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CentraCare Health System	Welsh Cos.	Interior Care & Construction

Coverage begins inside

With new buyer, Transcend sheds Denny Hecker stake

BY KATHARINE GRAYSON
STAFF WRITER

After guiding his company away from the brink of bankruptcy, George Demou figured his telecom firm, Transcend Communications Inc., was out of the woods. Then he picked up the paper and read that Transcend's majority owner, Denny Hecker, was besieged by credit problems.

The bad news continued to flow, as Hecker and his automotive group filed for bankruptcy.

The situation never threatened Transcend's day-to-day operations, as Hecker's 53.9 percent stake wasn't being used as collateral in the bankruptcy, Demou said.

Still, competitors caught wind of the company's ties to Hecker, and gossip rattled customers' confidence that Transcend would remain viable.

Demou hopes those questions will cease now that Minneapolis-based Transcend, which has about 42 employees and $16 million in revenue, has found a white knight. The company this month reached an agreement to be sold to Fastech Investment Group, a Broomall, Pa.-based holding company. Fastech Investment Group is backed by NewSpring Capital, a Radnor, Pa.-based investment firm that manages $600 million capital. Fastech Investment Group's primary operating business, Fastech Integrated Solutions, manages information-technology services for businesses.

The buyer will run Transcend as an independent subsidiary, a strategy that allows Fastech to enter the VOIP, or voice-over-Internet-protocol, market.

Fastech is not disclosing terms of the deal, which is expected to close by the end of September. But both companies will benefit from the deal, as Transcend and Fastech will promote one another's services, giving each a stronger foothold in their respective markets, said Rick Hirsh, CEO of Fastech.

Also, Transcend is now free of its ties to Hecker, Demou said. Proceeds from the sale of Hecker's stake will now be in the hands of the trustee managing Hecker's bankruptcy.

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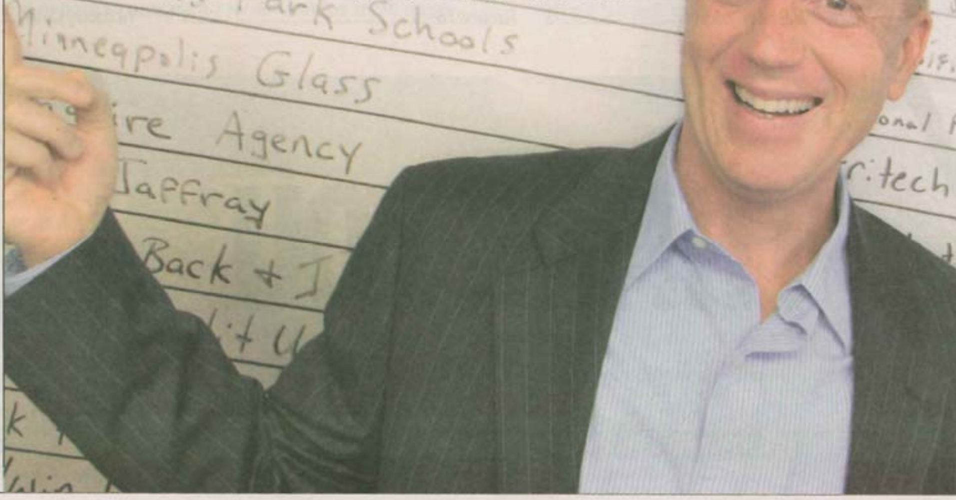

NANCY KUEHN | MINNEAPOLIS/ST. PAUL BUSINESS JOURNAL
Transcend Communications CEO George Demou said Denny Hecker's stake in the firm led to a gossip campaign by its rivals.

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Receivership specialists Dale Severson, left, and Bob Bayer

Firms get set for spike in receiverships

BY JOHN VOMHOF JR.
STAFF WRITER

Two high-profile Twin Cities properties, Hotel Ivy and Woodbury Lakes shopping center, have fallen into receivership in recent weeks and real estate experts expect more properties will follow in the months ahead.

That's a somber sign for the economy, but it's also creating business for real estate firms at a time when other segments are slow.

Coldwell Banker Commercial Griffin Cos. is looking to get in on the action. It's hired receivership specialists Bob Bayer and Dale Severson, cofounders of Management Resolutions in Eagan, to serve as vice presidents of its beefed-up Special Asset Solutions group. They're meeting with bankers and hope to pick up 40 receiverships in their first 90 days.

"When the banks quit having troubled assets, we'll quit growing," Severson said. "But we don't see that happening in the foreseeable future."

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RECEIVERSHIPS: As commercial properties run into trouble, experts say demand for specialists will rise

FROM PAGE 1

Receivers serve as neutral third-party representatives for troubled assets, attempting to maintain and even enhance the value of the assets. They take control of the property and all related operations, including property management and leasing.

Receivership assignments can range from a convenience store or office building to a high-rise apartment or an operating business. Most assignments last six months to a year.

