



AMERICAN
BANKRUPTCY
INSTITUTE

Annual Spring Meeting

Commercial Real Estate

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ABI 2024 Spring Meeting Commercial Real Estate Update

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As of March 2024, Property Price Index Fell 21% Since It Last Peaked in March 2022

Green Street Commercial Property Price Index ("CPPI")



Change in CPPI Values by Property Type	Past 12 Months	Recent Peak (03'22)
Lodging	-3%	-6%
Industrial	-3%	-16%
Strip Retail	-3%	-17%
Mall	1%	-18%
Self-Storage	-12%	-21%
Apartment	-8%	-28%
Office	-16%	-37%
Green Street CPPI	-7%	-21%

Nationally, office properties have experienced the largest drop in values since March 2022, followed by apartments. In the last twelve months, values of office and self-storage properties continued to decline at the double-digit rate. There are signs of price stabilization in some segments but not all.

Source: Green Street Commercial Property Price Index. Tracks the pricing of institutional-quality commercial real estate, as of 3/31/2024.

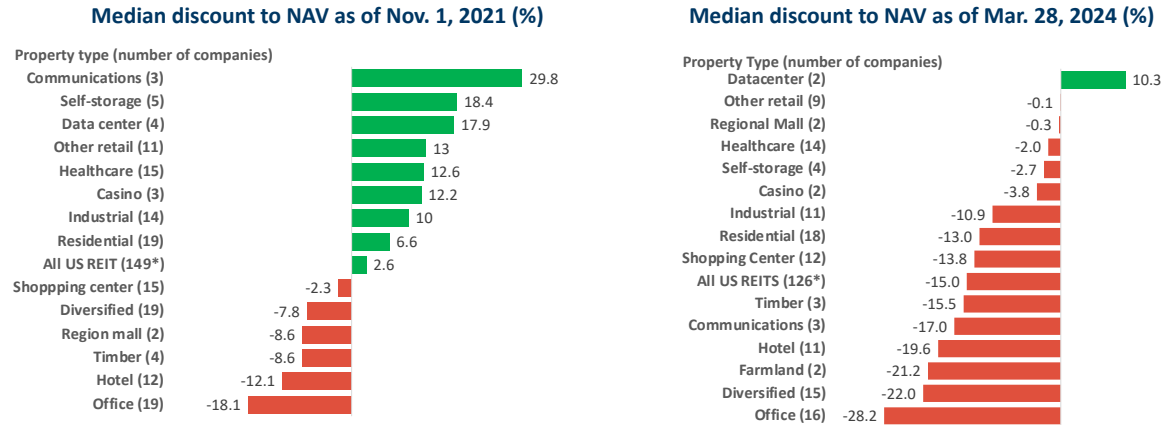
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2024 ANNUAL SPRING MEETING



Trading Discounts to REIT Net Asset Values Increased Significantly

REITs stocks are currently heavily discounted relative to their Net Asset Values and such discount has been affecting a growing number of property types.



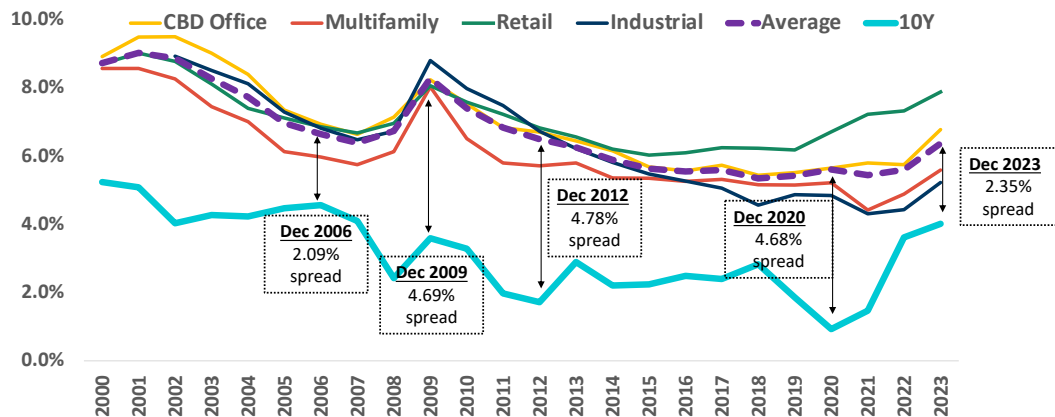
Source: S&P Global Market Intelligence. *Includes publicly traded U.S. REITs with market capitalization of at least \$200 million.

