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2160 North Central Road, Suite 308 / Fort Lee, New Jersey 07024 / 201.894.5000 / www.palfi.net

the revenge of the asset manager

WRITTEN BY WILLIAM "BILLY" PROCIDA PRINCIPAL AND CEO



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THE REVENGE OF THE ASSET MANAGER

No longer will originators who gave developers all the money they needed at little cost rule the industry; in fact they may soon find themselves out of a job. Developers with poor implementation skills will no longer get bailed out by ever increasing market prices or rescued by the next more aggressive lender to finance their over runs because they are not out there. With the market in turmoil and numerous projects in trouble, high ranking executives will now get intimately acquainted with their asset managers.

Long overlooked in the past decade when a developer could do no wrong, asset managers are now the most important part of the firm and the only chance for an investor/lender to get their money back.

Thankfully, sanity seems to have returned to the real estate industry. Before a more rational market takes over, the industry must focus on completing what's in the pipeline and moving that product. Therefore, developers must face the reality and lenders and investors must be ready to step in.

This period will require asset managers to rise to the occasion. And rise they must, out of their office and into the battlefield.

So, if you're an asset manager who has to deal with the complexities of a weak market combined with cost over runs and an undercapitalized developer here are a few tips:

1. Re-underwrite the deal—Go back to the original underwriting. Know what the original break even and completion dates were, and know the sources and uses of capital. If you have supplemental collateral or are depending on a guarantee, check it all out as diligently as your primary asset. Values and balance sheets change. When dealing with approved land be sure that those approvals have been maintained and can be assigned to you. Developer's balance sheets are eroding rapidly so know what they look like now and how they derived value.

Whether you know it or not, if you're an investor in real estate and/or an asset manager, you're in a battle. If you treat it as such no doubt you'll survive and prosper. In a battle, those who treat it like business as usual won't be as lucky.

2. Do a Balance to complete analysis—No doubt you will find that there were hard cost overruns, schedule delays and absorption is slower than expected. This will result in more capital being needed. Look carefully at your soft costs. Scheduling delays and slower absorption lead to more interest and carry and more money for advertising and sales. Meet your contractors and subcontractors, know all the issues to get your job to a Certificate of Occupancy, fully warranted and punch listed.

Impute all hard and soft costs on a spread sheet to show all expenses by month to get to your total cost. Superimpose on the top line a reasonable expectation of absorption and sales, this will adjust your interest and carry to a correct projection.

3. Understand the Problems. Like a private detective, talk and meet with everybody. Information is power, but direct relationships with

those who have the information make you extremely powerful. At midpoint in a project everyone is battle scared, show that you care, that you are there to help and you need them. Do that and they'll perform for you. Speak to all the people (not just executives) including laborers, mechanics, sales people, architects and engineers. Don't forget your plumbers and electricians, because without them you'll never get a Certificate of Occupancy.

If you are mezzanine or equity, do not count on the senior lender to monitor the project. They rarely re-underwrite and often overlook soft costs. If your senior loan is a construction loan, get on that lender's inspection schedule and build a rapport with their inspecting engineers. These situations require the senior lender to be as diligent as you would be. In the event the senior lender over-funds, realize that your project, collateral and overall basis will be compromised. Remember you're the one giving them credit support.

4. Find out where the money is coming from? If you are a mezzanine or equity investor and your developer/operating partner cannot put up money, it now becomes your responsibility. However, when providing additional capital remember you need ball control. This is your last shot at recouping your investment, so your money must be spent wisely. Developers, even with a gun to their head, don't easily relinquish control. And keep in mind, if you take control you must be properly

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Billy Procida is the founding principal and CEO of Palisades Financial, LLC. Mr. Procida entered the industry as a general contractor in 1980 and quickly evolved into a developer. His first restructuring / asset management assignment came at age 20 at 181 Hudson Street in 1982 for Morsemere Federal Savings & Loan. The project was in default following demolition and Mr. Procida took over the 6 story gut rehab mid-construction, removed the developer, replaced the general contractor and finished construction through the sales process. Morsemere would eventually fund his first development project called White Beach Condominiums and Marina in Throgs Neck, NY. This was also a restructuring where Mr. Procida purchased the property from a private developer in bankruptcy. It was redesigned completely, a marina and boardwalk was added and the project was a success. The project was the subject of many articles including New York Magazine dubbing him, "Boy Trump" in 1985.

