



PACIFIC CREST  
REALTY ADVISORS, LLC

Receiverships and Distressed Asset Management  
Southern California Society of Chief Appraisers  
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# Overview



- **Pacific Crest Realty Advisors, LLC (“PCRA”)** - Seattle-based management consulting firm, with offices in Portland, Northern California and Boise
- **Team** – Seven professionals with combined team experience of 60+ years in diversified RE throughout US
- **Services:**
  - *Asset/Portfolio Management*
  - *Operations Management and Restructurings*
  - *Strategic Advisory*
  - *Receiverships/trustees*
  - *Due Diligence/Underwriting*
  - *Transactional Advisory/Resolution*
  - *Property Management*
  - *Brokerage*
- **Clients** – Any and all stakeholders, including creditors, investors, principals and government agencies
- **Track Record** - Fully integrated service offering platform resolving assets successfully since 2009 (**100+ assets, \$300M in net recovery proceeds**)

# State of Play



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- Bank balance sheets on the mend
- Bank defaults down
- Foreclosures down
- Interest rates low
- Animal spirits abound
- Banks looking to lend
- Election year
- Fortress America
- Stable growth
- Low inflation
- Dry gunpowder
- Lower budget deficits

# So.....What's the problem?!



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- **Pockets of Turbulence** – Even when the economy is humming in the aggregate, sometimes assets suffer locally
  - *Regional Economy* – Employer leaving, new regulations
  - *Demographics* – Shift in make-up of final buyer/user
  - *Consumer* – Change in tastes and preferences
  - *Execution* – bad product, delays, cost overruns
  - *Operator* – Negligence, incompetence, malfeasance
- **Unpredictable** – Despite solid underwriting, these shifts can happen during project lifecycle and even during development cycle
- **Tough to Pivot** – Hard to re-position asset mid-development or turn around business instantly

# Resolution Alternatives



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- **Negotiate** – plead, cajole, threaten
- **Really Negotiate** - NOD, restructure, DPO
- **Foreclose** - ....and hope for exit at trustee sale; otherwise long, unhappy marriage in REO
- **Note Sale** – Speculative and opportunistic investors demand eye-watering discount to par
- **Receivership** – Nowhere left to run

# Receiverships



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- **General vs. Custodial** – broad powers vs. limited
- **Custom/Hybrid** - as decided by court, or through input by stakeholders
- **Agent of the Court** – disinterested, objective third party for the benefit of all creditors
- **Qualified Professional** - applied relevant experience to justify appointment
- **Court Supervision** – oversight, consistent reporting and public filings ensure transparency, no self-dealing or conflict of interest
- **Reliable** - bonded, insured and independent
- **Formal Process** – well-established receivership statutes in several states provide extensive precedent and case law for appointment

# Receiverships



- **Value Impairment** – three types (macro issues, bad operator, asset quality/condition) – can be one or combo of all three
- **Triage** - clearing house for large portfolios
- **Economic Inflection Points** – banks, investors and institutions can become overwhelmed and tend to liquidate everything indiscriminately
- **Outsource** - No in-house infrastructure to handle distressed assets. Too long to staff up and be responsive
- **Untenable Alternatives**
  - Short-sale/restructuring/DPO is no longer attainable
  - REO is not desirable due to complexity and/or liability
  - Note sale is not economically viable due to deep discount.



# Receiverships



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- **Enforcer** - Non-compliant borrower can be defiant, adversarial and possibly sabotage the collateral
- **Debt Collector** – Prevent and even reverse conversion of cash flow due to stakeholders as principal, interest or dividend
- **Liability Shield** – Banks and owners are always viewed as deep pockets
- **Title Repair** - Deliver clean title at COE; remaining liens attach to proceeds
- **Property Manager** – Often in preparation for foreclosure; preserve property, stabilize as needed and redirect rents
- **Developer**– Complete platting and planning process; re-engineer plans and reposition asset to fit current market. Preserve entitlements and plans as needed
- **Public Relations** - Protect stakeholder from bad publicity associated with asset resolution efforts. Often the case with large projects, institutions and operators
- **Operator** – Stabilize business, maximize cash flow and prepare company for sale
- **Investor Mindset** – Manage to highest NPV and be mindful of time value of money. Differentiate between good and bad assets
- **Proven Resolution Strategy** - Efficient and established receivership process monetizes assets faster and with less stigma than trustee sales or REO disposition
- **S3** – Secure, Stabilize, Sell

