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LNR plans $1 billion CMBS offering

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LNR Property Corp. plans to offer $1 billion in small-balance commercial mortgage-based securities (CMBS) loans, and Miami-based commercial investment house Steelbridge Capital is among the interested buyers.

File photo
Gavin Campbell, of Steelbridge Capital in Miami, is eager to review LNR's $1 billion CMBS portfolio offering.

Steelbridge's Gavin Campbell sold assets with a gross value of about $600 million during the commercial boom of the last few years, and is eager to review Miami Beach-based LNR's upcoming commercial buffet. The $1 billion loan portfolio would be the largest a special servicer has offered for sale.

"We are happy to finally see liquidity on the sale side," Campbell said. "It's hard to find market-priced assets of any quality."

The CMBS market has suffered myriad problems during the economic slowdown, as the value of underlying assets has dropped. The upcoming sale could start to resolve some of those issues and potentially clear the way for better times in the commercial mortgage and real estate field.

Sources familiar with the expected offering said the loans tied to the assets will probably not exceed $5 million. That likely translates to small office buildings, shopping centers and other commercial assets with problems like significant vacancies.

Steelbridge, which brought in former Cushman & Wakefield commercial broker Jay Caplin as it geared up to buy and manage distressed assets, is bankrolling potential purchases through existing capital. It's also looking to raise a total of $500 million from a combination of institutional and high-net-worth investors.

Industry experts say the portfolio will be shopped to Starwood, which recently bought TOUSA real estate out of bankruptcy. The portfolio's marketing, handled by Eastdil Secured, will also likely include opportunity funds like Norwalk, Conn.-based GE Capital and Los Angeles-based Colony Capital. Calls to LNR and several potential buyers, including Starwood, were not returned.

LNR manages about 30 percent of all loans in special servicing – a total balance of $20.2 billion. It is looking to jettison some of the high-maintenance, low-yield assets it is servicing because it has determined a workout is not possible or too cost-intensive for its own bottom line, said Tom Fink, managing director of CMBS tracker Trepp LLC.

LNR, like all real estate-centric companies today, is struggling to recalibrate in a down market. The company makes money in a few ways: it invests in the riskiest parts of CMBS loans and generates fees from operating as special servicer on CMBS loans that are in danger of defaulting or have defaulted. LNR can make 25 to 50 basis points from special servicing alone, and about 1 percent of the liquidated loan from workouts, according to Commercial Real Estate Direct, which reported on the $1 billion portfolio.

Lazard Ltd. helps LNR

LNR recently brought in advisers to help with $1 billion in debt restructuring and to prepare for a possible bankruptcy. Helping LNR weigh its options is Lazard Ltd., while law firm Dewey LeBoeuf LLP would handle the possible bankruptcy reorganization.

LNR's problems are a blow to the reputation of New York-based Cerberus Capital Management LLP, which has already stumbled with investments in Chrysler Corp. and GMAC, and lent money to Deerfield Beach-based Boca Developers. Cerberus took LNR private in a $3.8 billion deal in 2004 – four years after LNR was spun off by Miami-based homebuilder Lennar Corp. (NYSE: LEN). Entities controlled by Lennar CEO Stuart Miller and LNR management also took stakes in the buyout.

LNR's problems are yet another major issue for the nation's commercial real estate market, which is already suffering from rising vacancy rates, downward pressure on rents, and falling property values.

Companies like LNR may have thought they did everything right – making the right investments and reasonably accounting for risk – and still be upside down because of variables such as declining values and rising cap rates.

Paul Jones, president of Pyramid Realty Group in Coral Gables, which underwrote CMBS loans for LNR, said LNR is likely in need of cash because of the high volume of money and resources it is expending to service troubled CMBS loans.

Defaults of South Florida properties tied to CMBS lending accelerated in the fourth quarter as aggressive loans made during the boom years went sour.

CMBS delinquencies rise

According to data provided by New York-based Trepp, South Florida had $1.38 billion in delinquent CMBS loans, representing 8.67 percent of all South Florida CMBS loans, on Dec. 31. That's up from $872 million in delinquent CMBS loans, or 5.44 percent, on Sept. 30.

The national CMBS loan delinquency rate was 6.07 percent at year-end.

Trepp flagged $3.84 billion in South Florida CMBS loans on its watch list, meaning that weakness in the borrower or property could lead to a loss in value on the loan.

One of the more recent defaults involves the iconic Shore Club hotel in South Beach, which, the Business Journal reported, has been hit with a foreclosure lawsuit. (See story, page 6.)

With 309 units and eight bungalows priced from $400 to $3,500 a night, the hotel is one of the most expensive in South Florida. But, the beachfront Shore Club, at 1901 Collins Ave., was not immune to the commercial real estate meltdown.

On March 3, the representative of a CMBS fund serviced by LNR, filed a foreclosure action against hotel owner Philips South Beach, according to public records. The complaint seeks more than $126 million in damages.

Dennis Carson, a senior VP in the retail division of CB Richard Ellis, said the role LNR is now playing in the portfolio is ironic because it was a buyer of troubled assets in the past. He expects more special servicers to put portfolios on the market in the coming months.

“We are very long way from reconciling the debt issue,” he explained. “We are talking about a cycle that has four or five or six years. Loans made in ’05 and ’06 and ’07 are five- or 10-year loans. We could literally be dealing with them in 2017.”