

Don't bring the house down: Realize the most from your real estate acquisitions

No matter what kind of business you own, chances are good that your assets include real estate. And as many business owners discovered during the recent economic downturn, real estate issues can drag down your entire company in a hurry.

"Everything we're seeing now has a real estate element to it," Commercial Recovery Associates partner Bob Handler says. "They're some of the most complex issues business owners have to deal with."

Commercial Recovery Associates has worked to resolve large-scale real estate issues for several clients recently, including a property management company based in rural Illinois. Two family-owned businesses merged several years ago to form the company, which originally focused on rental housing for college students in Illinois.

After the merger, the company diversified into new geographical markets, buying apartment buildings across the country. The business also tried to expand its prospective pool of renters by marketing its apartments to non-students as well.

The company's portfolio grew to include 600 units, but managers soon realized they'd gotten in over their heads. Since many of the properties were out of state, the company had trouble keeping tabs on its local employees, and many of the sites were not maintained properly. When Commercial Recovery Associates came aboard, one of the company's 16-unit buildings had just one tenant living in it.

In addition, the company refinanced many of the properties at the market's peak, and most had fallen significantly in value since then. The company also had relied on lenders' appraisals to determine the value of each property instead of conducting its own appraisals, and some of the refinanced values were overstated. Multiple lenders had claimed liens against the properties, and internal strife at the company made matters worse – the two families that owned the original businesses were suing each other, and more than one key executive left the organization.

"It was a complicated mess," Commercial Recovery Associates partner Alan Friedman says. "Everyone had different ideas about how things should work out."

Commercial Recovery Associates became the receiver for the business' holding company, and immediately began "a triage process," Friedman says. A few of the college-student rental properties near the company's rural Illinois home base had continued to do well, and Commercial Recovery Associates was able to salvage them. The remaining properties, which included most of the company's out-of-state buildings, were turned over to various lenders.

The company's experience underscores the importance of understanding the market before you acquire real estate, Friedman says. While the company had successfully rented apartments to college students in Illinois, it didn't do its homework before branching out into different geographical locations or marketing to new renters who had different standards for their housing.

"The lesson here is to concentrate on the areas that you know," Friedman says.

Whether you're thinking of buying property or facing real estate woes, professionals with real estate expertise can appraise the property and navigate the transaction to ensure you get the most bang for your buck.