

# PROFILES



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## Distressed Property Services Bring Stalled Project to Fruition

These days, banks and investors have no shortage of partially completed developments on their hands. In the spring of 2008, a large national bank on the west coast found itself in just that situation and in need of distressed property services.

With the project developer having defaulted, the bank was left to pick up the pieces for the majority of Martin Farms, a single-family Master Planned development in Otsego, Minnesota. The bank teamed with consultants from Westwood Professional Services in Eden Prairie, Minnesota, to fulfill the terms of the Developer's Agreement and gain necessary approvals. Through continual monitoring and coordination of the construction process, prompt updates of correction work and expense, and negotiations with regulators, Westwood helped the bank bring the lots to saleable condition.



When the bank took control of Martin Farms, construction had started on a 235-lot phase of the 306-acre Planned Unit Development. Most of the site improvements were completed in 2004 and 2005, but some streets, sewer lines, and water mains remained unfinished. Furthermore, there were completed items that needed repair such as leaking manholes. To top it all off, certain permits were creating a liability for the bank. For example, the project's wetland permit required the bank to mitigate for wetland impacts by constructing new wetlands, even though the level of impact had changed as a result of the modified project.

By spring 2008, the City of Otsego had stopped issuing home building permits. According to Westwood Project Manager Fran Hagen, "The bank needed acceptance of the project by the City and appropriate governmental agencies. Our priority was to remove City-imposed building restrictions in a timely and economical manner, in order to allow for the marketing and sale of the 150 developed lots and the two developable outlots under the bank's control."

### Distressed Property Management Tips

- Have "eyes and ears" on the construction site.
- Pay attention to detail.
- Plan on constant oversight to ensure follow-through by contractor.
- Get frequent updates from the project manager.

Westwood took an integrated, proactive approach, bringing all parties into agreement on which tasks needed completion and providing continual oversight of the construction effort. "Weekly on-site construction observation was essential for propelling the work forward," said Hagen. "We monitored contractor effort on a daily basis and suggested alternative strategies to facilitate task completion."

Some creative problem-solving was needed to repair the leaking manholes and other defective items. The manholes, intended to provide access to sanitary force main valves, were installed with drainage holes in the bottom in case of valve leakage. These drainage holes can only do their job in dry soil, however. The water table at Martin Farms was too high, causing groundwater to enter the manholes through the drainage opening and rendering the valves inaccessible. Westwood troubleshooted the problem and ultimately collaborated with a specialist who was able to inject a resin that sealed the hole. This solution saved the bank from the time and expense of ripping up completed streets to reconstruct the manholes.



A proactive solution also helped resolve the wetland permit issues. Westwood demonstrated that enough new wetland had been created to mitigate for the wetland impacts that had occurred. The project team also brought the monitoring of new wetlands up to date. By addressing the permit's outstanding requirements, Westwood was able to negotiate permit closure with the appropriate government agencies. "Both the client and the agencies were pleased with how the permit amendments tied up loose ends and helped avoid possible enforcement procedures," explained Shawn Williams, an Environmental Scientist with Westwood.

Distressed properties require many of the same services as new projects, but experienced, comprehensive project management is especially valuable when ordinary timelines and processes have been disrupted. Commending Westwood's service, the bank's Vice President of Asset Management concluded, "The one-stop shop is very important, but that doesn't work unless everybody in the shop is superb."