



## News release

Andrew Neilly  
Gallen.Neilly & Associates  
+1 925 930 9848  
[andrew@gallen.com](mailto:andrew@gallen.com)

Vicki Bentley  
Ernst & Young LLP  
+1 415 894 8087  
[vicki.bentley@ey.com](mailto:vicki.bentley@ey.com)

### **Investors line up but U.S. distressed debt market is slow to develop, according to Ernst & Young LLP's latest survey**

New York, NY – July 28, 2009 – Long lines of cash-rich investors are forming around what some believe could be the biggest distressed debt sales market since the days of the U.S. savings & loan crisis, but Ernst & Young LLP's latest survey of those investors suggests this market won't follow quite the same pattern of the 1990s.

"It's clear from what we're being told by buyers and sellers and what we see in the market that we're in the dog days of distressed debt right now," said Mark Grinis, leader of Ernst & Young LLP's Real Estate Distress Services Group. "Unlike the 1990s when the formation of the Resolution Trust Corporation (RTC) forced the sale of bad assets and quickly set market-clearing price levels, there are very few deals happening today other than one-off distressed sales, the government's PPIP initiative has largely fallen on deaf ears, sellers are weighing their options, and a broad spectrum of buyers are simply waiting for the dam to burst and unleash a highly anticipated wave of deals," he added.

When will the dog days end? Most respondents to the Ernst & Young survey (47%) believe that a significant increase in commercial mortgage defaults will begin before the end of the fourth quarter of this year but slightly more than 30% believe the market is already witnessing significant default activity. About 20%

are looking to 2010 before major default pressure comes to bear on the market and distressed sales begin in earnest.

A small majority (53%) of respondents to the survey have purchased distressed or nonperforming loans in the last 18 months with 47% inactive. However, 45% of respondents who have not yet purchased any distressed assets believe it is simply too early in the cycle of distress for them to even attempt to purchase nonperforming loans right now. This strongly suggests that many investors, at least, believe seller “ask” pricing on the few deals that are coming to market is still too high.

Commercial whole loans are overwhelmingly the primary investment of choice for respondents with more than 45% eyeing the asset category. Residential and land loans were the next most popular categories, each selected by 18% of the respondents as being a preferable investment, followed by residential acquisition and development (A&D) and construction loans at 11%. Commercial and residential mortgage-backed securities (CMBS/RMBS) and loans backed by hotel assets each attracted less than 10% of respondents. “The key for most investors is transparency and having enough good information to make an educated offer. Whole loans are relatively easy for most investors to quickly get their arms around which may be one hint of their attraction to respondents,” explained Chris Seyfarth, Ernst & Young LLP’s National Director of Nonperforming Loan Services, and the report’s author.

One reason why the current distressed market has the potential to play out differently than the RTC model is that Ernst & Young LLP expects a highly competitive market to exist from the outset of this era of distress. “Competition developed gradually via the RTC execution model. Our survey identified some very large and experienced distressed debt investors sitting on piles of cash and waiting for opportunities to unfold but almost 50% of our respondents were smaller investment groups allocating US\$100 million or less to distressed loan

purchases,” said Seyfarth. Seyfarth suggests that this presents the potential for a deep, highly competitive market in the near term – and this could impact pricing and execution quite heavily from the outset.

On the plus side for sellers, Ernst & Young LLP’s survey indicates that investors’ return expectations are not unreasonable. “Only 35% of those investors polled claim to have return requirements above 20% and an equal number actually are shooting for returns in the 10 to 15% range,” said Seyfarth. The balance of investors sit in the 16% to 20% range, suggesting that the spread between bid and ask pricing may narrow quite quickly once deals begin to flow to the market.

The survey also asked investors to assess the impact of the government’s Public Private Investment Program (PPIP) which has been slow to get off the ground primarily due to reticence among buyers and sellers. “While the future of PPIP may be up in the air, respondents to our survey clearly underscored one of the key issues with the program and that’s the need for much more information for the market on how such a program would work,” said Seyfarth.

The survey of investment firms was conducted by Ernst & Young LLP’s Real Estate Distress Services practice in spring 2009. For more information or to obtain a complete copy of the entire survey data and Ernst & Young LLP’s observations, visit [www.ey.com/realestate](http://www.ey.com/realestate) or contact your local Ernst & Young LLP office.

###

-ends-

***About Ernst & Young’s Global Real Estate Center***

Today’s real estate industry must adopt new approaches to address regulatory requirements and financial risks – while meeting the challenges of expanding globally and achieving sustainable growth. The Ernst & Young Global Real Estate Center brings together a worldwide team of professionals to help you achieve your potential – a team with deep technical experience in providing assurance, tax, transaction and advisory services. The Center works to anticipate

market trends, identify the implications and develop points of view on relevant industry issues. Ultimately it enables us to help you meet your goals and compete more effectively. It's how Ernst & Young makes a difference.

#### About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 135,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit [www.ey.com](http://www.ey.com).

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. This news release has been issued by Ernst & Young LLP, a member firm of Ernst & Young Global Limited located in the U.S.