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More receiverships expected during economic downturn

Photo courtesy of CoStar

Neiman Marcus at Fashion Valley mall. The retailer recently joined the growing list of companies filing for Chapter 11 bankruptcy.

By Thor Kamban Biberman

With many hotels, restaurants, stores and office buildings still shuttered, the economy is reeling, but there may be opportunities for those who can capitalize when some of these assets go into receivership.

Douglas Wilson, who co-developed downtown San Diego's Symphony Towers in the 1980s, said as long ago as last fall, there were indications the commercial real estate market was headed for a bubble.

"There was a frothiness well in advance of COVID," he said.

The retail downturn from last year led to the bankruptcies of such restaurants as Marie Callender's and retailers such as Forever 21 and Payless Shoe Source. Since then, big-box retailers -- including J.C. Penney and Neiman Marcus -- have been added to the Chapter 11 bankruptcy list. Souplantation decided to close permanently, conceding the buffet model doesn't work in the COVID-19 era.

Wilson, who has worked extensively as a receiver as well as a developer, likely will see plenty of receivership assignments headed his way.

His company has been a court-appointed receiver in more than 1,200 cases and has managed $15 billion in assets in receivership in 38 states around the country. The assets have ranged from restaurants and hotels to multifamily developments and senior living centers.

But Wilson takes no pleasure in what has been happening to the economy.

"What does 20 percent unemployment look like?" Wilson said, adding that hotels and retail will continue to feel the pain.

He seemed particularly concerned about hotels.

"What's going to happen when all those hotel owners hand back the keys?" Wilson said.

The Douglas Wilson Cos. executive also said what is happening is a structural shift, and that people are wrong if they believe everything will magically bounce back in the fall.

"They are kidding themselves," he said.

Whether or not there are fire sales, Wilson does believe there will be an influx of capital searching for high-quality real estate at discounted prices.

Fernando Landa, a partner with the real estate law firm CGS3, is an expert in distressed real estate workouts and the sale of commercial real estate assets. He has handled the sale of nearly $1 billion of real estate assets through the judicial process during the past five years.

Representative transactions include the liquidation in receivership of Ever-Read Properties' holdings, a portfolio of more than 30 gas stations and convenience stores located in New Mexico, and the receivership sale of a Class A mixed-use regional mall and office building in Huntington Beach.

Landa said there hasn't been an increase in court-appointed receivership requests because the courts have been closed, but there does seem to be more inquiries lately.

He said he hadn't been involved with many receiverships because the economy was so strong before everybody slammed on the brakes.

Like Wilson, Landa said hotels stand to be the most impacted because of all the uncertainty.

Pathfinder Partners co-founder and senior manager Lorne Polger said that convention hotels in particular are going to continue to take hit -- a hit that could last a long time.

"It's hard for me to imagine a 15,000-person convention right now," he said.

Polger said the fact it is really early in the process makes it difficult to tell exactly what the receivership outlook might be, but he does expect there will be a surge of them.

On the retail side, with both landlords and tenants forced to work out whatever arrangements they can, Polger said there may be fewer tenant defaults than one might expect.

With a strong economy, Pathfinder has not acquired distressed assets since 2012. Polger said he expects that to change.

"We've always been opportunistic buyers," he said. "We like making investments over the long term."

Polger also said he doesn't believe the economy, and San Diego in particular, will stay in the doldrums for long.

"We are very bullish on San Diego," he said. "We've been here 32 years. San Diego has an array of industries, and I don't foresee a crash in the real estate market here anytime soon."