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Business is brisk for specialists in distressed properties



Kyndell Harkness, Star Tribune

Ron Touchette, president of Rock Solid Companies, is working to get new owners for these office condos at Heatherton Ridge in Savage.

Agent Ron Touchette and others in the field are trying to keep up with the glut of troubled commercial assets.

By **JENNIFER BJORHUS**, Star Tribune

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It's 3:30 p.m. on a Friday after a heavy rain. Ron Touchette briskly inspects Heatherton Ridge, a nicely landscaped new office park in

Savage, checking for leaks and picking up trash.

Though it may not look like it, more than half of Heatherton Ridge's 20 office condos are in some stage of foreclosure with local banks and some sit empty. Three are still unfinished inside. Several community banks that are trying to sell the offices have hired Touchette, a real estate agent who runs Maple Grove-based Rock Solid Companies. Touchette's business is handling what's politely called in the industry distressed, troubled or "special" assets.

And business is booming. Specialists in the distressed assets real estate niche are gearing up for the sort of glut in commercial real estate that has plagued residential housing for several years. Large brokerages such as Coldwell Banker Commercial Griffin Companies in Minneapolis and Welsh Companies are beefing up their special-assets divisions.

"We're really seeing hospitality, mixed-use, retail, office -- all product types, all production classes, all locations," said Mark Parten, senior vice president of property management at Welsh.

Touchette estimates that business at the

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small, family-run operation has tripled over the past year. In the past 10 days alone, Rock Solid added four real estate agents to keep pace with the more than 100 properties it's now handling for local banks and courts, because many commercial foreclosures land in court-appointed receiverships. Touchette also employs his wife, Lori, brother-in-law, sister and two sons.

Because the commercial real estate cycle typically follows the residential market, Touchette and others expect brisk business for a few years.

"We're in the early innings," Touchette said.

Sliding property values, which have some borrowers under water on their loans, are just part of the mess in commercial real estate, which legislators and regulators have been struggling to address nationally. Tough credit markets are making it hard for borrowers to refinance loans for commercial real estate, which come up for frequent renewals unlike the long-term home mortgages most consumers are familiar with. And with consumers pinching nickels, there's flat-out lousy business on the ground driving rising delinquencies. At a Joint Economic Committee hearing on the matter last month, chairwoman Rep. Carolyn

Maloney, D-N.Y., said, "The commercial real estate time bomb is ticking." The problem has been particularly hard on the nation's small banks, which made a disproportionately large number of the loans and hold them on their books.

At times, managing distressed assets looks like straightforward property management: rekeying locks, making sure utility bills get paid or heading out in the rain to seal a leaking basement window. On his site check in Savage, for instance, Touchette noted that gushing water had popped off a few downspouts that required fixing. And someone has chucked a bag of garbage onto the sidewalk, which Touchette tossed into the Dumpster.

Garbage, it turns out, is a perennial problem. Touchette said he frequently finds dumped television sets -- a particular headache because they cost \$25 a pop for disposal.

"You start to get some vacant properties, people think they can dump," Touchette said.

Smoother foreclosures

There's also front-end work aimed at helping local banks prevent foreclosures, Touchette said. Some banks call him as soon as a

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borrower starts missing payments. In some cases, the goal may be to keep tenants in place and happy. In others, Touchette might analyze whether tenants or borrowers are getting the most value from their property. He might, for instance, help a business owner streamline so they can rent out extra space to help make loan payments.

If a foreclosure appears inevitable, third parties such as Rock Solid can help negotiate easier, voluntary ones.

Voluntary foreclosures carry a much shorter 60-day redemption period, as opposed to at least six months for regular foreclosures, which means a bank can resell the property more quickly. Lenders frequently agree not to go after the borrower for the difference between what they owe and what the bank can sell it for. It also means the process stays out of court.

The work can have its dicey moments, particularly when tenants don't want to leave. But Touchette, a solid 6 feet 4, figures he can talk his way out of anything. In fact, he said he racks up about 8,000 minutes a month on his Windows cell phone. He figures his own experience running a small business and watching it fail makes him more effective at working with companies in trouble.

The upside of his work, Touchette said, is that falling prices are making properties more affordable. He relishes being able to help another small business find a home.

Touchette said he handles a lot of office condo properties for banks and courts. Offices condos, which function much like residential condos, were popular during the construction boom. They've been hit particularly hard in the recession, he said. With prices down, they've become affordable for many small business owners who currently lease and want their own space.

Dana Johnson, who runs Farm Bureau Financial Services in Maple Grove, said she'd leased an old American Legion building in Hamel for years. She was tired of the cramped quarters and wanted to take her business to the next level, but she couldn't afford it.

Then a bank-owned office condo in the Maple Grove building where Rock Solid has offices became available. It's a sunny second-floor unit with a conference room and is perfect for her business, she said. She jumped.

Johnson said she offered \$132,700 for the

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1,250 square-foot office on Friday, and the bank accepted it on Monday.

"I about seriously fell off my chair," she said. "It's like a breath of fresh air. I am so excited."

Finding a good home for a family business is the best part of a job that thrives during a down cycle, Touchette said: "It trips my trigger."

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