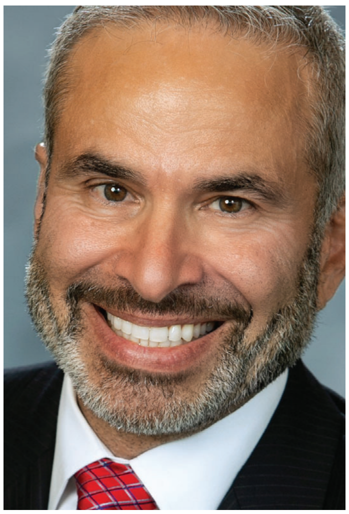
The New York Times

Square Feet

Distressed Real Estate Market Beckons Opportunistic Buyers

Investment firms are sitting on “a staggering amount of dry powder” as they wait for big property discounts brought on by the pandemic.



“This is not a problem that will be fixed only by highly available, low-cost capital,” said Mr. Vigon, who has $300 million in equity to spend. “This is a different kind of dislocation. It’s greater, and it’s deeper.”

By Joe Gose

May 26, 2020

Hoping to take advantage of wreckage in the wake of the coronavirus pandemic, investors are preparing to snap up commercial real estate at rock-bottom prices.

Indeed, how the virus is shaping consumer and business attitudes toward commercial real estate should be a question uppermost in the minds of distressed buyers, said Carlos A.G. Vigon, Paxcap Investors CEO a commercial real estate private equity firm in Los Angeles.

Coming out of the last downturn, investors that found deeply discounted properties profited by simply riding the recovery, said Mr. Vigon, who last year started PaxCap Investors to focus on opportunistic deals. Buyers in this new real estate cycle must calculate potential costs to redesign or upgrade properties to fit new societal and health norms.

“This is not a problem that will be fixed only by highly available, low-cost capital,” said Mr. Vigon, who has $300 million in equity to spend. “This is a different kind of dislocation. It’s greater, and it’s deeper.”

Long before states and cities closed businesses and issued stay-at-home orders, many real estate funds were stockpiling cash and waiting for a buyer’s market. Some have raised billions of dollars in the last several weeks.

“It’s a staggering amount of dry powder,” Mr. Weill said. “Institutional investors are defensively looking after their own portfolios, but they’re beginning to look around for opportunities.”

This is the second time in the last dozen years that investors have anticipated an onslaught of big property discounts; the 2008 financial crisis also fueled a surge of distressed funds. Yet many that ramped up during the Great Recession fizzled because the expected depth and breadth of distress never materialized.

Will this time be different? Just like the last crisis, when government intervention, loan modifications and other measures “kicked the can down the road” until real estate values rebounded, lenders and regulators hope to buy time using similar measures, including injecting trillions of dollars into the financial system.

In many cases, lenders are trying to accommodate borrower requests to suspend loan payments for 60 to 90 days with an eye toward making long-term modifications later, said Jay M. Sakalo, a lawyer in Miami who specializes in financial restructuring.

As of April, more than 5,000 borrowers, representing 17 percent of $583.8 billion in commercial mortgage-backed securities, had asked to explore forbearance or other relief, according to credit rating firm Fitch Ratings. Unlike loans held by banks and insurance companies, commercial mortgage-backed securities are pools of real estate loans that are carved up by risk and sold to investors.

“The idea is that if we can press pause, we’ll do less damage than telling borrowers, ‘You have to pay, no matter what,’” said Joe McBride, head of commercial real estate finance for Trepp, a research firm in New York. “There’s not a lot of upside to mass foreclosures.”