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Distressed-Debt Workout Firm Gets $84 Million in Loans From Goldman

By Liz Moyer

With investor appetite for exposure to commercial real estate on the rise, St. Petersburg, Fla.-based loan-workout firm Directed Capital Resources has secured $84 million in financing from Goldman Sachs Group Inc. (GS) to close a sixth investment fund.

Goldman is replacing Wells Fargo & Co. (WFC), which had a prior lending relationship with Directed Capital. The financing is coming through Goldman's specialty-lending group, which focuses on middle-market lending.

Directed Capital buys distressed commercial real-estate loans and helps to resolve them. Since 2001, the firm has raised $135 million from investors in five funds and has acquired more than $625 million in assets. Directed Capital Chief Executive Chris Moench said his firm has achieved net returns of 14% over 11 years.

Investors include mostly high-net-worth individuals in addition to family offices and institutions such as pensions and insurers.

Interest in the sector is rising, particularly among high-net-worth individuals who are hunting for higher yields, said Matthew Sharp, a managing principal at Hamilton Point Investments in Old Lyme, Conn., which is raising a second $25 million fund to buy distressed properties.

"The real-estate market collapsed but there weren't a lot of ways for high-net-worth investors to take advantage of that," Mr. Sharp said.

Since 2008, $375 billion of commercial real estate has been categorized as distressed, according to Real Capital Analytics. About $169 billion has yet to be resolved in the U.S.

Big investors such as Lone Star Funds LLC and Blackstone Group L.P. (BX) have raised billions of dollars over the last four years to invest in distressed commercial real estate. Goldman also runs funds that invest in the sector.

Steve Powel, president of Situs Companies, an advisory firm, said lending to firms such as Directed Capital is another way for Goldman to gain exposure with less risk than buying the loans outright.

Directed Capital targets smaller loans, from $1 million to $10 million in size, to small "mom-and-pop" businesses, which have struggled since the financial crisis to find banks willing to provide refinancing or new loans. Community banks and smaller regional banks have been shedding non-performing loans as they clean up their balance sheets.

The financing includes a $34 million term loan that will refinance an earlier fund managed by Directed Capital, and a $50 million revolving loan to finance the sixth fund. Goldman has the option to increase the revolving loan by $20 million. The sixth fund, which has more than $40 million in equity, will invest over the next three years.

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