



## Where is the **RTC** When you need them?

### **SPEAKERS:**

**Ann Hambly**



**Steve Shipp**



The market has been seeking distressed investment opportunities for the past few years and unlike the RTC days, investors have encountered significant challenges finding deal flow. What is causing this lack of distressed deal flow for investors?

# About Ann Hambly



- » Founded 1st Service Solutions in 2005, recognizing the need for a borrower advocate in commercial real estate.
  - » 30+ years of CRE servicing experience, including CEO of servicing for GE, Prudential, Bank of New York, Nomura, and Bank of America.
  - » At the forefront of setting CRE standards throughout her career:
  - » Member of prestigious Real Estate Roundtable, the NAIOP Capital Markets I-Forum, and the Federal Reserve Bank of Atlanta's "think tank" for commercial real estate.
  - » 2003 Chairperson of the MBA's Commercial Board, and in that role presented industry-changing initiatives to Congress.
  - » Chairperson of CEO Servicer Roundtable, comprised of the major servicing firms across the nation.
  - » Other board positions, including CREFC (f.k.a. CMSA), NMHC and RECRA.
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- » Named one of six National Real Estate Investor 2011 Most Influential Women in Commercial Real Estate and a True Leaders Top 25 CEO, a recognition crossing all industries.
  - » Sought-after speaker for CMBS borrowers, lenders, and attorneys groups as large as 4,000. Also has led CLE courses for attorneys.
  - » Frequent author of articles and quoted source for publications such as Wall Street Journal, Scotsman Guide, Globe Street, Hotel News Now and France Media publications.

# About Steve Shipp



## AREAS OF SPECIALIZATION

- » Executive Management
- » Loan, Portfolio and Business Restructures
- » Asset Recovery and Disposition Strategy
- » Debt and Equity placement
- » Acquisitions

## CAREER SUMMARY

Steven Shipp's 25 year business background spans most aspects of commercial real estate, from bulk note and hard asset sales to the finance, development, acquisition, restructure and disposition of literally hundreds of commercial real estate assets. Shipp currently is forming 1<sup>st</sup> Service Realty Advisors and serves an executive advisory role with 1<sup>st</sup> Service Solutions, the nation's first and largest loan advisors and borrower advocacy. He most recently served as the President & CEO of Daymark Realty Advisors where he restructured and managed one of the Nation's largest Asset and Investment management firms with over 33 Millions SF of assets under management and valued at approximately \$5 Billion. Shipp entered the world of asset management in 1991 with Bank of America, where he eventually served as a Regional Vice President, managing the bank's Special Servicing operations, including the management, workout, restructuring and disposition of more than \$4 billion in commercial real estate assets.

Shipp has also served as (in chronological order) EVP for Grubb & Ellis Realty Investors, CEO for a Southern California investor/builder overseeing all aspects of operations, Senior Vice President for a regional commercial retail development group where he managed debt and equity structuring and as a special consultant to several of the largest commercial real estate special servicers in the nation.

## In today's challenged market

- » **The 1<sup>st</sup> Service team helps borrowers find their way through CMBS loan restructures –**  
with an over 95 percent success rate
- » **We have completed more than \$11 billion in CMBS restructures and CMBS assumptions –**  
more than any other firm of our kind
- » **We help borrowers expedite the CMBS loan assumption process**
- » **Obtain borrower requests**



If you are a commercial real estate owner and are experiencing a problem with your commercial real estate loan, let 1st Service Solutions analyze your situation and offer solutions. We welcome the opportunity to serve as your advocate and negotiate an outcome that is mutually beneficial for you and your capital partners.

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*If you are getting a **new CMBS loan**, let 1<sup>st</sup> Service Solutions review your loan documents and provide feedback about ways to make your CMBS loan more flexible. There are many provisions that can be added to the loan documents at origination that will make a CMBS loan much more flexible and workable for owners.*

