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Real estate funds planning for acquisitions

BY DARCIE LUNSFORD

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The pile of capital anticipating a commercial real estate crash is mounting. So far, many banks, lenders, troubled borrowers and other potential sellers haven't been answering the knock of opportunity funds and vulture investors.

But, Coconut Creek-based real estate developer and operator Malcolm Butters is counting on that to change in the next year or so.

Butters is the latest South Florida real estate veteran to start building a war chest to capitalize on distress in the commercial real estate sector.

Butters is launching the Sunbelt Real Estate Opportunity Fund I.

The fund seeks to raise $50 million, which will be leveraged with debt to acquire as much as $120 million in distressed land, office, industrial and retails properties and nonperforming loans in Florida, Georgia and North Carolina. Unlike past capital-raising ventures, which targeted specific assets, Sunbelt marks Butters first discretionary buying fund.

The minimum buy-in for investors will be $1 million.

"There is going to be more pain in the market on the commercial side," Butters said, adding that "2010, 2011 and 2012 will be a prime opportunity for acquiring assets."

The money will be laid out over a three-year period, with plans to hold the assets for five years, he said.

Butters

"If you have cash, you are going to have an opportunity to take advantage of the deals," Butters said.

But, for now, there is more cash hovering on sidelines than pouncing on deals.

"There continues to be an extraordinary amount of capital that wants to get into the market, and very few deals that are on the market," said Daniel Finkle, managing director of Holliday Fenoglio Fowler in Coral Gables. "So, it has turned into a sellers' market."

He said there has been a flurry of new opportunity funds launched in the last three months.

It's a sign, experts say, that the marketplace thinks the pricing stalemate between buyers and sellers may soon break under pressure to deal with problem loans and underperforming properties, cull portfolios and exit investments.

"We think there will be a lot of distressed deals coming to the market, but there will not be a tsunami of deals," Finkle said.

CHALLENGE IS FINDING DEALS THAT MAKE ECONOMIC SENSE

Miami-based Adler Group is another local real estate operator raising a closed-end fund seeking to buy $300 million to $400 million of stabilized, value-add and distressed commercial real estate.

Part the challenge, according to Adler President Matthew Adler, is finding deals that make economic sense when so many sellers believe their assets are worth more than buyers.

"We have really been patient," he said.

But, he doesn't classify his company's fund as a textbook opportunity fund. Adler said the firm so far has focused on unearthing stabilized income-producing properties ahead of competitors, instead of engaging in bidding wars and chasing deeply distressed assets.

Ben Thypin, a senior market analyst with Real Capital Analytics, isn't so sure 2010 will deliver the heavy stream of commercial foreclosures and distressed sales that some expect due to the recent relaxing of rules governing banks' commercial loan valuations.

On Oct. 30, the Federal Deposit Insurance Corp. unveiled new guidelines recognizing issues with plummeting commercial values and encouraging banks to restructure and work out loans impaired by declining property values.

Thypin said this new regulatory stance gives banks ample leeway to modify troubled commercial real estate loans.

"We think this will lead to a decrease in foreclosures," he said. "It remains to be seen how this impacts these opportunity funds."

Jay Caplin, managing principal at real estate investment firm Steelbridge Capital in Miami, said looser regulatory treatment of commercial loans will drag out the time it takes to the market to work through the run up in prices during the boom and loss of rental income during the recession.

"My feeling is that there will be buying opportunities," he said. "I think it will be a slower, drawn out trickle.

Caplin said four-year-old Steelbridge isn't structured as a buying fund, but rather taps a small pool of individual and institutional partners to raise capital for specific deals.

In today's scandal-ridden world, where investors have lost billions of dollars to investment scams, Caplin said raising discretionary buying funds can be a challenge.

This reality has also crossed Butters' mind, despite his long history of building, buying and selling properties in South Florida.

Said Butters: "I think that is going to be one of the challenges: convincing people that you are honest."

dlunsford@bizjournals.com | (954) 949-7523