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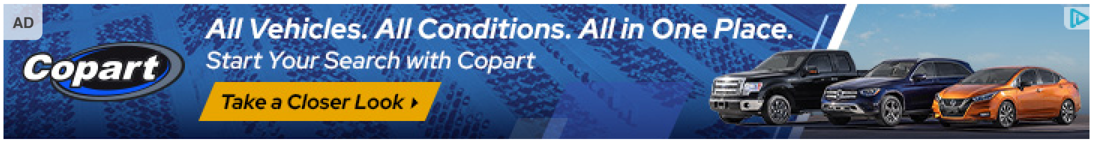
EXCLUSIVE: The Bankruptcy Wave Hasn't Even Started Yet, Distressed Deal Expert Says

by **Caroline Ryan** Benzinga Staff Writer Follow

The long-predicted U.S. bankruptcy wave has yet to arrive in the dramatic fashion many expected. Instead, corporate and real estate distress has built gradually as borrowers and lenders rely on maturity extensions, loan modifications, private credit and other financing to avoid bankruptcy. But with higher interest rates, tighter financing conditions and a widening gap between old valuations and today's market realities, those options are beginning to run out.

That pressure is creating opportunities for distressed investors and buyers, as more situations move toward asset sales, liquidation or Chapter 11. Private lenders are also playing a growing role by providing capital to companies and property owners seeking more time.

For insight into what comes next, Benzinga spoke with **Greg Corbin,** president and founder of Northgate Real Estate Group, who specializes in bankruptcy, foreclosure, loan sales and restructurings.



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1. Where are we today in the distress cycle, and has the restructuring playbook fundamentally changed?

People frequently ask me what inning we're in when it comes to the distress cycle. I don't think the game has started. We're still in the batter's box. Even though we've been handling exponentially more bankruptcy sales and restructurings every year since 2020, particularly since interest rates began rising in 2022, what we're seeing today is still only a fraction of what I believe is coming.

Rent stabilized multifamily, which is one of the largest areas of distress we're dealing with right now. There are approximately 17,000 buildings in New York City with high rent stabilized exposure and roughly $130 billion of mortgage debt tied to them. Northgate is the [one of the] busiest distressed real estate firms in New York, yet we're only handling the sale or restructuring of about 50 to 60 buildings in foreclosure or bankruptcy. That's an incredibly small fraction of the market, and it shows just how much distress has yet to work its way through the system.

At the same time, bankruptcy itself has changed. With so many owners and companies filing, much of the stigma that used to surround Chapter 11 has disappeared. More owners now view bankruptcy as a financial tool or mechanism rather than a sign of failure or defeat. In many cases, they're a product of circumstance, assets that were financed in a very different market and are now dealing with significantly higher interest rates, lower values, less liquidity, softer demand and much more uncertainty.

The restructuring playbook hasn't fundamentally changed. Lenders and borrowers have been extending maturities, modifying loans and kicking the can down the road since the GFC. But eventually you run out of road. You can move a maturity date, but you can't indefinitely avoid the underlying economics.

In real estate, the biggest opportunities are where yesterday's capital structure no longer makes sense at today's values and interest rates. We're seeing that across office, rent stabilized multifamily, development sites and assets with loans that originated when rates were significantly lower and valuations significantly higher. The opportunity isn't necessarily that the real estate is bad. In many cases, it's good real estate with the wrong basis or too much debt. That's what distressed buyers are looking for. They want a situation where they can reset the basis, restructure the debt or buy an asset at a price that works in today's market.

3. How is the rise of private lenders changing the way distressed situations are handled compared with previous cycles?

Private credit has added another option between "pay the loan off" and "lose the asset."

Traditional lenders have their own regulatory, balance sheet and internal constraints. Private lenders can often move faster and be more creative. We're seeing private capital buy loans, provide rescue financing, refinance existing lenders and structure transactions that give borrowers additional time. But that capital isn't cheap. You're often trading an immediate liquidity problem for expensive capital and a relatively short runway. If the underlying asset can't ultimately support the new capital structure, you're postponing the problem rather than solving it.

4. From an M&A perspective, are distressed situations creating more opportunities for buyers, or are valuation gaps and uncertainty still preventing deals from happening?

Both. There's an enormous amount of capital looking for distressed opportunities, but buyers aren't going to pay yesterday's prices simply because a lender or owner hasn't accepted today's value yet.

The biggest obstacle to transactions has been the bid ask spread. Buyers have repriced assets based on current interest rates, financing costs and operating fundamentals, while many owners and lenders are still anchored to prior valuations or their loan basis. Distress eventually closes that gap.

A maturity, foreclosure, bankruptcy or other forced event creates a date certain when somebody has to make a decision. That's when price discovery actually happens and deals get done.

This Q&A is the first part of a two-part series examining the U.S. bankruptcy and restructuring market and the opportunities emerging as financial pressure works its way through the system.

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