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Real estate firms delve into recession wreckage

Growth gainers in the downturn

Puget Sound Business Journal (Seattle) - by [Jeanne Lang Jones](#)

The Schuster Group in Seattle is the latest company to pounce on opportunities presented by the Puget Sound area's growing list of troubled commercial real estate properties.

In recent weeks, three other local firms have announced plans to woo investment partners to help scoop up Puget Sound area properties at bargain prices. And industry insiders say several more investment firms are forming to jump on the opportunity.

The Schuster Group says it has raised \$40 million to take advantage of the market.

The lure: Seattle leads the nation in the proportion of commercial real estate loans that are delinquent, according to Foresight Analytics LLC, a California-based real estate market consultant firm.

"If you are a property owner or investor who purchased real estate between 2005 and 2007 when we saw the peak of the bubble, depending on how aggressively you capitalized your debt, it's a perfect storm of your revenue falling and your value falling at the same time," said Jim Bowles, senior managing director of brokerage services in the Seattle office of CB Richard Ellis. "Those who aggressively capitalized a lot of debt will be hard pressed to make it out the other side."

And someone needs to be there to pick up the pieces.

Daniel Lowen, founder of Caerus Realty Capital — one of the firms recently announcing plans to jump into the distressed properties market — sees this as "a really exciting time to be investing in real estate."

"What we have now is a double whammy of the economic cycle hitting rents and occupancy with both falling, and capital is shifting away from real estate," said Lowen.

Therein lies the hurdle those coming to the market must clear: raising funds in a still skittish market.

Mark Schuster, founder and CEO of The Schuster Group Inc. and board chairman of Schuster Capital Management LLC, has been making opportunistic investments in real estate during down cycles for 20 years.

"This is the most extreme down market I have ever seen in my career," Schuster said. "We raised less than we would have in the fund had we not had basically a complete (global) economic collapse."

Still he expects his new \$40 million, 10-year fund will enable investors to purchase seven to 10 projects.

Schuster and his board of directors invest alongside the high-net-worth private investors and institutions who contribute to his funds. His firm, which has the ability to develop, lease and manage the properties it acquires, is targeting undervalued, underperforming buildings in good locations in Seattle that can easily be renovated.

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Besides Schuster and Caerus, real estate veterans Bill Pollard and Jim Neal have formed Seattle-based Talon Private Capital LLC to recruit private investors to buy commercial properties in more than a dozen metropolitan markets around the country, including the Puget Sound region. Also, Seattle's Urban Renaissance Group has hired former Metzler North America executive John Bliss as its chief investment officer to round up individuals and institutions interested in owning commercial property in Seattle, Bellevue, Portland and Denver. Additionally, several real estate sources have said there are at least two other groups "actively putting their game together."

These real estate professionals see new opportunity in going into business for themselves.

"These new investment groups are not without competition. There are folks out there who have a lot of experience," said CB Richard Ellis' Bowles. "The question is, how aggressive are they going to be to make their mark on the market."

For its own part, CB Richard Ellis is offering a range of restructuring services from asset management and valuation to loan workouts under Senior Managing Director Spencer Levy in Baltimore.

Rival firms including Colliers International, GVA Kidder Mathews, Cushman & Wakefield and Grubb & Ellis, among others, offer similar services.

Colliers Senior Vice President Reynolds Haas compares the developing market for distressed properties to the late '80s and early '90s.

"We expect to see more people come in with different programs over the next six to 12 months," Haas said. To be successful, he added, "They will need the availability of capital and the ability to move quickly."

Much of the trading will be among small office buildings owned by private investors rather than pension funds, insurers or real estate investment trusts, real estate sources said.

Nationwide, about \$130 billion in large commercial mortgages are in default, foreclosure or bankruptcy, according to a new report from research firm Real Capital Analytics.

Kip Spencer, co-founder of OfficeSpace.com and director of business development in the Kirkland office of JE Dunn Construction, said he gets about one call a week from someone outside the Puget Sound area interested in visiting to look at distressed properties locally.

Institutional investors will be most likely to pair up with local partners in purchasing distressed properties that need renovation and additional tenants, he said.

Spencer's betting that real estate investment trusts will snap up the lion's share of distressed properties locally because hometown developers who might otherwise be interested are too busy "protecting their own fortresses."

The lack of available capital to purchase property will make for an erratic market with a "lumpy" bottom, said Urban Renaissance CEO Pat Callahan.

It likely will take until mid to late 2010 for the distressed assets market to hit its stride, he said. "It's important to distinguish between asset pricing and the overall economy," he said, noting that "asset pricing moves on a different cycle than the overall recovery."

Back in the real estate boom, historically high prices were determined by easy credit and heavy capital flow rather than underlying fundamentals, he said.

"Now the lack of capital is generating the best possible prices," Callahan said.

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