Commercial mortgage market is his business

By DONALD D. BREED
Journal-Bulletin Staff Writer

Everybody makes mistakes, as the saying goes, so problem real estate will always be with us. That means work for companies that work with lenders and delinquent borrowers.

"I believe the market for nonperforming mortgages is just beginning, just coming into its own," said Neville A. Anderson. The 33-year-old chairman and chief executive officer of Nevander Asset Management Inc., based in Irvine, Calif., was in Providence recently to visit two big Providence-based companies.

Anderson would say nothing specific about them — "I'm going to have lunch" — but did say Nevander is "reaching out to corporate America" to manage realty assets that companies no longer want to deal with, either because of downsizing or because it demands too much in-house staff.

Most of Nevander's work, since it was incorporated in 1990, has been with properties turned over to the Resolution Trust Corporation, the government agency created to deal with the wreckage of the S&L crisis. (Anderson had not heard of Rhode Island's own version, the credit union crash, but he listened with interest.)

Nevander now has a half-billion in assets under management in 23 states and Canada. Most is owned by the federal government, and encompasses about 3 million square feet of floor space and 12,000 acres of land.

Although RTC is winding down its work, Anderson believes that doesn't mean his kind of business will be idle. On the contrary, "RTC has added fluidity to the commercial mortgage market, performing and nonperforming," he said, somewhat in the way that Fannie Mae and Freddie Mac raised money for residential mortgages.

"RTC pioneered in securitized pools of commercial mortgages," he said, and Wall Street has come out with new securities backed by commercial mortgages. This creates, he said, "a need for firms like mine to work out loans for clients. We also raise our own pools of cash to buy nonperforming loans on behalf of investors."

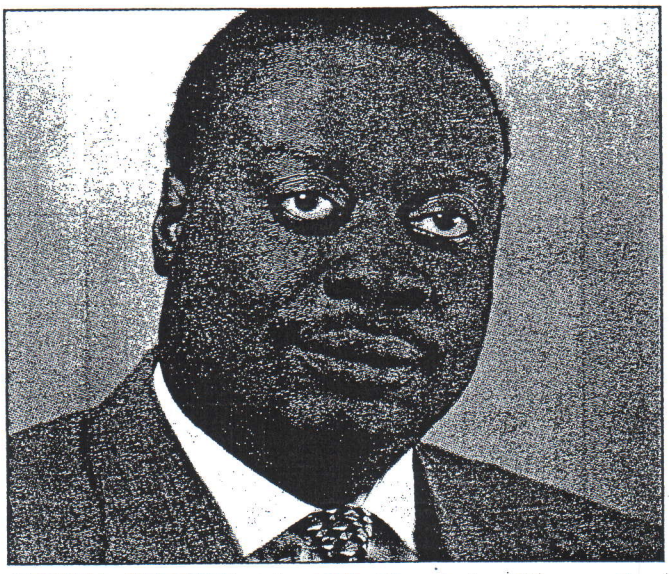
Has borrowers for clients

Although most work has been for lenders, more recently Nevander has picked up clients who are borrowers and want somebody who can "negotiate with people like ourselves." For example, a client may have defaulted; RTC repossessed the property and sold the notes to investors at 50 cents on the dollars. "The book value is 75 cents. We believe it's worth 100 cents. We want the notes back, and offer 55 cents."

Another aspect of Nevander's business is dealing with "environmentally challenged" properties, such as factories with toxic wastes.

Anderson, who was born in Jamaica and came to live in Washington, D.C., at age 6, might be cited as a successful example of affirmative action. But that's just one part of it; the rest is hard work, self-confidence, ability to recruit good staff, and a bit of good luck.

"I never market Nevander as a minority firm," Anderson said, but his ownership of 86 percent of the stock ensures that it qualifies. Of the five officers (himself included) pictured in his promotional material, three are white.



NEVILLE A. ANDERSON is chair and CEO of Nevander Asset Management Inc.

Growing up in Washington, Anderson said, he attended good schools and was, at times, a good student. He ran track — 800-yard run and the mile — well enough in high school to get scholarship offers from several universities.

He chose Virginia Military Institute, because it was strong in engineering the the idea of a military career appealed to him. "I wanted to lead men and be an engineer." As it turned out, he did neither. The woman who later became his first wife talked him out of joining the armed forces, and he graduated from VMI in 1985 with a major in economics.

His first job was at Household Finance Corp., in Tacoma Park, Md., where he started training to be a lender but, having been temporarily transferred to collecting, found himself good at it. And he learned a lesson he was to apply later: "Most collectors assume people are deadbeats. Really, most people want to pay. If you work something out that's reasonable, you get your money."

