

The background of the slide is a black and white photograph of a modern office building's interior. It features a prominent glass staircase with a metal railing, and large windows that reflect the sky and surrounding buildings. The architecture is characterized by clean lines and a high-contrast, geometric design.

# steinberg

real estate + finance

**Case Study:** Sale of an office property by  
foreclosure sale

# Initial Situation (1/2)

The credit exposure described below was part of a CMBS securitisation.

- ❖ In the summer of 2018, Steinberg Real Estate Management GmbH was commissioned to prepare a foreclosure auction for an approx. 20,000 sqm commercial property.
- ❖ The owner of the property was a single-purpose vehicle ("Immo-GmbH"), which exclusively held the real estate. The office and commercial property comprised two buildings and was almost fully let.
- ❖ Immo-GmbH acquired this property in 2006. The purchase financing was secured by a first-ranking mortgage.
- ❖ Shortly after the granting of the loan, the technical equipment and installations located in the building, such as elevators and ventilation, were sold to a sister company of Immo-GmbH ("TGA-GmbH"), which then received a monthly rental payment from Immo-GmbH.
- ❖ Within the framework of rental contract negotiations with the existing tenants, the existing contracts were partially "split up" so that part of the rents now flowed directly to TGA-GmbH, which, however, was not liable for the debt of Immo-GmbH.
- ❖ The borrower justified this measure with tax optimisation - from the lender's point of view, however, this change had a negative impact on the ability to service capital, as parts of the rents were paid to third parties (TGA-GmbH) and the ownership of the accessories was no longer with the borrower.
- ❖ Towards the end of the term of the loan, Immo-GmbH was not in a position to redeem the remaining debt, as the value of the property had decreased significantly compared to the purchase. In 2017 and after the due date of the total loan claim, the negotiations for an amicable solution with the sponsor failed. The lender, represented by a London-based credit servicer, initially applied for foreclosure and receivership. This was done with the aim of maintaining control over all rental income and at the same time promoting the sale of the property.

# Initial Situation (2/2)

- ❖ As the land charge was created prior to the sale of the TGA, the accessories sold and the separate rents continued to be subject to the legal attachment from the original collateral. The forced administrator was therefore entitled to collect both the rents for the use of the building and the partially separated rents for the TGA from the tenants and thus to stop the partial outflow of rents to TGA-GmbH.
- ❖ In order to exert further pressure on the sponsor, the lender subsequently filed for insolvency of Immo-GmbH's assets and ordered provisional insolvency proceedings. In principle, the insolvency administrator would have been entitled to manage and exploit the property, but would not have had access to the TGA sold and the separate rents. A realisation would have required the consent of the TGA-GmbH, which, however, was still under the control of the uncooperative sponsor.
- ❖ Since a sale within the scope of the forced sale became more and more probable, the credit servicer commissioned Steinberg Real Estate Management GmbH with the preparation of the forced sale date in order to achieve the best possible realisation proceeds, whereby the following issues had to be taken into account:
  1. The property documents were incomplete, as the owner and previous asset and property manager were only cooperating to a limited extent.
  2. There was an increased need for explanations to potential buyers with regard to the legal requirement of a judicial compulsory auction and the avoidance of price discounts due to the "emergency sale".
  3. The judicial market value appraiser had only limited information at his disposal, so that he had to make various assumptions. This led to a certain uncertainty with regard to the market value and the informative value of the expert opinion.
  4. Despite the time pressure of the short-term auction date, a comprehensive market approach and preparation of the foreclosure auction date had to be carried out in order to achieve sustainable bids as high as possible.
  5. The aim was to negotiate a bidding guarantee in order to secure a minimum bid.

# Realisation

1. Analysis and preparation of information:
  - ❖ Systematic preparation and supplementation of the property documents, including inspection of building files, obtaining information and intensive cooperation with the forced administrator.
  - ❖ Creation of an electronic virtual data room to enable bidders to access the data quickly and efficiently.
2. Creation of a teaser and a timetable, as the auction date was set by the court, which required stringent planning.
3. Comprehensive market approach via advertisements, targeted research of potential regional investors and on the basis of the existing investor database
4. Conduct property inspections with potential interested parties, including a main tenant, in which the background to the forced sale and the procedure were explained in detail to the interested parties.
5. Obtaining binding bids with the aim of concluding a bidding guarantee in advance (it was already apparent here that there was a high level of interest in the property and that a bidding competition had already begun before the actual auction date)
6. Waiver of the bid-out guarantee in coordination with the mortgagee, since on the one hand a bid was likely to exceed the market value determined by the court and several interested parties would participate in the foreclosure auction date
7. Carrying out a money laundering audit of all bidders in advance, as well as examining proof of financing and limiting the number of bidders to reputable bidders by requiring a deposit of 10% of the market value as security.



# Result

- ❖ Am Tag der Versteigerung waren ca. 40 Personen im Gerichtsaal anwesend. In einem Bieterwettstreit zwischen einem der Hauptmieter sowie einem regionalen Investor wurde letztendlich ein Höchstgebot von über EUR 7 Mio., bzw. 40 % über dem gerichtlich festgesetzten Verkehrswert, erzielt.
- ❖ Die weitere Abwicklung der Zwangsversteigerung sowie die Beendigung der Zwangsverwaltung liefen reibungslos und im Sinne der Grundpfandrechtgläubigerin, welche einen deutlich höheren Erlös als geplant verzeichnen konnte.
- ❖ Trotz einer anfänglich schlechten Informationslage und dem schlechten Image einer Zwangsversteigerung konnte aufgrund einer strukturierten und systematischen Vorbereitung und Durchführung des Vermarktungsprozesses, umfassend bereitgestellten Information und durch intensive Unterstützung der Bieter eine Wettbewerbssituation geschaffen werden, welche als Ergebnis einen Verwertungserlös deutlich über dem Marktwert ermöglichte.

# Result

- ❖ On the day of the auction about 40 people were present in the courtroom. In a bidding contest between one of the main tenants and a regional investor, a maximum bid of more than EUR 7 million, or 40% above the judicially determined market value, was finally reached.
- ❖ The further processing of the forced sale and the termination of the forced administration went smoothly and in the spirit of the mortgagee, who was able to record significantly higher proceeds than planned.
- ❖ Despite an initially poor information situation and the poor image of a forced sale, a competitive situation could be created due to a structured and systematic preparation and implementation of the marketing process, comprehensive information provided and intensive support of the bidders, which as a result enabled realisation proceeds to significantly exceed the market value.

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