

## 11. Commercial Property and Shopping Center Bankruptcy

### Background

The owner of a shopping center and office property became bankrupt. The property management firm which assumed management of the properties provided all necessary management services, repairs, accounting records, and property operating reports. The debtor did not actively manage any significant aspect of the two properties. However, the pro forma budget prepared by the debtor as part of the bankruptcy reorganization included salaries, benefits, and several other expenses unrelated to the operation and management of the properties.

### Issues

Diverting the properties' rental income into the debtor's operating budget was highly risky and would have likely resulted in unavailability of cash flows for debt service, property taxes, operating budgets, required capital improvements, and other possible contingencies encountered by the properties.

Creditors raised numerous objections to debtor's proposed reorganization plan and advocated removing the debtor from the properties.

### Outcome

Dr. Musil reviewed 7 years' worth of financial statements of the properties, as well as the debtor's plan for reorganization and continued control of the properties as part of the bankruptcy reorganization. A bankruptcy hearing occurred and the debtor lost control of the properties.

Note: Dr. Musil holds the professional designation of Certified Valuation Analyst (CVA) [*link to CVA description below*] from the National Association of Certified Valuators and Analysts [*link to NACVA home: <http://www.nacva.com>*].



According to NACVA, Certified Valuation Analyst (CVA)—The National Association of Certified Valuators and Analysts™ (NACVA®) trains and certifies CVAs to perform business valuations as a service to both the consulting community and the users of their services. Through training and rigorous testing, CVAs demonstrate they are qualified to provide capable and professionally executed valuation services. NACVA recommends specific training as a prerequisite to certification to assure that practitioners have the knowledge and understanding necessary to perform competent services, and to assure a level of consistency and continuity in their work product. Users of valuation services benefit by having greater confidence that the service they receive is professional in quality, adheres to industry standards of practice, and meets a level of expertise the Association deems credible and worthy of one of its certified members.