He then moved to another Maryland company as a collections specialist. "There I really did meet deadbeats." After six months, he applied to a business and financial training firm where, they said, you had to have either lots of experience or an MBA. He had neither, but he impressed one of the principals by offering to work there for nothing, just to undergo the management training. They hired him for pay, and he did well by, among other things, working from 8 a.m. to 11 p.m.

He next took a job as a broker at a firm specializing in penny stocks (named for the low price per share; usually speculative). He met people who made a million dollars a year and gambled $100,000 of it on these stocks. "I learned that money is just a numbers game, a commodity."

The hours he'd been working and his job as a broker provided him with another axiom: "They say time is money. Time is *not* money; time is life. Money is a commodity."

After a divorce, he was ripe to shift coasts when a VMI team mate offered him a job at his firm that traded in commodities futures. Anderson was hired to run the retail division of the firm's office in Irvine. It had been losing money, Anderson said, and he turned it around. Then that firm was sold, and he was offered a chance to come back east. "But in Newport Beach, a young guy just divorced, there was no reason to leave."

This was in 1989. He thought about starting his own firm to trade in currencies. Then he noticed that RTC was starting, and decided to set up a real estate asset management company.

He did lack two things: experience in real estate and capital.

Not insurmountable if you're a VMI grad who's established a record as "a doer." Also, Anderson added, "I'm one of the luckiest guys you'll ever meet."

With the help of another VMI graduate, Anderson persuaded 10 VMI alumni to invest $25,000 apiece in Nevander (a contraction of his names) with no strings attached. All they asked, he said, was that they be repaid with decent interest and that he help out other VMI grads.

With $250,000 in capital, he started recruiting a core staff — who couldn't draw any pay until Nevander started making money.

"Everyone on my staff," he said complacently, "is a lot smarter than I am. They tell me that's the key." He's also the youngest of the officers.

The president and chief operating officer is a Harvard Law graduate who had been running the bad bank division of a California thrift. The senior vice president had been a successful commercial realty broker in Vancouver, then retired to southern California, where Anderson coaxed him out of retirement. The executive vice president is a VMI graduate who left the Navy as a lieutenant commander. The senior asset specialist, when in Texas, ran Republic Bank's bad bank division.

Although officers weren't paid, the expense of travel and a small office ate up the capital. Anderson went back to his VMI backers, and five put up $15,000 apiece more.

The new firm got a slow start. The first 40 times it entered RTC's competitive bidding, it was unsuccessful. But then, RTC instituted a system to help minority-owned businesses. As it works, Anderson said, there are no set-asides for minority firms, but they do get extra points — sort of like tie-breakers.

Finally, they won some bids: two small contracts of $30 million in assets each. "These properties were really the dregs," he said, "the scum of the scum of the scum. But we performed." (Asked what he meant by "scum," Anderson said, "Well, where book is $800,000, the appraisal is $200,000, and you're supposed to recover it all.")

These contracts weren't much, but they were enough that Anderson was able to borrow another $75,000 from his VMI supporters. (In 1994, all were paid back at an average annual interest of 28 percent, except for one who prefers to be the holder of the 14 percent in stock that Anderson doesn't keep.)

Tries to work deals

Nevander did well, Anderson said, by following the principle of his first job. "Most people are good. Instead of foreclosing, we worked out deals, loan by loan, with borrowers." Many of the delinquent borrowers, especially the smaller ones, were eager to save their good names and reputations, and responded to Nevander's workout offers.

For a workout to succeed, Anderson said, the borrower has to be "motivated, honest and competent. A lot of borrowers are not competent." He added that, if competency is the deficiency, Nevander may be able to help. But if the problem is dishonesty, there's nothing to do but foreclose.

Nevander's approach is to not to bundle and sell assets, but to take them one at a time and work according to the circumstances. "We work for the benefit of the taxpayer," he said, rather than looking for a quick turnover. And this, he added, will build the firm's reputation for the long term.

Warming to his pitch, Anderson said his firm, which now has a staff of about 30, is "young, aggressive and nimble" and, in contrast to larger competitors, not "another bureaucracy."

"We've proven that size doesn't make you best."

Assignments grew. Nevander was the first RTC contractor to win an outstanding evaluation from the agency's Denver office. Then it got an outstanding evaluation from the RTC office in Kansas City — the first firm to win that kind of rating from two offices.

"They started treating us like regular people."

