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Real Estate Alert

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Distressed Real Estate and Credit Markets Provide New Opportunities for Investors

The sale of commercial mortgage loans is on the rise, highlighting a shift in the real estate market towards the buying and selling of loans rather than actual real estate. Real estate investors may be able to take advantage of this shift in the market by buying commercial mortgage loans at discounted prices.

According to a recent report by New York-based real estate analysts at Reis Inc., U.S. commercial properties at risk of default could triple if rental income from office, retail and apartment buildings drops by even 5 percent, a likely possibility given the recession.

Since commercial mortgage defaults are expected to rise in the coming year, lenders who are not in the position of owning or selling real estate will be under pressure to sell nonperforming loans at discounted prices. Investors may look to take advantage of this opportunity to acquire the debt at a discount and eventually take ownership of the distressed property. Investors may also look to purchase performing loans from lenders at discounted prices and continue to receive interest payments until the loan matures.

Purchasing a distressed mortgage loan is more complicated than purchasing the underlying real estate, involves an additional layer of due diligence and requires additional expertise. The attorneys at Honigman Miller Schwartz and Cohn LLP have the experience and expertise to handle these transactions for clients. We are ideally situated to assist clients in such transactions and to deal with all loan, legal due diligence, collateral and tax issues related to such transactions.