



Vultures!

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On any given day, look up and you might catch a glimpse of a turkey vulture doing lazy spirals high overhead.

These days, another type of vulture hovers over our region: the vulture investor. Like its avian cousin, it soars over large patches of earth and swoops in low to locate the dead and the dying. While these vultures haven't descended on Sarasota and Manatee counties yet, look up and you just might see one circling soon.

Don't think it's fair to compare our local real estate market to an animal carcass rotting in the sun? Let's look at the numbers. The median sale price is hovering around three-quarters of what it was two years ago. According to RealtyTrac, a distressed property research company, one out of every 192 Sarasota County households was in foreclosure this summer, and one out of every 279 in Manatee. The Sarasota rate is well over twice the national average. Between June 2007 and June 2008, the number of foreclosure filings rose by 157 percent in Sarasota; the increase in Manatee was 133 percent. The current Sarasota foreclosure rate runs around seven times what it was three years ago. Industry insiders estimate that roughly one out of every four sales these days involves a foreclosed property.

Not pretty. Unless, that is, you're a vulture investor, willing and eager to pick through the crowded inventory for the most profitable bits.

But trying to pin down exactly who vulture investors are—and what they want—can be tough. "They run the gamut from individuals to large corporations, from high-net-worth investors on the *Forbes* list to hedge funds, private equity firms," says Jack McCabe, who runs a real estate research and consulting company in Deerfield Beach.

"Different ones have different niches that they're looking to go after, and different deal sizes," he adds. But one thing, at least, unites these investors: "Florida is always at the top of everybody's list."

Boston's Matthew Martinez founded Pangea Select, a private real estate investment company, in 1999, and now represents four private equity firms—three from the Northeast, one from the West coast—which are actively shopping for real estate deals in the Sunshine State. With access to a little more than \$500 million, he's thinking big. "We'll start to look at an opportunity at the \$5 million range," Martinez says, "but if you ask us what our sweet spot is, we're looking at something between \$15 million and \$30 million. We'll buy in cash."

But putting that kind of money into a shaky market means Martinez must get low prices and

large bundles of property.

“We’re buying all institutional-grade properties, of 150 units or more, which is critical. And the more complexes we can buy in the same area, the better,” he says.

Martinez and his investors plan to convert the condos they buy into apartment complexes and maintain them for three to seven years.

His team uses a few major criteria to pinpoint parts of Florida that are attractive. They like regions with natural barriers (such as the ocean) because such obstacles prevent unchecked growth, which leads to too much competitive supply. Regions must also meet specific demographic demands (such as population density) because the investors want to be assured that there are renters out there who will need their product.

Back in June 2005, when Florida lenders began telling Peter Zalewski of Bal Harbour that they were no longer participating in pre-development loans, Zalewski realized the boom was about to end, and he immediately registered the URL condovultures.com.

Since the Web site launched on January 10, 2007, Zalewski and the company of which he is a principal, Condo Vultures Realty LLC, have seen a tremendous spike in the number of investors calling. As of June, 162 different buyer groups had contacted him, interested in Florida vulture deals.

These days, a lot of Zalewski’s business calls are coming from Europe. With the dollar struggling mightily against the Euro (1€ equaled \$1.57 at press time), European investors are entering the market with a serious currency advantage. “Probably the largest group we have is a German pension fund,” Zalewski says.

Still, only a handful of vulture deals have come through. Zalewski has submitted 20 offers, only one of which will close, he says. McCabe says that’s not surprising. Prices will drop even further in coming months, he explains, and vulture investors buy only when the market has truly bottomed out. They must buy low, in order to make the 18 percent to 20 percent returns they count on.

And that bottom is approaching, says McCabe. “I keep hearing stories of people not making payments on the mortgage for their homes or condos for a year, and they haven’t been foreclosed on,” McCabe says. When the banks do begin to sweep through their backlog of nonperforming loans, all that extra inventory should gut prices even more. That’s when the vultures will feast.

McCabe spoke at a distressed property conference in Miami earlier this year. The vast majority of attendees were potential buyers with access to billions of dollars. While only a few splashy deals have gone through up till now, those investors are still out there, waiting, biding their time until the price is right. “All of this is ready to happen,” McCabe says.

But what about Sarasota and Manatee counties? Even though the region meets many of the criteria Martinez considers important to attract vulture investors, some doubt whether big-money bundle deals will come to the area. “Sarasota is more of a conservative community.

It's not an investors' market," says Norman Kerr, who was involved in planning the now-defunct CityPointe project in north Sarasota. And besides, the Southwest Florida market might just be too small, he says. "If you bought 100 units or 200 units, because the demand isn't that big for it, it would take that much more time to find someone to actually buy."

The question of demand is a big one, and the region's job loss numbers have discouraged investment. According to the U.S. Department of Labor's Bureau of Labor Statistics, the Bradenton-Sarasota-Venice market experienced a 3.7 percent drop in employment from May 2007 to May 2008, ranking the region fourth in the nation for job loss.

"If there aren't jobs, then there's less of a reason to move to those areas, and vacancy rates will be higher," says Martinez, who pegs the "dire" employment situation on Florida's west coast as the main reason he and his investors haven't made moves on Sarasota or Manatee counties.

Still, some vultures are sniffing the air. Marc Rasmussen, a SKY Sotheby's International Realty representative in Sarasota, says he received a flurry of interest from big-money investors looking to buy distressed properties at wholesale prices several months ago, but the interest tapered off because the vultures weren't getting the prices they wanted. Michael Padgett, vice president and owner of Vision Homes of Southwest Florida, was approached as well, but again the numbers hadn't fallen far enough to cut a deal.

Nonetheless, McCabe believes that vulture deals will happen here, and he predicts that Lakewood Ranch could be ground zero. Zalewski says buyer groups need to pick up trophy properties in high-profile markets such as Miami to satisfy investors before pursuing less prestigious, but perhaps more profitable, bundles in other parts of Florida.

But Mike Morgan, who offers research and analysis through his firm, the Morgan Florida Real Estate Group, doesn't think that vultures will clean up the real estate mess here. He argues that the market is nowhere near its nadir. "We are going into a depression," he says. One of his clients recently expressed interest in some foreclosed properties being offered at 40 cents on the dollar. Morgan told him to wait. Sure, the prices were low, but Morgan predicted they were only going to dip lower, perhaps to 20 cents on the dollar. "We're not at the bottom. We're at the eye of the hurricane, and these guys who are vultures are going to get sick."

Morgan might not believe the hype, but those who have dealt with these buyer groups know how serious they are, and how seriously they guard their secrets. McCabe has met several vulture investors and collects their business cards. "I know they're like a principal in the firm," he says, "and there's no title on the business card, and sometimes there's not even an e-mail address." Padgett had to sign proprietary agreements not to disclose the names of the funds that contacted him. Like their animal kingdom counterparts, vulture investors like to stay aloft, high above it all, waiting to buzz in low when conditions are right.

While the vulture might not be the most regal of animals, it's important to remember that the species plays a role in the food chain. If and when vulture investors do descend on Sarasota and Manatee counties, they would help weed out some of the backlogged

inventory, which is depressing prices. Plus, their arrival could be read as a signal that the market has truly reached its lowest point.

Investors might prefer to call themselves opportunity funds rather than vultures, but Zalewski thinks the latter term is entirely appropriate. He did name his company Condo Vultures, after all. "It's not a warm and fuzzy name," he says. "It's not a warm and fuzzy market."