In the case of a foreclosure or bankruptcy, the receiver is appointed by the court. In other cases, such as a deed in lieu of foreclosure, the lender hires the receiver.

Many real estate experts expect receivership work to increase in coming months as more commercial mortgages slip into default due to rising vacancy rates, falling rents and increasing operating expenses that are making it difficult for borrowers to pay back their loans. Loans that are 90 days or more past due are considered to be in default.

> **"When the banks** quit having troubled assets, we'll quit growing ... but we don't see that happening in the foreseeable future."
>
> **Dale Severson**
> Vice president, Coldwell Banker Commercial Griffin Cos.

The commercial mortgage default rate reached a 15-year high of 2.25 percent in the first quarter of 2009, up from 1.62 percent in the fourth quarter of 2008, according to Real Estate Econometrics, a New York firm that provides economic and strategic analysis for the commercial real estate industry.

That rate is projected to grow to 4.1 percent in fourth quarter of 2009 and 5.2 percent by the end of 2010.

Of course, that means firms such as Minneapolis-based Griffin can expect to stay busy. "The momentum will build," Bayer said. "More pain will be felt and there will be more need for our services."

Troubled asset services often draw upon all of a real estate firm's resources, not just a designated special assets team. For example, if a company is acting as the receiver for a shopping center, its property management team would oversee the day-to-day operations and its leasing team would try to attract new tenants. Then the investment sales team would seek prospective buyers.

"We get the whole team involved whenever possible," said Mark Parten, senior vice president of property management for Welsh Cos.

Minnetonka-based Welsh created its Special Asset Services group about a year ago to focus on troubled assets. The 15-person group, made up of employees from the company's various business units, has several receivership assignments totaling 3 million square feet of retail, hospitality, office, multifamily and mixed-use real estate.

In addition to receivership work, the firm's employees also provide other services to clients with troubled assets, including property value estimates.

"I would say 30 percent of our new business has some type of distress component to it," Parten said.

Not everyone is seeing an uptick in receivership business just yet. NorthMarq Commercial Real Estate Services doesn't have any receiverships on its books, but the Bloomington firm has made proposals to lenders and its brokers are providing other troubled asset services.

"There is much more communication with lenders than there has been for the past 10 years," said Andy Sundgaard, senior vice president of property management for NorthMarq.

Special asset work is helping boost business for real estate firms during an otherwise slow time, but those firms also hope that work will help generate additional business opportunities when the market improves. It's not uncommon for a firm that handles a receivership to retain the property management or leasing contracts after the property is sold.

"We think a lot of this work will turn into long-term relationships and long-term opportunities for us well into the future," Parten said. "The last time we went through a situation similar to this was in the early-1990s and we saw significant growth.

"We expect that to happen again."

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HOTEL IVY (right)

Hotel Ivy, one of downtown Minneapolis' most-upscale hotels, was placed under court-appointed receivership early this month after the hotel's developers were sued by their lender, Dougherty Funding.

The receivership applies only to the 136-room hotel, which opened in early 2008. It does not include the Ivy Spa Club, Porter and Frye restaurant or the 72 condominiums that were developed as part of the $100 million project.

Turnstone Holding, a unit of Minneapolis-based Turnstone Group, was appointed as the receiver.

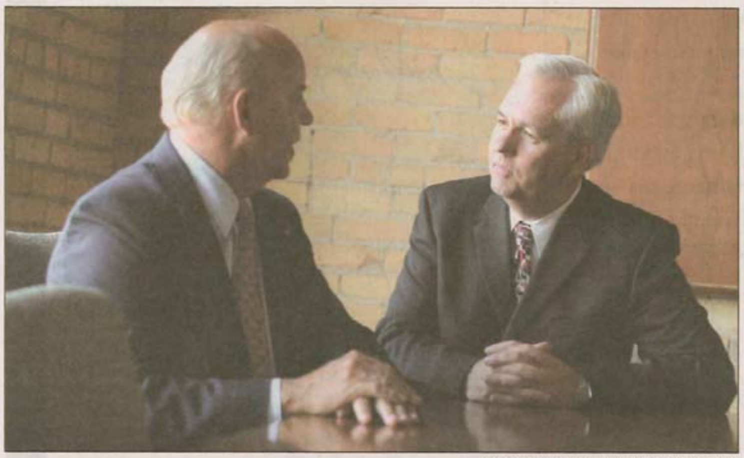
WOODBURY LAKES (below)

The owner of the Woodbury Lakes shopping center has defaulted on its mortgage and is facing foreclosure.

Cornerstone Real Estate Advisors, based in Hartford, Conn., owes $78.5 million on the center, including $65 million in principal.

Minnetonka-based Welsh Cos. was appointed as the receiver.

FILE PHOTOS



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Dale Severson, left, and Bob Bayer, are vice presidents at Coldwell Banker Commercial Griffin Cos., and expect to pick up 40 receiverships in 90 days.