and residential land lots in California and Nevada.

Although these examples and a handful of others in recent months seem to indicate that REOs are increasing, quality is the important consideration in such deals, according to Gary Goodman, a senior vice president of acquisitions at Passco Cos. LLC. He says that REO activity varies widely, depending on product type and location.

Passco, which is focused on multifamily nationwide, sees few class A properties coming to market, Goodman says. As 2010 came to a close, the company was working on its second class A REO property acquisition for the year, but for the most part, Irvine, CA-based Goodman says, “most have been class C properties located in markets like Phoenix and Las Vegas where rents have fallen as much as 20% from the peak a few years ago.” However, Goodman expects that, as fundamentals improve and demand for the product increases—with more pension fund advisors and REITs committed to adding to their portfolios—higher-quality assets should become available.

Los Angeles-based Mark Bolour, CEO and principal of Bolour Associates, a firm that derives the majority of its business from discounted payoffs, says, “We rarely see solid REO lending opportunities.” When Bolour does see REOs, like Goodman, he says that many of the assets are C class or D properties and new construction.

REO’s Long, Slow Journey

“The time frame it takes for properties to get to REO status is still very long, from one to two years from the point of default,” Bolour says. “Most high-quality assets will be recapitalized by existing borrowers or the bank will do modifications. In some cases, where banks are failing or may be in trouble, they will sell the notes.”

Clearly, the state of the distressed commercial real estate markets is perplexing, says Newport Beach, CA-based John Strockis, managing director of asset services at Voit Real Estate Services. “Banks, special servicers and insurance companies that control the majority of distressed real estate nationally are generally frustrated by the amount of time and expense it takes to foreclose on an asset,” he says.

To date, Strockis says, higher quality REO assets have generally not come to market. “Sure, lots of REO land and small-value owner/user condo projects have cycled through the foreclosure process, but the promise of the trophy assets has not come to realization.”

One possible reason is that many lenders are choosing short-term loan modifications, hoping that increased absorption and rental growth will return, Strockis explains. “Mark-to-market accounting supports this strategy, but we all know that extending the inevitable foreclosure is a bad long-term bet,” he says.

Class Distinctions

The current REO story varies depending on whether the foreclosed property is held by a money center bank, a state-chartered regional financial institution or a special CMBS or conduit servicer, says Conrad Andersen, executive vice president and managing director for financial services asset management at Grubb & Ellis. “Most money center banks are relatively well capitalized and are in a position to do a mark-to-market on all classified or impaired loans,” he says. “As a result, they can foreclose and make available REO for disposition. On the other hand, very few state-chartered regional banks are well-capitalized and most are not able to do ‘wholesale’ mark-to-market without becoming insolvent.”

Special servicers, he continues, have their own unique issues tied to REMIC requirements and the pooling and servicing agreement. Also, “most special servicers are in a first-loss

This issue is sponsored by: Voit REAL ESTATE SERVICES

position since they own the B piece and must demonstrate that their exit strategy meets the optimum net-present-value liquidation outcome."

Anderson explains that the federal government "is allowing banks to amortize their loan problems even if a loan is under-collateralized if a borrower is able to meet the bank's new extended loan terms."

The general consensus from most insiders, though, is that REOs are generally increasing and will continue to do so. Banks have become more active sellers of both notes and REO, says Farzin Emrani, managing director in the L.A. office of Lucent Capital. "Banks have had time to build up their cash reserves and write down the assets to market levels," he says. "While many banks do not have a sense of urgency to sell—their thought being that time will improve asset values—they are generally sellers at today's market value."

Emrani continues that banks will bring higher-quality assets to the market. "As fundamentals stabilize and capital markets continue to improve, we expect to see many of the higher quality non-performing notes worked out or recapitalized rather than foreclosed."

"Most REO has been class C properties located in markets like Phoenix and Las Vegas."

— Gary Goodman, Passco Cos.

Receiver Report

Bill Hoffman, president and CEO of San Diego-based receiver and distressed real estate specialist Trigild, which recently added 11 office and industrial properties totaling three million square feet to its national receivership assignments, says that all commercial property types continue to default and go into the foreclosure/receivership arena. "CMBS servicers seem to be somewhat more active in dispositions, but we expect all lenders and servicers to accelerate their activity in 2011 and continue to deal with defaults and maturities for another three to four years," he says.

Hoffman isn't sure whether asset quality is the deciding factor now when banks make assets available. "We are seeing all levels of quality and loan size currently, but the volume continues to increase, so we expect to see the number of properties coming to market to increase," he says. "But recovery prices may continue to decline for some time yet. Property type, quality and location weigh heavily on sales prices."

Grubb & Ellis' Anderson says that most "higher-quality," large-cap loans are syndicated. "Therefore, there is generally a lead, agent bank and six or more participant banks," he says. "The sponsor is generally institutional with significant capital and expertise. For the aforementioned reasons, we are not going to see that many trophy assets go to foreclosure."

Generally, Anderson adds, loans fall into three basic categories: syndicated (usually with balances at or greater than $30 million); securitized; or on-balance sheet. Most foreclosed assets will be on-balance sheet loans, the majority of which are multifamily and small commercial.

Mitch Siegler, senior managing director at San Diego-based Pathfinder Partners LLC, has observed a noticeable increase in bank foreclosures during the past six months. "We believe this is largely because the six-to-12-month loan modifications entered into last year have not produced the desired results—generally because the project still couldn't be refinanced without a significant new equity contribution from the sponsor," he says. "And, of course, the sponsor wasn't a seller at market prices since his equity would have been wiped out."