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Cap Rate Spread over 10 Year Treasury

While cap rates have been increasing across all property types in this cycle, the cap rate spread over the 10-year Treasury has contracted by half between the end of 2020 and 2023. It has begun to widen again since 2022 but remains below its average 2000-23 level of 3.55%.

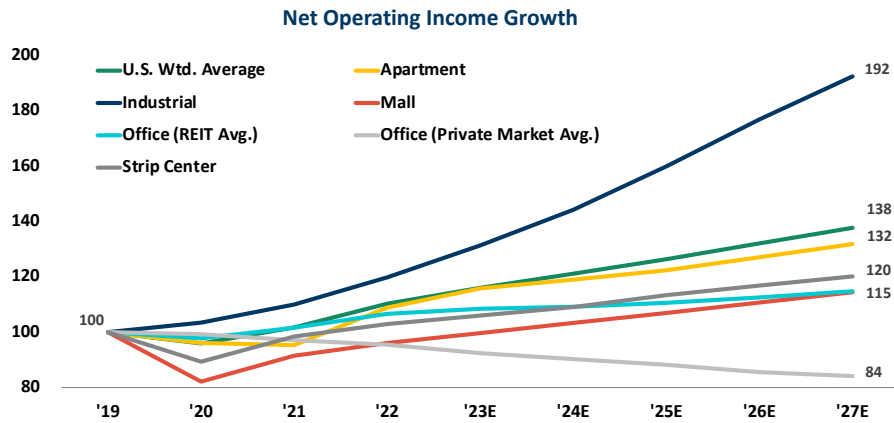


Source: CoStar, Federal Reserve, FTI analysis

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NOI Growth Projected in the Future Except for Office Private Market

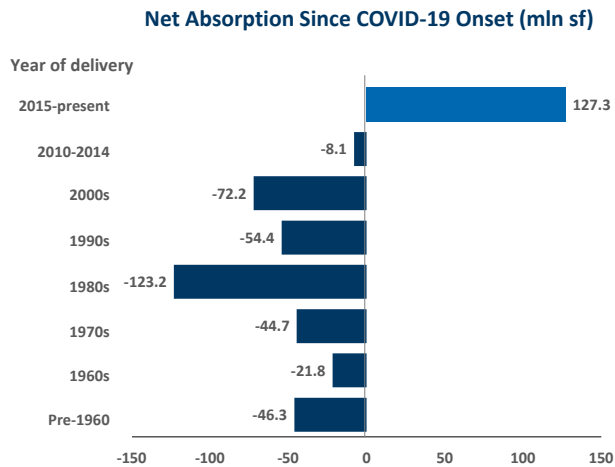
Office private market NOI has been declining and is expected to stay on this trajectory despite robust growth exhibited by other property types over the same period.



Source: Green Street Debt Insights (October 2023)

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Competing for Tenants, Only Top-Tier Office Properties Are Seeing Positive Net Absorptions



Source: JLL Research; data as of Q4'23

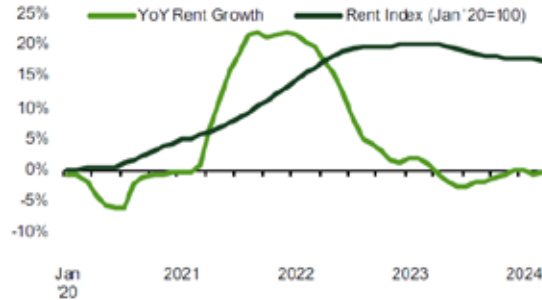
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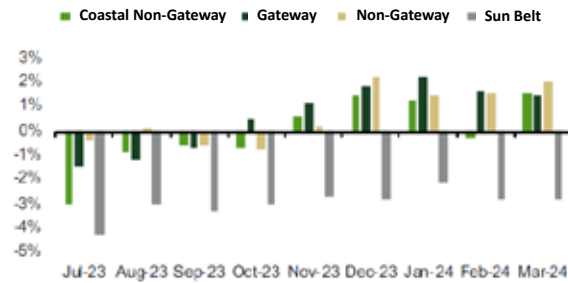


