

LAS VEGAS ECONOMY

Foreclosure flood to continue

THE GOOD

Buyers of distressed debt keep thriving in slump

By **TIM O'REILEY**
LAS VEGAS REVIEW-JOURNAL

For the obscure niche of investors who buy up distressed debt, the bad news continues to be the good news. The economy has started to rebound, but too slowly to pull some struggling companies out of trouble. As a result, opportunities continue to crop up where lenders, particularly banks, will sell at steep discount loans in or close to default. The Palms, M Resort and Hooters Hotel are just

three local examples in which distressed debt purchases led to ownership shake-ups. "There is still a land rush ahead" for distressed debt investors, Gregory Segall, the CEO of Philadelphia-based Versa Capital Management, said Thursday at a Turnaround Management Association in Las Vegas Thursday. "I don't know if it will end in '12 or '13 or '14, but it hasn't gone away yet." **▶ SEE DEBT PAGE 3D**
Discouraged by the recovery



RONDA CHURCHILL/LAS VEGAS REVIEW-JOURNAL
Housing analyst and SalesTraq President Larry Murphy speaks Friday during the Crystal Ball seminar at Alexis Park.

THE BAD

Analyst sees housing prices declining again this year

By **HUBBLE SMITH**
LAS VEGAS REVIEW-JOURNAL

The Las Vegas real estate market is headed for another tough year, analyst Larry Murphy said Friday. The president of research firm SalesTraq projected more foreclosures and as much as a 10 percent decrease in home values at his annual Crystal Ball seminar, which drew about 150 real estate professionals Friday at Alexis Park. "I don't think we're there

yet," Murphy answered when asked about a bottom in prices. "I think they will continue to sag or decline. Prices are still falling, but they're not free-falling. They may go down another 10 percent, but not as far as the past." SalesTraq reported a median existing-home price of \$104,900 in December, down 8.4 percent from the same month in the previous year. **▶ SEE ANALYST PAGE 3D**
Housing rebound seen as years off

▶ **ANALYST:** Housing recovery seen as years off

CONTINUED FROM PAGE 1D

Prices are down more than 60 percent from their peak of \$275,000 in 2007. Murphy said he'd like to see banks approve more short sales, which now account for about 25 percent of Las Vegas home sales. Foreclosures still outnumber short sales 2-to-1 because lenders have more financial incentive to foreclose, he said. With two-thirds of Las Vegas homeowners owing more than their homes are worth, the housing market remains depressed, Murphy said. "Pretty certainly, I can tell you we're going to have another 100,000 foreclosures (over the next five years) because about one-fourth of our housing stock is still in default," he said. The analyst had nothing positive to report on the new-home industry. New-home sales fell 30 percent to 3,793 in 2011, and new-home permits were down 15 percent to 3,740. Both are more than 80 percent below the peak. The new-home market won't recover until the existing-home market does, and that's years away, Murphy said. Why does he expect another 100,000 foreclosures in the next five years? Why are home prices still dropping? "Because the same people in the same positions making the same policies and earning the same obscene salaries and profits continue to rape our economy," he said, rattling off a list of widely known investment bankers who walked away from the meltdown with big bonuses. Nevada Bankers Association President and Chief Executive Officer Bill Uffelman wasn't at the seminar. Later, when briefed on Murphy's comments, he said everybody wants to blame the

TOP 10 LAS VEGAS HOME BUILDERS

BUILDER	2011 SALES	AVERAGE PRICE
1. KB Home	504	\$175,571
2. D.R. Horton	482	\$251,216
3. Richmond American	341	\$192,259
4. Lennar	335	\$194,746
5. Harmony	215	\$215,254
6. Pardee	199	\$255,979
7. American West	166	\$310,953
8. Dunhill	163	\$248,964
9. Pulte	149	\$242,974
10. Beazer	147	\$150,170

SOURCE: SalesTraq

banks for the housing crisis, but lenders are no guiltier than anyone who signed off on documents, including the buyers. "People got caught up in the frenzy that was Las Vegas," Uffelman said. Bob Hamrick of Coldwell Banker Premier Realty heard Murphy's presentation and said he expects an increase in short sales due to Nevada's new law requiring lenders to provide an affidavit of authority to foreclose. That's going to push banks to approve more short sales where parties aren't forcing the issue of deed ownership, he said. "Short sales will continue to be a big part of the market," Hamrick said. About half of real estate-owned homes in Las Vegas are being purchased by investors, renovated and returned to the rental pool, Robert Ray of Nevada Title Co. said. And, he added, institutional investors and hedge funds are looking to buy single-family rental homes in bulk. Contact reporter Hubble Smith at hsmith@reviewjournal.com or 702-383-0491.

▶ **DEBT:** Long, slow recovery has some borrowers thinking paying back loans is hopeless

CONTINUED FROM PAGE 1D

Michael Lipsky, senior portfolio manager of MatlinPatterson Capital Management in New York, added, "There are enough reasons to keep us busy so we don't have to wait for the next (down) economic cycle." For example, managing director Christopher Alberta of Conway MacKenzie said restaurants will look especially good this year. They were battered by the recession but he foresees the trend reversing eventually. Conway MacKenzie, based in the Detroit suburb of Birmingham, Mich., looks at suburbs and not mom and pop operations. The conference follows a banner 2011 for distressed debt investing. Three years ago, problem loans traded at a one-third discount to face value as the financial system seemingly teetered on the edge of a major crash. Since then, businesses and their lenders increasingly have decided to quit fighting the tide. "The biggest difference between '08 and now is two words: fear versus capitulation," Segall said. "We've been saying next year would be getting better for three years now." Instead, he added, the economic recovery has been "long, slow and flat," pushing banks and businesses to conclude that some loans are hopeless, opening the door for distressed debt sales. Versa Capital made only one investment in 2009-10, Segall said, but jumped on eight deals last year, all of them in capitulation situations. Although not necessarily by name, distressed debt investors are often depicted as the bad guys by Hollywood or on the politi-

"The biggest difference between '08 and now is two words: fear versus capitulation."

GREGORY SEGALL
CEO, VERSA CAPITAL MANAGEMENT

cal campaign trail because once they buy enough debt to take control of a company, layoffs, plant closures or total liquidations typically follow. Penn National Gaming, although not a distressed debt investor, used the same technique to take over the M Resort. The company paid \$230.5 million for \$860 million in loans on the property after default, then converted the debt to full ownership. As a result, developer Anthony Marnell III's undisclosed interest went down to zero. Alan Carr, a managing director with Greenwich, Conn.-based Strategic Value Partners, said his company isn't always welcome when it asks for information about a company before buying distressed debt. Not that the debt buyers are bothered much by their reputations. Quite often, Segall acknowledged, they might restructure a company in a way that amounts to amputating an arm. Although critics would point out that investors started with whole bodies, Segall argued that radical surgery keeps patients out of the morgue. "We are the ones who will try to keep a company going when no one else will," he said. Contact reporter Tim O'Reiley at toreiley@reviewjournal.com or 702-387-5290.