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InnerLoop

BY MELISSA CASTRO

Courtroom drama

While litigators are sometimes known for courtroom theatrics, a local **Venable LLP** attorney is literally in the running for an Oscar.

Sig Libowitz, a third-year associate, was a movie executive and regular on "Law & Order" and "The Sopranos" before he accepted a scholarship to the University of Maryland's law school.

Libowitz kept a hand in his old industry, though, by writing, producing and starring in "The Response," a 30-minute courtroom drama about the tribunal at Guantanamo Bay. "The Response" was just plucked from a field of 72 entries as one of 10 finalists in the live-action short films category. The next round of voting will narrow the field on Feb. 2 to three to five nominees. The winner will be announced at the 82nd Academy Awards.

… Now for some local courtroom drama: A Southwest D.C. property owner, **Fredrick Mashack**, is suing a major D.C. developer, **Akridge**, claiming the company strung him along for years on an agreement to buy his property, which is near — but not part of — Akridge's planned 9-acre 100 V St. SW project just south of Nationals Park.

Under the purchase agreement, which Akridge signed in late 2005, the company was supposed to close on the property in June 2006. But Akridge periodically extended

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Your money

See which banks have the most deposits in the Washington area.
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Ignite temp lab space yields NoVa incubator

Region gets long-desired lab space once Ignite vacates CIT site

The Ignite Institute's temporary lab space — at least 20,000 square feet inside Herndon's Center for Innovative Technology — will be a boon for Northern Virginia, which has long desired to be on a level playing field with Montgomery County. The space will be passed on to other biotech startups. *By* VANDANA SINHA **Page 3**

BUSY IN THE BUST: Brownstone Capital principals Stephen Carboni, left, and Shawn Krantz have been busy helping commercial property owners work out their distressed loans.

JOANNE S. LAWTON

Workout specialists thrive in midst of real estate bust

As more commercial property owners face pressure to resolve their debt problems, loan experts are being hit with pleas for help. Two workout specialists give an account of the intricacies of untangling the complex loans at the heart of the real estate crash. *By* MELISSA CASTRO **Page 4**

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PERIODICALS – NEWSPAPER HANDLING – TIME DATED MATERIAL

REAL ESTATE

Rescue teams jump in to save your assets

Loan workout specialists scramble for options to help developers in an increasingly complex commercial real estate crash

By Melissa Castro
Staff Reporter

This is the new normal: A few months ago, Steve Carboni, a former commercial property owner, sat across from a formerly high-flying developer, sharing a lunch hour and thoughts on the market. But this was no three-martini Morton's steak lunch, and there was no discussion of cash- and debt-soaked future deals.

Instead, over hot chai latte at Starbucks, Carboni, now a troubled-loan workout specialist at Brownstone Capital LLC, counseled the developer on his dwindling options to avoid losing his property.

"This was four days from the gun going off," Carboni said, referring to the imminent foreclosure of the developer's property. "I just remember him saying, 'I thought you guys would have the answer.'"

Despite a collective $4 billion of experience in resolving troubled loans, there was little that Brownstone Capital could do in just four days. "He should have come to us sooner," Carboni said, shaking his head.

With neither borrowers nor lenders eager to face the new market reality, at least $5.5 billion worth of distressed commercial property in the Washington region is in need of some sort of relief. But because resolution and delay both carry severe consequences for borrowers and lenders alike, a cottage industry has sprung up to guide borrowers through the options.

Yet Brownstone's phone doesn't ring nearly as often as you would expect at a time when most commercial property owners are now owners in name only, their equity long gone.

To understand the world of a workout specialist like Carboni and his partner, Shawn Krantz, it helps to know the competing mindsets of property owners and lenders. Countless owners are facing at least one of three forms of distress: a loan that's expected to come due before banks start lending money again; a mostly empty building that's not providing enough income to pay the mortgage; or a loan balance that far exceeds the value of the building.

Despite the distress, many larger commercial owners actually have access to plenty of equity. They just don't have any incentive to use it to pay off an upside-down mortgage. Most commercial mortgages of recent vintage are "non-recourse," meaning the lender can't come after the borrower for the difference between the property's value and the balance of the loan.

To some extent, that puts the "troubled" borrower in the driver's seat in negotiating with the bank. "If it will cost a landlord a few million dollars to get a tenant to sign a new lease or to fix the building, he has no incentive to do that if it will just improve the position of the lender," Krantz said.

Lenders, on the other hand, are facing the unappealing prospect of writing off losses from foreclosures and deeply discounted note sales and loan payoffs.

And, no matter what lenders may say publicly, few want to be in the position of owning and managing property. With so few buyers interested in making a major purchase at a foreclosure auction, lenders that foreclose today are likely to end up keeping the keys, lender representatives say.

