

DENVER BUSINESS JOURNAL

ONLINE ARTICLE

MARCH 30, 2010

JCR: This differs from 1980s crisis

BY RENEE MCGAW
DENVER BUSINESS JOURNAL

Today's commercial real estate market reminds some of the savings-and-loan crisis of the 1980s and early '90s. But it's different, and calls for a different response, according to Jay Rollins, head of JCR Capital in Denver.

"You're seeing distressed assets that are 80 percent, 85 percent leased, yet they're in default," he said. "That's a completely different dynamic than we saw in the early '90s when these buildings were empty. What it really means is that the properties have too much leverage on them and that people paid too much for them."

Rollins and partner Maren Steinberg are raising a fund of \$25 million to \$30 million to provide capital to struggling commercial real estate owners and banks, rather than buying the properties. Anchor investors are PartnerRe Capital Markets Corp. of Greenwich, Conn.; JAM Equity Partners of New York; and Denver-based Branzan Investment Advisors.

The fund had its first closing in mid-March, after raising about \$20 million, but will remain open for an additional 90 days.

The fund will offer to buy bad loans from lenders under a joint venture arrangement.

"We're saying, 'Bundle up your worst loans and we'll buy a majority interest in them,'" Rollins said. "We'll give you cash today, you can take them off your books, and we'll give you an equity interest so that when the market does recover and we sell them, you will make a profit on them. You don't have to sell them at the current market value."

Fund managers were in talks with three Colorado community banks at press time, and had signed two deals with distressed borrowers.

About \$1.4 trillion in U.S. commercial real estate (CRE) loans will mature between this year and 2014, and nearly half of them are "underwater," meaning the borrower owes more on the loan than the property is worth, according to a February report by the Congressional Oversight Panel. Yet the tricky part may be getting lenders to part with those loans.

"Jay and Maren are in the front seat in terms trying to leverage the investment opportunities created by distressed assets," said Tim Pendergast, president of Englewood-based Corporate Talent Inc., a financial industry executive search firm. "They have the deal knowledge and the contacts, but the banks are still holding on to these assets much more tightly than most people anticipated. In some cases,

the banks or bankers are too emotionally tied to a CRE project to let it go, or they believe they can wait and sell it for a better price in the future. Other banks simply can't write down CRE, as it will negatively affect their capital ratios."

Rollins acknowledged the challenge.

"They can't afford to sell them at what the market will pay — it would wipe out their equity; they'd be insolvent immediately," Rollins said. "Let's say you're sitting at a table, and on the table is a gun, and a guy walks in and says, 'You need to die, and you can either kill yourself now or in three months I'll be back and I'll kill you.' Well, you'd probably wait, right? Maybe the guy gets lost, or forgets who you are, doesn't come back — that's kind of where we are."

But he believes attitudes are changing.

"People are starting to realize that time is not their friend," he said. "A year ago, six months ago, people thought, 'If I can just wait it out another year, values will come back.' But now it's becoming clear that there's no catalyst to make these values come back."

The JCR Capital Distressed & Opportunistic Real Estate Fund I is expected to be fully deployed by the end of 2010, and Rollins expects to begin raising a second fund by the fourth quarter.