

SOUTH FLORIDA BUSINESS JOURNAL | JUNE 2010

REAL ESTATE JOURNAL 7

Commercial distress abundant, but sales are not

BY DARCIE LUNSFORD

South Florida's commercial real estate sector is swarming with opportunists looking to cash in on discounts and distress.

But, the truly good deals are hard to come by, real estate experts say.

That's because lenders continue to pursue a strategy of extending and restructuring defaulting loans whenever possible.

Foreclosures are in the pipeline, but many have yet to make it to the auction block. When they do, many of the properties require capital improvements and heavy leasing.

For the quality properties with solid rental income, bids roll in by the dozens.

"The last few properties that I have bid on, there have been 50 bidders," said Matthew Pellar, CEO of TM Real Estate, which specializes in operating and repositioning distressed assets. "I kind of believe that we are in a mini bubble."

Most investors, Pellar said, want to buy income-producing assets, which are in financial distress because of maturing loans, high debt and falling property values. Those can be fixed with a capital infusion.

That was the strategy that Pellar's Coral Gables-based company pursued for the lender and equity partner of the 470-unit Cottage Cove apartments in North Miami. The actual property was well leased, providing strong rental income. The problem was that its owners went bankrupt, so the project's \$33.5 million loan went into default.

In a move to circumvent foreclosure, the project's rental income helped secure \$17.4 million in refinancing from Freddie Mac.

TM Real Estate Group, which had been acting as asset manager for equity partner Citigroup, took an equity position in the property. The lender, Northstar Realty Finance Corp., got part of its loan paid down by Freddie Mac and took an equity stake in the complex for the balance.

"I really feel [Northstar] will get their money back," Pellar said. "The distress is not at the property level."

BUYER BEWARE

Repositioning a half-leased shopping center or abandoned office building can be riskier, requiring expertise and sufficient operational capital to re-tenant the property.

That is the situation potential buyers of a former BankAtlantic building, at 33 S.W. Second Ave. in downtown Miami, will have to grapple with. Not only is the 87,000-square-foot mid-rise no longer home to BankAtlantic, but it also lost its main government tenant. The building was recently put on the market after the lender foreclosed over an unpaid \$6.8 million commercial mortgage-back securities loan.

"I am getting a ton of activity, but [buyers] have got to get comfortable buying a big, empty building," said Alex Zylberglait, VP of investments in the Miami office of Marcus & Millichap, which is marketing the building for sale. The building is on the market for \$4.5 million, about half the price it would have fetched two years ago, he said.

Right now, there is income from advertising banners on the outside of the highly visible building, but no rent-paying tenants.

Zylberglait said much of the distressed assets that are selling are in the \$2 million to \$8 million range.

Nationwide, the sum of new commercial real estate loans and properties crossing the threshold into default, foreclosure or bankruptcy appears to have leveled off in the first quarter after a fourth quarter surge, according to data from New York-based Real Capital Analytics. Overall, about \$236 billion in assets have become distressed since the beginning of the real estate crisis, with about \$70 billion of those commercial loans restructured, foreclosed on or otherwise resolved, data showed.

Ben Thypin, a senior market analyst with Real Capital Analytics, said lenders "are getting a little more active" about pushing distressed loans through the foreclosure and auction process.

But, don't expect a sales rush anytime soon.

"I think it is in everyone's best interest to keep things in limbo for as long as they can," Thypin said. "It is very unclear how long that strategy will continue to work, though."



Zylberglait