"Buying at a foreclosure auction is scary. There's no information available, so you're taking a lot on faith. And because you're bidding blind, you tend to bid less," said one attorney who advises lenders trying to dispose of distressed assets but didn't want to compromise future negotiations by commenting publicly. "It's not viable to think there might be other bidders at an auction, so lenders are postponing foreclosures as long as they can."

So what's the solution? "We're working on behalf of borrowers to get banks to restructure the debt in a way that justifies putting new equity into the building," Krantz explained.

For Brownstone's clients, that most often entails splitting the bad loan into two notes: an "A note" that would meet today's stringent underwriting guidelines and can be paid by the rent the building generates, and a higher-interest "B note" that is basically junk. In between those two layers of debt, the borrower inserts new [CONTINUES]

Workout options

Owners and lenders dealing with troubled loans have several options. Here are some:

Foreclosure: The lender forecloses and puts the property up for auction.

Note sale: A new entity buys the note on the property — typically at a discount — and assumes responsibility often in tandem with the borrower-landlord for stabilizing the building.

Receivership: The lender requests a court-appointed receiver to maintain the property while the lender weighs its options.

Bifurcation: The borrow provides additional equity, and in return the lender agrees to split the bad loan into two notes: an "A note" that can be paid by the rent the building generates, and a higher-interest "B note" that will be paid if there is money left over.

Discounted payoff: In exchange for a discount off the remaining principal balance, the borrower pays off the note, either through refinancing or with an all-cash purchase.

Bankruptcy: The owner files for bankruptcy protection, generally to stave off foreclosure.

ECONOMIC DEVELOPMENT

D.C. eyes 2000 tech law to lure Northrop Grumman

By Jonathan O'Connell
Staff Reporter

D.C. is considered a dark horse to land the headquarters of Northrop Grumman Corp., but District officials are employing a once unlikely strategy — competing on cost — and a little-used law created 10 years ago.

The New Economy Transformation Act of 2000, known as NET 2000, offers tax breaks for technology businesses, but few companies currently enjoy those incentives.

However, the measure is being held up as a tool that could help convince the Fortune 100 defense contractor to move its headquarters to D.C. rather than to Virginia, where it already enjoys a Rosslyn tower bearing its name and eight other offices from Falls Church to Virginia Beach.

With the NET 2000 incentives, "if the decision is financial, the District is the best option, there's no question," said the law's author, Councilman David Catania, I-At large.

Northrop Grumman announced Jan. 4 it plans to move its headquarters, along with 350 employees, to the Washington area. CEO Wes Bush made what D.C. Deputy Mayor Valerie Santos called a "brief courtesy call" to Mayor Adrian Fenty expressing interest in the city.

The company's broker, Cathy Delcoco of CB Richard Ellis Group Inc., declined to comment.

Northrop is believed to be seeking 60,000 to 100,000 square feet.

On the job for three months, Santos has made attracting and retaining employers a priority and said the District will be aggressive in pursuing Northrop.

She argued that D.C. makes particular sense to Northrop because the District "specifically is well-positioned for people that need easy access to the Pentagon and the CIA and other defense agencies."

Not only that, but D.C. provides easy access to Congress, law firms and other decision-makers, as well as to public transit, restaurants and entertainment.

But Santos said cost will also be a factor, which is where Net 2000 could have an effect. Unlike the neighboring suburban counties, the D.C. Council has the authority to lower corporate income taxes.

"The District, as a legislature, can affect tax policies upfront, as opposed to Arlington, which has to go through the state legislature," said Councilman Kwame Brown, D-At large and chair of the Economic Development Committee.

Santos said she is waiting for specifics from Northrop before making a formal presentation but the city's offerings would likely be "a combination of what we already have on the books with what we would be additionally able to do."

"Depending on the information we receive, we would be willing to do more," she said.

Additional benefits could relate to infrastructure, work force training or access to convention center facilities, Santos said.

Phil Finnegan, director of corporate analysis for Fairfax defense industry consulting company Teal Group Corp., said that none of Northrop's potential sites precludes intimacy with government leaders.

"It's really going to depend on what the different locales offer," he said.

■ E-MAIL: JOCONNELL@BIZJOURNALS.COM PHONE: 703/258-0835

JOANNE S. LAWTON

FORECLOSURE FIGHTERS: Partners Steve Carboni, left, and Shawn Krantz of Brownstone Capital try to work up numbers showing the best way out of trouble for developers facing foreclosure on their commercial mortgages. Sometimes the call for help comes too late.