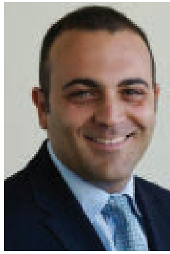
Foreclosure Factors

Another factor leading to more foreclosure activity, according to Siegler, is that banks have now had 10 to 12 quarters of healthy earnings—net interest margins are strong because of the extraordinarily low cost of funds relative to spreads they can earn from buying Treasury securities or making new loans. "This has enabled them to add dramatically to their loan-loss reserves, the effect being that assets have now been impaired down to levels much closer to their actual market values," he says. "Banks don't want to foreclose and hold a property in REO for very long. A year or two ago, banks couldn't foreclose on the loan and sell the property because their carrying value was so much higher than market value—and they couldn't take such a huge hit. Now, carrying values more closely approximate market values for many assets—so banks can foreclose and sell without such a large loss."

Also, Siegler continues, regulators have been scrutinizing loan files much more carefully and encouraging banks to move forward to resolution of troubled assets. "Loans that were modified over the past couple of years are not great candidates for further restructuring.

That is likely to drive foreclosures."

In addition, the FDIC has seized nearly 150 banks in the first 10 months of 2010 as compared with 140 for all of 2009, Siegler points out. Many analysts believe hundreds or thousands of banks could fail over the next few years, he adds. "During the past few years, the assets of these seized institutions have been absorbed by successor financial firms. This has generally been done subject to a loss-sharing arrangement with the FDIC. Usually, the successor bank cannot sell the loan. So, the successor bank's options are to work out or modify the loan; sell it, (unlikely because of FDIC constraints); or foreclose. We expect increasing bank failures to lead to more foreclosures."



"We rarely see solid REO lending opportunities."
— Mark Bolour, Bolour Associates

Preserving NOI?

Banks generally have not been able to increase the net operating income unless the asset is located in an infill location and is a class A property, says G&E's Anderson. "Since vacancies are still double-digit in most submarkets and rents are soft, most new tenancy comes from class B tenants moving to better space," he says. "There are other methods that banks use to mitigate losses, including utilizing the receivership process on securitized loans, keeping existing debt in place and allowing for new sponsorship and recapitalization."

There is no magic bullet to increase NOI, says Trigild's Hoffman. "The quality of the property, the competitive market and the management and marketing skills, as well as the integrity and past actions of the borrower will affect how much the bank, or its receiver/management company can improve NOI," he says.

Generally, banks preserving or increasing NOI through the holding period are case-by-case, but according to Goodman, lenders are usually not as organized as they need to be in order to maximize the NOI of these troubled assets. "The people involved—whether they are the lenders or the vendors that deal with the property—know that their tenure associated with the asset is short term," he says. "They do not have the incentive to maximize the operations of the assets that an investor has."

"Banks, special servicers and insurance companies are generally frustrated by the amount of time and expense it takes to foreclose on an asset."
— John Strockis, Voit Real Estate Services

Some well-capitalized financial institutions will choose to foreclose and create value in their REO assets before selling the property, says Voit's Strockis. Typically, these financial institutions have a well-trained REO department and often will hire a third-party asset manager to assess what capital is needed to preserve or increase NOI, he says. "These firms will have to be convinced that the investment in capital expenditures, tenant improvements and leasing commissions provides a market return when the property is ultimately sold."

If given the choice, a lender will stretch to restructure a quality asset if the NOI can support a one- or two-year extension, Strockis says. Alternatively, "A lender may choose an orchestrated short-sale if the gap between the loan balance and market value is 'reasonably' small for a class A property," he adds.

Looking ahead, Strockis expects some, but not all, market fundamentals to turn from negative absorption and negative rent growth to minimal absorption and flat rent growth. "This fundamental market recovery will further stir investor interest and increase the demand to acquire higher-quality bank owned assets," Strockis says.

Next Month Part II: REO: Pricing, Pros and Cons, and more. ■

Natalie Dolce is the West Coast regional editor for GlobeSt.com and Real Estate Forum. She may be reached at ndolce@alm.com.

This issue is sponsored by: Voit REAL ESTATE SERVICES

◂ CONTINUED FROM PAGE 5
CMBS issuance through mid-October reached $5.6 billion, already more than two times greater than the total for all of 2009. Several issues led by Goldman Sachs, Citigroup, JP Morgan Chase, Royal Bank of Scotland, Bank of America and Deutsche Bank were well received.

Other firms hiring and ramping up CMBS divisions include such names as Wells Fargo, undeterred by Wachovia's $2 billion losses in 2007 and 2008; Macquarie, Australia's largest investment bank; and Cantor Fitzgerald, a New York City-based bond trader and brokerage. In perspective, CMBS issuance peaked in 2007 at $230 billion, then plunged to $12 billion and $2.7 billion in 2008 and 2009, respectively. The CMBS market should continue improving, but it will take time before anything but the safety of assets readily attracts this form of financing.

In 2011, investors should take stock of two fundamental points: First, the worst is over and, second, capital markets have actually improved faster than was generally expected. Higher returns require the appropriate degree of risk-taking, and approaching 2011 with the same tenor of wariness present a year ago will likely lead to lost opportunities.

Many investors failed to pull the trigger over the past 12 months, expecting an RTC-style, deeply discounted property market or prolonged deterioration of the US economy. The odds of either event occurring have further diminished. The low-hanging fruit may be gone, but attractive investment opportunities exist that may not be available a year from now.

That is not to say investors should throw out caution. Economic and market risks remain and must be assessed; however, this year's improved data points and lenders' ongoing strategy to prevent fire sales on quality assets highlight the need to reset expectations and adjust strategies.■

ALM Real Estate Media Group

2011 MEDIA GUIDE

Part Editorial Excellence...Part Information Exchange...
Part Industry Connections...ALL BUSINESS.

