

## Buying and Selling Distressed Assets

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As the US economic downturn began to take shape in 2008, many funds began scanning the landscape to position themselves to steal a distressed asset deal. Consequently, being financially positioned to take advantage of a down market, all the funds had to do was wait a little while for the banks to begin unloading distressed properties. Undoubtedly, lenders would need to clean house and divest themselves of bad debt now sitting on their books. However, the thirty-cents-on-the-dollar deals just didn't materialize. What happened?

Two major factors came into play that changed the landscape. First, new changes in governmental regulations allow banks to leave the asset values "as-is" without incurring additional write-downs. Second, the Federal Reserve's monetary policy allows banks to borrow at close to zero interest. As banks made new loans, or perhaps simply invested in treasuries, big profits are the results. Thus, the banking industry is recapitalizing and will soon be better able to write-down the bad loans. As we gradually move through the recovery, book values and market values will improve and become more aligned with one another enabling the banks to sell their loans and not adversely affect their balance sheet or impair book values of similar assets.

Today, we are beginning to see many of the advantageous loan terms originated in prior years begin to mature. In some cases, floating rate or interest-only terms are beginning to expire. New opportunities are developing

in the market place. As values have bottomed and are looking to rise, lenders will become more motivated to dispose of distressed assets. As these factors come to bear on financial decisions, we expect distressed assets to reach the market in greater and greater numbers throughout 2010 and 2011. For those who have been patient, the opportunity to invest in distressed assets at prices that make sense to the buyer and the seller will become more common. How then should we prepare and plan to take advantage of these inevitable opportunities?

Depending upon whether we are actively looking for a distressed asset or there is a possibility of being handed one by default or bankruptcy, we need to be



prepared with a plan to take advantage of the situation. Unquestionably, taking over an asset will cost money. With the proper plan, these costs can be minimized and most likely even recovered depending on whatever our company decides to do with the facility.

The first part of a distressed asset plan should focus on preserving its value. Because distressed assets come in

many shapes and sizes, all plans should be flexible but include at least the following three parts. The information obtained from these steps will provide an informed decision and decisive plan.

- 1. Site inspection** – Knowing the condition of the facility enables the prospective owner to develop the best strategy for using or selling the asset. A site inspection by a competent inspection team with experience in construction and/or management of that type of facility should be completed. Often the team includes an operations manager from another facility or a third party expert such as Hill International. Information contained in the report must include the status of construction, life safety equipment, and the overall site conditions.
- 2. Protection of the facility** – One of the key and possibly most overlooked tasks is whether there are immediate steps that must be completed to protect the facility and the public. As a Purchaser or a Lender, unfunded and unanticipated operational costs are a very real challenging issue. Protection items should include making sure all of the life safety equipment is active (i.e. sprinklers, fire alarm and security). Validating that the building is protected against the weather, the air conditioning is operating as a protection from mold growth and even items as small as if the garbage is being collected. Piles of debris outside the front entry may also seriously impact public opinion and the value of an asset.
- 3. Cost to complete or remediate** – The third step is evaluating the cost of items required to finish or repair facility items. If the facility is partially finished, what will it cost to complete construction? Are there any liens on the project? How much is the general contractor owed and are they even willing to finish the work? Is there substandard construction that will require repairs or replacement? These items should be analyzed through a cost to complete analysis. Developing construction costs should be done by an experienced team of professionals. Even if you have the in-house capability to prepare a construction estimate, we recommend hiring a third-party expert experienced with distressed properties. Their experience will identify many aspects of incomplete projects that are often missed. Hill International has over 25 years of cost estimating experience in all types of construction.



Collection of project information will provide the data needed to make decisions about what to do with the asset. This can be the most critical and challenging part of the task. If the facility is no longer in demand in that area, perhaps it can be renovated at a reasonable cost into a different type of facility that could be more easily sold. Whatever the project, we believe that it is critical to develop an action plan now so that we are prepared to maximize the potential value of these assets as they become available.

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## Working with FEMA on Distressed Assets

**By Robert Ferguson, LEED AP, CCPLM**  
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April 1, 1979, the Federal Emergency Management Agency (FEMA) was established by Presidential Order to assist individuals and local and state authorities in dealing with disasters. The overarching role of FEMA is to coordinate the response to disasters and provide state and local governments with experts in specialized fields and funding for rebuilding efforts and relief funds for infrastructure, in conjunction with the Small Business Administration. FEMA's assistance includes low interest loans or providing funds for the training of response personnel throughout the United States and its territories as part of the agency's preparedness effort.

Hill International's Southern Region has played a significant role in assisting clients in all aspects of FEMA funded projects. During the summer of 2001, Tropical Storm Allison made landfall on the Louisiana / Texas border not once, but twice, causing more than 40 inches of flooding throughout Texas and Louisiana, resulting in more than \$5 billion worth of damage. One of the hardest hit areas was the Texas Medical Center, which encountered massive flooding of the hospitals and research facilities located in the Center. Working with the University of Texas M.D. Anderson Cancer Center, we managed the FEMA related repair and mitigation efforts. Since 2001, Hill International has continued to work with clients utilizing FEMA services, including Hurricane Katrina in Louisiana and Hurricane Ike in Texas that caused more than \$75 billion and \$21 billion respectively.



