

New Ventures Forming to Buy Excess Residential Land

FINANCE *Falling values hurting some bottom lines*

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As public homebuilders dumped excess residential land to stave off quarterly losses, those who were able to buy at discounted prices are sitting pretty, while those holding on to overpriced land are hanging out in the ugly tree.

"The market is in the tank," said Steven Chamberlain, senior vice president at **Colliers International** in Sacramento. "Land values have dropped by 50, 60 percent. Residential land values have dropped anywhere from 40 to 60 percent. It's ugly."

However, capitalization rates are starting to inch up in California, a recognition that interest rates probably aren't going to change for the better, said Jonathan Morris, president of **BMC Capital**, a private lender with four California offices.

As land values dip, Morris and several other sources said, private capital, such as private equity partners and Wall Street firms, now hold most of the notes on residential property. Less encumbered by federal restrictions, these private lenders use their own timelines for unloading land, making their likely behavior as the market drops less predictable, several observers said.

"The biggest trend in the California marketplace is that banks are losing a lot of their real estate holdings," Morris said.

Moving to capitalize on this, Phil Angelides, a former gubernatorial candidate, just merged his **Riverview Capital Investments** with fellow Sacramento firm **River West Investments** and Los Angeles-based **Canyon Capital Realty Advisors** and its affiliate **Canyon Capital Advisors**, in a venture called **River Canyon**.

The venture will buy land as homebuilders shrug off their losses, and use it to create smart-growth projects all over the United States, Angelides said. Still working out a game plan, he would not say how long River Canyon would hold on to the land once it acquired it, or whether the company would actually plan smart-growth projects or would leave that to the developers who buy the land.

Angelides compared the current market to that of the early to mid-1990s, before the housing market's meteoric rally.

"This is a good time to be acquiring land," he said. "Some of the best opportunities exist

when there's rockiness in the market."

Demand for smart growth will not dwindle as time goes on, and the venture allows River Canyon to enter the game unencumbered by a heavy portfolio of over-valued land, he said.

Another team coming in fresh and clean is **Forestar Land Partners LLC**, produced by the merging of **Foremost Communities Inc.**, a new residential land development company, and leading real estate investment firm **Starwood Capital Group Global LLC**. Steve Cameron, a longtime Southern California housing developer who heads up Foremost Communities, said he has lined up capital and is waiting for opportunities.

Forestar's land will be developed into finished lots complete with infrastructure and poised for building to begin, Cameron said.

Land prices likely will continue to go down until the market stabilizes, Cameron said. As prices fall and sellers continue to emerge, Forestar will be in a position to take on some of that lower-priced land without having its own portfolio baggage.

"It's essentially a brand-new company," he said. "We basically have a clean slate."

However, the residential land market's reliance on private capital makes selling a little less certain, Cameron said. Without the tight regulations governing their investment portfolios that restrict institutional investment, private investors theoretically can sit on the land until it becomes profitable again — but could decide to cut their losses, too, he said.

"It's not clear how patient they will be," he said.

Creation of such ventures is one way to achieve the needed combination of risk and timing this market demands, but it's far from a mass-market move at this point, said Victor Krebs, a senior vice president at Colliers International in San Diego.

Krebs is telling would-be residential property sellers either to be realistic about the value of their land in today's market, or to wait for the market to improve — after it gets worse.

"Waiting additional time, taking additional risk — that's the way to create value," Krebs said.

On the other side of the private capital equation, would-be buyers are waiting for the market to go even lower, and for sellers to crack.

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