

Money available to chase commercial real estate

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Commercial real estate developers and deal-makers are tapping into new alternative-financing vehicles in the face of tight new bank lending requirements.

It's a trend that some say is one of the biggest differences between the recent real estate downturn and the severe slump of the late 1980s and early 1990s: This time, there are plenty of investors willing to inject capital into the commercial market, experts say.

"Unlike the days early in the RTC [Resolution Trust Corp.], there's an ample supply of equity trying to get back into the market," said Tim Richey, vice chairman of Denver's Cushman & Wakefield office.

The RTC, created in 1989, was the federal agency that dealt with the savings and loan crisis, including helping insolvent S&Ls dispose of real estate taken back through defaulted loans.

"In the RTC days, there was no capital out there," said Lane Hamilton, senior vice president in commercial real estate for Colorado State Bank & Trust.

It may take some time, however, because there are still a lot of transactions that are overleveraged, and equity has been affected by the drop in values during the recession.

Denver's JCR Capital JCR Capital is one of the companies riding the new trend. Managing principals Jay Rollins and Maren Steinberg, who have experienced real estate cycles in their 17 years in the Denver market, last month launched a second \$100 million investment fund for financing distressed commercial real estate loans.

"We work with the borrower and purchase debt at a discount," Rollins said.

The first fund, started in 2010, raised about \$63 million for capital investments and has been about 75 percent deployed. Rollins reported the fund's rate of return percentage has ranged from the mid-teens to low 20s.

"We're a private capital provider when the community banks, credit companies and regional banks have retreated from this space," Rollins said.

Here's how a typical JCR deal works: Last month, the company provided CapRock Partners with \$12.5 million to buy nonperforming notes and distressed industrial properties in California.

Banks typically don't want to own property, and the foreclosure process takes time, so they will sell a note from a nonpaying borrower at a discount, Rollins said. A buyer such as CapRock will put up, for example, 20 percent of the amount to buy the loan, and JCR will provide the rest.

The deals are always all-cash, and typically done in two to three weeks, Rollins said.

At that point, JCR either sells the property back to the original borrower at a discount, or forecloses on



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Jay Rollins is a managing principal for JCR Capital, which launched a second \$100 million investment fund for financing distressed commercial real estate loans in May.

it if the borrower can't buy it.

JCR typically will charge from 9 to 12 percent interest, Rollins said. The JCR investors get a "preferred equity" position, so they get repaid first.

"We're more like financial partners than we are lenders," he said of the JCR's equity recapitalization, discounted payoffs and new acquisition transactions.

Capital is available

CB Richard Ellis Inc.'s Eric Tupler, vice chairman of Denver's capital markets unit, said the amount of capital available has helped stabilize values.

"There's more capital than there are deals for," Tupler said. "That's been the trend for the last 1½ years. It's been one of the contributing factors with overall values going up. A lot of capital is going after the same product."

But will there be enough capital to push an economic recovery?

According to the CRE Finance Council's May report to the U.S. Senate Committee On Banking, Housing & Urban Affairs: "Through 2017, approximately \$600 million of CMBS [commercial mortgage-backed securities] loans and over \$1.2 trillion in outstanding commercial mortgages will mature, many of which are secured by smaller CRE properties; borrower demand to refinance those obligations will be at an all-time high."

Hamilton said there should be enough buyers out there, both of properties and underwater loans, to stave off an S&L-type crash.

"There are billions of dollars in funds waiting to

buy at discount prices," he said. "Last time, there wasn't."

Richey agreed, saying: "As opposed to having looming debt maturities in the face of eroding real estate fundamentals, we have looming debt maturity in the face of improving real estate fundamentals."

Couple that fact with decline in interest rates, which allowed banks to earn more, Tupler said, and it's obvious the market is due for a "much softer landing."

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"The net effect also has been we didn't see a precipitous amount of distressed property flow into the market," Tupler said. "Yes, there's been plenty of foreclosures and plenty of loans sold at discounts, but the magnitude and supply is not at the level most investors expected. ... The low interest rates allowed the banks to kick the can down the road, and they were willing to blend and extend."

Rollins said it's true the banks are taking losses on many of JCR's distressed loan deals, but "they can afford to do that now interest rates have been kept artificially low."