WORKOUT STRATEGIES
FOR THE
COMMERCIAL REAL ESTATE MARKET

RE-ALIGNMENT: PUTTING THE PIECES BACK TOGETHER



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This report is being provided by RE Structure Solutions, Inc. workout consultants for investors, property owners, property management companies and lenders on commercial property assets. This report that provides an overview of some of the market challenges, opportunities and possible solutions to current situations that defines the commercial real estate market. The first step to resolutions is to take an inventory of where you are, figure out where you want to be and come up with a plan to get you there. RE Structure Solutions has a plan. This report is part of the process in helping you understand where you are and provide a glimpse of where you might be able to be. We would love to be a resource to help you get there. Regardless of whether we will have this opportunity, this information could prove valuable. Thank you for your interest…..

"Re Alignment: Workout Strategies for the Commercial Real Estate Market"

Business as usual is not working in the commercial real estate market any longer. With declining vacancy rates, plummeting real estate values, loans coming due…limited or non existent lending opportunities, loans higher than values and cash flow that is not supporting the loans the old way of borrowing out of a problem or situation has become a past tense term. The irrational exuberance of lenders, buyers, and sellers in the past decade has put this market in a corner. The selling, trading or refinancing pieces are off the table and have been replaced by a new game.

THE WORK OUT:

This is a game that the accountants, lawyer, banks and yes us here at RE Structure Solutions play very well. With decades of experience in the best of times and during the worst, the work out team at RE Structure Solutions knows the moving parts of this game and how to work them to our client's advantage. The old rule book does not apply because as we all can tell the economy is just not what it used to be….now is it!

So whether you're located in New York, Los Angeles, Dallas, Seattle or any place in between, RE Structure Solutions can help you. In the past world we counted on appreciation of value, increases in rents, predictable models to follow and we would stroll to our lender, get a new loan or sell our property for a profit and start the cycle all over again…the world was working. If we were a bit short or the cash flow not quite there we could always find one of those "creative" types to make things work or seek out those lenders who had a higher tolerance for "shaky" loans. Why not? With a 3-5-7 year term how much could this hurt? Until now; if you're the last person standing and holding a note you can't satisfy what are your options? RE Structure Solutions.

We specialize in the unconventional; a well defined process that very few even know exists but is very effective in allowing you the property owner(s) to retain your property, have workable payments and create an exit strategy down the road. **We strive to create stability in an unstable market. Provide deep breath of calm rather than a gasp of panic**.

"An effective work out is achieved by separating the perceived fantasy of performance on the current obligation that a lender/servicer may have to the actual present situation the owner is facing and making both become one". *G. Thomas Rubio, President RSS, Inc.*

WHAT ARE OTHERS SAYING?

Thursday, February 11th, 2010, 10:55 am
Financial institutions could face $300bn in losses related to commercial real estate in 2011 and beyond, putting smaller banks at the most risk, according to a report from the **Congressional Oversight Panel** (COP).

Congress established COP in October 2008 to oversee the spending of the $700bn from the Troubled Asset Relief Program (TARP). Between 2010 and 2014, the Panel found that $1.4trn in commercial real estate will mature, and almost half are currently underwater. The real estate research firm, **Foresight Analytics**, found the same statistic in a recent study. According to Foresight, $770bn in commercial loans will be in negative equity between 2010 and 2014.

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When the loans reach the end of the term – usually three to 10 years – the borrower takes out a new loan to stay in the property. But unemployment still hovering around 10%, offices, hotels and retail shops are emptying out. The owners of these properties either can't pay interest and principal during the loan's term or cannot get a refinancing with the term ends, according to the report.

Commercial property values dropped 40% since the start of 2007. Falling values push higher loan-to-value ratios, which constrict abilities to refinance. The downward pressure comes from heightened vacancy rates and decreasing rents. Vacancies range from 8% for multifamily housing to 18% for office buildings. Rents dropped 40% for office space and 33% for retail space, according to the report. "Without more people in stores, more people at hotels, more people able to afford new or larger apartments, and more businesses seeking new or larger office space and other commercial property, the markets cannot recover and the credit and term risk created by commercial real estate loans cannot abate without the potential imposition of substantial costs on lenders," according to the report. The commercial real estate problem "will fall disproportionately" on smaller regional and community banks with higher exposure to the loans compared to the larger institutions. COP had a harder time predicting the potential victims on the securitization side, but, according to the report, investors hold less risk.

Banks have more exposure than commercial mortgage-backed securities (CMBS) because, unlike residential real estate, the properties serving as collateral are of a higher quality. In residential mortgage-backed securities (RMBS), banks generally kept the best mortgages and securitized the riskier ones, according to the report. But according to the real estate data provider **Trepp**, CMBS investors aren't free and clear. The rate of 30-plus-day delinquency in CMBS reached 6.49% in January, a record high.

"There is a commercial real estate crisis on the horizon, and there are no easy solutions to the risks commercial real estate may pose to the financial system and the public," according to the report. "The Panel is concerned that until Treasury and bank supervisors take coordinated action to address forthrightly and transparently the state of the commercial real estate markets – and the potential impact that a breakdown in those markets could have on local communities, small businesses, and individuals – the financial crisis will not end."