ALM'S REAL ESTATE MEDIA GROUP
delivers highly respected content and a proven integrated marketing platform via Real Estate Forum, GlobeSt.com and the RealShare Conference Series.

Real Estate Forum
Celebrating 65 years as the definitive source for commercial real estate business intelligence

RealShare CONFERENCE SERIES
Leading the conversation of real estate

GlobeSt.com™
Real estate is our domain

Visit www.almRealEstateMediaGroup.com for all 2011 marketing opportunities.

An ALM Product

They're Back!

Well, not quite in force but experts say that the spigot for bulk-loan sales will open over the next few years

BY ROBERT CARR

In late November, Green Bay, WI-based Associated Banc-Corp was upgraded by Fitch Ratings for its dealings with bulk loan sales. Since mid-2009, the company brought in a new management team, aggressively wrote down problem assets and raised almost $500 million in fresh equity to maintain high levels of overall liquidity. Assisted by this equity, the bank engaged in more than $430 million in bulk-loan sales to help restructure its balance sheet, says Breck Hanson, who was named head of commercial real estate for the bank in September.

Associated, it seems, got the formula right for handling its debt: raising enough capital to allow the bad debt to be written off and enabling bulk sales. On a larger scale, both through the FDIC and private banks, there has still been too much confusion and apprehension in the market for bulk loans to become as popular as they were in the previous downturn. That might be changing.

Based on what happened in the 1990s, a few banks and financial-management firms geared up for this recession to capitalize on an expected outflow of distressed assets and bulk-loan sales. These companies, including newly formed firms and organizations that created new subsidiaries, expected to see the government use tools similar to the Resolution Trust Corp.

But as we all know, the flood never occurred. What few bulk sales have happened are massive, billion-dollar unloads, which most firms can't reach. The good news, however, is that experts point to increasing activity in bulk sales and to more clearing of debt in the next few years.

Hanson credits Phil Flynn, Associated's new president and CEO, as key to getting its books in order and dumping its distress. However, other banks have had a tough go at this approach, he tells ***Distressed Assets Investor***. "Banks haven't been in a position to sell loans at market value because of the large hit that would be taken in earnings," Hanson says. "Plus, it's difficult for some executives to look at portfolios they've nurtured in a completely objective fashion."

He adds that an improved economy has boosted interest in some product types, and that the industry is hungry for bank performance, which will force some asset sales. "You're going to see an increase in bulk-loan sales simply because there hasn't been much movement until now," he states.

Chris Crowley with Boston-based Capital Crossing Servicing Co. says the bid-ask spread is just too wide, and he doesn't see buyers raising prices anytime soon. What he does see is more activity in the past six months than in the 12 months prior, including bigger bulk sales. "Where we were seeing $60 million as a big pool, now we're seeing $150 million to $200 million," he observes. "We've been doing a bit of bulk buying ourselves over the past year, though they were more private, negotiated trades than public auctions."

The clearing will need to happen, experts agree. According to data from Foresight Analytics, about $1.7 trillion in mortgages (including multifamily paper and construction and land loans) will mature between 2010 and 2014, an average of nearly $350 billion per year. With asset values down by 45%, about $900 billion worth of the accompanying assets are distressed, with the maturities increasing starting this year. Delinquent and defaulted debt is estimated at $230 billion, according to Foresight.

"We're seeing something like $2.7 billion of bulk sales going on."
—Bliss Morris, First Financial Network

Bliss Morris, CEO of First Financial Network in Oklahoma City, saw far more portfolios being marketed around the country in the fourth quarter of 2010 than in the year prior.

This issue is sponsored by: Voit REAL ESTATE SERVICES

"We're seeing something like $2.7 billion of bulk sales going on," she tells ***DAI***. "Technology has helped and is creating competition among different investors."

Morris says one of the reasons that bulk sales have been slow is it took a while for buyers and sellers to bring their value assessments closer together, especially in late 2008 and early 2009, when prices dropped quickly. "You look at what a property appraisal was seven or eight years ago, compared to a couple of years ago, and it had been cut in half," she notes. "Then six months went by and it was cut by another 25%. It was horrific. The institutions were trying to get their head around value.

"It's a misnomer that buying bulk is going to garner a cheaper price," Morris continues. "If you take a portfolio of loans, subdivide it and stratify the portfolio into small groups, those groups can have a better value. We're doing these deals where we have $250 million in loans and all but four pools are individual borrowers. A borrower with $30 million to $50 million can submit bids on different pools and have a much better shot at acquiring that product. Just in Q4, we'll probably trade close to $200 million to $300 million in one-off loans."

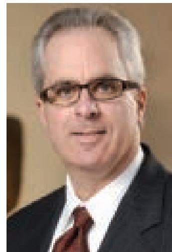
The benefit to sellers, Morris says, is that you can bring in vetted, qualified investors who are likely to buy, at a time when many new companies are springing up to chase distress or established companies are forming distress arms. "Today, it's more important than ever to know if a potential buyer has the ability to do an acquisition," she notes. "We've had to do more research on vetting investors recently. There are more loans being sold, banks don't want to be in that business and these new companies needed education on due diligence of a loan sale. You can't go tour a loan sale property; it's just not possible."

Morris says she's a glass half-full sort but admits she's nervous about the global economy. "There's a narrow opening of banks starting to put bulk loans out there, and we should see more of this in the next 36 months," she says. "At some point there's going to be some market clearing, and it's going to happen over time. It's just going to be a slow, slow process."

Part of the explanation for the bulk loan backlog is that the government believes it has learned from what worked in the previous recession. From December 1992 through October 1995, the RTC created 72 partnerships in the form of limited partnerships and business trusts. These held real estate loans and assets with a total book value of $21.4 billion and another $18 billion of partnerships holding judgments, deficiencies and charge-offs.

