

Valuation flux, not cash, problem for some housing investors

BY MARILYN BOWDEN

A significant amount of cash is waiting to be pumped into South Florida's distressed housing market once pricing drops sufficiently to meet buyer expectations, investors and real estate professionals say.

"I represent several institutional investors – private equity and hedge funds – interested in acquiring distressed multi-family and failed condo conversion projects throughout the state of Florida," said Matthew Martinez, principal of Bostonbased Pangea Select, which also has a Miami office. "The firms I represent have dedicated more than \$1 billion to the area." These groups look at institutional-grade deals, he said, in quantities of 100-150 units.

But while most savvy investors are sanguine about the prospects of a market rebound, Mr.

Martinez said, questions linger about how long recovery will take and how to establish pricing in today's market.

"One reason we haven't seen a lot of deals done yet," he said, "is that the bid-ask spread has been such that although lenders have a certain price in mind, during the past two years we have seen prices decline dramatically, and with that comes investor sentiment that they might continue to ratchet down.

"So there are a limited number of deals that have been concluded at a price both the bank and its board have been willing to accept." New Valley, a wholly-owned subsidiary of the publicly traded Vector Group Ltd., recently announced it has more than \$250 million in cash ready to invest in South Florida, said Vice President of Acquisitions Vanessa Grout.

She said the company has completed due diligence on many types of commercial and multifamily real estate, including bulk residential purchases and bankowned investment opportunities, throughout the state.

"The heart of the economic problem is that banks are unwilling or unable to lend," Ms.

Grout said, "and there's a severe shortage of qualified or able buyers in the real estate market. Therefore, the only way to establish a viable real estate market again is to get transactions flowing by those who have cash." But currently very good deals are waiting to be had, Ms. Grout said – not only bank-owned properties but underperforming assets being offered by the owner.

"As long as it's priced correctly," she said, "we make allcash offers and look for financing later.

"Therefore, when we look at a piece of real estate, we have to assume that even though we can get financing, we have to leverage returns, and that's making it a lot more difficult to acquire a piece of real estate.

There needs to be a cushion to absorb any risk." Ms. Grout said she thinks pricing will bottom out soon and investors will flood the market.

"Investors who are willing to acquire a troubled real estate asset are a necessary piece of the market recovery puzzle," she said. "There's a lot of wreckage out there. It is up to investors with capital and confidence in the eventual resurgence of the economy to turn things around." Majestic Solutions, the bulk sales division of Majestic Properties, is hearing from investor groups that have bulk deals under contract and want Majestic to sell the units once they take over, said CEO Jeff Morr. He said he thinks the market is no more than six months from bottoming out.

"There are definitely some deals out there," he said. "We're seeing things trading at a third or less of their original price." Banco Popular has been doing deals, Mr. Morr said, and some creative financing is emerging for individual buyers.

For example, Ullico, which insures union workers, "is going to provide financing to buyers at 1800 Club, and bulk buyers are throwing around the idea of providing financing to unit buyers." Announcements that money has been raised don't necessarily mean a fund has cash in hand, said James Cassel, vice chair at Ladenburg Thalmann Financial Services.

"There's been concern with various large investors that although they may have made commitments," he said, "they have indicated to some of the funds they've committed to that they would not look favorably on a cash call at present."



Photo by Marlene Quaroni

New Valley has more than \$250 million in cash ready to invest in South Florida, says Vanessa Grout, vice president of acquisitions.

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