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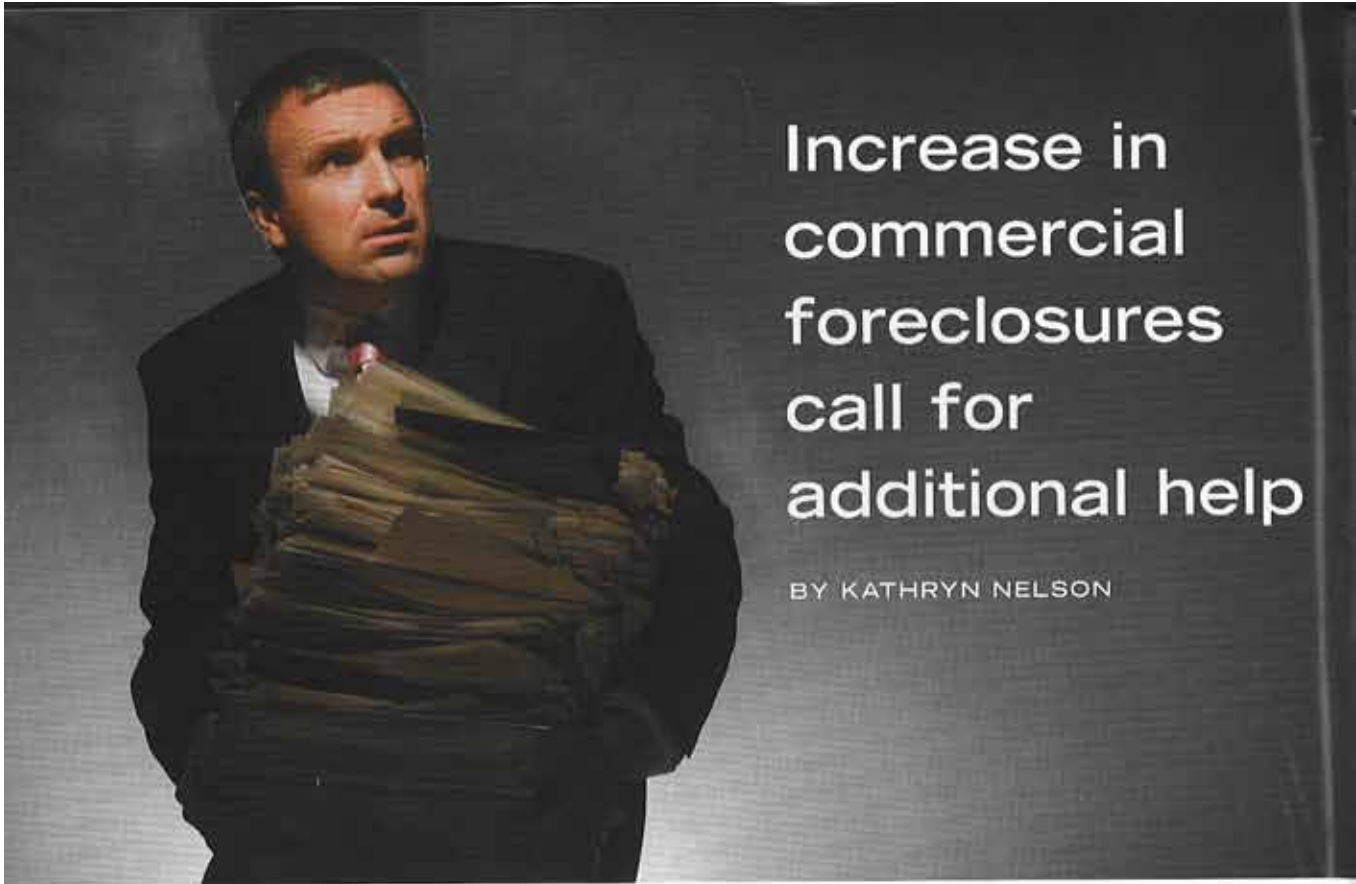
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Increase in commercial foreclosures call for additional help

BY KATHRYN NELSON

An increasing number of real estate companies are launching special assets departments to deal with the influx of foreclosed commercial properties in the Twin Cities area.