In 2008, the Federal Deposit Insurance Corp. again turned to the partnership model to sell large numbers of distressed assets, entering into two basic types of structured transactions with private-sector investors: participation transactions and partnership transactions. As of October 2010, the corporation had closed 18 structured deals, disposing of more than 32,000 assets and $21 billion in unpaid principal balance. This included Starwood LLC's $4.5-billion purchase of Corus Bank's assets and Colony Capital's buy of more than $2.8 billion in commercial real estate loans from the FDIC.

Chris Moench, CEO of Directed Capital Resources LLC in St. Petersburg, FL, says to guard against a loan flood, which is a valuation threat, the FDIC has been heavily involved in keeping bulk loans to a minimum. The corporation sold the assets on the open market through agencies.



> **"Distressed debt sale volume will pick up, and we'll see more bulk sales next year."**
> —Clayton Gantz, Manatt, Phelps and Phillips

However, about two years ago, the government stopped these sales, Moench says, to avoid overwhelming the market with product and devalue prices. Now, a weak bank will be sold to a strong bank, with caveats that constrain the disposal of assets for a few years, resulting in greater government control over what is sold and when.

Directed Capital bought about $100 million of assets in the past year, and this year will hit about $85 million, Moench says. His firm isn't sized to handle billion-dollar bulk sales, and there's been only about a dozen of these sales as part of the government's effort to protect the market.

"There are only so many players out there that can compete for those large sales," he explains. "And even in those deals, you haven't seen a lot of re-transacted assets out of these pools. The FDIC still has constraints on those deals, resulting in the acquiring entity having to try to work out the asset.

However, these loss agreements typically run only four to five years. You're going to see this timeframe come to an end, after which an acquiring institution gets to do what it wants. You're going to see more of these assets come out in the next three years."

The other major sector where we're seeing assets come out is securitizations, says Moench. "In the past six months we've seen a number of special servicers bring to market, either directly or via one of the loan-sale advisory groups, packages of assets in bulk from around $20 million to $200 million. That water's been backing up behind the dam, and it's starting to spill over the top."

Rick White, a partner in the real estate practice of Jones Day in Atlanta, says securitization complexity is a large reason why the bulk-loan market hasn't materialized. "I don't know any bulk loans where mezzanine financing was involved," he states. "It's just not clean and easy. Also, there are differing interests." While the senior class holders are more open to selling bulk, the holder in the bottom tranche controls the special servicing, "and they are likely to push to hold the loan."

While it's probably not a good idea to keep putting off the distress problem, White agrees that financing could make a comeback and save some of the properties, depending on the economy. "The mood across the industry has improved greatly," he notes.

Clayton Gantz, a partner in real estate and land use at San Francisco-based Manatt, Phelps and Phillips, says that during the RTC cycle he made 60 bulk-loan deals on the buy side for Lehman Bros. in a two- to three-year period. "When it all hit the fan this time around, it didn't work out that way," he tells ***DAI***. "They aren't open to the general market like they were then."

This time, the government has stuck to allowing good institutions to take over bad and arranging a handful of large sales, such as the Corus Bank/Starwood deal. Of course, banks are generally uninspired to put out large portfolios for pennies on the dollar.

"This time around it's the tale of the haves and have-nots," Gantz says. "The haves are the banks that have reasonable capital levels and have been permitted to extend and pretend to defer loss recognition on loan portfolios and grant extensions to the borrowers to avoid the day of reckoning. The have-nots? They were taken over and closed down."

"If we've learned one thing from the 1990s, it's that a one-size solution doesn't fit all," Gantz says. "We're finding that banks are doing transactions systematically by going to the borrower to get a discounted payoff of the loan. They can usually achieve a bigger payoff rather than if they sold to a private equity or hedge fund. For example, if I want to pay off a $100,000 loan, I'll guarantee $75,000 in principal. The alternative is for the lender to take my property and sue on the guarantee and maybe get $35,000. We've seen 40 or 50 deals like that."

"You're going to see the non-government sellers enter the market."

—Richard Gaudet, GlassRatner

He says banks also just didn't have the wherewithal to absorb the losses that would have been incurred when selling, especially in 2008-'09 when the market was at its worst. Also consider, he says, that the bid-ask spread was so large that both sides' expectations could be called unrealistic. "And don't forget another important reason," Gantz adds. "If a financial institution manager sells assets before the market actually hits bottom, the board of directors will all think he or she is an idiot."

With the start of new activity, Gantz thinks that maybe people are coming to their senses. "For one, the financial institutions that are approaching us to sell assets are doing better than a year or two ago, and they're thinking that they may absorb losses from a market rebound," he says. Also, buyers' expectations have diminished. "If they were looking for a 20% return in the past two years, now they're looking for the mid-teens."

Gantz says lenders have found other ways to move assets off their books.

Richard Gaudet, a principal with Atlanta-based GlassRatner, says part of the reason for the lack of bulk-loan sales was that buyers' expectation of yield was not realistic, making deals difficult. Buyers who want a 20%-plus return are asking banks, who have to answer to stockholders, to sell at an extraordinary loss. "When you start seeing mid-teen returns, such as we're seeing now," he says, "you're going to see the non-government sellers enter the market. A bank targets an 18% return on equity. It doesn't make sense at 25%. We're seeing increased traffic, there have been a few regional banks that are doing bulk sales and others that want to step into the market." ■

Robert Carr *is Midwest region editor for GlobeSt.com and* Real Estate Forum. *He may be reached at rcarr@alm.com.*

This issue is sponsored by: Voit REAL ESTATE SERVICES

◂ CONTINUED FROM PAGE 6

the era of extend-and-pretend is coming to a close. "There's been a recognition that long-term extend-and-pretend can't work, because assets need investment of capital to keep them up to date," he says. "Who's going to invest capital if they don't know whether they're going to be the asset's owner long term?"