When a disaster strikes, FEMA does not immediately respond. The governor of the state where the disaster occurred must declare a state of emergency and formally request from the president that the federal government

and FEMA respond. FEMA will then activate small decentralized teams trained to deal with medical, search and rescue, and emergency response situations. In addition, FEMA will work with individuals, businesses and the local and/or state governments with monetary assistance to help recover from the disasters. There are four important items that all individuals and businesses must understand before applying for FEMA assistance.

- FEMA helps when the losses are not covered by insurance - it is not intended to restore damaged property to its condition before the disaster, it is only meant to help with critical expenses that cannot be covered in other ways.
- FEMA does not fund 100% of the cost of repair, but rather on a shared cost basis. In other words, in most cases the percentage FEMA will reimburse is 75% of the total cost; however, in some extreme instances they will cover up to 90% of the cost. The remaining funds are out of pocket by the individual and/or business.
- FEMA generally does not provide the funds up front, but rather through a reimbursement system. Once approved work has been completed, the business will submit to FEMA invoices for the work completed for approval and funding. In some cases, FEMA will allow for an initial percentage payment to help kick start the project, but these funds are tracked very closely to ensure they are only used in conjunction with FEMA approved projects.
- FEMA pays for work completed through the state governments. Once FEMA has approved the work that will be completed, the funds are appropriated and sent to the state comptroller's office for disbursement.

Reimbursements are based upon Project Worksheets (PW's) that outline the scope of work to be completed and the costs associated with this work. The PW's are prepared by the business and/or government and then submitted to a Public Assistance Coordinator who will edit the PW's as necessary and then process the worksheet. Once approved, the work can start and invoices can be submitted for reimbursement; however, you must submit an invoice for each PW for all work contained in that PW. For instance, if a project has multiple PW's, each must have a separate invoice and cannot be combined into one.

FEMA can also assist businesses through mitigation assistance. Mitigation is the effort to reduce loss of life and property by lessening the impact of disasters. This is achieved through risk analysis, which results in information that provides a foundation for mitigation activities that reduce risk and flood insurance that protects financial investment. Effective mitigation efforts can break the cycle of disaster damage, reconstruction, and repeated damage. The process for requesting and using funds related to mitigation work are the same as for repair and recovery work.

FEMA provides assistance to those in need after disasters; however, one must remember that it is a federal government agency. Many businesses affected by the hurricanes of 2005 and 2008 are still working with FEMA to finalize repair and/or mitigation efforts – in some cases, those affected by Hurricane Ike have not realized funds yet. The best course of action owners can take is to develop an emergency preparedness plan that addresses working with FEMA. Knowing how the process works beforehand will greatly enhance receiving assistance and funds after the disaster occurs.

## Projects in the Making



**Robert S. Vance Federal Courthouse Building  
Birmingham, Alabama**

The General Services Administration (GSA) was tasked to administer the proposed ARRA-funded building projects. In August 2009, Hill International was selected as the Construction Manager as Agent (CMa) for the \$42 million modernization and renovation effort of the Robert Smith Vance Federal Courthouse facility in Birmingham, Alabama.

The main challenge is to convert an historical 1920s-era building into a “high-performance green building” that is LEED Certified and provides a model workplace, incorporating sustainable design while retaining the building’s historical character.

The Vance Federal Courthouse, with a distinctive exterior that includes marble and brick neoclassical architectural features, consists of four occupied floors plus a basement level. The building was originally constructed in 1921 to house the main post office and federal agencies in Birmingham. The primary tenants of the facility are the District Courts and Bankruptcy Courts for the Northern Alabama District.

### HEALTHCARE

**Sarasota Memorial Hospital**  
Sarasota, Florida

**Banner Healthcare**  
Mesa, Arizona

**Methodist Sugar Land Hospital**  
Sugar Land, Texas

**Texas Regional Medical Center**  
Sunnyvale, Texas

**Thibodaux Regional Hospital**  
Thibodaux, Louisiana

### HOTELS & RESORTS

**Georgia International Convention Center Hotels – Commissioning**  
College Park, Georgia

**Marriott Orlando World Center Phase II**  
Orlando, Florida

**Sheraton San Diego**  
San Diego, California

**Ginn Sur Mer**  
Grand Bahama Island, Bahamas

### HIGHER EDUCATION

**UTMB – Galveston**  
Galveston, Texas

**N.Y. City School Construction Authority (SCA)**  
New York, New York

### TRANSPORTATION

**Washington State Department of Transportation (WSDOT)**  
Bellevue, Washington

### LABORATORY

**CDC 23 Scheduling**  
Atlanta, Georgia

### AVIATION

**Birmingham Airport Terminal Expansion**  
Birmingham, Alabama

### OTHER

**New Life Ministries Church**  
Decatur, Georgia

**Panama Canal Expansion**  
Panama City, Panama

**U.S. Department of Energy**  
Washington D.C.

## Services Overview

### Specialized Market Groups:

- Healthcare Group
- Federal/Municipal Facilities Group
- Educational Facilities Group
- Transportation (Road & Rail)
- Hotel/Resort Group
- Themed Entertainment Group
- Commercial/Retail Property Group

### Specialized Service Teams:

- Expert Services Team
- Program Management Team
- Cost and Schedule Controls Team
- Owner’s Representative Team
- Value Engineering Team
- Property Evaluation Team
- Development Service Team

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