

Falling property prices could provide opportunities for savvy investors

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Commercial properties, like residential, appear headed for deep price discounts and more foreclosures, but there also could be opportunities for investors and commercial brokers.

Robert Kolodny, of the law firm **Kolodny & Pressman**, says with large pools of commercial assets going into receivership in the near future and investors trolling the waters, "there will be tremendous opportunities for the creative broker out there."

Kolodny, who spoke during a recent meeting of the San Diego Commercial Association of Realtors (CRASD) at the Hilton Torrey Pines, said bankers will be reluctant to foreclose on most properties, but will be willing to take less than a note's face value. That translates to a lot of short sales where a broker's expertise will be required.

Kolodny said the opportunities for brokers don't only extend to the properties themselves, but to the notes on those assets. Kolodny warned that it is important for investors to purchase these notes before they are packaged into large pools, however.

Thad Meyer, **Equastone CFO**, also said buying notes can pay off handsomely, but cautioned the buyer to be very sure of what is in the loan portfolio.

"What is the client looking for? When you are buying notes, make sure you're acquiring what you think you're acquiring," Meyer said.

Then there is the real estate itself. Alan Scott, president and CEO of **Coldwell Banker Commercial Almar Real Estate Group**, said while there is money on the sidelines waiting to jump in, one of the biggest challenges is placing a value on the commercial asset.

"I would hate to be an appraiser right now. What is an asset truly worth?" Scott asked.

Scott said there are still plenty of pitfalls in acquiring troubled commercial properties or notes.

"Remember that time may not cure all ills," he said. "The last thing you want to do is trail the market down."

Determining what has been happening to the prices of commercial properties is difficult, given that sales have nearly ground to a halt, but Brian Walsh of the **Walsh Chacon** commercial property investment firm said he can point to cases where properties have lost a certain amount of value that is readily quantifiable.

Walsh noted how the 58,314-square-foot block at 2045 Pacific Highway sold for \$7 million in recent weeks.

"That property probably would have gone for \$15 million a couple of years ago," he said.

Walsh, who agrees there will be more commercial foreclosures, says properties will get so upside down — where the loans are for much more than the property is worth — that even full buildings will be foreclosed upon when the notes come due.

"If they don't have cash to pay the loan off, people are going to just walk away," Walsh said. "Even if you have paid 70 percent of the loan amount, if the loan comes due, you're in trouble."

Walsh added that unlike a defaulted mortgage, where the asset is a person's home, he expects there would be much less government sympathy for a government bailout of commercial properties. He said he wouldn't want to see such a bailout occur anyway, since foreclosures allow the system to cleanse itself.

Walsh, who has a partnership interest in multiple office buildings downtown, said while there are still opportunities for investors such as himself in office buildings, apartments may be the better play for at least the short term.

"Apartment owners complain if their property is 10 percent vacant. Well, I've had office buildings that are 100 percent vacant," he said.

Walsh did say he might be willing to invest in currently empty office buildings for a long-term hold, but doesn't expect that market to turn around overnight.

"This could take three to five years to shake itself out," Walsh said.

Kraig Kristofferson, a **CB Richard Ellis** senior vice president, said the large commercial property transac-

tions are going to be non-existent for a while, except for those willing to pay all cash.

"The sales have been stymied by the lack of debt," said Kristofferson said. "Smaller properties can still be financed by banks, so there is still some activity in the market."

A down market may spell trouble for most, but it may be just the ticket for those making their living in the distressed property business. **Trigild Inc.**, a Del Mar Heights-based distressed property management and real estate receivership specialist, has been growing as more commercial properties have gotten into trouble.

Trigild's most recent hire is Xavier L. Sheid, who will serve as a managing director of asset management and business development. Sheid is a veteran of more than 20 years of commercial real estate capital markets experience.

Trigild — which now manages 150 real estate assets representing nearly \$2 billion around the country — has more than 30 years of expertise in managing a wide array of commercial real estate entities and operating businesses, specializing in turn-around management and repositioning of troubled properties.

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