



Low e Enterprises

Real Estate Workout Services

Recently, *Geoffrey Dohrmann*, publisher and editor-in-chief of *The Institutional Real Estate Letter – North America*, spoke with **Brad Howe** and **Bleeker Seaman** of *Low e Enterprises*. The following is an excerpt of that conversation.

Dohrmann: *The current economic cycle has prompted a lot of firms to enter the workout business. But Low e has a history in real estate workouts, doesn't it?*

Seaman: Yes, Low e has been in business since 1972, through five real estate cycles. The company has been active in the workout business for that entire time and has executed over \$3 billion in workout assignments on behalf of lenders and institutional investors. Our primary office is located in Los Angeles and we have regional offices in Northern California, Denver and Washington, D.C.

Dohrmann: *Even in good times, Low e has been involved in workouts?*

Howe: The volume of assignments ebbs and flows with the general health of the real estate markets, but even in the good times, there are troubled investments that require some creative solutions. We completed a few significant asset workout assignments earlier this decade, one in Shanghai, China, and the other on a large conference resort in the Southwest United States.

Our value-added investments have called on many of the same project-level skills that we employ in our workout activities. The same ability to assess an asset and see the value that is sometimes hidden in mismanagement, disrepair or ownership issues comes into play whether we are working out an asset for an owner or adding value to an asset for an investor. Given the depth and breadth of our investing experience, Low e brings a unique fiduciary mindset to workout assignments with our clients.

Dohrmann: *So your value-added investment business has kept you active in thinking like a "workout manager" as well?*

Howe: While many of the skills required are similar, in a workout you need to overlay the optimal real estate solution with the objectives and constraints of your client, for example, whether or not they are in a position to further invest in an asset, their timing and overall objectives. Often a workout client will initially indicate that their objective is to liquidate a property as quickly as possible. However, when they realize that market conditions are depressed and the net proceeds from selling quickly are significantly below the levels that the asset would earn in a normalized market, they oftentimes reconsider and focus on determining the most efficient way to operate the asset in order to maximize recovery over some period of time. The key is that you start



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Bleeker Seaman is a managing director of *Low e Enterprises Investors* with shared responsibility for oversight and management of the firm's investment management business. He is chairman of LEI's Investment Committee and oversees portfolio management, accounting, operating company administration and client services administration for the firm's investment clients.

with identifying the client objectives and develop a plan to meet those objectives as efficiently as possible.

Dohrmann: *It has been a long time since we've needed workout services. Are those professionals still around at Low e?*

Seaman: Many of the key senior professionals that executed the large workout assignments Low e completed in prior cycles are still a part of our executive management team. Bob Lowe, Phil Peters, Bob Weekley, Jim DeFrancia and many of the other principals at Low e have extensive workout experience. In addition, Low e has more than 225 professionals throughout the firm with a wide range of experience and talent. Our approach to workout assignments is to first leverage the experienced workout talent we have, then to utilize many of the experienced real estate professionals throughout the firm to develop and implement specific asset plans. If an asset requires very specific expertise, we may leverage our industry relationships to ensure we have the best people on our team to solve the unique problems any specific asset or situation may require.

Dohrmann: *What types of properties have you been involved with over the years?*

Howe: Many of our prior workout assignments have been large portfolios of real estate or loan assets with a diversity of product types and regions. Prior workout assignments have included large trophy office assets, mixed-use assets, condominium projects, large tracts of residential land, and complicated resort and hotel properties. Our workout

assignments and experience have spanned all significant real estate asset classes in locations throughout the United States. Through Lowe's wholly owned hospitality subsidiary, we currently manage 33 hotels in major U.S. resort and urban markets and can provide tailored hotel advisory and management services to third parties.