"Selling now could mean a better return and a better outcome than continuing to extend and pretend."
— Gary Eisenberg, Herrick Feinstein

Certainly not borrowers, Eisenberg says, while lenders would prefer not to make the outlay, "because if they're under-secured, their likelihood of recovering what they put in is reduced."

From a lender's perspective, "it's time for what I call 'die and fry:' you enforce your rights and remedies under the mortgage and see where the pain shakes out," says Eisenberg, who is based in Newark. This can mean opportunities for buyers of distressed debt, he says. In situations where prospects of the property's value recovering are slim, "losses are going to continue to accumulate and selling now could mean a better return and a better outcome."

As a result, Eisenberg says, "You're seeing a lot more activity in terms of potential note buyers stepping into the mix, purchasing notes and then turning around and enforcing rights and remedies under the mortgages." Because they are buying at a discount, they're in a better position to enforce those rights and remedies while seeing upside potential if they take those steps.

Would-be investors of all stripes are taking notice. At the NYU conference, a panel of private equity experts suggested that they're looking more seriously at opportunistic plays. "Everybody got so burned by the downturn that they want safety and liquidity," said Jonathan Gray of Blackstone Real Estate Advisors. Partly because everybody is chasing those same few deals in key markets, there are more opportunities in properties that are high quality yet impaired, said Gray, the New York City-based senior managing director and co-head of real estate at Blackstone. His fellow panelist, Paul Galiano, Tishman Speyer's co-head of acquisitions, dispositions, equity capital markets and joint-venture transactions, predicted that the current bifurcation between core and value-add opportunities will continue well into 2011.

Similarly, a panel of lenders, all of whom spoke of their organizations' conservative underwriting, also expressed a willingness to push the envelope just a little. "We're starting to look for opportunities where we can get a little more yield and take a little more risk—but not too much more risk," said New York City-based Richard Coppola, managing director and head of commercial mortgage investments at TIAA-CREF.

Deutsche Bank Securities' John Nacos, managing director and global head of real estate debt, sees value in "unstabilized, broken assets." However, the New York City-based Nacos noted that this comes with higher-priced debt—interest rates of 10% or more—along with leverage of no more than 60% to 65%.

The resulting rise in distress-related transactions is "a slow climb, but what's not apparent when looking simply at transaction volume is the number of loan deals," says Mission Capital's Tobin. "That really is growing pretty aggressively. You have a lot more announced loan sale transactions this year versus last."

As of November 2010, Tobin says, there were about $24 billion in loan-sale transactions year-to-date compared to $17 billion for all of 2009. That tally didn't include all results from the fourth quarter, and a $30-billion total by year's end was likely. "That's about a 70% increase in announced volume alone," he says. "There are a lot of unrecorded private deals."

Fitch predicted that lodging as well as multifamily, hardest hit by the downturn, would be the first to stabilize. Certainly that assessment is borne out by both Jones Lang LaSalle Hotels' third-quarter investor sentiment survey and by actual asset sales.

"We've rounded the bottom, so now people can start applying their newfound buoyancy and move forward on transactions," says Gregory Rumpel, Miami-based executive vice president at JLL Hotels. "Of course, it still requires lending to come back and sellers to meet the market. But we've seen it already. The third quarter's been very good for us in terms of volume, certainly in the US."

However, Rumpel notes that while the select-service market has been buoyed by larger portfolio transactions as lenders clear their books of non-performing loans, the full-service segment sees the bifurcation prevalent across the investment sales landscape. "If we have a gateway market, we're seeing significant investor interest, whereas if it's a secondary or tertiary market, there is interest, but it's definitely tempered," he says. ■

Paul Bubny *is Northeast region editor for GlobeSt.com and Real Estate Forum. He may be reached at pbubny@alm.com.*

Is There a New Bubble?

BY PETER BROOKS

While the volume of distressed property and loan sales continues to disappoint many potential buyers and the "new normal" market-pricing level continues to evade easy analysis, one surprising market trend is the re-emergence of some high-price/low-capitalization rate transactions. Many commentators have noted that certain high-profile transactions have attracted multiple bidders and closed at prices that were higher than expected. This anomaly has several causes and a few caveats.

Let's start with the caveats. First of all, there have been very few such transactions. Also, many of the transactions are not exactly typical. Although the prices may have been higher than expected, most are well below the high-water marks set at the top of the bubble two or three years ago.

Trophy office buildings filled with creditworthy tenants, located in cities with high barriers to entry, are cited as examples of the new enthusiasm. (*See the chart for examples.*)

Pricing's New Normal

Property	City	Price	Price/Sq. Ft.
John Hancock	Boston	$930,000,000	$540
Park Avenue Plaza	New York	$671,340,000	$590
510 Madison Ave.	New York	$275,000,000	$786
Market Center	San Francisco	$267,000,000	$347
Terrell Place	Washington, DC	$265,000,000	$625

Source: Real Capital Analytics

The buyers include a REIT, private equity firms, an insurance company and a pension fund. While the sticker prices are high, ranging from a quarter of a million to almost a billion dollars each, the prices per square foot do not begin to reach the stratospheric levels that existed from 2006 to 2008. The buyers are interested primarily in reliable long-term income with the chance for a meaningful increase in price over the medium term.

What motivates buyers like these to bid up the prices for trophy properties? In a market where safe investments carry returns in the 1%-to-2% range, the 5% or 6% return offered by a well-tenanted, high-profile office building is more attractive than it would have been in a high-interest rate environment.