For awhile, Nevander found it impossible to get bank financing — something he said minority-owned businesses frequently find. But Union Bank, a Japanese-owned bank in San Francisco, had an officer who visited Nevander and decided "to take the risk on me." Now it's the firm's lender. Anderson added it was unfortunate, in a way, that a foreign-owned bank helped a minority business.

As far as the chairman is concerned, Nevander is not so much a minority company as a company that happens to be owned by a minority.

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structed five years ago by **Ahmanson Development Corp.** of Irwindale, Calif., should fetch about $185 a sf, or nearly $78 million. The complex is being brokered by **Lowe Enterprises** of Los Angeles.

The **Urban Development Corp.**, a New York State agency, is paving the way to sell a 700-acre tract of land on Long Island. The parcel is adjacent to Pilgrim State Hospital, one of the largest mental health hospitals in the world. The agency has hired **Eastdil Realty Corp.** of New York to come up with a plan for the development of income-producing properties on the site. After that, Eastdil will likely get the nod to find a buyer for the parcel, which is located in Islip, some 35 miles east of Manhattan.

The country's largest public pension fund, **California Public Employees' Retirement System**, is looking to add a senior real estate investment specialist. The analyst would oversee the fund's outside real estate advisers as well as help fine-tune its investment strategy. Calpers manages nearly $100 billion of assets, about 10% of which involve real estate.

Four investors will divide eight commercial mortgages with an outstanding balance of $65 million that **ING Capital** Corp. recently offered in a sealed-bidding contest. The New York investment bank rejected bids on three other mortgages with a face value of $14 million. One was a $5.6 million loan on a Rochester, N.Y., retail center whose borrower filed for Chapter 11 protection. The package of mortgages, which ING had assumed through several portfolio acquisitions, was marketed by **Meenan, McDevitt/Cohane Rafferty Securities** Inc. of Harrison, N.Y.

ING Capital is part of the investment team that acquired a 49% stake in a pool from RTC's 1993-NP3 portfolio. The New York subsidiary of Amsterdam-based **Internationale Nederlanden Bank N.V.** provided the bulk of the equity for the team, **Phoenician Partners LLC.** The other partners, as previously reported, are **CT Realty Inc.** of Irvine, Calif., and **Nevander Asset Management Inc.** of Newport Beach, Calif. The partners acquired pool #3, with $40 million of assets. RTC retained the remaining 51% equity stake. The transaction valued the pool at $21.9 million, or 96% of its derived investment value.

MEPC PLC, a London-based real estate firm, agreed to pay $295 million for three shopping malls and a ground lease from **North American Property Unit Trust** of Dallas. The properties, which encompass 3.1 million square feet of space, include the Regency Square Mall in Jacksonville, Fla., and the Valley Plaza Mall in Bakersfield, Calif. The move is part of MEPC's strategy to sell its European holdings, which are valued at $270 million, and reinvest the proceeds in U.S. and Australian properties, which it believes have more upside.

CALENDAR

Nov. 20: Mortgage Bankers Association of America presents a seminar in New York on servicing for commercial mortgage-backed securities. (800) 793-6222.

Nov. 27-28: Strategic Research Institute offers a New York conference on distressed debt, including opportunities in real estate securities. (212) 302-1800.

Dec. 7-8: Executive Enterprises presents a Washington seminar on buying, selling and developing contaminated properties. (800) 831-8333.

Dec. 13-14: Institute for International Research presents a Washington seminar on profiting from environmentally impacted real estate. (212) 661-8740.

Jan. 10-12: The National Multi-Housing Council conducts its annual meeting in Naples, Fla. (202) 659-3381.

Jan. 24-26: UCLA Extension's Real Estate Center presents its annual hotel industry investment conference in Beverly Hills. (310) 206-1409.

RTC Accepts Three Bids for 1995-NP3 Pools

Three investor groups won 49% stakes in pools from a $154 million RTC portfolio of distressed commercial mortgages and foreclosed properties.

The three winning bidders for the 1995-NP3 portfolio were:

- Pool 1 — An investment team made up of **Capital Investment Management Corp.** of McLean, Va., and **Trotter Kent Inc.** of Bethesda, Md.
- Pool 2 — The team of **American International Group** Inc. of New York and **Ontra Inc.** of Austin, Texas.
- Pool 3 — The team of **Nevander Asset Management** Inc. of Newport Beach, Calif., and **CT Realty Inc.** of Irvine, Calif.

Their bids gave the portfolio an indicated value of $70.4 million. That equals 46% of book value and 105% of the portfolio's derived investment value (DIV).

