

DEAL OF THE WEEK

SEPTEMBER 28, 2011

Web Speeds Up Loan Sales

By MAURA WEBBER SADOVI

The last time lenders were forced to unload an enormous volume of distressed real-estate loans was in the 1990s, when interested buyers had to go through a time-consuming and often-opaque process with dozens of institutions.

Now they have the Internet. As banks put an increasing volume of commercial real-estate loans up for sale—both distressed and performing—many are turning to online auction services and virtual "data rooms" to sell the smorgasbord of debt on malls, office buildings and apartments.



CoStar Group

A note on Parkhill apartments, above, and another Griffin, Ga., complex is to be sold for about \$800,000

Take the case of the Grandview and Parkhill apartments, both two-story brick apartment properties outside Atlanta in Griffin, Ga. [Synovus Financial Corp.](#) put the \$1.3 million loan it held on the properties up for sale on [www.renaissancecompanies.com](#), along with hundreds of other properties, during the summer, say people familiar with the deal. Radco Cos., a real-estate company in Atlanta, is expected to close on a purchase of the debt this week for about \$800,000, a person familiar with the deal says.

Norman Radow, Radco's CEO, says it is the first commercial real-estate loan he has bought since the recession and he plans to look for more loans online. "It's much more efficient," he says. "You can investigate the asset easily...and hear back yea or nay in a short time."

Online sales of commercial real-estate properties and debt have been around for at least a decade. The Debt Exchange in Boston began selling debt on the Internet at [www.debt.com](#) in about 2000. The U.S. General Services Administration also began holding online auctions over the past decade. Among one of the bigger deals: the GSA's 2005 sale of the El Toro Marine Corps Air Station in Orange County, Calif., for \$649 million. More recently, Auction.com, originally known for residential sales, ventured online with commercial real estate in 2009. Since then, the value of commercial real estate and loans sold on the site has increased to more than \$4 billion over the past 12 months, up from \$3 million in 2009.

But lately, online commercial-loan sales also have increased, as banks and other lenders have confronted the aftermath of the recession and the frustratingly slow recovery. Mission Capital Advisors

LLC projects there will be \$30 billion to \$35 billion in overall U.S. commercial real-estate loan sales this year, compared with \$26.9 billion last year and \$17.2 billion in 2009.

But selling loans online is trickier than selling property. Banks are hesitant to share a commercial real-estate borrowers' history out of concern for their privacy, according to Bob Seiwert, a senior vice president with the American Bankers Association. As a precaution, most banks prohibit loan buyers from contacting borrowers as part of the terms of the bidding process, says Floyd Kephart, chairman of Renaissance Cos. of Las Vegas, which advises and assists banks in selling their notes.

Also, lenders are often more reluctant to put as much information about cash flow, loan to value, and the properties' back-stories online than they would disclose in face-to-face meetings. "We try to convince bankers that if they give better data, they will be able to get higher prices," Mr. Kephart says.

Radco would have liked to have had more information before buying the loans on the Grandview and Parkhill apartments. Charles Welch, an analyst with Radco, says when he logged onto the virtual database, he was initially able to get a dated appraisal and a basic loan history, which showed that the loan was modified in 2009, after the borrower was late on at least one payment. But Radco couldn't get such information as the properties' vacancy rates. Still, Radco was willing to put aside these concerns due to the low price. The loan is still performing and paying about a 6% interest rate. That translates into a 9% yield for Radco since it is paying only about 60% of the loan's outstanding balance. Synovus declined to comment.

Mr. Radow feels he is safe taking the risk. That is because if the borrower defaults and Radco is able to take title to the property with little legal wrangling, he will have acquired the properties for roughly \$9,500 a unit, well below the average price of apartments in the area, a person familiar with the matter said. "You're buying that risk, so you have to price the risk into your buy," says Mr. Radow.

Write to Maura Webber Sadovi at maura.sadovi@wsj.com