Recaps Abound Througho

New York City—If 2011 serves as any indication, much of the equity generated in the industry this year may well come through recapitalizations. Last year saw a blizzard of recaps—from the SL Green Realty Corp.'s $425.7-million recap of 180 Maiden Ln. with developer the Moinan Group, to Keystone Property Group's $23.8 million recap of Sentry Park West in Blue Bell, PA.

CBRE's Darcy Stacom says that "last year more than 50% of the volume was recaps." She adds that she anticipates that 2012 could bring much of the same. "Before when we brought out a couple of the recapitalizations in a brokered format, people were pretty surprised," she says. "Up and until then, recapitalizations had occurred when a partner would say to an operator, 'I want to be bought out'. The operator would then go run the auction to find a new partne the existing part in a lot of insta something left to just go out

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Another Year of Uncertainty... Or Opportunity?

Shifting economic winds continue to hamper the recovery, but the obstacles aren't insurmountable

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Restructure Ownership Without a Foreclosure

You have a great development, a great developer, but too much debt—a relic of boom times—with no hope of finishing the job and having it make economic sense.

Not long ago, this combination would have pointed straight toward foreclosure, litigation and a multi-year disaster. More recently, struggling developers, cash-rich investors and realistic lenders have worked out a better solution.

By Joshua Stein

The investor, perhaps with a new lender, buys into the deal at a price that makes sense today. Most of that new money goes to pay off the undersecured original lender at a discount. The rest goes to critical vendors and restarting the project. The developer stays in, with a monthly development fee for their expertise, attention and name recognition value.

If the project succeeds, the new investor gets their money back with a return. Once the return exceeds a certain level, the original developer starts to see some upside. And if the project becomes a huge success, the original developer could see a substantial upside.

When these transactions work, everyone wins, at least as against the alternative. Many moving parts must come together, though. And it won't necessarily happen with the perfection and certainty that major commercial real estate transactions often require.

The developer must negotiate with the new investor and the lender at once, showing enough cards but not too many. If the developer controls some unencumbered piece of the project—e.g., the parking garage in a mixed-use development—it can make a huge difference.

These transactions often involve time constraints, because other solutions have failed and the lender has announced an ultimatum. The investor may need to reach an agreement with the lender before the developer, or vice versa. Even with all the time in the world, the investor probably couldn't fully understand all the mysteries of the project, given its state of suspended animation, perhaps even chaos.

The investor must ask about the developer's "old investors," if any, in the original deal. Do they get a piece of the "new deal"? If they don't—but should have—this could become the "new" investor's problem. The investor can't leave it to the developer.

The developer will need to accept a "back seat" in the restructured project, but will want to know it still plays some type of role and that if the project succeeds, the developer will in fact see some upside.

The developer shouldn't have tax problems, either, but the resolution of the developer's loan can produce income, which must match up with the developer's loss. The tax details can become both crucial and tricky.

In contrast to the developer, if the lender takes a loss, the lender might not want the developer to have any future upside, unless the lender gets some too. The developer might intuitively try to solve that problem by hiding the ball, but that usually turns out badly.

If all parties approach the situation realistically and practically—without too much emotion—and work together, they might solve the puzzle and put together a restructuring that works for everyone.

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Vital Signs... New York City's 2012 job growth could be 43% smaller than projected just three months earlier.—*Independent Budget Office*