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Long Road to Recovery: Many Obstacles Still Lie in the Path to Commercial Real Estate Stabilization

Loan Modifications are Becoming Increasingly Popular Among Lenders as Unresolved Issues Surrounding Commercial Real Estate Muddy Visions of Recovery in 2011

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Commercial real estate industry experts are cautiously hopeful for hints of a stabilization across the still unsteady commercial property market. As the 4th quarter of 2010 comes to a close, experts are careful to identify a number of outstanding, lingering factors that require solutions before a more secure stabilization can be realized.

A recent report published by Deloitte said, "Despite some encouraging activity, however, impediments such as looming debt maturities and high unemployment rates are causing uncertainty, dimming prospects of a robust, short-term rebound."

"We are seeing more commercial mortgages in distress every week. Corroborating our own findings, we recently received a report from the nation's leading credit rating agency, Standard & Poor, which stated, "At the end of the third quarter, $46.8 billion in CMBS loans were delinquent, or 8.32 percent." said Ira J. Friedman, President of Guardian Solutions, a commercial loan restructuring firm based in Florida.

Among the many difficulties facing CMBS loans in the next 12 months, one of the most notable items are the substantial amount of loans that are maturing in 2011. Although lenders have appeared to loosen some of their more conservative prospects heading into the 4th quarter, opportunities for traditional refinancing still remain bleak as many property owners scramble to find solutions for impending 2011 balloon payment due dates.

Additionally, apartment rental properties will find themselves offering continued concessions over the next several successive quarters. As new construction remains at a standstill in many major metropolitan areas, competition for renters may continue its warm streak in early 2011. Although actual occupancy rates may show indications of stabilization, most management companies will still find themselves offering substantial rental concessions in an effort to remain competitive.

While many commercial property management organizations might make the mistake of looking to 2011 as the year where all things will turn around, others remain skeptical and realize that sitting around and patiently waiting for the upturn is not going offer a cure-all for their ongoing revenue woes and impending commercial loan delinquencies.

Friedman explained, "Based on many of the conversations I've had with commercial real estate owners in the latter part of this year, 2011 does not appear to be a year of smooth or certain recovery in the commercial real estate sector…There are just too many issues lingering for property managers who continue to wrestle with record-high vacancies and stagnant valuations as the 4th quarter comes to a close."

Jeramie Concklin, CEO of Guardian Solutions, elaborated further by describing how his firm has enjoyed success with getting lenders to reduce full amortization payments to interest-only payments, at least for a few years. "We've noticed a few lenders and special servicers who are becoming more proactive or solution oriented express some willingness to give a discount on the principal for recourse loans," added Concklin.

In other situations, borrowers continue to struggle with steep property devaluation issues. Often times, loans that originated in 2006-2007 were based upon the inflated values of the credit bubble. Now, in the years following the credit/economic collapse, property owners are left with devalued assets that can no longer support the debt service requirements established 4 to 5 years ago. As this issue remains prominent through the close of 2010, one must look ahead on the valuation projections of 2011 with extreme caution.

Borrowers have also looked to commercial loan modification firms for assistance with note sales or discounted payoffs. Friedman adds, “Toward the close of the 3rd quarter, we had one client who came to us with a property in default and struggling with devaluation issues. Despite his trouble, our client, J.P., had a buyer interested in purchasing his distressed asset.”

With Guardian Solutions’ help, J.P. was able to effectuate the sale of his struggling Connecticut property, and make a profit as well. According to J.P,“Guardian Solutions was successful in getting through to our lender and effecting a payoff agreement that removed us from an overshadowing devaluation issue. Without their efforts, we may not have been able to secure a sale of our property, which allowed us to net a profit on a property already in special servicing.”

Commercial property owners who are trying to restore their performing assets are seeking help from firms like Guardian Solutions that specialize exclusively in commercial loan modification. Currently, there are only a handful of specialized firms that employ highly qualified employees, such as accountants, MBAs and real estate professionals to deal specifically with the complexities involved in a commercial loan restructuring plan.

About Guardian Solutions
Guardian Solutions is the one of nation’s largest commercial loan restructuring companies and is committed to helping commercial property owners save their properties. Guardian’s client-base more than doubled in 2010 alone, as more property owners learned about the effective methodology that Guardian employs to set struggling assets on the road to recovery. The company’s knowledgeable mitigators are experienced in a variety of disciplines to provide customized restructuring solutions. For more information, visit http://www.GuardianSolutions.org

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