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Observers say rush is on to modify commercial loans

Banking and financial services quarterly

Premium content from Boston Business Journal - by Todd Larson

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As more commercial property loans mature, more of their owners are seeking to modify their mortgage payment requirements to the possibility of foreclosure, sale, Chapter 11 bankruptcy filing, or a wild goose chase for limited refinancing resources.

Recent examples include Beacon Capital Partners LLC's five-year extension of the \$2.7 billion loan with which the Boston-based real estate investor purchased a 20-building office portfolio in Washington, D.C., and Seattle from the New York-based [Blackstone Group](#) in 2010. [Wall Street Journal](#) reported in late December. This followed Beacon's success at securing a three-year extension, with options for additional two years, of the \$380 million loan used to acquire Seattle's 76-floor [Columbia Center](#) separately, according to the WSJ.

The prior month, Suffolk Superior Court judge **Judith Fabricant** backed an extension of the \$180 million loan Beal Cos. and [Rocky Capital](#) hold on the 1 Kendall Square commercial-retail complex in Cambridge. Her ruling prevented lender [Anglo Irish Bank](#) from foreclosing on the property due to alleged devaluation and ordered the extension of the mortgage payment deadline into April, according to published reports.

These events typify a growing trend toward loan deadline extensions and covenant relief to ease mortgage payment burdens, according to attorney **James Lerner** of Goulston & Storrs in Boston.

"We're seeing more relief on loan-to-value or debt service coverage covenants, some of which is at the crux of the Beal situation at Kendall," said Lerner, who represents financial institutions in real estate and corporate transactions. "Property owners need relief in the form of a waiver or modification of the covenant for a period of time to allow the property to recover its value or to get more tenants."

Covenant relief and debt extension appear to be the best bets for commercial landlords, in light of low refinancing availability and lender reluctance to further depress low interest rates.

"The number and scale of financing options has contracted so the capital is not available that there was a few years ago," said attorney **Frank Litwin**, who represents primarily buyers and sellers in real estate and corporate transactions at Goulston & Storrs.

This is where firms like Hilco Real Estate Debt Management of Northbrook, Ill., come in as intermediaries between landlords and lenders to help restructure loan commitments.

"Our business was formed in the fourth quarter of '08 with the understanding of the massive amount of maturities happening in the commercial mortgage market," said **Edmund Terry**, co-managing director of HREDM's Boston office. "Between now and the end of 2011, a trillion dollars will be maturing. Stats indicate that half of that amount, the loan-to-values, is greater than 100 percent. A lot of restructurings will need to occur."

The high nationwide delinquency rates in CMBS loans have added fat to the restructuring fire. Trepp LLC reported a record 9.2 percent delinquency rate in December 2010, up 27 basis points that month and 35 bps in November.

The total dollar amount in commercial mortgages more than 30 days delinquent, in foreclosure or bank-repossessed was \$61.5 billion in December and just above \$60 billion in November, according to the New York-based CMBS and commercial mortgage information provider.

[Standard & Poor's](#) reported that 96 percent of all commercial mortgage loan modifications over the past decade took place in 2009 and 2010. A total of 354 commercial real estate loans valued at \$15.6 billion were modified from January through November 2010, an increase from all of 2009's 216 modified loans valued at \$7.06 billion, according to the New York-based credit rating agency.

On Oct. 7, [Real Capital Analytics](#) reported that CMBS lenders have been easing up on the traditionally tight loan-to-value credit terms since the start of 2008 and 2009.

"There are a large number of loans that are facing maturity dates, and given the absence of financing alternatives that were available a few years ago, owners will have no choice but to extend existing loan facilities," said Litwin.