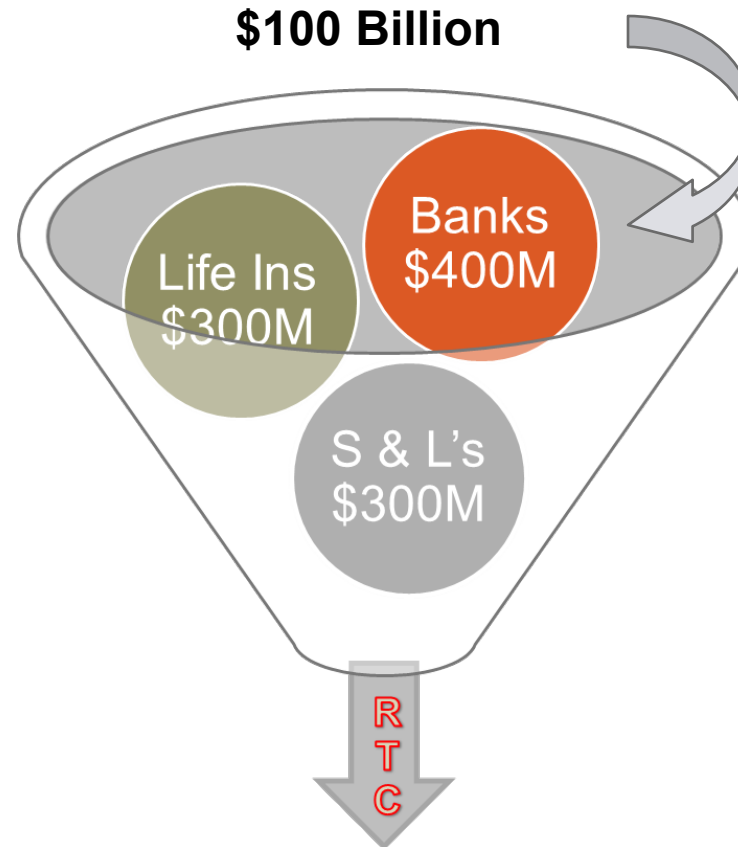
**During the last downturn,** the RTC acted as a clearing house for distressed assets

**In today's downturn,** there is **NO** clearing mechanism to quickly resolve the distressed portfolios

- 1) Today's commercial real estate market and defaults
- 2) Who is in charge of these defaults?
- 3) CMBS resolutions
- 4) How can a distressed investor access deal flow today?
- 5) Today's clearing house
- 6) Best opportunities in today's market



