

# Orange County Business Journal

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## Brokers Look to Courts, Lenders for Work

By Mark Mueller - 2/16/2009

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Commercial real estate brokers are going to court over the downturn in commercial real estate—but not for the reasons you might think.

Court-appointed receivers and banks, rather than real estate developers, likely are to be the biggest source of new business for brokers and property managers for the next few years.

But landing that business is proving to be a challenge as local brokers struggle to find an “in” to work with banks before an expected landslide of deals hits the market.

“This is the hot topic of the day,” said John Combs, founder of Santa Ana-based RiverRock Real Estate Group Inc., a commercial real estate management and leasing company. “There are a few sprinkles (of deals) now. But more properties (going back to the bank) are just around the corner.”

Combs’ company last year added a line of business that does consulting for distressed assets.

Combs is targeting banks, rather than individual distressed borrowers, he said.

“It’s not where the business is,” he said.

Lenders are expected to start taking back more distressed buildings from landlords, especially if prices continue to fall. That’s expected to happen as landlords have dropped rents on many commercial buildings to secure leases, while some others are holding partially vacant buildings.

The amount of defaults on commercial properties could triple if rents from those properties drop another 10%, according to New York-based Reis Inc., a real estate data company.

The volume of commercial loans placed in special servicing—where an independent third party is appointed to handle the workout on a property—rose four-fold during the fourth quarter to more than \$1.6 billion of loans per month, according to CoStar Group Inc.

With a deluge of distressed properties likely to be in play this year, “brokers should get in good with lenders,” said Taylor Grant, a Newport Beach-based receiver who focuses on commercial buildings.

Combs and Grant spoke last week at a sold-out conference in Santa Ana that the Certified Commercial Investment Member real estate group sponsored.

Often, banks and lenders go through court-appointed receivers who manage or sell an asset, rather than immediately foreclosing.

Receivers—who, once appointed, answer to the court, not the lender—are tasked with protecting and maintaining properties, collecting rents and paying bills—usually through another third party. They also can sign leases for up to a year without court approval.

Lenders typically can’t be hands-on managers for buildings they take back, largely because of insurance issues that would transfer from a developer to them, Grant said.

### Local Examples

Locally, there has been a handful of properties that have gone the receivership route.

The South Coast Home Furnishings Centre in Costa Mesa wrapped up a court-approved sale after being put into receivership last year (see story, page 1).

Tustin-based real estate manager and brokerage Coreland Cos. said last month that co-founder Patrick Galentine was appointed as a receiver in matters involving two assets.

The properties include a 20,000-square-foot office complex in Irvine and a 200,000-square-foot light industrial complex in Downey. Coreland said it will be responsible for property management during the receivership period.

Expect to see more half-finished condominium projects, hotels and assets of failed tenant-in-common deals—where investors pool money to buy more expensive properties—go the receivership route this year, Combs said.

“The TIC business is coming apart,” said Combs, who said he is working with two local tenant-in-commons to sell buildings.

### **Filling a Need**

Brokers could use the business. Los Angeles-based CB Richard Ellis Group Inc., a stalwart of the brokerage industry, last week reported a 94% drop in profit for the fourth quarter to \$6.4 million, due to slow sales and leases.

While receivers are expected to have a list of brokers or property managers they can recommend to the court, having good contacts at banks always helps brokers, Grant said.

That’s proven to be a challenge, according to observers. The upheaval in the financial industry has overwhelmed many banks, leading to delays in decisions on distressed properties.

A similar level of frustration is being seen in trying to track down Federal Deposit Insurance Corp. employees in charge of managing or selling assets from failed banks, Grant said.

Time issues also affect receivers tasked with selling off an asset. The way the market’s been of late, by the time a buyer is found to pay a court-approved price for a property, the value of the property often has dropped further, causing late negotiations, Grant said.

That requires going back to the court to get the purchase price approved, which can add months to the proceeding, said Grant. It’s often in the best interest of all parties to set an approved sales price up to 30% off the value of a property, just to make sure a deal can be found and completed in time, he said.

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