Dohrmann: *How does Lowe Enterprises approach a workout situation?*

Seaman: Our approach to workout assignments is multi-phased. Depending on the client and situation, a workout assignment may include only an initial review phase or may encompass an implementation and disposition plan. In the first phase we work with our client to clarify their objectives for an asset, or a portfolio of assets. We review the current property operations, financial performance, market conditions and competitive properties. We evaluate the recapitalization and financial restructuring options that are available. We prepare a quantitative and qualitative analysis of the primary options that are available and recommend a course of action to our client in a written report. The second phase is the implementation phase. This phase requires hands-on oversight of the problem assets and may involve some level of project repositioning, development, etc. The third and final phase is the disposition phase where we evaluate timing, position the asset for sale and manage the sale process, which usually involves a third-party sales agent.

Dohrmann: *How do you define success in a workout assignment?*

Howe: We define success as our ability to use our real estate skills, creativity and broad experience to come as close to achieving our clients' objectives as market conditions and other constraints permit. Maintaining a close dialogue with our clients and fully understanding and meeting their objectives throughout a workout assignment are critical elements of success for Lowe.

Dohrmann: *So you have the experience, what else do you think differentiates Lowe from other firms seeking workout business today?*

Howe: As we touched upon earlier, Lowe is differentiated not only by the firm's deep history in real estate workouts and repositionings, but also by our vertically integrated real estate platform, which offers broad expertise in real estate development, ownership, management and investment. The client orientation we bring to our investment business allows us to deliver fiduciary-focused and institutional-quality advice and execution to our clients.

Dohrmann: *What do you think is different this time around?*

Seaman: The primary difference that we see in this cycle versus, say, the early 1990's is the complexity of the real estate financing landscape and, particularly, the participation and syndication of real estate lending exposure. In past cycles, workout providers and advisers would have discussions with one lender or a handful of lenders on a given asset or portfolio. In today's environment, the syndicated and securitized nature of the real estate debt capital markets complicates matters and can make gaining consensus and common objectives among various parties involved in a transaction very difficult. Additionally, the

severity of the credit contraction and the resulting value erosion in this cycle has left many projects and assets without equity and many lenders are presently unable or unwilling to take back properties. In the current environment, the lack of capital has put lenders in a cycle of loan extensions and modifications.

Howe: I would add that the equity ownership is also more complicated in this cycle. For example, many of our investor clients are involved in multiparty funds and equity syndicates that add a level of complexity to the decision making process. Any workout that needs to be done on an investment that they have made requires a plan that can be supported by most, if not all, of the investors. Oftentimes, the equity investors have trouble making consensus decisions and need an independent adviser to look at their investments and help them develop a plan of action.

Dohrmann: *What advice do you have for owners and lenders struggling with troubled assets?*

Howe: Clearly, the magnitude of the troubled loans and assets in this real estate cycle will be overwhelming to even the largest financial institutions. We believe that partnering with firms that have real estate workout experience and capabilities will be critical for owners and lenders to successfully work through issues and maximize value for complicated assets and portfolios. Additionally, engaging an unbiased third party that can help achieve consensus among investors or lenders can be a critical step toward a set of solutions for troubled assets. We believe that this will be a difficult and protracted real estate recovery and that partnering with the right workout firm in select situations will be a critical step towards maximizing value recovery.

Seaman: In addition, the world has obviously changed dramatically over the past 24 months. Many institutional investors committed capital to projects and funds that may be facing significant difficulties. Some General Partners are under tremendous strain and investors may need to evaluate alternatives. We believe our experience as an investment manager and workout services firm positions us well to evaluate alternatives, provide advisory services and execute implementation plans on behalf of institutional investors. ❖

CORPORATE OVERVIEW

Lowе Enterprises Investors (LEI) manages in excess of \$3 billion of investment on behalf of institutional and individual investment partners across a broad range of property types in both equity and debt. Since entering the investment advisory business in 1989, the firm has become a recognized leader in value-added commercial and hospitality investments. The firm's registered investment adviser, Lowе Enterprises Investment Management, LLC, is a division of LEI.

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