## Outstanding Distressed Real Estate Loans

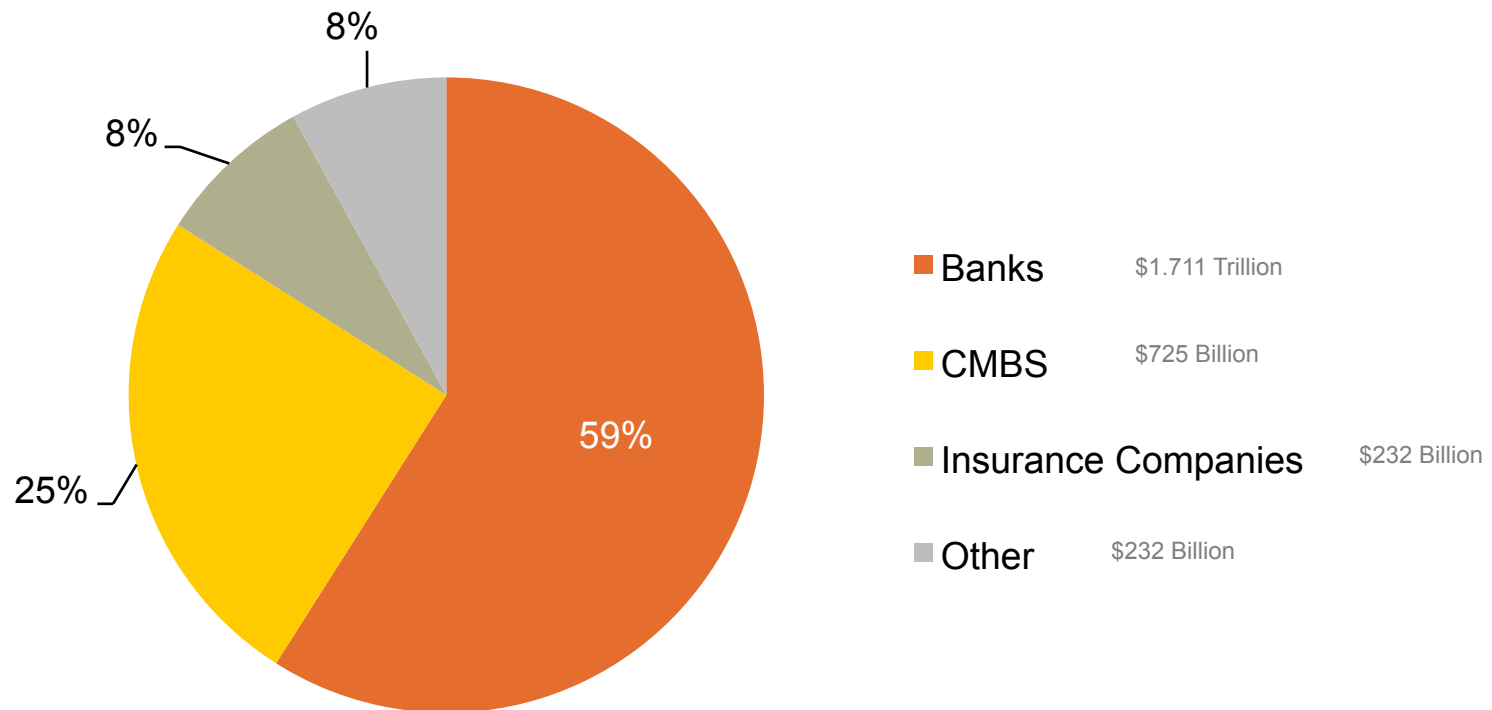


**Distressed  
Commercial Real Estate Investors**

# Today's Debt Market



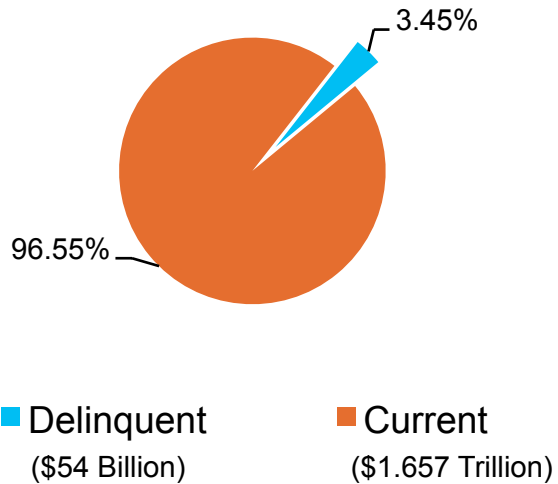
» Total Outstanding Real Estate Loans = \$2.9 Trillion



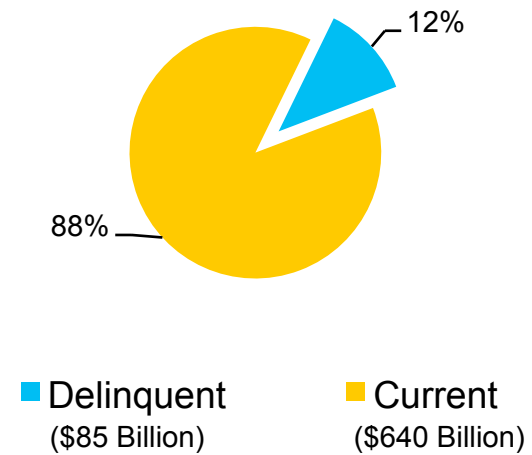
# Delinquencies in Today's Market



## » Banks (of the \$1.711 Trillion)



## » CMBS (of the \$725 Billion)





# Who is in Control of These Defaults

- » Bank defaults are spread amongst the 7,000 banks nationwide
- » More than **80%** of the CMBS defaults are being managed by **3** companies!  
(that are ever changing and ever shrinking):



# Who Owns Them?



## » LNR



- Recapitalized by a group of five opportunistic buyers (Vornado, Cerebus, Oaktree, iStar and Aozara) in 2010
- \$27.1 billion in UPB of loans in special servicing
- Currently on the market