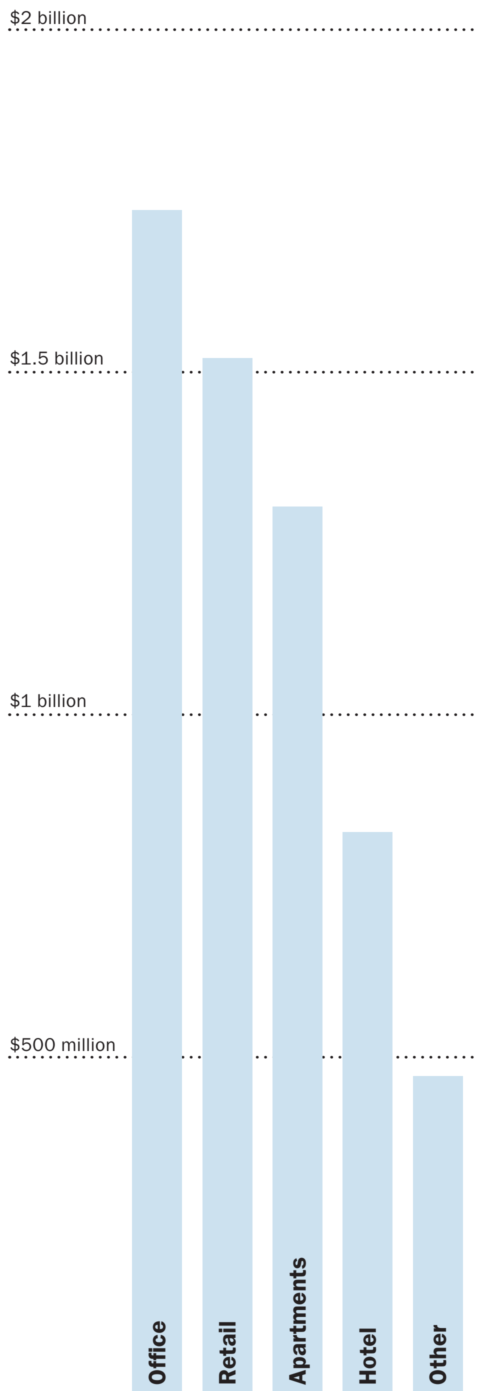
equity that gets paid before the more junior B note. Often, the equity comes from the borrower's own coffers and may actually earn a handsome interest rate for the borrower. That may not seem fair, but "the borrower has to get a pretty good return to justify putting more money into the property," Krantz explained.

While Brownstone's phone is still relatively quiet, the company gets three to five calls each week from new distressed borrowers. And the lenders' attorney interviewed for this story has seen a 30 percent surge in business over the past six months. Both sides expect that pace to accelerate as higher interest rates tamp down the value of buildings for the near future, and as the broader economy struggles to stabilize without further government support.

■ **E-MAIL:** MCASTRO@BIZJOURNALS.COM **PHONE:** 703/258-0836

Value of Washington's distressed properties

As of Dec. 1, the Washington area had a total of 181 distressed properties, valued at nearly $6 billion. Distressed properties are properties that are in foreclosure or bankruptcy proceedings or that have been foreclosed on, restructured or modified.



SOURCE: REAL CAPITAL ANALYTICS

What they have to offer

D.C.

Income tax: 9.98%
Sales tax: 6%
Right to work law: No
Property tax: $1.65 to $1.85 per $100 assessed value

Credits and benefits: NET 2000 eliminates the 9.98 percent franchise tax for incorporated tech companies over a five-year period and charges a 6 percent rate thereafter. Northrop could also get a tax abatement on real estate taxes, a credit for 10 percent of employee wages over two years, up to $250,000 in credits for relocating employees and up to $1 million in credits for employees who move to D.C.

Northern Virginia

Income tax: 6%
Sales tax: 5%
Right to work law: Yes
Property tax: $0.865 to $1.25 per $100, depending on the county

Credits and benefits: The Governor's Opportunity Fund, a discretionary fund to help lure businesses; the Virginia Jobs Investment Program, which helps with recruiting and training; the Virginia Investment Partnership Act, performance-based grants to encourage investment; and the Virginia Economic Development Incentive Grant, targeting headquarters relocations that create jobs.

Suburban Maryland

Income tax: 8.25%
Sales tax: 6%
Right to work law: No
Property tax: $0.683 to $0.96 per $100, depending on the county

Credits and benefits: Enterprise zone and focus area tax credits, up to $9,000 per employee for locating in certain areas and up to 80 percent in tax credits for new investment; the job creation tax credit, up to $1,000 per employee for relocating in Maryland; and the One Maryland tax credit, up to $5.5 million in tax credits and $500,000 in startup credits for investing in distressed counties.