Investors Finding No Fire Sales In Commercial Property

By A.D. Pruitt, Of DOW JONES NEWSWIRES

NEW YORK -(Dow Jones)- Investors looking for blue-light specials on distressed commercial property are finding the pickings surprisingly slim as banks refrain from holding fire sales on troubled assets.

Despite rising loan delinquencies and foreclosures on hotels and on retail, apartment and office buildings, banks are reluctant to unload troubled assets at bargain-basement prices amid a lack of transparency and agreement on fair valuations. This deepens an impasse with distressed investors who have been aggressively setting up funds and other vehicles to acquire assets for a song.

"Quite frankly, I had predicted that the waterfall would have started by now. I thought there would be a tremendous amount of properties that were distressed from the lending world that a bank would have foreclosed on," said Jerry Anderson, executive managing director of the asset recovery team at Sperry Van Ness, a commercial real estate advisory firm. "That has not happened.

"We got folks calling us to let them know when the bank is willing to dump (assets) for 20 cents on the loan value," he said. "There's nothing for them to buy yet at that type of a deep discount."

There are expectations the commercial real estate market is in the clutches of a free-fall similar or worse than the crisis in the early 1990s. Troubled commercial properties have more than doubled this year with the value of assets in default, foreclosure or bankruptcy topping $108 billion, according to a recent report by Real Capital Analytics.

Investors are getting prepared to pounce on distressed deals. For instance, over the last couple of months more than six real-estate investment trusts filed paperwork to launch initial public offerings, including Starwood Property Trust Inc., managed by an affiliate of Starwood Capital Group; and Colony Financial Inc., spawned by Colony Capital LLC, the owner of casinos, hotels and the late Michael Jackson's Neverland Ranch.

"There's still about a 20% to 30% differential between what the banks are willing to sell the assets (for) and what the market is willing to pay," said Edward Mermelstein, a real estate attorney in New York.

"If (banks) actually marked assets down to levels where the market is right now, most of these major lenders would have a very...serious problem," he said.

Even if investors are able to buy an office or retail property on the cheap, if occupancy rates remain low, they aren't likely to see a decent return on their investment in the short to medium term, experts say.

An influx of distressed commercial assets isn't expected to hit the market until after the first quarter of 2010 amid expectations that the Federal Deposit Insurance Corp. will have to shed portfolios of failed banks that it has taken over. So far, that total has reached 64 this year.

Jay Leupp, the portfolio manager for Grubb & Ellis AGA Realty Income Fund, said investors are looking for the same level of real estate asset sales executed by the Resolution Trust Corp. after the savings and loan crisis of the 1980s.

"It was essentially the sale of the century in terms of commercial real estate and a lot investors...made millions of dollars buying the properties very inexpensively," he said. "It will be a very long time before" those types of opportunities arise.

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(Lynn Cowan contributed to this report)