

# Asset Assessments

in a time where appraisals are just wrong



As an unintended consequence of the current real estate market, bankers are (reluctantly) being forced into the real estate business. They weren't necessarily planning on it, but it is a consequence nonetheless.

**R**IGHT NOW LENDERS ARE IN THE POSITION WHERE THEY HAVE ALL KINDS OF REAL ESTATE AND LAND ASSETS THAT THEY NEED TO FIGURE OUT WHAT TO DO WITH.

Many banks might not realize that they need certain tools to help understand these assets to make educated business decisions. The borrowers may be close to default and banks need to figure out what makes the most sense – selling the asset, keeping it, or doing some sort of deal to get a non-performing asset off the books for a period of time until it becomes performing.

Lenders will typically consult with a financial consultant on a bank's assets, but as each real estate asset is truly unique, the performance should be analyzed from a land use/zoning/platting perspective. It is impossible to make a good business decision on the potential disposition (or purchase) of land if you do not have all of this information. Saying you have "entitled property" or "paper lots" may not actually mean anything. The documents granting approvals have to be studied, federal regulatory schemes complied with (404 issues, etc), development agreement terms studied, ordinance provisions reviewed, etc.

Saying a property is "entitled" can be misleading – the property may be entitled to something, but what exactly is it entitled TO? Entitlements are not static; rather they are a complex process with multiple steps along the way, each step potentially adding another layer of value to a particular asset. Depending upon where a property is in the process, it may be worthwhile for banks to examine the possibility of continuing the entitlement process in order to add more value. The only way to perform a thorough analysis of any real estate asset is to employ a real estate expert who understands the entitlement process and the complex legal documents attached to a particular piece of real estate.

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In order to make a truly informed business decision, it is necessary to perform a land holding assessment analysis where a third party expert goes into a portfolio of real property or construction loans and assesses the lender's options relating to either making the asset profitable/performing or just get it off the balance sheet. Banks need a comprehensive assessment of real estate assets which would outline what they have and give them options for going forward with the assets to realize the most value. The quick and easy decision to simply sell the asset and get it off the books is oftentimes the wrong choice and banks need to do their homework before making any hasty decisions. The land holding assessment should show each asset and a choice of strategies, along with timelines and cost estimates to get the asset to perform. Very few real estate experts are qualified to perform these non-biased assessments. A broker may have pertinent market knowledge, but to fully evaluate the situation, one must have a very specific understanding of the entitlement process which is crucial to the value of a piece of land.

Another problematic issue facing banks involves inaccurate real estate appraisals. There are many aspects of the development process that an appraiser might not take into account that can alter the appraised value of a property. Items such as impact fee credits, development agreements, community facilities districts (a type of funding mechanism for large real estate developments), and improvements costs are just a few examples of relevant pieces to the puzzle that can be analyzed by a land use attorney to achieve an alternative appraisal.

Although it is not usually the plan to get back a piece of real estate, it is a function of today's market and banks need to equip themselves to make informed business decisions about these unique assets. Involving a law firm with deep experience in land use and zoning is a must in order to get the type of complete assessment necessary to make these decisions. ▀

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