

STRATEGY Professionals help lenders salvage assets

Asset managers help maximize recovery

When Toronto-based Bank of Nova Scotia decided to take control of a failed condo tower in West Palm Beach, it put out a call for help.

Brad Scherer answered. Scherer began developing a strategy to help the lender recover nearly \$119 million from a delinquent construction loan. Later, with Scherer's help, the bank took title to hundreds of unsold condos in the project, CityPlace South Tower.

Scherer is a Wellington asset manager, an industry specialty that is gaining importance as investors and lenders seek to protect their assets during the ongoing economic and real estate crisis.

The role of asset managers ranges from helping lenders and investors develop strategies to salvage their debt or equity to finding ways to reposition a distressed property so its net operating income goes up, boosting its market value.

Owners who acquired or refinanced properties in the past five years have seen the value of their properties plummet. Many buildings are worth less than the debt on them. Lenders and investors are increasingly rushing to take control of the assets in an effort to reduce their losses.

"Your job as an asset manager is to maximize recovery [rather] than worrying about value," said Scherer, president of the Atlantic Western Cos.

How an asset manager goes about his or her job depends on many factors.

"It really depends upon the asset class, how it is positioned in the marketplace, and the goals and objectives of the creditor or capital source," Scherer said. "Some capital sources want their money back as soon as they can, and others are going to be more patient in employing a long-term recovery strategy."

GOALS AND OBJECTIVES

In the case of the CityPlace South Tower, Bank of Nova Scotia announced last July that it had negotiated a deal with Miami-based Related Group, the developer of the property, to avoid a contested foreclosure.

The longer a foreclosure drags on, the more the collateral for the loan may decline in value.

The bank agreed to take title to about 370 unsold condos, out of 420 units, and allowed Related to continue handling the condo sales and leasing efforts for a fee. The foreclosure sale occurred on Aug. 31.

Scherer would not discuss his role as an asset manager for the Bank of Nova Scotia, citing a confidentiality agreement.

He did say, "We've been advising them in all aspects of the property operation, as well as the market."

BOOSTING INVESTMENT?

Asset managers often help investors decide whether to inject more capital into a distressed property to bring it back to health.

That's the kind of advice that Joe Robinson, director of property management for Colliers Abood Wood-Fay in Coral Gables, expects to give institutional investors in New York who own a flex-industrial complex in Miami.

Robinson is currently negotiating an asset management contract with an investor he declined to identify.

The investor was ready to foreclose on the Miami property, which Robinson said needs some improvements to be able to compete with newer industrial complexes in the area. If hired, he will also propose ways to cut operating and carrying costs, including appealing property taxes, he said.

Investing money in a troubled property is not for the faint of heart, said asset manager and attorney Andy Hellinger.

"You need to have the stomach in this market to put equity into an asset that has lost its value in the hope that it will recover value or you'll transition it to a better use," he said.

Institutional investors, including mutual funds and life insurance companies, often have in-house asset managers. Yet they are increasingly hiring local asset managers with a better understanding of the market, Hellinger said.

"There are so many bad commercial loans, that institutional investors who are holding the debt are going to turn to third-party asset managers to supplement their in-house staffing," he said. "We are having discussions with companies to fill that role."

Asset management often evolves out of legal issues.

When Mexican investors Abraham Nahmad Dayan and Jacobo Nahmad approached Hellinger earlier this year, they wanted advice on how to recover \$10 million they said they invested in a condo project in downtown Miami. They believed the investment gave them a 10 percent stake in the planned Capital on Brickell project in the Brickell financial district.

Yet the developer, CABI SMA, an affiliate of Cabi Developers in Aventura, never gave them any documents showing their ownership in the venture, they said.

The project, planned on a block west of Brickell Avenue, is on hold. Calls to CABI were not returned before deadline.

On Sept. 1, Dayan and Nahmad sued CABI SMA in Miami-Dade Circuit Court, seeking access to ownership records.

If they can prove they have an interest in the project, one option would be suing to take control of the land, said Hellinger, a real-estate lawyer who is representing Dayan and Nahmad. If Dayan and Nahmad are able to take title to the property, Hellinger said he will try to change the property's land-use designation — which can be a costly and time-consuming process — find ways to reduce carrying costs or develop a strategy to sell, Hellinger said.

"There is a whole sub-investor class — private, quiet, unknown investors — who were putting money into the South Florida market and now have to make a decision: Do they invest more money on that real estate or do they cut and run?" he said.



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