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LNR unloads troubled CMBS loans at a nationwide auction

Premium content from South Florida Business Journal by Brian Bandell, Senior Reporter

Date: Friday, December 16, 2011, 6:00am EST

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Miami Beach-based LNR Partners' nationwide auction of securitized commercial mortgages in October caused more than a dozen local properties to change hands the following month.

The auction also largely caused the number of liquidated commercial mortgage-backed securities assets and their dollar value to soar to new national highs in November, as measured by analysis firm Trepp LLC.

There was a \$2.1 billion balance of 218 CMBS assets liquidated last month, Trepp's numbers showed, while the average asset liquidation has been \$1.07 billion a month over the past few years.

Trepp's data showed there were 16 South Florida loans and repossessed properties held in CMBS trusts liquidated in November. Most of them had LNR as the special servicer. That totaled \$198.1 million in unpaid mortgage balances unloaded, for a combined \$122.5 million in losses for the CMBS trusts.

The Auction.com brochure listed 40 local properties with a total unpaid balance of \$240 million. It appears that some of them did not sell or were in the process of closing before November ended.

LNR officials did not respond to a request for comment.

The nationwide loss to CMBS trusts from November sell-offs was 51.3 percent. But it was worse in

South Florida, at 61.8 percent.

The lender losses here ranged from 37.8 percent off an \$8 million mortgage for the Store Room in Pompano Beach to 96.4 percent off a \$38.5 million mortgage for the Cascades apartments in West Palm Beach. The transactions include sales of both repossessed properties and loan notes, all of them past due on payments, but only some of them facing foreclosure.

Todd Rosenberg, a principal with Boca Raton-based **Pebb Enterprises**, said he saw 60 Florida assets listed on the LNR auction and actively bid on nine of them. His company won the bidding on the Sabadell United Bank and Horizon office buildings in West Palm Beach, and it acquired the lender-owned properties for just under \$15 million. Rosenberg said Pebb would invest in improvements to the common areas in the buildings.

"There were definitely some decent discounts you could get from what the note balance was, but that doesn't mean you are getting a discount on the market value," he said. "The original notes were issued way above what they should have been. The markets couldn't support rents to cover the debt service on those mortgages."

Before bidding on a property, Rosenberg said it's important to perform underwriting and determine what the current market rents should be. The new rent levels offered at the buildings that traded hands at auction would have a significant impact on the rental market, he added.

Pricing may not affect appraisals

Rosenberg does not believe that the prices the LNR auction deals fetched would impact appraised values because the conditions at auction, such as little due diligence, are not comparable to regular real estate sales. Plus, purchases of loan notes are more risky than property acquisitions, he added.

Miami Lakes-based **LeaseFlorida** acquired the \$6.9 million mortgage on the Coco Centre shopping plaza in Margate at the LNR auction in a deal that resulted in a 43 percent loss to the CMBS trust. Trepp listed the borrower as delinquent, but no foreclosure action has been taken.

LeaseFlorida co-owner **Alan Wasserstein** said he would either get the borrower to cure the default or seek a foreclosure on the property. His company had multiple bids at the LNR auction, winning one.

"I would definitely participate in another auction," **Wasserstein** said. "It's a positive thing because you need to let the market correct itself."

Other winning bidders at the LNR auction that closed on South Florida assets included Miami-based Tate Capital, Palm Beach Gardens-based Ram Realty Partners and San Antonio-based **The Lynd Co.**

Due in great part to the 16 properties liquidated, the CMBS delinquency rate for South Florida declined to 9.4 percent in November from 10.7 percent in October, following a record high of 13.4 percent in June. That reduction was also aided by some successful modifications of loans that were previously listed as delinquent, such as the Douglas Entrance office building in Coral Gables and the **Bank of America** Building west of Boca Raton. Other previously delinquent CMBS loans were

repaid in full due to refinancing or property sales.

The CityPlace mixed-use center in West Palm Beach and the Shore Club hotel in Miami Beach are the largest delinquent CMBS loans in South Florida, according to Trepp. Both properties have foreclosure lawsuits pending against them.