Apartment Rent Growth Peaked in Q4'21... Turned Negative in Q2'23 And Is Diverging Regionally

National Apartment Asking Rent



Year-over-year Change in Rents by Region



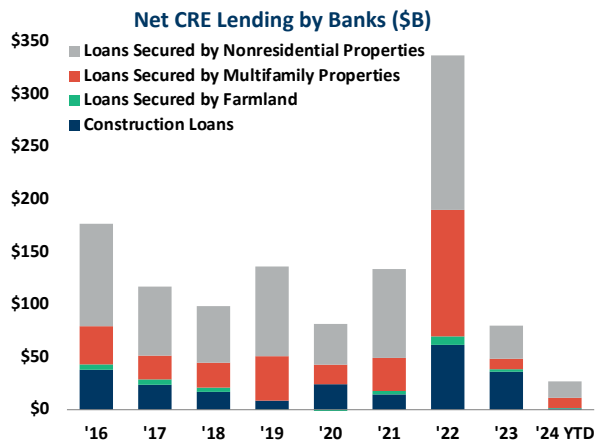
Source: Green Street Apartment Rent Tracker (March 2024)

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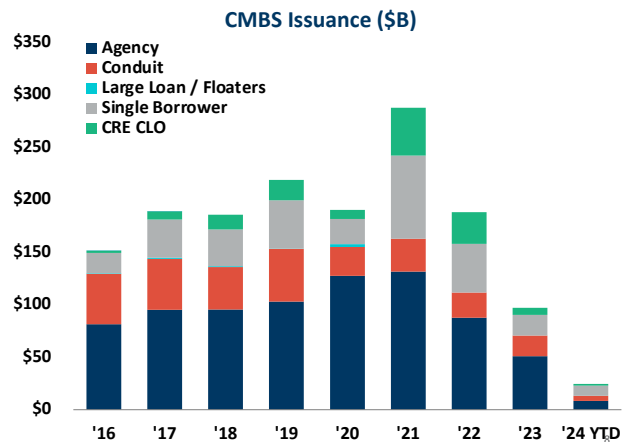


CRE Debt Flows Plummeted in 2023, Somewhat Stronger Start for 2024

Borrowing and lending dropped sharply in 2023 following rising debt costs, declining asset values, and sector specific challenges leading to much lower transactional activity. The beginning of 2024 was more active but constrained lending conditions are likely to continue in the immediate future.

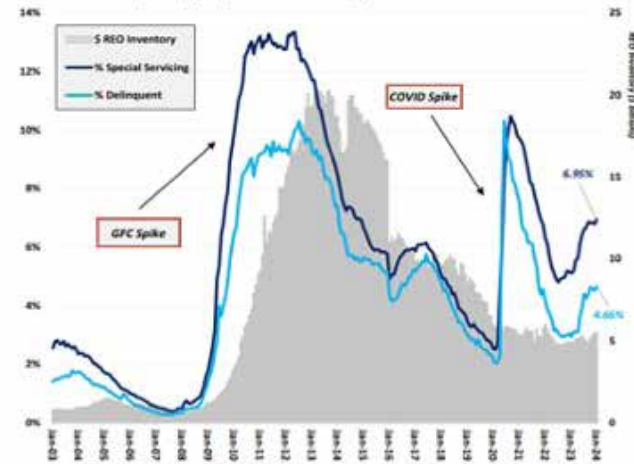


Source: Federal Reserve; Green Street Debt Insights (March 2024); FTI analysis.



