



LET'S RECAP

An uptick in the Commercial Real Estate market provides underwater commercial real estate owners with new hope, and new challenges. Many owners are blessed with performing properties and positive cash flow - but are still unable to pay-off or refinance their maturing loans. Absent special circumstances, lenders seem still unable or unwilling to agree to further extensions or workouts.

Many owners and lenders are finding salvation in the form of **Recapitalization**. Recapitalizations are not sales, they are sophisticated methods of infusing fresh capital into an existing project coupled with a reorganization to the corporate/capital structure of the owner/borrower. This technique allows existing ownership to participate in the upside of the project - while bringing in the necessary cash to allow it to move forward.

One of the benefits of this type of capital infusion is that it is often (but not always) conditioned upon existing lenders making valuable concessions, such as principal write-downs or loan extensions. While underwater borrowers often have little leverage to negotiate these types of changes to their financing arrangements by themselves, lenders needing the benefit of the new capital often agree to accommodations otherwise unavailable to the borrower acting alone.

Part of recapitalizing often involves Owners deleveraging and giving up a piece of future earnings in order to attract new to the new equity. Generally, the platforms for these recapitalizations come through complex joint venture, partnership or limited liability company operating agreements or mezzanine loan transactions. When done right, the net result is a win-win-win for the owner, their lenders and the new equity sources.

While owners can first look to existing members or owners for fresh capital, there are a multitude of reasons why capital from a current owner can often prove more difficult than attracting a new source, such as the perception of "throwing good money after bad", reluctance of lenders to deal with "bad" borrowers and the existence of their current ownership's loan guaranties.

The nature and terms of any Recapitalization can vary greatly from deal to deal and complexities can arise quickly depending on the way in which the Recapitalization is structured. Opportunities abound for existing owners to save their projects and recoup their investments, but owners and investors should tread carefully, and seek the advice of experienced and qualified legal counsel.

The Recapitalization market is thriving and many real deals (not sales) appear to be taking place behind closed doors, rather than from loopnet listings. We help real estate investors and developers find a winning strategy in all phases of commercial transactions and take advantage of a variety of different approaches to deal with all aspects of their projects.

For more information please call (480) 889-8948, send an email to info@steinlawplc.com or visit www.SteinLawPLC.com

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- ◆ hospitality development, management and licensing matters.

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