

Private equity firms shopping Valley for deals

BY MIKE SUNNUCKS

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Deep-pocketed private equity firms are circling the Valley, looking for bargains in the residential and commercial real estate markets.

A growing number of privately held investment and acquisition groups from California, New York, Boston and overseas are showing up in down-trodden but growth-oriented U.S. real estate markets, including Phoenix. The idea is to buy up distressed real estate and then resell it for a profit after the market rebounds.

"They are buying land. They are buying buildings. They are buying from anyone who will admit their property value is now deflated and wants out," said Jordan Rose, managing partner of Scottsdale-based Rose Law Group, whose firm is active in a number of private equity real estate deals.



"Private equity firms that never bought land are looking at that space. They have money and realize that big real estate plays are possible," she said.

"We have clients that are looking for everything from raw land, to blocks of single-family condos and homes, to retail strip centers," said Sean Bonini, CEO of Phoenix-based Signature Real Estate LLC.

Bonini and Rose both said private equity firms are looking to pump capital into real estate markets hit by the housing downturn, the subprime mortgage mess and the resulting crisis in the credit and financial markets.

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Phoenix is one of the U.S. markets hit hardest by foreclosures and subprime home loans. Housing prices and sale volumes are off by substantial margins, and office vacancy rates are up from last year, especially in the West Valley. Vacant land and several suburban subdivisions slated for development sit undisturbed or unfinished.

Some urban infill and condo developments in Phoenix and Tempe have been delayed or scrapped. Developers, home builders and lenders are facing lawsuits from contractors and investors in the wake of deals gone south.

That is leaving developers, home builders and commercial property owners in financial peril, with more of them willing to sell to investment groups.

"The private equity firms are the white knights for some distressed landowners during a period when distress is becoming ... the norm," Rose said.

Private equity firms are private investment groups that raise capital — often from wealthy principals and investors — and use those funds to acquire busi-

CASHING IN

Top private equity firms (money raised 2002-07):

Carlyle Group	\$32.5B
Kohlberg Kravis Roberts	\$31.1B
Goldman Sachs	\$31.0B
Blackstone Group	\$28.4B
Texas Pacific Group	\$23.5B

Source: Private Equity International

nesses and real estate. Profits from those acquisitions then are returned to the original investors.

Private equity firms have more than \$2 trillion in assets under management globally, according to a September study by the Thunderbird School of Global Management.

The top 10 private equity firms in the world raised more than \$236 billion in capital over the past five years, according to Private Equity International.

Bonini said while many investors bought real estate during the housing bubble looking to flip them for quick

profits, the current crop is focused on buying distressed holdings and keeping them until the market improves.

Arizona State University finance professor Tony Sanders said the housing market may start to rebound in second-quarter 2009, though the financial and real estate situation will be perilous until then.

Rose said private equity firms could help hasten the bounce-back.

"The more deals we can get going in Arizona, the quicker this whole thing turns around," Rose said.

Dan Mahoney, a finance and investment attorney with the Phoenix-based law firm Snell & Wilmer LLP, said the turmoil on Wall Street and in markets such as Phoenix is dampening new investments.

"We are actively representing new funds that want to buy distressed real estate, and they are raising money as we speak, but no telling when they will actually pull the trigger," Mahoney said. "Every time we think we see the sun coming up over the horizon, something else happens: Mortgages Ltd., Fannie, Freddie, Lehman Brothers, Merrill Lynch."

Some foreign investors also are looking at real estate in the Valley, including groups from Dubai, Kuwait and Saudi Arabia, Canada and Europe, which are benefiting from exchange rates because of the weak dollar.

Rose, Mahoney and Bonini declined to name the firms scouting or purchasing property in the Phoenix market.

Private equity firms have risen to prominence in recent years because of low interest rates, freer flows of capital globally, and beneficial tax rates for investments in the U.S. and U.K.

Skeptics, including labor unions, say private equity money may lead to greater concentrations of wealth for the very affluent. They also say private equity groups are able to skirt taxes and are less accountable than publicly traded companies.



Mahoney

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