Loan Delinquency and Special Servicing Rates Have Increased Sharply... Again

CMBS Delinquency, Special Servicing and REO

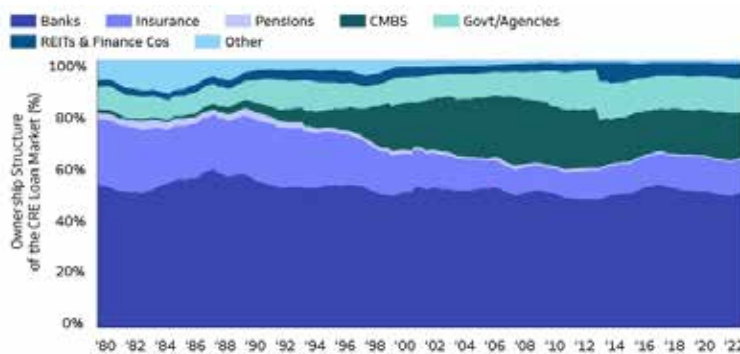


SPECIAL SERVICING BY PROPERTY TYPE				
Property Type	24-Mar	3 Mo.	6 Mo.	1 Yr.
Office	10.30%	8.45%	8.34%	4.77%
Retail	9.79%	9.37%	10.14%	11.57%
Mixed-Use	8.53%	7.74%	7.19%	4.00%
Lodging	7.36%	7.13%	7.24%	6.31%
Multifamily	2.40%	3.17%	3.14%	3.04%
Industrial	0.41%	0.37%	0.32%	0.39%
Overall	7.31%	6.78%	6.87%	5.55%

Source: CREFC Update on CRE Debt Marketplace (January 2024); Intex, Trepp (March 2024); includes both conduit and SASB

Banks Account for ~50% of U.S. CRE Debt; Small Banks Hold Majority of Bank CRE Debt

Total CRE Debt Outstanding - \$5.8 Trillion as of 2Q 2023



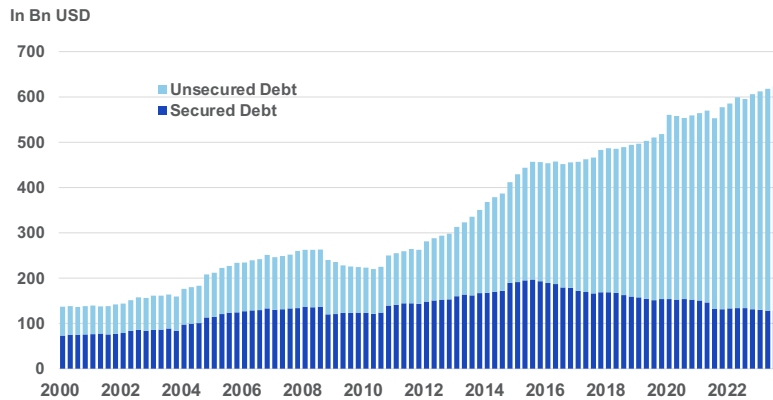
- Over the last few decades banks have been holding approximately half of all U.S. CRE debt
- Small banks (while representing about one third of the total US bank assets) currently hold approximately two thirds of it---a significant increase from twenty years ago, when small and large banks held about equal amounts of CRE debt

Source: Goldman Sachs Global Investment Research (April 2023); Board of Governors of the Federal Reserve.
*Small commercial banks are defined as all domestically chartered banks outside of the top 25 by asset size.

REIT Unsecured Debt Volume Has Ballooned Since GFC

While the greater amount and share of unsecured debt in REIT capital structures arguably offers more flexibility to the REIT borrowers, it also increases the possibility of reorganization at the REIT level in market downturns.

Unsecured and Secured Debt (All Listed U.S. Equity REITs)



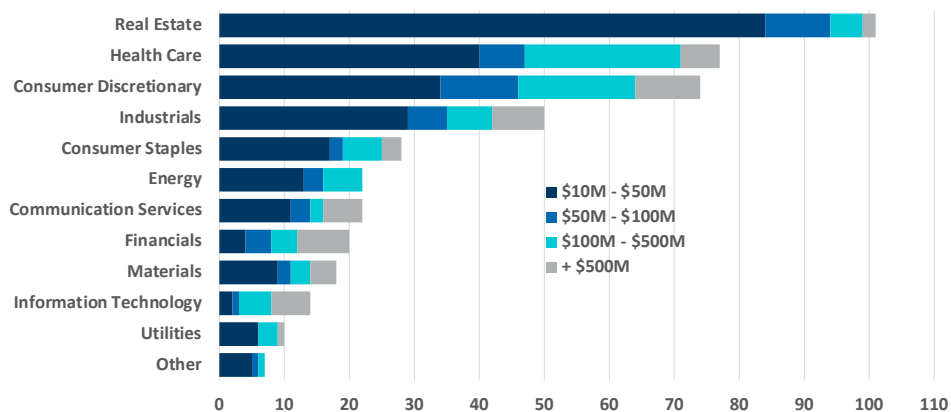
Source: S&P Capital IQ Pro, Nareit T-Tracker[®]; data as of Q3'23