An effective workout for the lender repositions their thought process from **"what should I be getting"** to **"what is the least painful course of action." What options exist?**

Calling the Balloon note due?
This doesn't work, who has an extra million or two lying around? Who can refinance today to pay off a lender?
Foreclosure? That will show them. The retained asset is not worth the loan amount, attorneys make a living off this scenario and the bank coughs up about 50% to 70% of the note value when all is said and done when you count legal fees, lost revenue, auction costs and realtor costs. The buyer has to work to stabilize the property all over again.
How about a Judicial Lawsuit? We will take the property into receivership and take all the money…good thought poor action. Again most properties in receivership drop value quicker than most. The Attorney handling the property will collect the rents (for a fee) but who makes sure the property is maintained? Who works on tenant retention? Who works for the property? No one!
You file Bankruptcy Chapter 11? First if you want to commit $20K to $400K or more to this process than you should seek us out before this action is taken. Still, this might be an option but if a court doesn't like your presentation you might be pushed into a Chapter 7 and no longer is your property protected in most cases. Then what?

We are then left with a RE Structure Solution. We analyze the property, initial transaction, financials and what the true nature of the actual situation or problem we then transfer this knowledge into a workable presentation to achieve the best results for you the property owner and yes the lender. Why the lender you ask? Because, they have to answer to a governing agency or two, and if our solution is not in line with those guidelines we just wasted a lot of time.

Yes, banks, investors, CMBS and others have federal guidelines to follow and if your talking to a workout company that doesn't know these specific guidelines or procedures run and protect yourself.

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A RE Structure Solution is More than a Modification…why?

This word has put on a lot of miles over the past couple of years with the residential problems and has received about every type of bad press you can think of. Modification as defined in the dictionary sense is correct, and has actually been a part of loans for years. But here at RE Structure Solutions we work this to another level. Why because we will work to resolve your situation both for the short-term but also arm you with the needed tools for a long term success. The data, material and in-depth research on your current situation will allow you to refer back to for many years to come. Yes we earn our fees.

We do not leave you once your restructure is completed. We can provide ancillary or referral services that may help you in the long run to keep your property as it was intended an investment not a detriment. In short we have to move away from what has transpired up until now and place you back to a stronger position.

What exactly does a RE Structure look like? Good question. Before we get into this aspect it is important to understand that not everyone is capable of preparing this type of analysis. Unlike the residential folks who have a single mind set of figures and percentages a commercial property analysis is very complex with many moving pieces. It is more than a financial spreadsheet. We have to take into consideration future projections, stability factors, cap rates, depreciation, rents, pro-forma's, debt service calculations, what is allowed or not allowed, how your tax rate affects your property, population adjustments and the list goes on and on.
You have to have the skill set to bring this all together and then be able to comply with the FDIC guidelines, CMBS guidelines, investor guidelines and so on. We ask you to challenge us on our knowledge of the process and of the commercial market as a whole. This is all we do, and we do it very well.

Remember, you at one time had an advisor to guide you through the process of obtaining the property; you consulted professionals to make sure the decision was the right one. Why not do the same when it comes to preserving your property. Yyour worst enemy is delay; your best ally is RE Structure Solutions. We are that trusted advisor.

In fact when you contract with us for our services you will find a refreshing method of doing business….just ask our affiliate about our confidence level toward performance. We can make the difficult seem very understandable.

Now back to what a restructure will look like…

Extension of loan terms, delay or postponement of a balloon payment, amortizing of past due amounts, capping an interest rate, principal reduction, adding additional collateral, bring in a new partner, splitting your loan, short sale, deferment, forbearance, reducing interest rate, offer/settlement, eliminating a swap rate, keeping a swap rate eliminating the fixed portion, employee participation, bankruptcy to allow time, changing the loan payments to interest only, and the list goes on and on.

As you can see the options are endless, but what is right for your situation and for your lender to accept?
You need a professional company, a trusted advisor doing the heavy lifting and work on your behalf

THIS IS WHY YOU NEED RE STRUCTURE SOLUTIONS.

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Conclusions

No matter where your property is located in this country it has been affected by our Economy and depreciating values.

As you can see this problem within the Commercial Real Estate market is not going to resolve itself on its own. It needs proactive property owners partnering with professional company's such as RE Structure Solutions to tackle the problem one property at a time.

Just search the internet with terms like "commercial delinquency", "commercial property foreclosures" and you will have enough information to depress you for some time. We backed ourselves into this corner and the options are limited when it comes to resolving the problems for the property owner. There is no TARP bailout for property owners or a Government Angel to swoop down and resolve our property concerns, this we already know.

You do have options and like any smart business person you will weigh them all before you make a decision as to the course of action you will feel most comfortable with. We understand this and welcome a "good look" at what we do.

Just by considering taking action is a positive step in the right direction.

We have assembled an experienced team to handle this process in a smooth manner. It takes a lot of work, work that we are up to doing on your behalf.

We encourage you to take the first step and allow our affiliate to complete the initial information sheet to see if we can begin to assist you.
We charge nothing for an initial evaluation and at times our answer to potential clients is "No." We can't help everyone and it is poor business to try and do so. But our "Yes" is with confidence that we can accomplish a workable solution for your property.

After the initial evaluation the decision to continue working with us is up to you. No matter what your course is we do wish you the best in navigating this current environment we find ourselves in.

As a final thought, look at this statement below from NuWire investor July, 2010. Why the upcoming spike in delinquencies? **Because property owners feel they have very limited options when it comes to resolving their loan concerns and their lenders will not proactively seek out a workable method to solve their individual issues.** Now you know you have options.

Most property owners will be slow to take any action and let their lender direct their steps which usually amounts to more frustration, little satisfaction and may cost them in the long run. Sadly we have good examples of how this has played out.

"By the end of 2010, the total amount of unpaid principal balance could grow between $80bn and $90bn, Realpoint forecasted, and the delinquency rate could reach as high as 12%."

RE Structure Solutions….the time to act is now!
See your affiliate who gave you this valuable report or call us at:

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