Rising Loan Delinquencies Keeping Receiverships Busy

REAL ESTATE: Hotels, Retail Among Hardest-Hit Properties

By Lou Hirsh

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Local companies that handle issues related to distressed commercial properties expect to be kept busy in 2011, after loan delinquencies locally and nationally continued to rise during the past year.

According to commercial mortgage data provider Trepp LLC, borrowers as of December were delinquent by 30 or more days on 7.7 percent of the loan balances in San Diego County — just over $7.5 billion out of a total $94.4 billion in loan volume. The delinquency figure a year earlier was 3 percent.

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Trepp primarily tracks loans that are bundled into what are known as commercial mortgage-backed securities, also known as CMBS. San Diego's delinquency rate at the end of 2010 was higher than Los Angeles' 6.2 percent, but lower than California's 8 percent and the national rate of 9.2 percent.

Lenders have generally been patient with borrowers on well-located properties, working with them to modify terms or extend maturities, so the local market has yet to see a flood of properties being sold off in foreclosure.

But leaders of local receivership and special-servicing firms, who have clients across the nation, say they've seen their caseloads rise significantly over the past few months. The pattern could hold well into the next two years, as U.S. commercial loans — especially those made from 2005 to 2007 — reach maturity and lenders lose patience with overleveraged borrowers.

Distressed Caseloads Multiply

Bill Hoffman, president and chief executive officer of San Diego-based Trigild, said his firm in a good economy might have a distressed-real-estate caseload of 50 to 60 properties at a given time. It is currently at 200 properties, representing $6 billion in defaulted loans, and Hoffman projects that will grow to 350 properties by year's end.

"They come in faster than they go out," said Hoffman, noting that his firm now typically gets two or three new cases per week, the majority of which involve hotel properties.

In 2010, Trigild's receivership assignments also included the three-building Scripps Corporate Plaza in San Diego; office buildings in Newport Beach and New Orleans; a 14-building industrial Center in Columbus, Ohio; and a self-storage facility in El Monte.

Hoffman said his firm's cases stem primarily from bad loans in states such as Arizona, Florida, Georgia and Nevada, but there are also some from California's Inland Empire and Central Valley.

At San Diego-based Douglas Wilson Cos., which also operates in five other cities, chairman and CEO Douglas Wilson said his firm's steady caseload reflects continued fallout from 2009, when the real estate market "fell off the cliff" in the wake of the Wall Street collapse.

A Spike in Business

Wilson's firm saw business spike 40 percent that year, with volume remaining well above pre-recession levels in 2010 and similar demand expected in 2011. While the Las Vegas commercial property market has been "decimated" by loan defaults, others such as West Los Angeles "are doing quite well."

Retail centers are struggling with debt in states such as Georgia, Ohio and Arizona, where Wilson Cos. is overseeing shopping centers in receivership.

San Diego County may be faring better than other areas in warding off foreclosure, but that's also partly because lenders are not under pressure to dispose of problem assets, Wilson said.

Alex Zikakis, president and CEO of Carlsbad-based Capstone Advisors Inc., whose offerings include receivership services, said lenders will be selling distressed properties in 2011, in a "cleansing" process that began slowly last year and could continue through 2014.

Some will be sold off by large banks that acquired the troubled assets of smaller failed institutions over the past two years, but have been restricted by regulators in terms of how fast they could sell them off, to prevent a flood of properties from hitting the market at once.

Special-servicers brought in by lenders will also pull the trigger on sales, he said, as hope fades on moderating bad loans nearing maturity. The upside for lenders and special-servicers is that they'll likely get better prices — in part because of an improved investor climate — than they would have received if the properties were unloaded earlier.

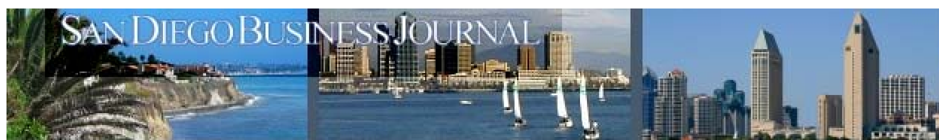
Historic Highs Nationally

Paul Mancuso, vice president of New York City-based Trepp, said while Southern California is faring better than others, commercial loan distress is at historic highs in all U.S. regions.

For prime Class A commercial properties in top locations, lenders remain willing to modify terms or extend maturities. For those in outlying areas, 2010 saw a rising number of lenders place properties in special servicing for eventual sell-offs.

According to Trepp, the U.S. multifamily property sector is most plagued by loan delinquencies, at a rate of 16.4 percent of loan volume in December, followed by hotels at 14.3 percent.

San Diego County's multifamily sector is relatively healthy, but its hotel sector is among the most prone to delinquencies within California. Of 36 local properties listed by Trepp as 90 or more days delinquent on loans, 10 are hotels.



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