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Chapter 11 Filings Increased in 2023 and Real Estate Sector Was Leading the Case Count

Number of Ch. 11 Filings by Sector (Liabilities +\$10M)

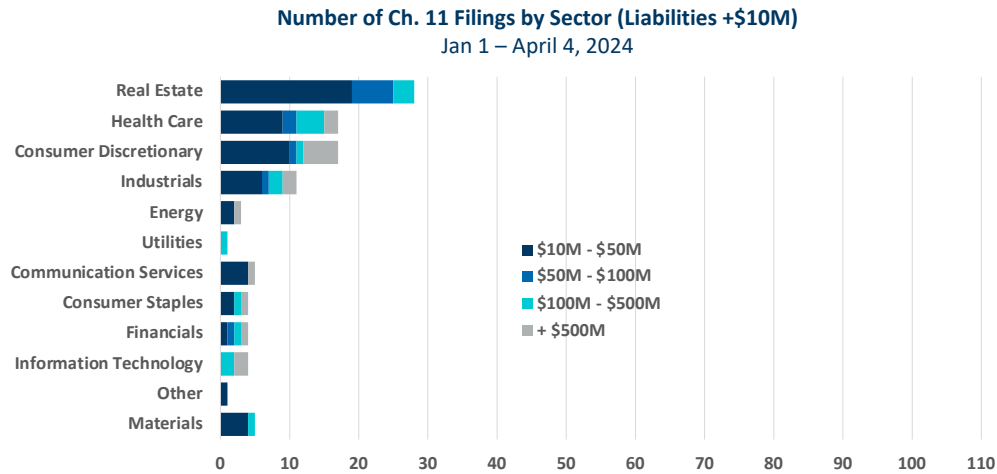
Jan 1 – Dec 31, 2023



Source: Reorg First Day Database, FTI analysis.

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Real Estate Sector Continues to Lead the Case Count of Chapter 11 Filings into 2024



Source: Reorg First Day Database, FTI analysis.

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Market Evolution and Capital Crunch Present Opportunities for Real Estate Restructuring

1

**Challenges
for Office**

2

**Small and
Medium-Size
Banks' CRE
Loan Exposure**

3

**Other CRE
Challenged by
Liquidity
Constraints**

4

**Increase in Ch.
11 Filings of
Companies
Heavily Reliant
on Real Estate**

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Faculty

Harold J. Bordwin is a principal and co-president of Keen-Summit Capital Partners LLC in New York and is responsible for all aspects of business development and execution. He focuses on developing and implementing strategic real estate and corporate finance plans for his clients involving real estate analysis, real estate acquisitions and dispositions, lease modifications and terminations, and corporate finance and capital market services. He also is a receiver and provides fiduciary services to his clients. Mr. Bordwin has more than 33 years of real estate advisory and transactional experience, with particular expertise in workouts and restructurings and other special situations. He has represented financial, corporate and retail clients. Mr. Bordwin has testified on real estate restructuring issues before the Judiciary Committee of the United States House of Representatives. He also has been interviewed and quoted in numerous articles for *The Wall Street Journal*, *The New York Times*, *USA Today* and various trade publications. Mr. Bordwin previously was a principal with KPMG LLP and a vice president with Keen Consultants. He is a member of ABI, the American and California Bar Associations, the International Council of Shopping Centers and the Turnaround Management Association, and he holds Series 7, 24, 63 and 79 licenses. Mr. Bordwin received his undergraduate degree in government from Wesleyan University in 1982 and his J.D. from Georgetown University Law Center in 1985, where he was a staff member of *Law & Policy in International Business* and published articles in the *Ecology Law Quarterly* of the University of California at Berkeley Boalt Hall School of Law.

