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Vulture funds may lift real-estate market in South Florida

BY DOUGLAS HANKS

For about a year, so-called vulture funds have circled South Florida's besieged real-estate market, waiting for enough carnage to force deep discounts on large blocks of unsold condominiums. Some think last week's meltdown on Wall Street may herald the arrival of that moment.

As many as 100 investment funds are shopping for South Florida real estate, hoping to buy extremely low during the current crisis. Their main target: condominium towers where developers and their lenders can't sell enough units to pay off the loans used to build them.

"The bottom fishers, if you will, have been standing around the sidelines," said Victor Lopez, a former Hyatt development executive now assembling commercial deals. 'A lot of people out there are saying: `This is our time to get in.' "

If he's right, it would be one of the clearest signs yet that South Florida's beleaguered real-estate market had bottomed, bringing the region closer to a recovery. If vulture investors are buying, the view goes, it's safer for others to start buying as well.

The funds come to the table with cash, but also a catch: a demand that the developers and banks accept a deep discount, typically between 40 and 50 cents on the dollar.

Despite all the attention these funds receive in the media and in real-estate circles, only one or two significant bulk condo deals have actually closed, according to several people involved in the market.

"Literally, a day doesn't go by that I don't get a call from potential investors," said Ramiro Ortiz, president of Coral Gables-based BankUnited Financial. ``The problem is that the price is 50 cents on the dollar. I've got enough clarity to know that's not what I want to do."

Real-estate analyst Michael Cannon sees the fund industry overstating the crisis facing developers and their lenders. So far, he is seeing enough condo buyers closing on their units to let most developers pay off their construction loans as well as some of the secondary loans

needed to build the projects.

"Nobody is panicking," Cannon said. "It's not there."

But after concluding the most dangerous week for the U.S. financial system since the Great Depression, fund managers think they are left with more leverage.

"Two very large hedge funds called me yesterday. Literally, they're flying into Miami," said Gregory Rumpel, a hotel broker at Jones Lang LaSalle, the day after Lehman Brothers filed for bankruptcy. "These guys are saying, 'Well, that's probably the shock to the market -- with Lehman and all the other jitters out there -- we need to see some stuff released.'"

VULTURE IN LIPSTICK

One senior lending executive at a major South Florida bank that he wanted to keep anonymous said his staff so far has refused offers from the so-called vulture funds. But he predicts that resistance won't last much longer.

"The market conditions don't seem to be improving. At some point, you've got to cut and run," said the executive, who spoke on the condition that his name not be published. "That vulture is starting to look a little bit like it has some lipstick on it."

Some think Wall Street's grim news will prove a wake-up call to the fund managers themselves, prompting them to decide that the debacle has climaxed and that it's time to deal.

"When you talk to most of these vulture-type investors, they all say they want to buy when there's blood on the streets," said Peter Zalewski, a partner at Condo Vultures, which brokers sales of distressed condominium towers. "This is really the sign they've been looking for."

TURNING POINT

An actual turning point wouldn't reveal itself for months as the complicated deals, involving dozens of condominiums, get finalized.

"We've been active in this market for almost two years now," said Matthew Martinez, whose Coral Gables firm, Pangea Select, is helping funds shop for South Florida real estate. "We've made about 32 offers. And we're closing on the first one as we speak."

Fluctuating currency markets add to the urgency for many of the funds with investment dollars from overseas. "Israel's here in a big way," said Adam Greenberg, managing director of BayBridge Real Estate Group, which is representing about a dozen funds.

Peter Wells wants to spend about \$600 million in investor dollars and borrowed money on Miami-area real estate, but so far, he can't find a motivated seller. He's a partner in Condo Capital Solutions, a Denver-based fund that is looking for bulk deals in Florida and Arizona.

"We're starting to see a few deals that are starting to make sense," he said. Banks ``are now starting to get a little bit more realistic."

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