From 1980 to 1994 the firm which he was co president of grew from a staff of 5 to over 100 with development, construction, and real estate brokerage divisions. By 1994 the firm had achieved awards including NYC developer of the year (now know as the Fred Trump Award) and ranked in the prestiges ENR top 400 Contractors list and the Professional Builder 400.

In 1995 he founded what is now Palisades Financial. Palisades's first client, Riverbank America, had numerous troubled assets. Palisades Financial acted as workout advisor on many troubled projects in the tri state area but most notably took the reigns as developer of Shorehaven which involved every skill set of restructuring, repositioning, construction and sales (right down to appearing in the ad campaign). Since 1995 Palisades Financial has grown into an investment banking and advisory firm specializing in enhancing property value by providing advice, management, and capital or all three. Palisades has also been providing fund management services for the Palisades Regional Investment Funds I and II. The firm has completed several billion dollars of projects in over 20 states of all asset classes.

Procida has been the subject of or provided his opinions on real estate in hundreds of articles televised interviews and has lectured extensively at universities and different business associations. He also serves on the board of several charitable organizations.

prepared and staffed. Taking over and building out projects will be a reality for many mezzanine lenders and equity players to recoup all or part of their investment.

Be prepared to defend your position and be aggressive in utilizing your loan documents and operating agreements. Go legal early and hard. You can always slow down or stop the process, but remember to always keep talking to your developer and touching them. The more you interface with them the better the chances of coming to a resolution. This approach is far quicker and less costly than the judicial system. Also, keep in mind the developer/operating partner you are fighting with probably has other fights as well. Ongoing lien and litigation searches will reveal this. You need to know who the other suits are with and determine how they help or hurt you. Who is your friend and who is your enemy? The old adage, "my enemy's enemy is my friend," is not always applicable.

Know the status of your borrower's/partner's other projects, what their status is and who their lenders are. The other old adage, "information is power," is never more appropriate than in a restructuring.

5. Whether you're mezzanine lender, or equity, make friends with the construction lender.

Construction lenders are rarely as diligent as mezz lenders for good reasons. It's the mezz lender that gives them credit support. They often rely solely on their consulting expenses for construction progress payments, so get on their schedule and get copies of their reports. Enlighten them to "balance to complete" issues. You both need each other to get out of this, so if you're a construction lender, work with the mezz guys to make them your friend, not your enemy.

6. The Wild Card – Sales or lack there of. Comb the market regularly because it changes every month. Your developer, most likely, is not pricing right or giving enough incentives. Velocity is key. Holding out for bigger dollars increases interests, carry, security, property management, advertising and sales overhead. Don't be greedy, move product. Make sure you have a healthy enough advertising budget and are working with a good ad agency and public relations firm. Know your sales force. Evaluate them and make sure they are the right people, and give the right presentation.

7. Morale is a key Part of Asset Management. Another key thing you are responsible for is morale. Morale is a huge issue. By the time you get to this point everybody is battle scarred and worn out. You must be able to instill confidence in your troops that you can lead them to the "Promised Land" (and get them paid with their dignity and reputations in tact).

Good asset management, particularly in restructuring, requires you to be on the ground face-to-face with the people who are going to get your money back. Remember you are not doing any work yourself and are depending on them. Touch them, engage them, feed them, humanize the relationship and it will reap significant rewards. One thing though, while you are not doing any of the work, you are making all the critical decisions and controlling the checkbook. You must be intimate with your asset. It lives, breathes, changes, and will suck you dry if you are not timely and informed. Remember every day is urgent. Don't under staff either, you'll pay for it later, internally you must be able to handle key disciplines including cash management, construction/ approval supervision, and marketing supervision.

In Conclusion, be armed with information, both current and historical, about the project or land parcel. Make sure you know the documents and use them aggressively, touch and see everyone and everything involved with your investment, including adjacent markets. In addition, know everything about your borrower and partner, make a lot of friends on site, be decisive, and take the pain once to re-budget and reschedule. One final tip, be accurate, —it's key.

Whether you know it or not, if you're an investor in real estate and/or an asset manager, you're in a battle. If you treat it as such there is no doubt you'll survive. Those who treat it like business as usual won't be as lucky.

Finish your building/approvals then promote like P.T. Barnum, but lead like General Patton.

Whether you know it or not, if you're an investor in real estate and/or an asset manager, you're in a battle.