## » CW Capital



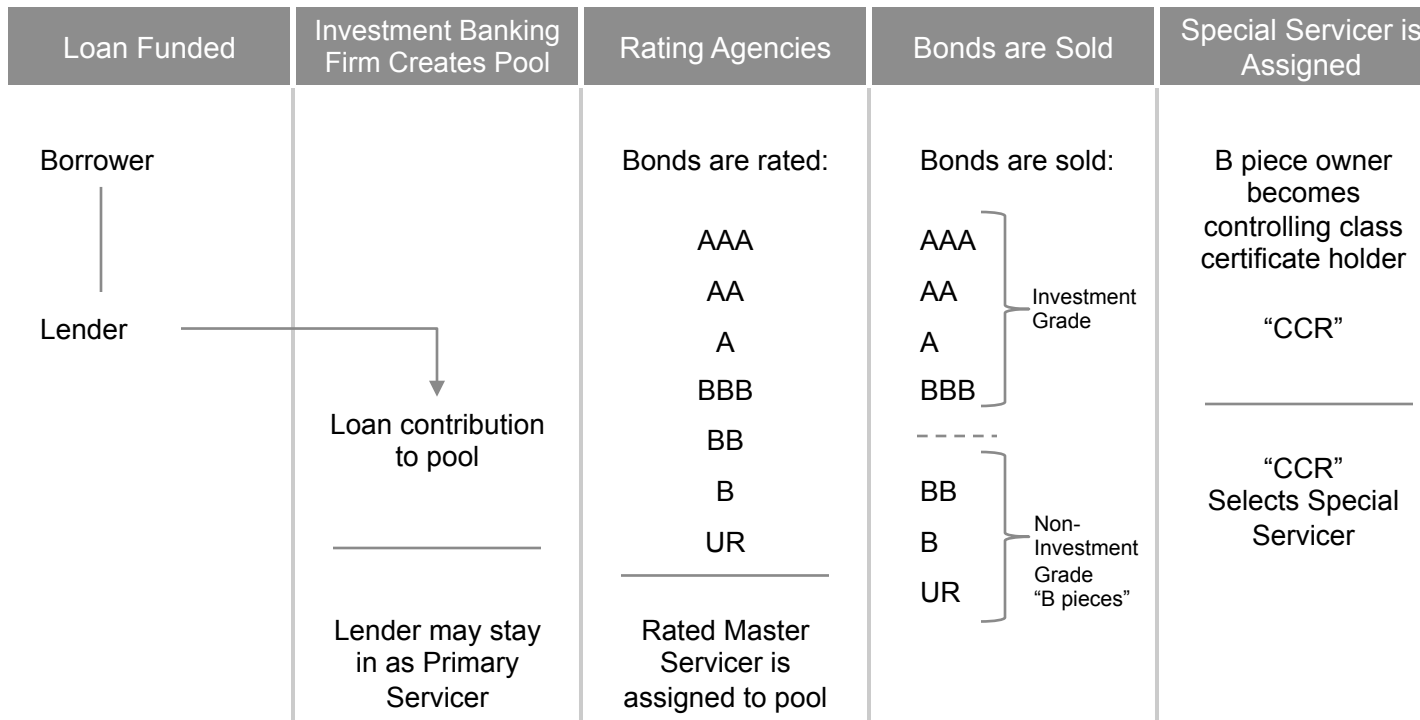
- Bought by Fortress in 2010
- \$20.2 billion in UPB of loans in special servicing

## » C-III



- Centerline bought by Island Capital in 2010 and changed name to C-III
- Island Capital also acquired JE Robert in 2011, increasing their market share
- \$16.1 billion in UPB of loans in special servicing

