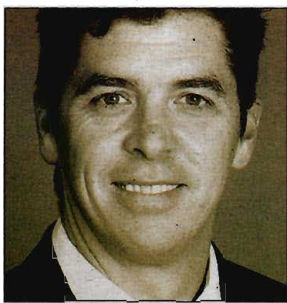


Alternatives for Lenders Stuck With Real Estate



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In today's real estate environment, many banks that were lenders with real estate as collateral are becoming owners of property ranging from raw land to unfinished communities. This new and often unfamiliar role can put severe strain on financial institutions that never intended to be a real estate developer.

There's a simple exit strategy if the institution is willing to unload the foreclosed real estate to the bottom fishers that reappear in every down cycle. But, in some cases, the cost of this strategy can be substantial.

There is an alternative. Lenders can improve and protect their investment until the industry recovers. This may require changing the development plan, finding qualified partners, or reworking the development budget. The first step is to answer some critical development questions.

- Is the asset that we now own the right product for the current market?
- Have we adequately analyzed the costs involved in completing the project versus selling it tomorrow?
- Who is qualified to assist us in moving forward to minimize potential losses or even turn a profit?
- What is the status of the entitlements and other construction contingencies?
- Is the construction phasing consistent with the current market?

In some cases, it becomes apparent very quickly that a specific property is a bad investment and not another dollar should be put into it. What the property really needs is an audit. As with any underwriting project, the information on which it is based must be thorough, accurate, and objective.

Even if the results are disappointing, you now have dependable information on which to make a decision on the disposition of that property.

Even if there are serious problems with a property, all is not lost. There are ways to pull the bottom line into the black. Here are a few, although each approach should be customized to the project:

Change the development plan. A professional evaluation will determine whether the original site plan envisioned the optimal product mix for maximum value, an efficient infrastructure, and strong selling points.

Take a hard look at the existing budget. Does it accurately reflect the true cost to complete, as well as unpaid bills? How recently was it updated? Not only have land and home prices plummeted, construction costs are down 10% in many markets. Refreshing budget numbers regularly can prevent lenders from making costly mistakes.

Find a new development partner. This is not a decision to be made lightly. Changing operators can be a huge headache, so it depends on their performance, cooperation, and ability to change course. Don't forget to look at the developer's other projects when assessing risk.

Work with municipalities. When projects are put on hold, building or grading permits may expire, entitlement efforts may miss deadlines, and bond amounts may need to be lowered. Local governments may be willing to help by waiving fees, granting extensions, or fast-tracking changes.

Lenders today need to obtain a deeper understanding of their property and concentrate on a solution. Should they sell or hold? It depends on many factors, including the bank's financial situation, appetite for risk, and desire to enhance the property's value. There was a property in Nevada that had lost \$30 million in value since 2005. With creative thinking, that project was turned around by changing the product mix and phasing in construction to minimize the time between delivering the product and the revenue event for a projected 15% profit. That's not what the bank originally expected, but it was better than selling the land for a loss.

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