



“...it was Breakwater’s
knowledge of the industry
and their
ability to identify
issues the bank needed to
see to make a deal.”

– Larry M, Investor & Attorney



Breakwater Equity Returns Retail Center to Positive Cash Flow Through Workout

Workout scenarios vary widely. Every situation is unique, and not all workouts are home runs. Some workouts can be resolved within months; others may take up to two years and end up a single or a double to use baseball terminology. In this case, the owners of a struggling retail center in a town near Austin, Texas, engaged Breakwater to assist them in negotiating a loan modification such that they could endure the downturn in the economy and retain the property.

Breakwater determined through its due diligence review that a cram down would be difficult, if not impossible. The property had significant vacancies and the rents were dropping. With an interest rate of 6.25% and poor cash flow, the business was not producing sufficient cash flow to make the monthly installments on a \$3.5 million CMBS note and the owners had stopped making payments. Since the property’s value was close to the loan amount and the project had some cash flow it was likely the lender would elect to take over the property and manage it rather than write off the principal amount of the loan.

Breakwater concluded that the most realistic course of action was to reduce the interest rate and eliminate principal payments. Given the poor condition of the submarket, Breakwater determined that the investors would need a minimum of three years to work through the problem. After lengthy negotiations, the special servicer agreed to change the debt from an amortized loan at 6.25% interest to a 3% interest-only loan for a period of three years, retroactive to when the payments ceased. This would align the payments with the property’s current cash flow and allow the owners some breathing room until the retail leasing market recovered. The special servicer was able to get the certificate holder to sign off on the new terms.

In this case the process took fifteen months due to the special servicer’s demands, the intensity of the back and forth negotiations, and their huge backlog of deals. These facts clearly illustrate the importance of working with a workout specialist like Breakwater which understands the complexities and potentially long timelines involved with a successful workout, and whose fee structure is capped so that bills don’t accumulate egregiously as they would with an hourly fee-based law firm. Breakwater had the knowledge and experience it took to get the job done.

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