

# FINANCE & COMMERCE

## Business News

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### A chat with JBL Cos.' Jeffrey Larson about saving properties in distress

by Liz Wolf Special to Finance and Commerce

For Jeffrey Larson, who's been doing property management for two decades, it was a strategic move to launch a spin-off company that would exclusively handle properties in distress.

Larson recognized that the number of troubled properties would increase dramatically as the credit crisis hit the commercial real estate world and that business would boom for court-appointed receivers who oversee them.

Larson, president of Eagan-based JBL Cos., which quietly dabbled in receiverships for distressed real estate in the early 1990s, launched Management Resolutions in June 2008 to handle receiverships, loan workouts and turnaround businesses. As a receiver, Management Resolutions manages real estate and businesses foreclosed on by financial institutions. The goal of the receiver is to stop the property's losses and add value, whenever possible.

Larson has found his company in control of apartment buildings, convenience stores, restaurants, golf courses, motels, office buildings, senior housing as well as financial, transportation, biotech and printing companies, and even an airbase. The meticulous management of these properties will keep them operating at the highest possible level, making them attractive to potential buyers.

**Q:** How did JBL first start handling receiverships?

**A:** In 1991, we got a few calls from some attorneys we knew asking if we did receivership work, and grabbing anything you can when you're a 1-year-old company, we said, "Yeah."

We would do maybe two or three receiverships a year, and they were pretty simple. The bank and borrower were having a fight, and the borrower was not paying his loan, so they brought us in to manage the property. By 2005, we were at 10 to 15 a year and they were crazier deals. They were deals that were over-financed, so there were workout scenarios. We picked up a lot of those, and instead of selling management, we started selling receivership to banks and attorneys saying, "We'll manage it, but it's a receivership issue. Let us try and work things out for you."

**Q:** Why did you launch Management Resolutions as a spin-off?

**A:** By 2006, I said, "This thing is just going to hit the roof," because what's happening is the values of commercial real estate properties are staying stable and the loan values aren't supporting them any more; they're not appreciating like they used to. So all of these banks have renewals coming up in three to five years, and when the renewals come up, people are just going to get socked. We said, "We've gotta take this to another level, but we need to make it a separate operating division."

**Q:** Who hires you when an asset is struggling?

**A:** Most of our work is in receiverships where we're court-appointed to protect property values when an asset is in trouble. We're engaged by the court and act as an officer of the court. Seventy percent of our business is real estate-related, and the other 30 percent is actually operating businesses that are in default.

**Q:** How did you design your platform?

**A:** I really worked hard to create a boutique platform, which includes a senior manager, a project manager, an accounting/administrative team and a maintenance team.

We have a library of people we choose from for project managers. For example, we operate a bunch of restaurants in receivership, and we work with experienced restaurant people. We also have people doing intellectual property, like patents. We have someone running manufacturing. We have someone leading convenience stores/gas stations. We have a transportation person and someone specializing in golf courses. We will continue to build from here and make sure we get the best of the best to oversee these properties.

**Q:** Can you offer an example where you acted as a receiver?

**A:** We will get a restaurant that's in receivership where they built the building and have all the equipment in. They had a loan out and were not making payments, so the court brought us in to protect the property. In our opinion, protecting the asset means keeping it going.

If I have a restaurant and the doors are shut, what's it worth? But if it's an operating restaurant and you have someone who wants to expand into this community, he's going to pay more for something that's a going concern than for equipment that's been shut down for three years.

**Q:** How much growth are you seeing?

**A:** Last year, we averaged 10 to 12 receivership cases a month, and this year, it's 40 to 50. Part of it is that a lot of loans are coming due and the values are being reset. We all know that the FDIC is coming down on lenders and underwriting restrictions.

It comes down to loan-to-value. You take a \$1 million note, and all of a sudden, the borrower has to come up with \$220,000 just to keep that same loan-to-value. That borrower doesn't have that kind of cash. So this creates a question of how do you do it? The poor borrower doesn't know what to do. The lender says, 'I gotta get my money; how do we come to the table?' In the meantime, they bring us in to protect the property, secure it and try and create some value.

**Q:** What do you find most rewarding in this line of work?

**A:** I find it both rewarding and unrewarding. In this business, all we're dealing with is people's problems, and you're never going to make everybody happy. But at the end of the day, I'm trying to do what's right under the court order. I'm not there trying to hurt the borrower; I can empathize with what they're going through. Also, the lender wants their money, so these are things that are frustrating.

But the rewarding piece is we secure an asset for somebody and try not to lose its value, and in the process of doing this, we can find a solution that might be able to help both parties.

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