# Receiverships



- **Small Assets** - (<\$500k) may not benefit due to minimum receivership cost structure as a % of total recovery
- **Simple Situations** – Straightforward workouts and/or worthless assets which do not benefit from value-add strategies
- **Quality Assets** - Finished lots in core areas or existing Class-A product
- **Cooperative Borrower** – Borrower is generally accommodating and liquid

# Case Studies



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- **Macro Case** – New construction; upscale waterfront condos
- **Borrower Case** – New construction, Class-A, mid-rise mixed-use development in desirable downtown location
- **Asset Case** – Defunct golf course, clubhouse and restaurant
- **Operations Case** – Ice Rink/Miniature Golf/Batting Cages
- **Hot Mess** – Incomplete condo conversion of historic building in downtown core

# Myths And Rumors



- **Hard to Appoint** – Since 2009, thousands of receiverships across the country in every jurisdiction and asset class imaginable. Established case law, statutes and best practices continue to standardize and refine the process
- **Expensive** – Receivership fee structure is established upfront with court approval. Ongoing costs are public, transparent and open to objection by any interested party. Excessive billing can ruin a receiver’s reputation quickly
- **Lack of Control** – Receiver works objectively for the benefit of all stakeholders and serves the court. In practice, this ensures the highest NPV recovery proceeds. Stakeholders communicate with receiver directly and express their positions through objections in court.
- **Conflict of Interest** – Receiver is bonded and insured, as well as supervised actively by the court through monthly reporting and additional pleadings related to major events. Easy to discover self-dealing and the consequences are dire.
- **Incompetent** – Lucrative industry attracted many amateurs and tourists during recession. Interview several, get referrals from your attorneys and get references.

# Valuation



- Establishes a baseline for our appointment, drives the entire lifecycle of assets and defines all underwriting, operating and transaction decisions in our line of work
- **Simple Platform** - No black box, no secret sauce, just disciplined methodology applied consistently, understanding that actual value is derived from the realizing the optimal economic utility of the asset, not the model
  - Realistic assumptions
  - Communicate often and manage expectations
  - Integrate new information often
  - Think like an investor because our buyer is likely one
  - Educated seller
  - Avoid gimmicky metrics and models. The most successful investors are operators not quants
  - DCF and a reasonable discount rate assumption is enough. Sales comps not as good as rates of return on alternative investments (stock, bonds, REITS, MLP's, etc.)
  - Timing, context and trends – Anticipate and incorporate market dynamics (regional, national and international) - Look ahead, not behind

# Valuation



- **Asset Value vs. Liquidation Asset Value** – The difference is marketing period
- **Market Value vs. Book Value** – What it's worth versus what it should be worth
- **Actual Value** – Humbles everybody. Ultimately, the market decides and our job is to predict as accurately as possible
- **Exceptions and Exclusions** - Asset specific conditions and characteristics can impact valuation leading to gap in expectations. Discuss with client proactively
- **Anchoring** – Never do it. Ruins credibility instantly
- **Comps/Adjustments** - Always justify comps and qualitative adjustments extensively as these are primary drivers of value. Emphasize local market comps over “similar” areas. Each submarket is specific and analogous comparisons may distort value.
- **Conclusion** – Simplicity, consistency and common sense qualitative/quantitative methodology. Nothing to hide. Complexity conceals incompetence

# Summary



- Receiverships are an effective asset resolution strategy which can maximize recovery proceeds net of fees for a wide variety of distressed and complicated assets
- Qualified receivers can serve many specialized roles to suit each specific asset
- Appointment and administration process is established, standardized and transparent. Fees and scope of work are approved and supervised by the court with input from all stakeholders
- Stakeholders retain a lot of oversight, influence and control throughout the process
- Work with professionals, not tourists. Use referrals and get references
- Effective valuation is simple, consistent and realistic

# Contact Information



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