

TOPIC

I hear rumors that commercial real estate is about to collapse. What can I do to protect my assets?

ADVICE

Whether you are a borrower or a lender, the answer is the same: work through the current situation. Now, don't hear what I'm not saying. This is not a mere loan workout, where everyone tries to "get theirs" and get out. A work-through involves much more. It requires a break from the typical, adversarial mentality of borrowers and lenders. Essentially, it focuses on the asset itself to preserve its value for the benefit of all parties.

The media uses buzz words like "toxic assets," but what's toxic about real estate (environmental issues aside, of course)? Nothing. Think about it: real estate has been and always will be the foundation of wealth in any economy. The toxic part of real estate is the paper that Wall Street piles on top of it, which, as we've found out, has the ability to suffocate the underlying property.

So how do you uncover and revive that property? Get back to basics. Open the lines of communication. Borrower, remember that stack of documents you skimmed through at closing? In there was a covenant that you'd furnish your lender with information—it's time to do it. Banker, remember when told your borrower to consider you a partner in the venture? It's time to make good on that claim.

With the right information at the right time, the right people can make the right decisions. It starts with the right information. Without exception, both lenders and borrowers need third-party professional help in compiling information. Otherwise, there will be no mutual confidence in it. Then, look at the asset. Consider it from all angles, especially the tenants', who are the ones truly paying the mortgage. The value is there—make it shine.

Sound economics involves lenders and borrowers working through issues together in order to build real economic value in real estate. When they do, borrowers keep good property and banks keep their balance sheets right-side up.



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