

Commercial Real Estate

Private investors ready to buy bargain properties

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South Florida commercial real estate investors are tired of sitting around waiting for sellers and banks to get in gear.

Stuck in neutral since the fall of 2008, some private investors are getting ready to aggressively pursue bargain properties.

Many property owners, struggling with debt and rising vacancy rates are facing a critical decision: Should they sell and, if so, how much of a hair cut should they take?

Executives of Woolbright Development, a longtime player in South Florida real estate, are ready to buy. Newer companies led by market veterans, such as Miami-based Steelbridge Capital, also are looking for bargains.

Boca Raton-based Woolbright, which owns about 30 commercial properties in Florida, has set a goal to buy as much as \$100 million in real estate by the end of the year, said Duane Stiller, co-founder and president of the 26-year-old company.



The developer plans to tap real estate investment trusts, institutional investors such as pension funds, and private investors to fund its acquisitions, Stiller said.

The developer hopes, in the search for purchases, to tap into relationships with three major sources of capital: real estate investment trusts, institutional investors and private investors.

“In the next six months we will start to see an agreement [between sellers and buyers] in pricing levels and a large number of transactions,” Stiller said.

“We would like to be able to align ourselves with one of the three capital channels and start buying again. There’s a lot of tire-kicking going on, and we have a platform that can act as a conduit for capital to be invested in retail projects in Florida.”

Some of Woolbright’s South Florida shopping centers include Southport Center in Fort Lauderdale, The Commons at Town Center in Boca Raton and Shoppes at Woolbright in Boynton Beach.

Owners willing to let go

The decision last month by the California Public Employees’ Retirement System to turn over the Downtown at the Gardens mall in Palm Beach Gardens to its lender shows owners are willing to relinquish their distressed assets,, Stiller said.

Lenders Berman Enterprises and Boca Raton-based Ashkenazy & Agus Ventures acquired the \$138 million note as part of a friendly foreclosure.

But a pricing gulf between sellers and buyers still exists, and available credit from lenders is minimal at best, Stiller said.

“There is essentially no credit available for new loans,” he said. “This will not be a permanent condition, however. We have been through a credit crisis like this in the late 1980s and early 1990s.”

The Federal Reserve’s decision last Wednesday to renew the Term Asset-Backed Securities Loan Facility (or TALF)

program could be enough to thaw out the frozen credit market. The program gives loans to buyers of bonds backed by commercial-mortgage backed securities and asset-backed securities. The Fed and U.S. Treasury extended the program through the end of March 2010.

Key regulators like the Fed are going to be catalysts for distressed commercial real estate properties being put on the market, said J. Scott O'Donnell, senior vice president of investment properties for the Private Client Group of CB Richard Ellis.

"Regulators are currently coming down on lenders to move non-performing assets or work them out," O'Donnell said. "At some point in the near future lenders will give up on their workout strategies and begin foreclosing on assets that will ultimately be marketed for sale, at a significant discount to 2006 pricing."

Some private investors have limited capital available and are reticent to overpay for properties when significant discounts could be had down the road, but others are expressing interest, O'Donnell said. The parts of the world where the interest is coming from, such as Canada, South America and major U.S. markets, are not surprising.

But the investors pursuing potential deals are "not necessarily the same players," he said.

Steelbridge, a new player

Unencumbered by substantial debt or a struggling portfolio, the Miami arm of private real estate investment company Steelbridge Capital is on the hunt for South Florida office properties to buy over the next 18 months, said managing principal Jay Caplin. Leaving Cushman & Wakefield in July after spending 22 years at the brokerage, Caplin has partnered with Chicago-based Gavin Campbell to position Steelbridge as major buyers in the near future.

Campbell launched Steelbridge in 2006 after spending 15 years working for LaSalle Investment Management.

"Fortunately we did not have a huge run of acquisitions in 2006 and 2007," Caplin said. "We are not dealing with a portfolio of assets that are either in trouble from a tenant or debt perspective. We have a clean slate, so to speak."

Like Stiller, Caplin sees parallels between the current real estate downturn and the savings and loan crisis of the late 1980s and early 1990s. Both Woolbright and Steelbridge have property management arms and plan to parlay vast relationships with large sources of capital into bargain commercial real estate purchases.

Unlike Woolbright, Steelbridge prefers not to link up with real estate investment trusts and other public institutional firms, Caplin said. While the company would not rule out publicly marketed properties, executives prefer to seek off-market deals.

"We have our own source of private capital," he said. "We have done work with high net-worth individuals, pension fund advisors and private equity funds. We want to leverage these relationships as best we can."

Steelbridge could end up in the mix to acquire the Las Olas Centre in downtown Fort Lauderdale, Caplin said.

Woolbright Development

- v Private real estate investment firm headquartered in Boca Raton
- v Specializes in development and management of community shopping centers
- v Owns more than 30 retail and mixed-use properties totaling 5 million square feet in Florida
- v Key company executives have worked together for more than 20 years

Steelbridge Capital

- v Miami office opened by Chicago native Gavin Campbell in 2006
- v Sold the Courvoisier Centre on Brickell Key for \$150 million in 2007
- v Managing Principal Jay Caplin joined the firm in July after spending 22 years at Cushman & Wakefield
- v Focuses on owning and operating commercial real estate in coastal Florida markets with high barriers to entry

Caplin, while at Cushman & Wakefield, brokered the \$230.9 million sale of the 209,746-square-foot office complex to BF Las Olas and related companies in July

2007.

Wachovia Bank and an affiliate filed a foreclosure lawsuit on Aug. 18 against BF Las Olas, a subsidiary of Los Angeles-based commercial investor BentleyForbes. The lender said in the lawsuit filed in Broward County Circuit Court that BF Las Olas owes \$170 million on a senior mortgage for the pair of office towers.

Steelbridge would consider making an offer for the office complex at the right price, Caplin said.

But an angry BentleyForbes has vowed to fight the Wachovia lawsuit. The investor said last week it is "outraged" by the bank's legal action and intends to pursue damages from the bank.

Companies well-positioned

Private real estate investors would not be the only significant players when the credit market opens up and pricing disparities erode, Stiller said. But private companies may have more flexibility to take advantage of potential deals.

"The risk appetite [of private investors] may be greater," Stiller said. "Their decision-making mechanisms might allow them to move more quickly. But we are looking at nearly \$1 trillion of capital that needs to be injected into the system. Private investors alone will not provide the liquidity the system needs to become unfrozen."

But private investors can certainly be the beneficiaries of a looser credit market, Caplin said.

"Current owners have to reach a day of reckoning with lenders or decide they cannot hold onto portfolios any longer," he said. "Deals will flow again."