BH Properties: Wave of Bankruptcies Is Coming

While we are still early in the pandemic-triggered recession, some investors are already seeing the distressed asset investment opportunities.

By Kelsi Maree Borland | August 04, 2020

While we are still early in the pandemic-triggered recession, some investors are already seeing the distressed asset investment opportunities—and **BH Properties** is among them. The investor is expecting a wave of bankruptcies and defaults, and is launching a $200 million debtor-in-possession platform to act on those opportunities in the coming months.

"We've already seen a number of high profile bankruptcies and we're only four months from some of the first shutdowns," **Andrew Van Tuyle**, senior managing director at BH Properties, tells GlobeSt.com. "For many of these companies bankruptcy was inevitable; the pandemic just accelerated the process. However, there are still a number of foreclosure and eviction restrictions in place as well as government subsidies that will eventually expire and likely cause a new wave of defaults, evictions and foreclosures. Many tenants won't be able to survive the prolonged lack of revenue, and we don't know what commerce will look like post-pandemic. We are expecting to see lots of bankruptcies on both the tenant and landlord side for quite a while."

Specifically, BH Properties is planning to invest in middle market distressed assets that are either in receivership or facing bankruptcy. "Retail and hospitality are the obvious answers because they've taken the bulk of the short term hit," Van Tuyle says. "I've heard many stories about restaurants that have chosen not to return, with operators using this time to cut the less-profitable locations from their portfolio to create a leaner business model. I believe that high-rise office could see some medium term impacts as tenant leases begin to expire. We could certainly see a departure from the urban core and a flight to suburban areas where tenants have less exposure to elevators and common area amenities."

Some geographic markets have additional factors fueling newly distressed asset opportunities, and BH plans to target these properties specifically. "Houston has exposure to the oil markets dropping, Las Vegas is reliant on conferences, and Orlando is reliant on tourism, none of which seem to be getting back to normal any time soon," says Van Tuyle.

Although the pandemic and the recession that it has brought is still new, Van Tuyle says that it hasn't taken long to see distressed assets hit the market. "Most people didn't expect JC Penny to file bankruptcy for at least a few years, but eliminating such a large part of their revenue and debt becoming more scrutinized created a perfect storm for them," he explains. "Once the government stimulus runs out and the restrictions on the banks expire, we are thinking there will be a new flood of bankruptcies. We could see the bulk of them start in Q4 of this year and carry well into 2021 after the holiday season."

The DIP platform will play a key role in BH acquiring these opportunities. "We are purposely going after the $50 million and under DIP facilities because we feel we can provide a cost benefit and an efficiency to the market," says Van Tuyle. "We are 100% in control of our funds and have no investors or outside parties that we need to get approval from, so I believe we can operate on extremely fast time frames for quotes, valuations, or providing creating solutions."