Larissa Gotguelf is a managing director with FTI Consulting, Inc. in Los Angeles. She has more than 20 years of experience in restructuring, commercial real estate, business strategy and operations consulting. Ms. Gotguelf has provided transaction and financial advisory services in consulting, restructuring and litigation settings to real estate investors, developers, lenders, loan servicers, corporate real estate users, CMBS investors, and receivers and trustees. She also has experience in interim management, real estate leasing and negotiations, acquisition and disposition, site selection, corporate finance, and business strategy and portfolio analysis. Ms. Gotguelf has advised clients in matters involving different property types, including retail, hotel and leisure, land, office, multifamily, health-care, senior housing and fractional ownership. These assignments have involved financial modeling, market research, debt restructuring, damages analysis, valuation, claims analysis, disposition strategy and liquidation, CMBS transaction, and underwriting review and due diligence. In addition to real estate, Ms. Gotguelf has worked with organizations in investment management, health care, financial services and education. Her clients have included such organizations as Aequitas Receivership, Midland Loan Services, Loma Linda University Medical Center, LNR, ORIX, Bank of America, JPMorganChase, Ambac, Residential Capital, Diablo Grande and Beazer. She has worked with many leading law firms, including Milbank, Jones Day, Morrison & Foerster, Troutman Pepper, Latham & Watkins, Arnold & Porter, Sheppard Mullin, O'Melveny & Myers, and Schwabe, Williamson & Wyatt, among others. Ms. Gotguelf has been invited to speak on restructuring and real estate industry topics by the Turnaround Management Association, ABI, and several other professional associations and firms. Prior to joining FTI Consulting, she was a senior consultant in the Strategy and Operations practice of Deloitte Consulting. Prior to that, she served as a real estate advisor and a vice president of The Western Group. Ms. Gotguelf received her undergraduate degree in construction engineering from Moscow State Engineering University and her M.B.A. from Carnegie Mellon University.

Mark D. Podgainsky, CTP is a managing director with Getzler Henrich & Associates LLC in New York and has more than 25 years of experience in operational roles and turnaround consulting in a variety of industries. He leads the firm's Real Estate & Hospitality practice, where he advises owners, sponsors and their creditor constituents in a variety of asset classes, including hotel, multifamily, office and industrial. He also has experience guiding clients through complicated and contentious workout and restructuring processes, both in court and out of court, and throughout the country. Mr. Podgainsky's clients include companies, secured lenders, boards of directors and creditors' committees, and he also works with law firms on forensic, litigation support and expert-witness assignments. His client focus has been in the real estate, hospitality, consumer products, apparel and textile, food, retail and building products sectors. Mr. Podgainsky has experience in the hospitality industry, including line and management positions at Harvey Hotels, Winegardner & Hammons (Holiday Inn concepts) and Howard Johnson's Restaurants. His hotel clients are major flag franchisees and independent hotels, and his restaurant clients have included KFC, Big Boy Restaurants, Roadhouse Grill, Eateries (Garcia's, Garfield's and Pepperoni Grill concepts) and Toohey's. He is currently the CRO of Urban Commons 2 West LLC, *et al.*, and financial advisor to a flagged hotel going through a workout process with its senior lender. Mr. Podgainsky is a board member of the NYC chapter of the Turnaround Management Association; of Neighborhood Housing Services of New York City, Inc., a nonprofit empowering disadvantaged low and moderate-income New Yorkers to purchase and preserve affordable housing; and of the 520 West 19th Street Condo Association. He is a member of ABI and the Cornell Hotel Society, and he has authored thought-leadership articles on distressed mergers and acquisitions, real estate, hospitality, education, and related topics for numerous industry trade publications. Mr. Podgainsky received his Bachelor's degree from Cornell University's School of Hotel Administration and his M.B.A. from Columbia University.

Laurel D. Roglen is Of Counsel with Ballard Spahr LLP in Wilmington, Del., where she focuses her practice on corporate bankruptcy and restructuring, commercial bankruptcy, and workout and restructuring matters. She represents corporations as debtors and debtors-in-possession in chapter 11 bankruptcy proceedings, as well as commercial retail landlords, trade vendors, committees and purchasers of assets through § 363 sales in bankruptcy matters, regularly counseling clients on their rights in bankruptcy cases, in addition to negotiating lease amendments, agreements and settlements. Ms. Roglen also is experienced in bankruptcy-related litigation and issues at the intersection of environmental and bankruptcy law. She currently represents the City of Chester, Pa., in its ongoing chapter 9 bankruptcy case and is admitted to practice in Delaware and New York. Ms. Roglen received her B.A. in 2008 from Pennsylvania State University and her J.D. *cum laude* in 2011 from Hofstra University School of Law, where she received ABI's Medal of Excellence, the American College of Bankruptcy Distinguished Law Student award and the Benjamin Weintraub and Alan Resnick Bankruptcy Law Award, and was managing editor of articles for the *Hofstra Law Review*.