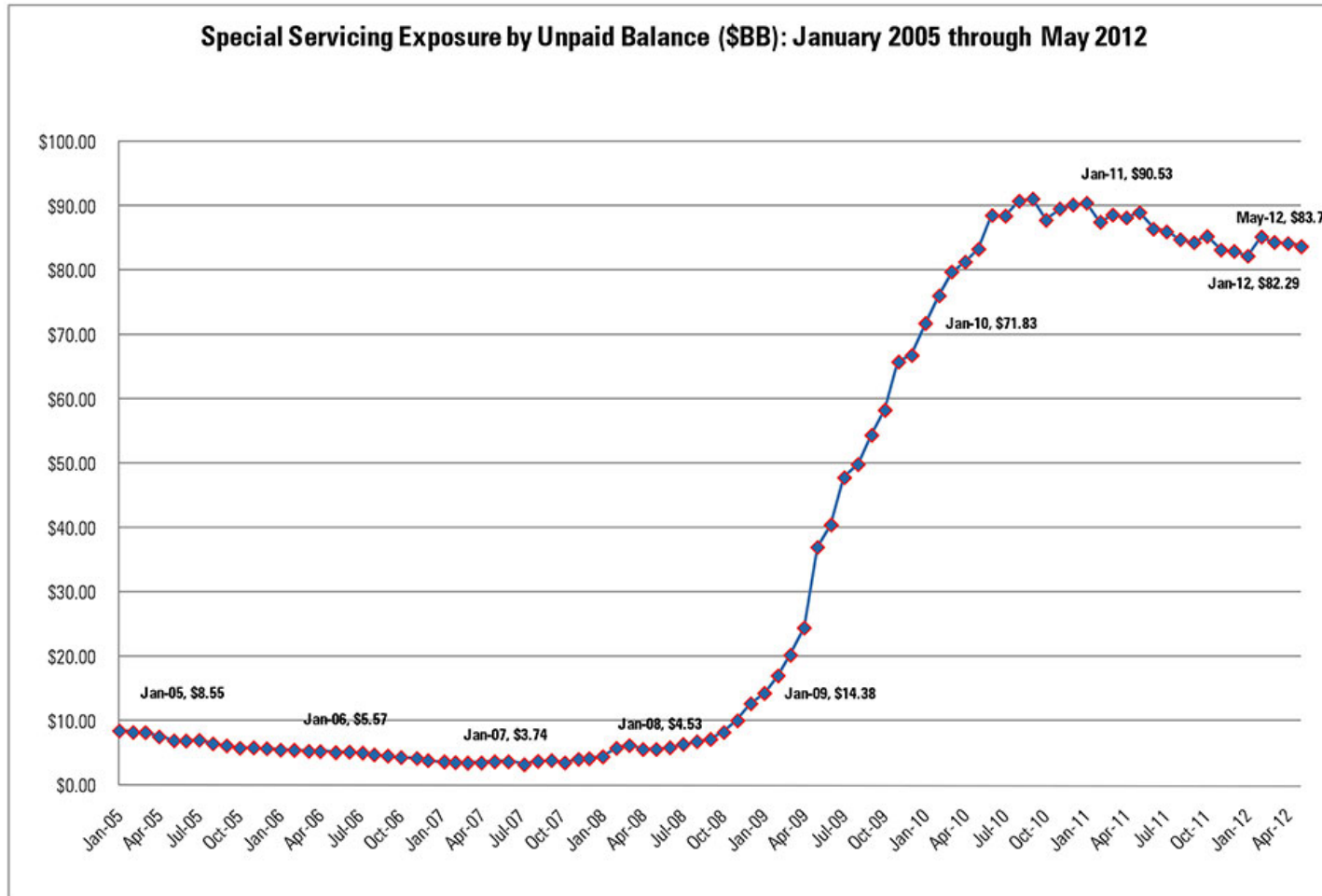
# How They Become Special Servicers



# There Were Virtually No CMBS Defaults Until 2009



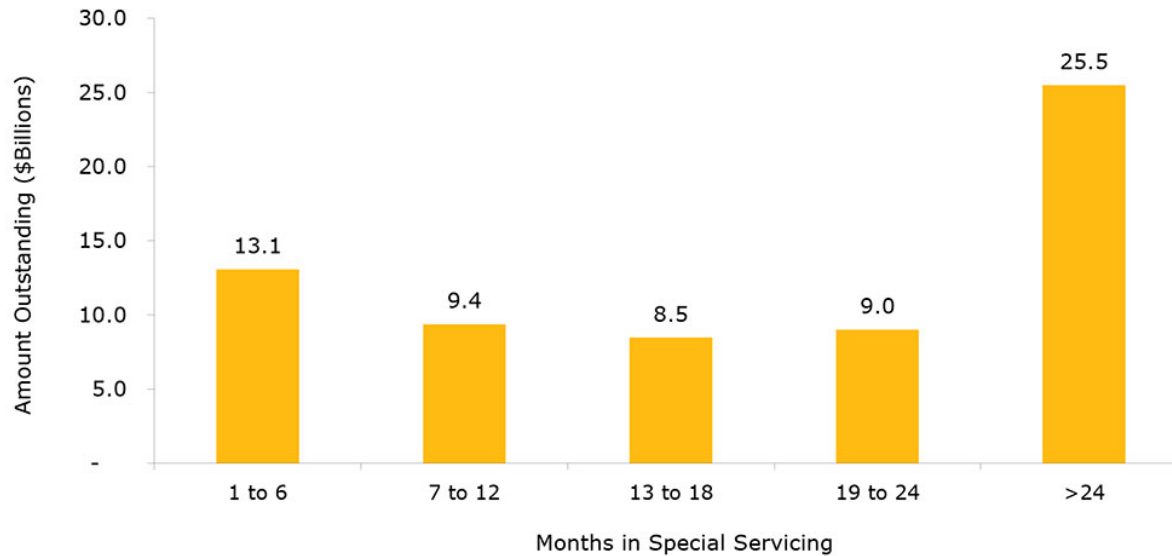
Charts 5 and 6 – Special Servicing Exposure: Balance vs. Percentage (source: Morningstar)



# It Takes a Long Time to Move Them Through the System



**Length of Time in Special Servicing for Currently Outstanding Loans**



Source: Wells Fargo Securities, LLC, and Intex Solutions, Inc.



