

Vultures preparing to swoop down

Investors raising cash, adding staff to buy up properties

BY THERESA AGOVINO

ALMOST 600 apartment complexes across New York City face the threat of default. The Las Vegas Strip is lined with millions of square feet of faltering casino construction projects. Banks nationwide are holding tens of billions of dollars of toxic real estate debt.

To many investors, it all adds up to one thing: a once-in-a-lifetime chance to make a killing.

"We believe the shakeout in the real estate industry is going to create opportunities," says Michael Katz, co-chief executive of Sterling American Properties, a division of Sterling Equities, which also owns the New York Mets.

Sterling American is scrambling to raise \$600 million to snap up distressed assets. "People are waiting to pounce," Mr. Katz says.

Indeed, many funds, investment banks and brokerages are raising capital, adding staff and bolstering marketing efforts to scour the wreckage of the financial crash for profitable deals.

Rarely has vulture investing been so difficult. Experts emphasize that markets are so chaotic that figuring out what constitutes a good price can be all but impossible. Investors considering buying distressed debt will find themselves sorting through complicated structures in which loans were bundled, divided into segments and sold off.

"Investors are really going to want someone that's been in the field before," says John Lyons, CEO of Savills, a real estate investment bank.

Early this month, Savills set up a distressed real estate division and staffed it with seven senior executives. One of its major goals will be to win contracts to help the federal government buy \$700 billion of the debt weighing down banks. Untangling the arcane debt structures to determine what assets are worth will be a daunting exercise, Mr. Lyons says.

Manhattan-based Latus Partners plans to cherry-pick bank loans as part of the investment strategy for its \$140 million distressed real estate fund. Howard Glatzer and Brad Settleman, Latus' managing principals, predict that roughly 60% of the fund will be invested in distressed debt. They will also buy buildings



Funds, banks and brokerages are getting ready to pounce

and make loans.

The two executives say the chaos in the real estate industry has created so many openings that they are trying to raise another \$100 million for the fund. Despite the tumult, Mr. Glatzer says, "I'm optimistic on what it means for Latus."

Nationwide search

THOUGH MR. KATZ says the Sterling American fund might purchase some debt, it will primarily buy commercial and residential properties. He intends to look across the country but hopes to pick up troubled buildings in urban markets, including New York, where prices skyrocketed in recent years.

"Maybe we'll have some opportunities in New York, but we are looking all over," Mr. Katz says. But prices will have to fall 20% to 30% from last year's highs before the fund would even consider a deal, he says.

Landlords are also interested in expanding their empires on the cheap. NWJ Cos., which owns and



operates affordable residential rental properties in 19 markets nationwide, has hired three acquisition specialists and recently began assembling a \$20 million purchase fund.

Jumping back in

CEO NICK JEKOGIAN says escalating prices largely kept NWJ on the sidelines for the past 18 months, but he predicts that will change soon.

"We are positioning ourselves for growth," Mr. Jekogian says.

As an increasing army of potential buyers begins to hunt for bargains, some brokers are mobilizing. Real estate advisory firm Eastern Consolidated has hired two additional brokers and a lawyer this month alone.

"We're collecting great people," says Chairman Peter Hauspurg. "We want to get stronger so that when the business comes back we are ready."