REITs, in general, have fared well in the past 12 to 18 months, gaining new equity investors and refinancing existing debt or acquiring new debt at advantageous rates. So they are well-positioned to make new investments. REITs have traditionally been more of an income-oriented investment than a growth play, although some investors may have lost sight of that when prices were skyrocketing. Similarly, many insurance companies and pension funds are looking to allocate investments among various asset classes and, after sitting out for a year or two, they are back with funds and an appetite for moderate, reliable rates of return.

Private equity investors, in some cases, are sitting on large amounts of cash and are facing a use-it-or-lose-it situation that may spur investments before they can redeem their pledges. Unlike REITs and insurance companies, the rates of return from trophy investments are, by historic standards, not attractive to private equity investors. However, when distressed assets are difficult to acquire, some return is arguably better than no return at all.

But how does one define trophy properties? Some investors claim that any building constructed in the CBD of any large city in the past 20 years qualifies. Attributes of trophy properties include location in gateway cities such as New York; Washington, DC; Boston; and San Francisco, and strong creditworthy tenants whose leases are at market and do not expire in the near, or even medium, term.

Where does the risk lie in this potential new bubble? In a word: leverage. Buyers who transact using all cash or low-leverage ratios are often protected against possible downturns in the market. However, lenders offering 50% LTV loans at the beginning of 2010 appear to be increasing their appetite for risk and may soon be back to the traditional 75% level.

The new bubble is not yet fully developed, but it is growing as we speak. If this phenomenon leads to euphoric price levels before real estate fundamentals recover, the inevitable bust will follow quickly. ■

__Peter Brooks__ is an executive director with Ernst & Young LLP's Transaction Real Estate practice. He may be contacted at peter.brooks@ey.com. Views expressed are those of the author and do not necessarily reflect the views of Ernst & Young or Distressed Assets Investor.

This issue is sponsored by: Voit REAL ESTATE SERVICES

Open Your 2011 Calendar and Save the Dates

RealShare CONFERENCE SERIES 2011

The RealShare Conference Series Leads the Conversation of Real Estate

9th Annual
RealShare **PHILADELPHIA** ....The Union League
January 27, 2011

9th Annual
RealShare **WASHINGTON, DC**..The Ronald Reagan Building
February 15, 2011

REAL ESTATE 2011 The Westin Bonaventure, ...Los Angeles
March 15, 2011

RealShare | **NET LEASE**....Marriott Marquis, New York
April 13, 2011

5th Annual
RealShare **STUDENT HOUSING**.......The Four Seasons, Dallas
May 9-10, 2011

RealShare **HOTEL SUMMIT** ....New York Hilton
September 15, 2011

RealShare **APARTMENTS 2011** The Westin Bonaventure, ...Los Angeles
October 20, 2011

Additional events will be added soon.

CONTACT US

Sponsorship Opportunities
Daniel Ceniceros • 213-236-3698
dceniceros@alm.com

Sponsorship Opportunities
Gregg Christensen • 212-457-9664
gchristensen@alm.com

General Information
Sarah Quinn • 212-457-7744
squinn@alm.com

For details, updates and continuous information, visit: **www.realshareconferences.com**

An ALM Event

TROUBLED ASSETS
MARKETPLACE—DIRECT

Troubled properties present opportunities for savvy investors not averse to some risk. On the following pages you will find details of assets in some degree of distress. Listings in this section represent direct-investment properties financed with both balance sheet and CMBS loans. The following page lists CMBS loans in distress. Loan status is indicated in all cases. These listings are updated on a monthly basis for DAI by Real Capital Analytics and Trepp, respectively.

Distressed Status: Resolved

Data Partner: REAL CAPITAL ANALYTICS

Property Name	Location	Units/ SF	Former Distressed Owner	Initial Lender	New Owner	Main Type; SubType	Troubled Date
Trump Hollywood (Bulk Condo)	Hollywood, FL	182	The Related Group	HSBC Holdings plc	King Street Capital Mgmt. JV BH3 LLC	Apartment Mid/Highrise	11/18/10
Everglades on on the Bay	Miami	670	Cabi Developers (GICSA)	Bank of America	Rockwood Capital JV Duncan Hillsley Capital JV Fortune Capital Mgmt. Services	Apartment Mid/Highrise	11/24/10
Three Sixty Residences	San Jose, CA	213	Mesa Development LLC	Pacific National Bank of CA	Kennedy Wilson	Apartment Mid/Highrise	11/23/10
Gramercy Park	New York City	185	Ian Schrager JV RFR Holdings LLC	Union Labor Life	RFR Holdings	Hotel Full-Service	11/16/10
100 Fifth Ave.	New York City	232,732	Rock Investments	Royal Bank of Scotland Group PLC	Invesco Real Estate JV Kaufman Organization	Office Office - CBD	12/8/10
Anchor Centre I&II	Phoenix	333,265	Aslan Realty Partners	Bank of America	Angelo Gordon JV Dave Warren	Office Office - Sub	11/12/10
Mission Ridge I&II	Fairfax, VA	312,000	Pitcairn Properties JV GE Capital Real Estate	Berkadia Commercial Mortgage	LaSalle Investment Management	Office Office - Sub	11/23/10
7th & Madison	Seattle	205,148	Opus North	US Bancorp	HAL Real Estate Investments	Office Office - Sub	11/22/10
9837 N Central Expy	Dallas	1,829,520	Red Sea Group JV Provident Realty Advisors	Wachovia	Kroenke Holdings	Dev Site Dev Site	11/17/10
Uptown Place	Oakland, CA	88	Bedford Group	Hanmi Bank	Canyon-Johnson Urban Fund	Apartment Mid/Highrise	11/29/10
Lake View at Fremont	Seattle	115,000	Mastro Properties	Bank of America	Stockbridge Real Estate Partners	Office Office - Sub	11/19/10
Chicago Title Building	San Diego	68,000	Real Estate Capital Partners OBO Kurt & Jenny Litug JV Sand & Sea Capital	Far East National Bank	Virginia Herrera Gonzalez	Office Office– CBD	11/22/10
Westcore Executive Ctr.	San Juan Capistrano, CA	116,000	Mammoth Equities	JP Morgan	Westcore Properties	Office Office - Sub	11/29/10
Village Green Lifestyle Ctr.	Lincolnshire, IL	121,670	Special Assets Acquisitions LLC	Citigroup Inc	Baceline Investments	Office Office - Sub	11/30/10
Munsey Building	Baltimore	146	Munsey Building LLC	Berkadia Commercial Mortgage	Federal Capital	Apartment Mid/Highrise	12/1/10
Orange Grove	Mesa, AZ	396	Tidan USA	J.E. Robert Cos. OBO JPM 2006-LDP8	PEM Real Estate Group	Apartment Garden	11/12/10
Longford Plaza	Las Vegas	101,126	Vigna Della Sapienza LLC	LNR Partners OBO CSFB 2005-C3	Brentwood West LLC	Industrial Flex	11/22/10
Galleria Sheraton	Metairie, LA	182	Noble Investment Group JV Somera Capital Management	Wachovia OBO GCCF 2006-FL4	Songy Partners JV Aimbridge Hospitality JV Argonaut Capital	Hotel Full - Service	11/30/10
Azalea Woods	Oxon Hill, MD	305	Highland Investments	LNR Partners OBO BofA 2005-3	Dragone Realty Investments	Apartment Garden	12/7/10
fmr First National Bank of Arizona HQ	Scottsdale, AZ	128,502	First National Bank of AZ	Midland Loan Services OBO ML 2005-MCP1	Westcor	Office Office - Sub	11/22/10