# CMBS Loans Resolved to Date



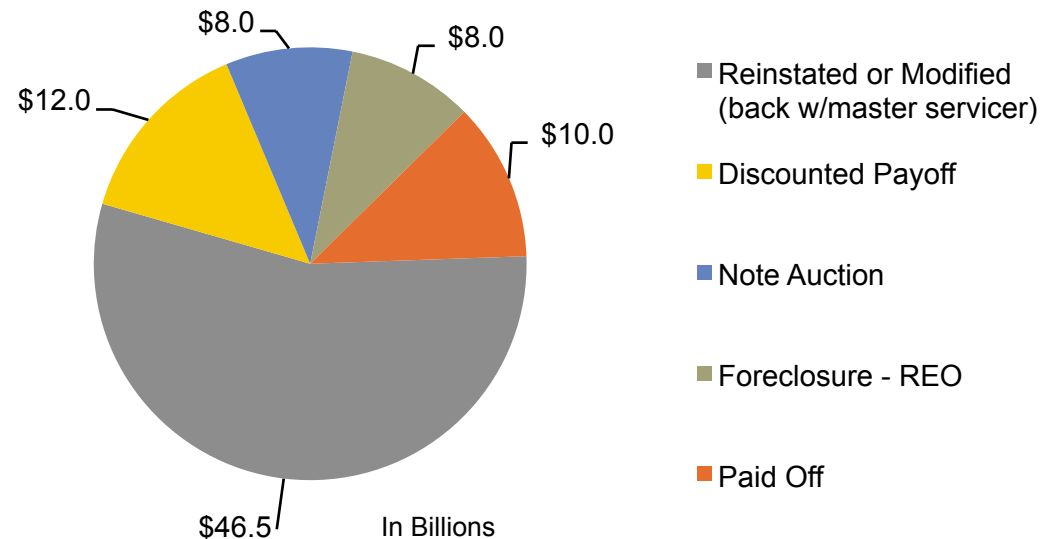
## » 2010

- First *real* year of loan resolutions  $\cong$  \$39.5 Billion
- Resolution – “kick the can” (*Loan Extensions*)

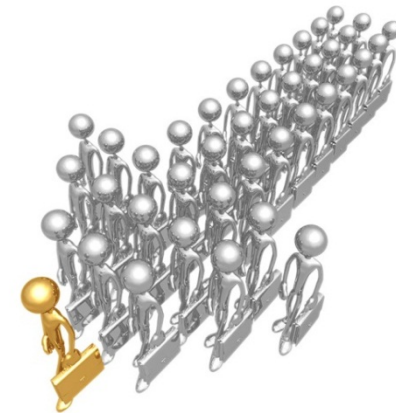
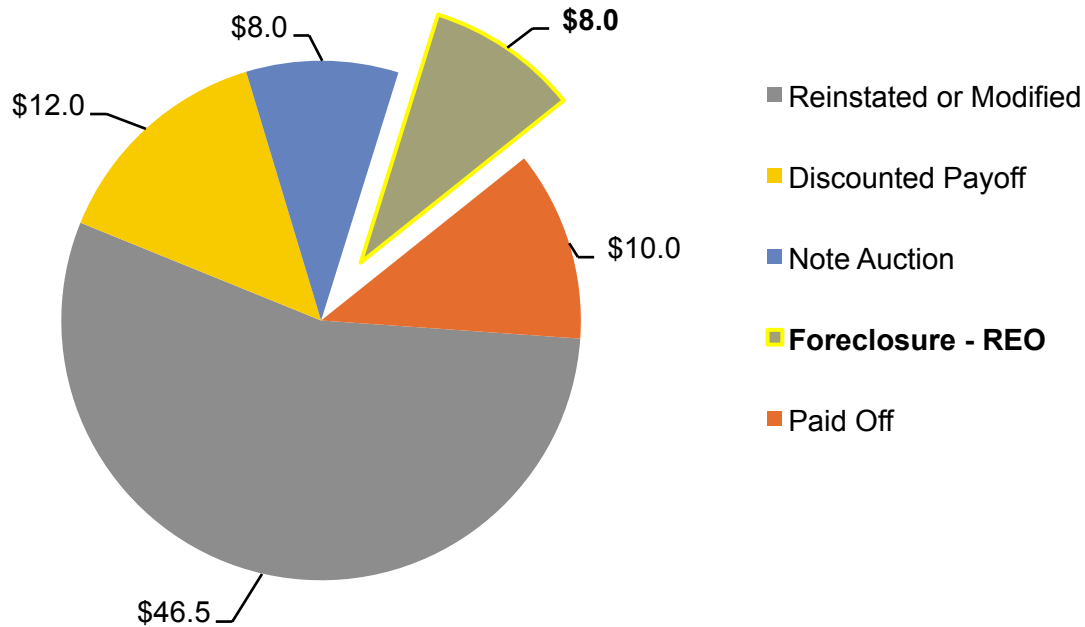
## » 2011

