CASE STUDY 5: DISTRESSED NOTE ACQUISITION

NOTE SECURED BY TWO BUILDINGS
Rancho Cucamonga, CA

- 25,597 SF Medical/Professional Office Development
- Acquired $4.01 million note at 74% of unpaid balance
- Properties were 57.2% leased at acquisition, implying a going in cap rate of 8.62%

OPPORTUNITY

In November of 2011, PacVentures uncovered the opportunity to purchase a $4.1 million promissory note secured by a first lien on two professional/medical office buildings located on Foothill Boulevard in Rancho Cucamonga, California. At the time of purchasing the note, the borrowing entity, who developed the property and occupied one of the buildings, was in bankruptcy. PV Rancho, LLC saw the pending bankruptcy and the existence of a $2 million SBA second lien as an opportunity to purchase the note and ultimately acquire the property at substantially less than the value of the property.

RESULTS TO DATE

PacVentures entered into a note purchase agreement with the lender on October 24, 2011, and its affiliate, PV Rancho, LLC, closed on the acquisition less than 30 days thereafter. PV Rancho's purchase price of $2.95 million or $115 per square foot implied an in-place cap rate of 8.62% on a 57% leased property at acquisition.

PV Rancho managed to have the bankruptcy dismissed while still making distributions of preferred return to its investors. Following an unsuccessful round of mediation, the borrower declared bankruptcy for a second time. Successfully asserting its rights in bankruptcy court, PV Rancho LLC prevailed in having the second bankruptcy dismissed. Promptly after obtaining a relief from the automatic stay, PV Rancho foreclosed on the property, taking title in May of 2013.

Promptly after acquiring the property, PV Rancho executed market-rate leases for all of the unleased units in the building, bringing the property to 100% leased. This included an expansion of one of the tenants and a lease-back on several units by the original developer/borrower. In addition, PV Rancho promptly began work on subdividing the property into 13 office condominiums to maximum flexibility in selling the property. In December of 2013, PV Rancho, LLC obtained financing for the properties for a $2.9 million loan at a 4.75% fixed interest rate for a five year term, returning 100% of invested capital approximately two years after acquisition.

PV Rancho, LLC ultimately recorded the condo map. Shortly thereafter, PV Rancho went under contract to sell both buildings, to separate owners. The first of the two buildings (medical office) was sold in May of 2015 for $4.525 million. The second building (general office) is in escrow to sell at $3.1 million, representing anticipated total profits in excess of $5.4 million on this investment.