

## Investors cash-in on land deals as U.S. housing picks up



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By [Katya Wachtel](#)

NEW YORK (Reuters) - From the outskirts of Las Vegas to the coast of California, stretches of undeveloped land in some of the most depressed housing markets in the U.S. are in high demand.

Money managers such as BlackRock Inc, hedge fund Angelo Gordon & Co and real estate investment firm Starwood Capital, are beginning to cash-in on so-called shovel-ready residential land-tracts with most of the pre-construction and zoning approvals already in place.

The investors snapped up land on the cheap in bankruptcy proceedings, from cash-strapped home developers and banks that seized the properties after foreclosing on them when builders ran out of money.

Now they are re-selling the land, often for returns of more than 20 percent on their initial investment, in the latest sign of a modest recovery in the U.S. housing market. Other investors, meanwhile, are looking to partner with homebuilders to develop the tracts.

Some, like Paulson & Co, which has also been active in the space, will hold onto the land for sometime before re-selling it to buyers.

"We are coming out of the mother of all housing cycles, and residential land is the best way to play the ultimate recovery," said Michael Barr, a Paulson & Co portfolio manager, who oversees the Paulson Real Estate Recovery fund, which has under \$500 million in assets for the \$19.5 billion hedge fund. "Land is the highest returning component of the home building equation."

Single-family home sales in the U.S. rose 3.6 percent in July, matching a two-year high achieved in April. In July, applications for building permits hit the highest level since August 2008.

Foreclosures are also slowing in many regions. And, the market for existing single-family home rentals has gotten so hot that institutional investors are racing to raise money to buy foreclosed homes from the nation's banks and then rent them out.

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But shovel-ready land is a potentially more lucrative way to bet on a housing recovery - though investors may require a good deal of patience because it could take several years for developers to build new homes in some of the areas hit hardest during the financial crisis.

"These returns are back-end loaded, and more of an opportunistic, higher risk strategy," said Dale Gruen, a senior portfolio manager for BlackRock Real Estate, which has raised a fund that invests in such lots. "Single family rental is one in which returns are a more moderate."

Land that already has all the planning permissions required to begin construction is seen as a better bet than sites without all the boxes ticked because the process of gaining those approvals from local, state and federal agencies can take years, and is also a costly procedure.

Investors and real estate analysts do caution that a full-blown housing recovery is still some time off.

"The housing market is getting better but we're not quite there yet," said Stephen Malpezzi, an economist at housing data company Zillow and a professor at the University of Wisconsin's Department of Real Estate and Urban Land Economics. "We all get excited when we see a few months of positive numbers, but we are still in the middle" of a fragile period for the housing sector, he said.

Still, Paulson's Barr says it is only a matter of time before the market fully ripens. "We think there is going to be a land shortage coming out of the downturn."

The Paulson real estate fund, which launched in 2010 and required investors to lock-up their money for 10 years, currently owns about 25,000 home sites in Florida, Arizona, Nevada, Colorado and California, all of which were acquired through some form of distressed sale.

Recently, Paulson, whose flagship fund has struggled mightily in the past two years, scooped up 875 acres of land in a resort development called Lake Las Vegas in Henderson, Nevada, for \$17 million. Located about 30 miles from Las Vegas, the resort developer filed for bankruptcy in 2008. The acquisition adds about 3,500 home sites to Paulson's real estate portfolio.

### DIRT-CHEAP DIRT

The Paulson fund, whose founder John Paulson rose to fame and fortune by betting on the collapse of the subprime mortgage market, got into this market in 2010. Hillwood Development and Starwood got into the market even earlier. But new entrants are joining the hunt all the time given the ability to still buy land with development approval for as little as 30 cents on the dollar.

For instance, McRae Group of Companies, a Scottsdale Arizona-based real estate firm is pitching potential investors on a fund that will invest in such land projects in the Phoenix metro area, according to a marketing brochure.

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BlackRock, which manages \$3.56 trillion in assets, raised \$120 million for a fund that invests in shovel-ready properties, buying up land in the San Francisco area, Orange County, Calif., West Palm Beach, Fla. and northern Virginia.

The fund, which finished making investments in June, is now in the process of selling assets back to homebuilders. A person familiar with the fund said the typical return on these types of properties ranges from 20 percent to 35 percent, depending on the strategy and market. Blackrock's Gruen declined to comment on future investments, but a person familiar with the situation said the firm is considering raising money for a new fund.

There is a rebound in the market for shovel-ready land in the Las Vegas region, said Laus Abdo, executive director of Las Vegas-based TriArchic Advisors, a real estate investment and advisory firm. "Prices have gone from \$20,000 a finished lot 18 months ago, to \$30,000 - \$45,000 per lot today in places like Las Vegas," Abdo said.

Ross Perot Jr's Dallas-based investment firm, Hillwood Development, is one early buyer of land now cashing in on its bet thanks to signs of a revival in housing markets in Nevada, California, Texas and Florida. During the recession, Hillwood bought shovel-ready land from cash strapped home builders.

In one instance, the firm purchased a portfolio of 8,700 undeveloped home lots in 2008, which has on average tripled in value.

Fred Balda, the president of Hillwood Communities, said its assets in Las Vegas have proven to be particularly profitable.

Balda said that the strategy overall has been "extremely successful", but some portfolios, such as those containing land in Reno, Nevada, are still struggling, highlighting the local nature of the U.S. housing market and the uneven nature of the recovery.

Still, many national home builders are flexing their muscles again. Jeffrey Metzger, CEO of KB Home, said in June that the company is "aggressively reinvesting in new land assets and communities." Similarly, Lennar said it spent \$287 million on land and land development in the second quarter, up 74 percent from a year earlier.

The proof of that new building activity can be seen on the ground in places like Las Vegas as well.

Earlier this year, driving through new residential real estate developments in North-West Las Vegas in May, TriArchic's Abdo pointed to rows of shiny new signs of all the major U.S. homebuilders, from Lennar to Beazer Homes and DR Horton. It's evidence, he said, of a housing recovery starting to get its legs.

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"The engine is cranking back up here in Vegas," Abdo said.

(Reporting By Katya Wachtel; editing by Matthew Goldstein, Jennifer Ablan, Martin Howell and Bernard Orr)