This issue is sponsored by: Voit REAL ESTATE SERVICES

To learn more about RCA's data and Troubled Assets Radar reports visit: http://www.rcanalytics.com/tas

Troubled Assets

Assets	#Props	Vol (mil)
Troubled	7,183	$166,975.1
Restruct'd/Modified	807	$20,648.0
Lender REO	1,435	$24,492.0
Current Distress	**9,425**	**$212,115.1**
Resolved	1,334	$23,415.0
Total	**10,759**	**$235,530.2**

All Global markets

Source: Real Capital Analytics, www.rcanalytics.com

Distressed Status: Lender REO

Property Name	Location	Units/ SF	Former Distressed Owner	Lender/Owner	Main Type; SubType	Troubled Date
Parc Place (Bulk Condo)	New York City	232	Yair Levy	Anglo Irish Bank Corp	Apartment Mid/Highrise	11/17/10
Block 37 (Retail)	Chicago	80,000	Joseph Freed & Assoc.	Bank of America	Development	11/19/10
1570 Elmwood Ave. (Bulk Condo)	Evanston, IL	96	Robert Horner & Ibrahim Shihadeh	Amalgamated Bank	Apartment Mid/Highrise	11/30/10
cbd101	Glendale, AZ	3,354,120	Bill Bidwill	MMA Capital Corp.	Dev Site Dev Site	11/16/10
Miami Worldcenter	Miami	227,818.8	Falcone Group Inc. Marc Roberts Cos.	Fifth Third Bank	Dev Site Dev Site	11/24/10
Curiosity Creek	Palmetto, FL	34,325,280	MCZ Development Corp. JV Centrum Properties	National City Bank	Dev Site Dev Site	11/29/10
Ramada Inn/ Days Inn	Hialeah, FL	254	Alfa One Holdings LLC	Garrison Special Opportunities	Hotel Limited Service	12/2/10
Quarry Ponds Town Center	Roseville, CA	41,253	Quarry Pond LLC	C-III Capital Partners OBO MS 2007-IQ14	Retail Strip	12/6/10
Irvine Corporate Center	Santa Ana, CA	127,561	Irvine Corporate Center LLC	Sun America	Office Office - Sub	11/15/10
Comfort Inn	Bremerton, WA	145	Dream Holiday Hotel Development Group	City Bank	Hotel Full-Service	12/4/10
East Bank Mills	Minneapolis	348,480	Mill Development LLC	BNC National Bank	Dev Site Dev Site	11/15/10
Chimneys of Oakcreek	Dayton, OH	388	CNC Investments	ING Clarion OBO CSFB 2005-C6	Apartment Garden	11/29/10
Foothill Town Center	Upland, CA	36,963	Max Taylor & Co. LLC	UBS AG	Retail Strip	11/23/10
Quality Suites	Orlando	154	Vh Hotel Group LLC	LNR Partners OBO CSFB 2005-C3	Hotel Full-Service	11/11/10
Wedgewood Commons	Sacramento	126	Jaime M. Gonzalez et al	Washington Mutual	Apartment Garden	11/17/10
716 NE 85th St.	Miami	41,793	716 NE 85 ST LLC	Eastern National Bank	Development	12/2/10
Mission Plaza	Cathedral City, CA	75,148	First Mission Properties	CWCapital Asset Mgmt OBO ML-CFC 2007-5	Retail Strip	11/16/10
Cove (Land Only)	Escondido, CA	23	Jeffrey T. Ralston	International City Bank	Apartment Garden	11/18/10
Mooresville Town Square	Mooresville, NC	23,488	MTS I & II LLC	Midland Loan Services OBO ML-CFC 2007-8	Retail Strip	11/24/10
Black Mountain Market Place	Henderson, NV	47,473	Black Mountain Retail Partners	CWCapital Asset Mgmt. OBO Wachovia 2006-C28	Retail Strip	11/15/10

TROUBLED ASSETS MARKETPLACE—CMBS

Data Partner:

Listings in this section represent individual properties within distressed CMBS pools and are broken down by property type. These listings are updated monthly by Trepp for DAI.