RTC is selling the assets to partnerships involving itself and the private-sector investors. The agency is retaining a 51% stake in the assets and providing debt financing to the partnerships. The three investment groups are paying $18.5 million. That means RTC's equity contribution is valued at $19.4 million. In addition, the agency will provide $32.5 million of debt financing.

The S&L rescue agency was advised on the sale by **Pryor, McClendon, Counts & Co.**, an Atlanta investment bank.

Meanwhile, Pryor, McClendon recently started marketing 1995-NP4 — the last such offering by the agency — which will consist

How Portfolio Was Divided

(Dollar Amounts in Millions)

MANAGEMENT

LUCRATIVE NICHE

BORROWED BANKROLL HELPS NEVILLE ANDERSON CAPITALIZE ON NON-PERFORMING REAL ESTATE. **BY RUSS NICHOLS**

When the federal government needed a few good men to manage the properties it had inherited from defunct financial institutions, one of those it recruited was Neville Anderson. Today this former military school student, by his own account, gives the marching orders for half a billion dollars worth of real estate in 23 states.

Anderson is chief executive officer of Nevander Assets Management Co., a Newport Beach-based commercial property management firm that he launched with a bankroll borrowed from college friends. Anderson says that six years ago, at the age of 27, he saw opportunity in the savings and loan cleanup.

"I formed the company in 1990 primarily to deal with S&L failures to handle properties for the RTC and FDIC [Resolution Trust Corp. and the Federal Deposit Insurance Corp.]. We grew and grew, and we competed against some of the biggest firms in the country."

In Anderson's view, too many companies "went to milk the government to get the government largess," but added problems of their own.

"We went in and straightened out problems other companies had created."

Anderson's background is in securities. He was working for some "mom and pop" regional firms on the East Coast before he came to California to run a futures firm. He had a vision of a commercial real estate management company, but no capital to start it.

He wrote letters to a few college buddies from Virginia Military Institute and asked them to take a chance on him. They did, at $25,000 each, and he raised around a half million dollars, all in loans, which he says he has already paid back, "with a very nice return." He was still undercapitalized, he says, but he forged ahead and solicited business from the RTC.

"We did it better, faster, more efficiently, cheaper and more cost effective than anyone else."

Now he says, his 30-employee company is managing warehouses, strip shopping centers, small commercial buildings, manufacturing plants, resorts, hotels and raw land. Most of the property is owned by the federal government. He has some 3 million square feet of floor space and 12,0000 acres of land in his portfolio.

Company growth is steady. "We don't want to be the biggest company in the world," says Anderson, "yet we want to provide the same level of service that has gotten us this far."

Anderson is an African-American businessman, but says he hasn't used his race to gain an advantage. "We don't do the minority thing. We compete in the mainstream."

The company has two main divisions, one of them handling performing and "sub-performing" loans. "Basically, we restructure workouts on big, multibillion-dollar mortgages. A buyer might default and we go in and negotiate on their behalf, determine if they have to go to foreclosure, rework terms of the note, or else do a foreclosure. One of the things we pioneered was to do a [loan] restructure and workout, so a bank could let a competent, able borrower keep the property from going into foreclosure. We don't see a loan as a way to get the property. We will work with him [the borrower], but we will foreclose if we have to."

Nevander's second division performs asset management for real property leasing services.

"We don't go and tell the client, 'This is what we are going to do.' We get the client to tell us what we should do. The client dictates the strategy."

Anderson learned "to follow the orders of my superiors" at Virginia Military Institute, and he regards his clients as his superiors.

One of his specialities is "environmentally challenged properties" — former gas station sites, school buildings with asbestos or methane pockets underneath raw land.

"We have developed a way to get the environmental work done and then do whatever the client wants. We hire subcontractors. We are basically able to get small and local businesses involved in our efforts. Local property managers, local brokers would know that property better than we would, so we can move properties, where a big company can't because we use local resources."

Most of Anderson's properties are outside California. But he believes in California's future business potential.

"I have tremendous optimism for California. The public is looking down, and California will see a bright day it has never seen before, and that's why we want to start focusing on the state now."

Black firm builds reputation with RTC help

Six years ago, a young African American asked some alumni of his alma mater, the Virginia Military Institute, to take a chance on him and an idea he had.

Ten of them ponied up $25,000 each and became minority passive investors in 27-year-old Neville Anderson's Nevander Asset Management Inc., a full-service portfolio management and disposition organization specializing in distressed, non-performing real estate investments. Its initial market would be the then newly created Resolution Trust Corporation.

