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LEDIC takes over problem multifamily units

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ALAN HOWELL | MBJ

Keith Acton, David Dunavant and Pierce Ledbetter inspect boarded-up unit at Somerset Apartments

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LEDIC Management Group LLC has become the receiver or REO adviser to lenders for six multifamily properties in the past 30 days, a phenomenon which might signal the start of substantial growth for the company.

The Memphis-based third-party real estate management firm is handling the properties, which are either foreclosed or close to it, for five different banks in four states, including more than 1,000 units in two Memphis properties.

The company is also handling properties in Jackson, Miss., Cincinnati and Atlanta.

LEDIC signs confidentiality agreements with the banks, but court documents reveal that one local property is Somerset Park Apartments, a 496-unit apartment complex at 3424 Winchester Park.

LEDIC has been named receiver or REO adviser on more than 200 properties over the years.

Contacts can last from months to years.

“Our goal is to keep it as short a period as possible,” says Pierce Ledbetter, president and CEO of LEDIC. “Our job is to stabilize the asset, increase the occupancy and ensure the property’s value is maintained.”

One way the company does this is through technology and trained management.

Through its involvement with the **Memphis Police Department** and the Shelby County District Attorney General office’s Safeways Initiative, LEDIC is allowed to post ‘No Trespassing’ signs and place cameras that will be connected to a police station.

The camera system sends a feedback to LEDIC’s central offices as well, recording what is happening at the property.

“While a picture might speak a thousand words, video speaks a million words,” Ledbetter says.

LEDIC has invested more than $200,000 in computer servers at its corporate office and in camera equipment, so it only has to spend about $2,000 per property to add camera surveillance. The cameras can be moved from property to property once stability is reached.

“So there is no long-term expense with a property,” Ledbetter says.

LEDIC is no stranger to the role of receiver or REO adviser, where it typically recieves $25 per unit per month plus reimbursement of expenses.

From 1989 to 1995, LEDIC grew from representing 6,000 units to more than 55,000 units company wide, with many of those units a result of the **Resolution Trust Corp.**, a government-owner asset management company, closing or resolving 747 savings and loan associations worth $394 billion, which in turn led to more multifamily properties being foreclosed upon.

From 1995 to 2005, many of those apartments were stabilized and sold off.

“Then we had a period where good economics hid bad management from the public eye and the investor eye until 2008,” Ledbetter says.

Currently, LEDIC represents more than 25,000 units, a number that could double due to current multifamily foreclosure rates and credit conditions.

Nationwide, multifamily delinquency increased from 3% in January to 3.3% in February this year, according to a **Standard & Poor**’s report, a 10% jump in one month.

Part of this is due to the nation’s current credit crunch, according to Ledbetter.

“Apartment owners whose loans are becoming due and payable cannot refinance today if they’re over-leveraged,” Ledbetter says. “Apartment loans are getting caught up and it’s almost like the other shoe is about to drop. First came houses and here come apartments.”

Frank Stallworth, president of the commercial and multifamily division and executive vice president at **Magna Bank**, says multifamily properties have been affected by an expansion of credit that started in 2001 with many commercial mortgages being securitized in the Commercial Mortgage Backed Securities market.

“These loans were being made and it was very easy to sell your loan,” Stallworth says.

It used to be banks and life insurance companies would make a loan and keep it on their books, but then big banks were making loans not to keep, but to sell.

In 2007, the CMBS market originated and sold $225 billion of commercial and multifamily mortgages, according to Stallworth.

In 2008, it went to $12 billion.

So far in 2009, it's been less than $2 billion.

"What happened was that market really collapsed," Stallworth says.

Banks and life insurance companies couldn't pick up the slack, but the multifamily market also had Freddie Mac, Fannie Mae and the Federal Housing Administration for credit support.

"It's the only (commercial) property type which has the government involved in the financing program," Stallworth says. "That has helped keep the multifamily market in pretty good shape, because when a loan matures, they can refinance it."

What's happened is that when these properties need refinancing for equity to fix the property up, that CMBS market is no longer there, according to Stallworth.

Although Freddie Mac and Fannie Mae volumes have increased, those organizations can't take up all the slack.

"They're stepping in and trying to fill that gap, but it's just a very large gap to fill," Stallworth says.

Multifamily foreclosures aren't specific to Memphis.

"Florida has been hit much, much harder, along with Nevada and California," Stallworth says.

Locally, the properties mostly likely for foreclosure are older properties owned by out-of-town investors that are highly leveraged and counting on high occupancy.

"What happens is you start deferring those things and then your tenant profile deteriorates," Stallworth says. "That apartment which you were leasing for $500 a month, you have to drop it to $450. When you do that, your income goes down and it becomes a downward spiraling effect."

The federal government's Troubled Asset Relief Program, which purchases assets and equity from the private sector, and the Term Asset-Backed Securities Loan Facility, which helps large private investors purchase assets and equity from the troubled banks using money from the U.S. Treasury, could be a boost to LEDIC's long-term growth as well because many investment companies will be looking for investment properties, which LEDIC can manage.

"Cycles happen and we see this as another cycle similar to the (Resolution Trust Corp.) cycle that happened in the early 1990s," Ledbetter says. "Property values and rents in Memphis skyrocketed in the mid-1990s at the end of the last crisis. We are extremely bullish on apartments. We believe in two-three years, apartment values will increase at a double-digit rate. Our goal is to be positioned to help the lenders that have these assets to best recapture their value."

TALF and TARP are some of several new government programs being created which will help move troubled assets off banks balance sheets and into the hands of LEDIC's investor clients, according Ledbetter.

"With help from LEDIC, apartment values will increase, and taxpayers will benefit as the government loans get repaid at higher values," he says. "LEDIC's prior experience with RTC gives LEDIC clients an edge up when bidding on troubled assets. Because of the current economic crisis, LEDIC's clients are gearing up to bid hundreds of millions of dollars for apartments that will increase in value quickly; meanwhile, LEDIC is helping banks directly by managing their troubled assets back to profitability."

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