Top 10 Loans Performing w/ Special Servicer

Property Name	Balance	Delinquency Status	City	State	Loan Type
EOP Portfolio	4,932,816,172	Current	Various		Floating
[1]Beacon Seattle & Washington, DC Portfolio	2,644,000,000	Current	Various		Fixed
CNL Hotel & Resorts, Inc. Resort Portfolio	1,000,000,000	Current	Various		Fixed
666 Fifth Ave.	929,500,000	Current	New York	NY	Fixed
Farallon Portfolio	900,000,000	Current	Various		Fixed
Farallon MHC Portfolio	450,371,916	Current	Various		Floating
237 Park Ave.	419,600,000	Current	New York	NY	Fixed
RREEF Portfolio	410,000,000	Current	Various		Fixed
One Park Ave.	375,000,000	Current	New York	NY	Fixed
Solana	360,000,000	Current	Westlake	TX	Fixed

Top 10 Delinquent Hotel Loans

Property Name	Balance	Delinquency Status	City	State	Loan Type
Innkeepers Portfolio	825,402,542	90+ Days	Various		Fixed
Four Seasons Resort Maui	425,000,000	Foreclosure	Wailea	HI	Fixed
RRI Hotel Portfolio	255,268,288	Foreclosure	Various		Fixed
Westin Portfolio	209,000,000	90+ Days	Various		Fixed
Resorts International Casino Portfolio	207,929,759	Foreclosure	Various		Floating
Four Seasons Aviara Resort	186,500,000	90+ Days	Carlsbad	CA	Fixed
Four Seasons Resort and Club	175,000,000	REO	Irving	TX	Fixed
Resorts Atlantic City	175,000,000	Foreclosure	Atlantic City	NJ	Floating
Hyatt Regency	150,000,000	90+ Days	Jacksonville	FL	Fixed
Westin Casuarina Hotel & Spa	148,460,197	Foreclosure	Las Vegas	NV	Fixed

Top 10 Delinquent Multifamily Loans

Property Name	Balance	Delinquency Status	City	State	Loan Type
Peter Cooper Village & Stuyvesant Town Pool	3,000,000,000	Foreclosure	New York	NY	Fixed
Empirian Multifamily Portfolio Pool 3	330,250,000	30 Days	Various		Fixed
Riverton Apartments	225,000,000	REO	New York	NY	Fixed
Savoy Park	210,000,000	30 Days	New York	NY	Fixed
New York City Apartment Portfolio Roll-Up	195,000,000	Foreclosure	New York	NY	Fixed
Manhattan Apartment Portfolio	192,132,000	90+ Days	New York	NY	Fixed
CVI Multifamily Apartment Portfolio	177,635,884	90+ Days	Various		Fixed
Babcock & Brown FX 1	157,440,000	90+ Days	various		Fixed
[2]Lembi Portfolio	153,000,000	90+ Days / Foreclosure	San Francisco	CA	Fixed
Trilogy Apartments	133,251,087	NonPerf Mat Balloon	Wyncote	PA	Fixed

Top 10 Delinquent Office Loans

Property Name	Balance	Delinquency Status	City	State	Loan Type
Pacific Arts Plaza	270,000,000	90+ Days	Costa Mesa	CA	Fixed
DRA-CRT Portfolio I	180,900,000	NonPerf Mat Balloon	Various		Fixed
550 South Hope St.	165,000,000	Foreclosure	Los Angeles	CA	Fixed
One Alliance Center	165,000,000	90+ Days	Atlanta	GA	Fixed
119 W. 40th St.	160,000,000	Foreclosure	New York	NY	Fixed
Highwoods Portfolio57	160,000,000	NonPerf Mat Balloon	Various		Fixed
USX Tower	145,000,000	NonPerf Mat Balloon	Pittsburgh	PA	Floating
Reckson Portfolio I	122,850,000	NonPerf Mat Balloon	Various		Fixed
Pacific Center	121,200,000	Foreclosure	San Diego	CA	Fixed
[3]City Tower	115,000,000	60 Days	Orange	CA	Fixed

Top 10 Delinquent Retail Loans

Property Name	Balance	Delinquency Status	City	State	Loan Type
Riverchase Galleria	305,000,000	60 Days	Hoover	AL	Fixed
Montclair Plaza	190,000,000	90+ Days	Montclair	CA	Fixed
High Point Furniture Mart	189,926,349	60 Days	High Point	NC	Fixed
Tri-County Mall	150,642,390	Foreclosure	Cincinnati	OH	Fixed
Citadel Mall	136,000,000	Foreclosure	Colorado Springs	CO	Fixed
Silver City Galleria	125,764,962	90+ Days	Taunton	MA	Fixed
Northwest Arkansas Mall	125,600,000	Foreclosure	Fayetteville	AR	Fixed
The Promenade Shops at Dos Lagos	125,200,000	REO	Corona	CA	Fixed
Valley View Center	125,000,000	90+ Days	Dallas	TX	Fixed
Louisiana Boardwalk 29	124,090,139	90+ Days	Bossier City	LA	Fixed

[1] $414 million is mixed-use property *[2] $90 million of Lembi Portfolio is in foreclosure* *[3] Tie with Continental Towers 115,000,000 REO Rolling Meadows, IL - Fixed*

Source: TREPP

This issue is sponsored by: Voit REAL ESTATE SERVICES