After more than 40 proposals submitted in a very competitive bidding environment, Nevander's first award, 33 assets with a book value of $75 million, came from the RTC through its Minnesota and Missouri regional offices.

Today, Nevander manages some $500 million worth of RTC assets in 23 states. These include some 3,000,000 square feet of single and multi-family developments, industrial and high-rise commercial ventures and 12,000 acres of undeveloped land.

So well and so innovatively did Nevander perform from the day its doors opened that it soon began winning awards from RTC offices in other regions, such as California and Colorado. It became the first asset management contractor to earn an "Outstanding" rating from RTC in Denver. Later, another "Outstanding" rating from the Kansas City office made it the first contractor to earn the rating from multiple regions.

From its first year, Nevander's revenues and profits have doubled annually and each of Anderson's passive VMI alumni backers has retrieved his investments — and more.

The RTC, according to plan, has begun to shrink itself in contemplation of folding its activities into the FDIC by the end of this year. Does this suggest a shrinking market to Nevander?

"Quite the contrary," Anderson says. "The private sector represents the real growth opportunity to us. The Fortune 1000 are up to their armpits in non-performing real estate investments, as well as environmentally impacted real estate, Some require restructuring; others require remediation or liquidation and other forms of disposal.

NEVILLE ANDERSON

"These companies are downsizing and they need resolution of their headaches without expanding their real estate departments. That's what we do and we do it as well as anyone. We have the track record with the most demanding client you can have — the U.S. Government."

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its second investment fund, which is targeting office buildings, hotels and specific types of raw land. Steinhardt's first fund, with $175 million of equity capital, was used to complete 21 acquisitions with a book value of $1.1 billion.

South Boston Savings Bank will recover $130.5 million, or 87% of the unpaid balances, from the sale of a commercial-mortgage portfolio to **BlackRock Capital Finance LP** of New York. The Boston thrift is unloading the loans in order to pave the way for its acquisition by **Bank of Boston.** The portfolio contains $42 million of subperforming mortgages on multi-family properties and $108 million of performing loans. **Goldman Sachs** was hired last November to advise the thrift on the loan sale.

The real estate advisory operation of **Pryor, McClendon, Counts & Co.** is slowly moving to the buy side. The Atlanta-based unit, which has been advising government agencies and private institutions on the disposition of unwanted real estate, is now hunting for suitable acquisitions for one of its clients. Working on behalf of an unidentified pension fund, Pryor McClendon is seeking multifamily properties in the Southeast and Mid-Atlantic regions. Contact: Pryor McClendon's **Kelvin Walker** at 404-875-2161.

Catellus Development Corp., which last October said it would sell off $100 million of its land by yearend 1996, has completed two-thirds of the job. That means the San Francisco real estate company still intends to sell about $30 million of land in the West, most of which is suitable for industrial development. Catellus aims to list those parcels with local brokers and sell them by yearend. So far, its real estate sales have generated a premium to the assets' book value.

Nevander Asset Management Inc., a Newport Beach, Calif., real estate firm, has linked up with an undisclosed East Coast investment firm to purchase distressed mortgages and foreclosed properties. Nevander's first experience as a principal investor came last September, when it won a stake in an **RTC** portfolio of assets. Prior to that, the firm was strictly an asset manager. In its latest venture, Nevander will contribute some investment capital and oversee acquisitions. Contact: Nevander's **Neville Anderson** at 714-851-2530.

The office market in Glendale, Calif., has somehow recovered well ahead of the rest of Southern California, which is only slowly emerging from a real estate funk. In fact, the Glendale market is so tight that it has prompted plans for the development of a 480,000-square-foot building. Even though the developer, **K. Young Development Inc.** of South Korea, has yet to pre-lease a single foot, confidence is running high that the building can be filled by the time it opens next year. The developer is targeting entertainment-industry tenants.

CALENDAR

March 18-19: The **Real Estate Capital Resources Association** holds its winter conference in Marina Del Ray, Calif. 202-962-9441.

March 18-19: Directors of the **National Multi Housing Council** meet in Washington. 202-659-3381.

March 25: Institute for International Research conducts a New York forum on commercial mortgage securitization. 212-661-8740.

May 13-14: New York University hosts its annual conference on pension fund investment in real estate. 212-998-7171.

May 20-23: Frank J. Fabozzi/Information Management Network conducts a New York forum on commercial real estate finance and securitization. 212-293-7300.

June 2-4: New York University presents its annual international hospitality industry investment conference. 212-998-7171.

June 10-11: The **National Multi Housing Council** holds its quarterly meeting in Dallas. 202-659-3381.

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