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Lenders Try Unloading Troubled Loans

By Polyana da Costa of GlobeSt.com

Wednesday, February 18, 2009 - Commercial real estate lenders continue to sell mortgage notes at deep discounts as they try to raise cash and unload potentially troubled loans. The latest investor to take advantage of the distressed financial market is Boca Raton-based Ashkenazy & Agus Ventures, which bought a $139-million mortgage secured by the Downtown at the Gardens mall in Palm Beach Gardens.

The mortgage holder, insurance giant TIAA-CREF, sold the note for about 35% of its original principal, or about $48 million, according to sources who asked not to be named. Blair Lee of Ashkenazy says the company bought the note at a discounted price but did not disclose how much was paid.

Ashkenazy & Agus, a real estate company with holdings throughout the country, is led by Izzy and Michael Ashkenazy and Jonathan Agus. Downtown at the Gardens is owned by Institutional Mall Investors, a company co-owned by Skokie, IL-based Miller Capital Advisory and the California Public Employees Retirement System, or Calpers, the second-largest US pension fund.

Andrew Miller, CEO of Miller Capital, says the note acquisition does will not affect the company's ownership of the mall, adding that the mortgage is not in default. The joint venture bought the mall in 2007 for more than $200 million from Palm Beach Gardens-based Menin Development, which developed the mall in 2004.

TIAA had issued the 10-year, fixed-rate loan to Menin in 2006. The joint venture assumed the loan with the purchase in 2007. At the time, commercial property values were not expected to decline and retail properties were not yet suffering with rising vacancies as they are today.

The 340,000-square-foot mall, on about 35 acres along PGA Boulevard and east of Interstate 95, has been hit hard with the loss of several tenants. One of the latest departures was the restaurant Rosa Mexicano. Tenants in the mall include Cobb Theatres, Whole Foods Market and Cheesecake Factory.

Pompano Beach-based Deepwater Advisors represented TIAA in the sale. The company is headed by Doug Smith and Ed McEnery. "TIAA wanted to get [the loan] off their balance sheet for internal reasons," Smith says, declining to give further details.

Adam Lubkin of IBIS Development Group, a consultant who has been working with developers seeking to buy distressed assets and loans, said he helped Ashkenazy with the deal. Lubkin declined to provide details on the acquisition.

The property is not in foreclosure and there is no indication in public records that Mall Investors is in default. The note sale "is not necessarily a sign that a property is in foreclosure or in default," Lubkin says. "A lot of financial institutions are in need to raise cash to pay investors and they need to shed assets."

Lubkin says he is not aware of Ashkenazy & Agus' plans but it has many options. "In a case like this, it's very difficult to go wrong with it because the lender has already taken the haircut for you," he says. "They could hold the note long term. They could sell it and make a quick profit. Or if it ever gets foreclosed on, they will own a property that is worth much more than what they paid for the mortgage."

Lubkin, a longtime real estate investor, says he recently formed his consulting company to assist potential buyers of distressed assets after realizing the credit crunch and the slow down of the commercial market would spur a wave of acquisitions of discounted mortgage notes. These type of deals will become increasingly common until the market stabilizes, he says.