- Loan resolutions  $\cong$  \$45 Billion

**Total 2010 – 2011  $\cong$  \$84.5 Billion**



# Investors are Chasing This ONE Piece of the Pie



# Average Loss Rates by Loan Resolution



## » Modifications

- Unknown today - TBD

## » Discounted Payoffs

- 30% losses

## » Note Auctions

- 50% losses

## » Foreclosures – REO Sales

- 58% losses





# How Do Special Servicers / Lenders Make Their Decision?



- » **Special servicers are required to maximize recovery**
  - Based on a net present value (NPV) for **ALL** investors / bond holders
  - Advances greatly effect this calculation
- » **They analyze all options and select the one that will result in the highest recovery, and the least amount of losses... in THEIR opinion**



- » **Lenders / Banks make their decisions based on prudent, reasonable resolutions for the shareholders**

# How Do You Access the Deal Flow?



» So with no RTC or other clearing house, how do you access deal flow today, as an investor?

## Loan Modification

\$58.5 Billion

- Align with owner
- Provide preferred equity
- Get existing loan modified

## Foreclosure / REO

\$8 Billion

- Bid in open market
- Use a broker

## Note Auctions

\$8 Billion

- Bid in open market
- Typically against borrower

# What to Expect With a Loan Modification



## Loan Modification

- \$58.5 Billion
- Align with owner
- Provide preferred equity
- Get existing loan modified

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### Structure



- Loan Bifurcation (A/B)
- Discounted Payoff

### Capital Required



- 10% of A note
- 80%-100% LTV

### Returns



- Note Rate – 12%
- Little to no current pay
- Provide Bridge Loan
- or Preferred Equity

