



“Clearly Breakwater has a way of talking to lenders that they respond to.”

– Larry M, Investor & Attorney



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Breakwater Rescues Shopping Center from Foreclosure in Record Time

A group of very sophisticated investors took out a \$24MM construction loan to build a Southern California shopping center. The completed 75,000 sq. ft. retail space had an original projected value of \$36MM, and looked to be a promising investment. However, when the retail center opened, the economic downturn substantially eroded property values, and demand for lease space declined sharply. Occupancy goals for the center fell desperately short of what the owners needed in order to make payments on the loan.

The investors and developer became increasingly concerned as the maturity date approached on their loan and knew they would need to secure permanent, long-term financing for a new loan. They attempted to bring in another lender, but found the loan-to-value too high to secure new financing. They then approached their original lender to see if they could extend the maturity of their existing loan. The bank denied their request and countered with an unworkable re-financing offer. The lender had changed its underwriting criteria and was asking for a new equity investment of \$3MM to bring the loan into balance; \$3MM of additional capital the investors did not have. With low tenancy and no real cash flow, they urged the lender to reconsider. The loan problem worsened when the bank reappraised the property at a number equal to the original loan amount. The property was in danger of foreclosure. The investors knew that since the shopping center was complete, it would be relatively easy for the lender to foreclose on the property, wait out an economic recovery, and have a very profitable investment going forward.

The investors decided to get professional help. One of the investors had worked with Breakwater previously and that experience made entrusting Breakwater with this new predicament easy. After a thorough analysis of their options, Breakwater discovered some minor points of leverage and then entered into negotiations with their lender. In just three short months Breakwater negotiated several concessions from the lender. The lender waived the requirement for a larger equity investment of \$3MM and settled for a smaller cash payment of a couple hundred thousand dollars on a new loan. They additionally gave the investors a substantial interest rate reduction and because of that rate reduction the property was able to transition to positive cash flow, enabling the investors to make distributions from the project revenues. This expedient Breakwater resolution permitted the investors to extend the loan, retain the asset, and collect steady income. In speaking with one of the investors after the deal closed, he remarked “I think the bank thought we were big pushovers...being well versed in financial terms did not help us in our negotiations. Clearly Breakwater has a way of talking to lenders that they respond to.”