

## Beaten-Down Markets Find New Fans

Some of the savviest investors are snapping up barren plots of land in places like Las Vegas and Phoenix.

By Lingling Wei And Robbie Whelan

Some of the savviest investors on Wall Street, including some who made billions on the housing bust, now are snapping up barren plots of land in places like Las Vegas and Phoenix.

Hedge fund Paulson & Co., which made a fortune wagering that the housing market was overvalued three years ago, is now making a bet that land is undervalued and that it can profit from reselling lots to home builders.

The firm is bidding on some 8,000 residential lots in Arizona, Colorado and Nevada owned by home builder Touse Inc., according to people familiar with the matter. Touse has been operating under bankruptcy protection.

Lingling Wei/The Wall Street Journal GOLD IN THEM HILLS? Investors are jumping on land they think is undervalued, like plots Angelo, Gordon Co. bought outside Las Vegas.

In the rocky suburbs of Las Vegas, meanwhile, Angelo, Gordon & Co. recently paid \$35 million for land parcels zoned for about 2,500 residential lots. That is roughly half the amount the former owner sank into the property for roads, sewers and other infrastructure alone. At the same time, land investor SunCal Cos. is working with firms like D.E. Shaw & Co. to close a dozen land deals in Arizona and California.

Land speculation of course is highly risky. Some major institutions like the California Public Employees' Retirement System got clobbered on land investments made during the boom. And while prices have fallen steeply and the housing industry has shown signs of stabilization, deals depend on land appreciating in value because it doesn't yield any income.

Also, as tax credits aimed at boosting home sales expire, some analysts expect a slow-moving recovery that could take more than three years.

"The real risk is timing," says John Burns, an Irvine, Calif., home-building-industry consultant. "It's hard [for investors] to realistically estimate when they can sell and for how much."

Wall Street investors see opportunity because home builders that made the mistake of overpaying for land they didn't need during the boom have pared their portfolios.

Also strengthening demand: The number of lots ready for home building is shrinking in certain markets. In Las Vegas, for example, the market is expected to run out of available lots by the end of 2011, according to Michael Stuart, a land broker with Colliers International.

Lingling Wei/The Wall Street Journal Land in Las Vegas area was bought by a partnership between SunCal and D.E. Shaw, then sold to builders. "After years of shrinking their land inventory and struggling to survive, home builders are finally waking up to the fact that the number of finished lots is dwindling," said Keith Barket, who runs the real-estate fund business at Angelo Gordon, a New York-based private-equity firm specializing in distressed investment.

Builders including KB Home, Lennar Corp., Ryland Group Inc. and Meritage Homes Corp. are cautiously buying prime parcels in preparation for ramping up construction.

Noting the growing demand, deep-pocketed investors are purchasing big portfolios of land from banks, bankruptcy courts and auctions run by the Federal Deposit Insurance Corp., with hopes of selling them to eager builders.

The renewed interest in land has led to increases in land prices. In the first quarter, the average price paid per acre in the U.S. rose to \$41,651 from about \$36,829 in 2009, according to real-estate-services firm CoStar Group Inc. But that figure still paled in comparison to the level seen in 2007, when the average price per acre was \$102,631.

Some private-equity firms already have reaped big profits in land deals. For instance, a partnership between SunCal and D.E. Shaw bought 1,700 lots in Las Vegas for about \$28 million late last year, or about \$16,400 a lot.

Within eight months after the acquisition, the venture sold the land to builders including KB Home, Lennar and Ryland for between \$35,000 and \$40,000 a lot.

Randy Teteak, executive vice president of acquisitions at SunCal, says the firm has started buying "paper lots," or entitled land, on the belief builders may soon have to start buying undeveloped land as the lots with roads and sewers are running out. "We always try to stay ahead of them," Mr. Teteak says.

Angelo, Gordon has bought some 10,000 lots for about 20 cents on the dollar from Las Vegas to Southern California, among the hardest-hit housing markets in the country. Investors expect those markets to be the first to rebound from the trough, buoyed by strong population growth in those areas. Angelo Gordon had expected to hold on to the land until the markets recover.

The firm has sold about 3,000 lots in recent months.

The land Angelo, Gordon recently purchased on the outskirts of Las Vegas falls into the finished-lot category. Last month, Mr. Barket and four of his colleagues drove out there from a real-estate convention they were attending on the Las Vegas Strip. They walked up and down the windswept streets surveying lots that had sewer, water and other utilities ready to go.

Home builders have begun nibbling on "the best lots in the best markets," Mr. Barket says.

The auction for the Touse lots likely will begin in August. Paulson, run by billionaire investor John Paulson, has been named by the company as the "stalking-horse" bidder in the bankruptcy process, people with knowledge of the situation said. That bid sets a floor for the offers other suitors must top. Among the parcels of land Paulson has purchased recently: some 5,000 lots of master-planned communities in San Diego, Denver and Florida that were sold by GMAC Financial Services.

"John Paulson is at the table on every deal that comes up," says Graham Weiss, a land broker at GW Realty Co. of San Diego.