# Closest Thing to a Clearing House

## Note Auctions

- \$8 Billion
- Bid in open market
- Typically against borrower

Rapidly Increasing in Popularity

Closest Thing to a  
Clearing House in  
Today's Market

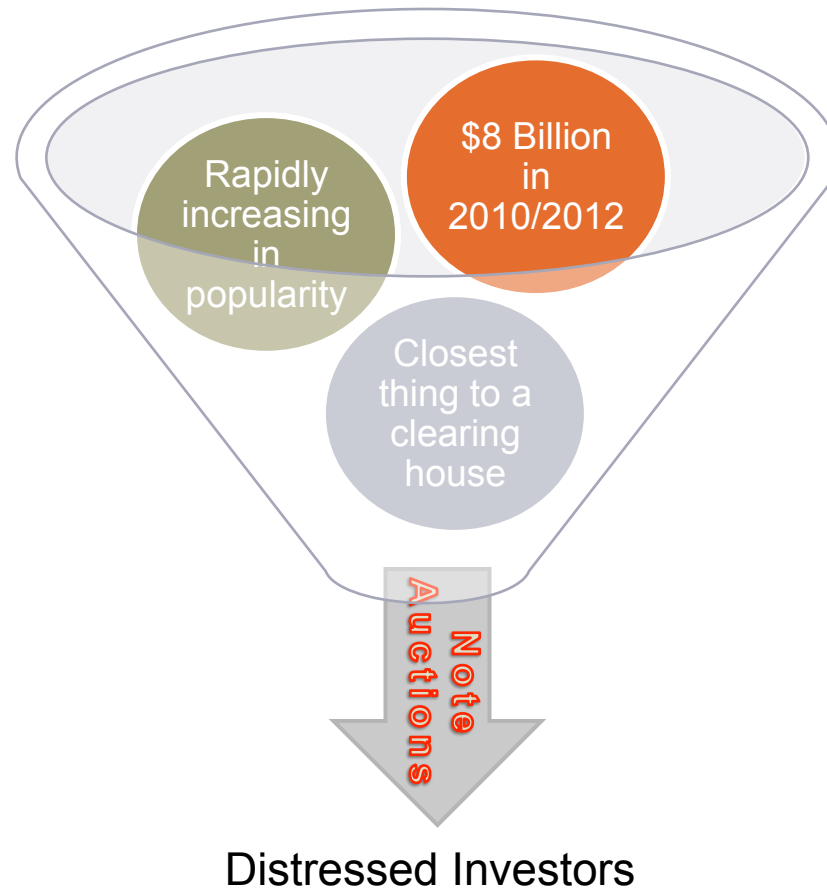
Note  
Auctions

Distressed Investors

# Closest Thing to a Clearing House

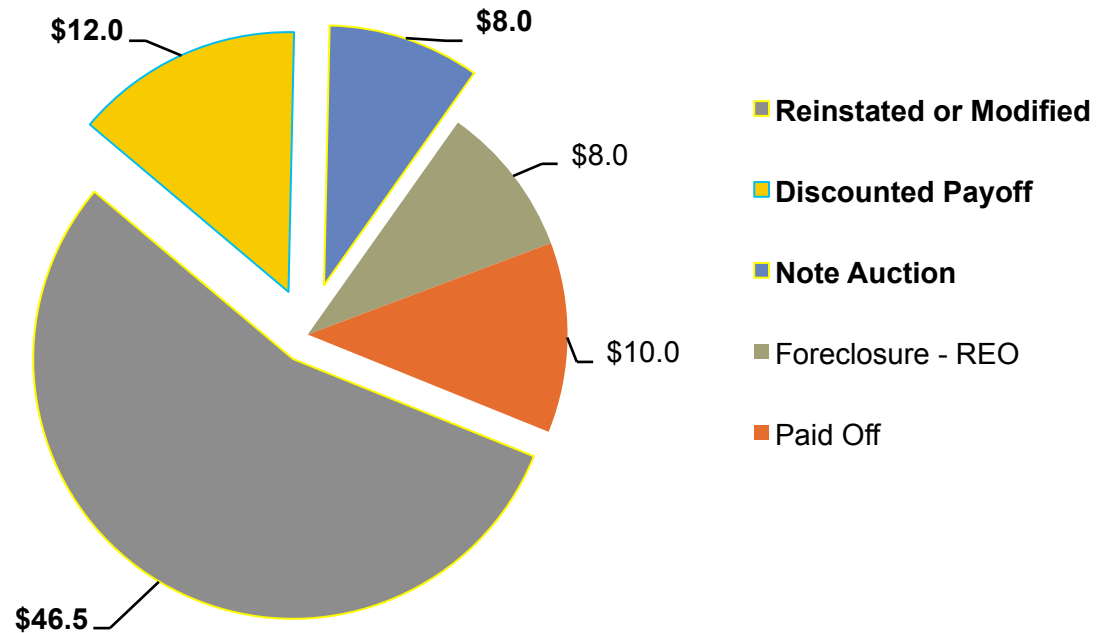
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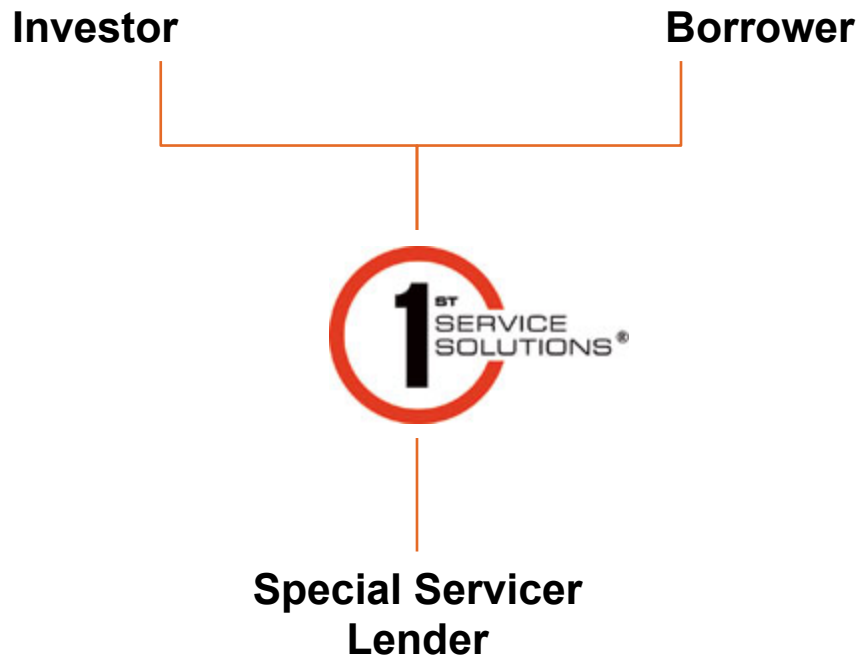


- » **Average of 50% loss to bondholders**
  
- » **So why is this a popular method of resolution when losses are higher than other resolution methods**
  - Speed in resolution
  - Fees
  - “CYA”

# Best Opportunities in Today's Market



# Structure to Access Distressed Deals





# For Further Information Contact Us



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**Ann Hambly**



**Steve Shipp**



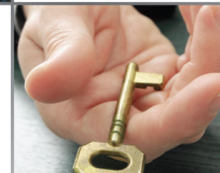
Intelligence



Believability



Creativity



Integrity



**Thank you** for attending our webinar