"In 1991 we typically did two or three (foreclosures) a year," said Jeff Larson with JBL Companies. "Now we have 60 and another 12 going to court."

JBL Companies is one of the many real estate management companies currently processing commercial real estate property foreclosures in the metro area. Though Larson has been working in the sector for almost two decades, he said he is seeing more and more companies launching special assets departments to cash in on the foreclosure business.

"I'm discouraged to read about them," he said. "It's a good way to have some other management accounts when other divisions are dipping down."

It's no surprise that the Twin Cities has experienced an explosion of commercial foreclosures, which are coming at the cusp of the devastating blow to the residential market.

"Most of what's triggering (commercial real estate foreclosures) is a delayed

reaction," said James McComb, President of McComb Group Ltd. "There are more events to take place before the foreclosure occurs. They're a bit behind the general trend."

Commercial Foreclosures

If employment rates continue to dip and vacancies rise, some commercial real estate owners will be forced to foreclose on their properties, unable to pay their mortgages that were so easy to come by just a short while ago.

McComb explained that commercial real estate properties are experiencing two types of foreclosure scenarios, which may be processed in these special assets departments.

The first is the traditional foreclosure scenario in which the developer simply can't pay the mortgage and thus defaults.

"But it's the second and increasingly common scenario," he said, "that creates a much more complicated situation, and often requires an independent receiver—such as those positioned in a special assets department—to help process the claim."

"There will be a piece of commercial

real estate property that is performing well, but the mortgage is coming due and the owner is trying to find another mortgage or refinance," McComb explained. Due to the current national financial situation, "he probably can't get the same amount of money that he could in the past. Lending has changed and the bank won't support the debt, but the property is basically good," he said.

"There will probably be a lot of that."

McComb added that investors, who previously bought their properties with short-term debt, are now finding it difficult to refinance their loans, with mony lenders hard-pressed to shell out more money in the current economy. That's leading to more foreclosures and more business for emerging special assets departments.

In addition, other stressors such as increased property taxes, unforeseen repairs and an increase in insurance costs have also caused even well-to-do property owners to be foreclosed on.

Receiverships

The high volume of foreclosed properties in the Twin Cities area have

prompted real estate property management companies to begin offering receivership services within their special assets departments.

When an asset is unable to fulfill its financial obligations, the mortgage on the commercial property goes into default, initiating the foreclosure process by the lender.

A lender may seek to appoint a receiver for a property in order to ensure the property is managed appropriately, that it doesn't lose more value while going into foreclosure and to have a point person to collect and pay for services related to the property.

Unfortunately, receivership duties can often be complex, as they entail a high amount of micro-managing and documentation regulation in order to ensure that the property is maintained physically and fiscally.

"Frankly, it's management services on steroids," said Dean Freeman senior vice president of Minneapolis/St. Paul Colliers Turley Martin Tucker.

In addition, receivers often enter a service agreement blindly said Larson,

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— Jeff Larson with JBL Companies.

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and sometimes have to investigate the financial and physical situation of the property thoroughly as the information is often not readily available or initially provided.

"The challenge is getting to the properties before they lose a lot of value," said Bruce Maus, Senior Vice President, Corporate Services Group, Northco Real Estate Services.

Aside from the immediate needs required from a receiver, brokers might also choose to try and cultivate an additional relationship with the building

owners in case future services are needed, Freeman said.

Real estate management businesses can loop other services into their receivership duties such as researching leases within these buildings, managing various projects and seeking investment sales, all of which may need to be attended to in the future.

"Though many real estate companies have been processing foreclosures for a while," said Maus, "they haven't necessarily acted as court appointed receivers.

"Commercial real estate businesses that are involved in the court appointed receivership transactions often have close relationships with banks, otherwise they have a difficult time performing the needed tasks," Maus said.

With employment rates still declining and vacancy rates rising, it seems as though this trend of commercial real estate property foreclosure is just breaking the surface.

"It just won't come back tomorrow, it's going to be slow. That's the big problem, so many companies have lost so much," Maus said. **CRE**