

# CALIFORNIA REAL ESTATE JOURNAL

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## INVESTMENT

### Distressed Asset Investors Focus On Operating Partners

SAN DIEGO - Investors with funds for acquiring distressed commercial real estate and troubled mortgages are looking not only for assets managers but experienced operating partners to help them handle the properties they acquire, according to a panel assembled by the San Diego chapter of **NAIOP**, the commercial real estate development association, on Nov. 10 at the Marriott San Diego Del Mar.

Mike Van Konynenburg, president of real estate investment banking firm **Eastdil Secured**, said there is a lack of supply for opportunistic investors looking to buy loans and properties from banks and special servicers for commercial mortgage-backed securities, because those entities are pursuing creative means of restructuring maturing or defaulting mortgages. That lack of supply and declines of 35 percent or more in asset values is generating even greater demand for distressed properties and loans, Van Konynenburg said.

"I don't see anything pushing the sales side to take the losses," said Alex Zikakis, president of San Diego-based **Capstone Advisors**.

While commercial real estate prices have gotten about as low as they're going to go, Zikakis said the stalemate between buyers and sellers will last for a while.

With new guidelines for banks to restructure maturing or defaulting commercial mortgages, "it feels like we're going to deal with this problem by pushing it down the road," Van Konynenburg said.

Brian Driscoll of San Diego brokerage **Grubb & Ellis|BRE Commercial** said commercial property sales volume in San Diego County this year is half of what it was last year and the only significant transaction that will be closed by a bank as the seller will be an unnamed asset in Del Mar.

Zikakis said the Federal Deposit Insurance Corp. will sell commercial real estate underlying loans made by banks that have failed, but the regulator will do so at a slow pace. He noted that Minneapolis-based **U.S. Bank** took over **PFF Bank & Trust** of Pomona in November 2008 under a loss-sharing agreement with the FDIC, but the federal agency has yet to dispose of PFF's troubled assets.

Capstone Advisors is looking to enter into joint ventures with the FDIC to unravel distressed mortgages, but with all the limitations on the private partners in those relationships Zikakis said the FDIC is looking more for an asset manager than a co-investor.

Van Konynenburg said he anticipates that the FDIC will move forward with structured partnerships in 2010 and banks will dispose of assets in earnest in 2011.

"I think capital is searching for healthy, valid partners that aren't so burdened with legacy assets that they can't manage the assets," said Doug Wilson, chairman and chief executive officer of the San Diego-base **Douglas Wilson Cos.**, which offers receivership and other asset management services.

Zikakis said investors will be looking closely at who they partner with and they will be willing to pay a premium for good operating partners.

Investors will look for partners who put some of their own equity into acquisitions or partners that allow them to control the investments, Van Konyenburg said.

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