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## Why is Starwood Land Ventures Ready to Spend a Billion Dollars on Land?

**Mike Moser**

**East Region President, Starwood Land Ventures LLC**

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Every day, Mike Moser travels across the eastern half of the United States for just the right piece of land. The factors: a desirable community improved value and interest from healthy—national builders. If he and his executive team at Starwood Land Ventures find this mix of factors, they are ready to make an offer in hopes of reaping profits for years to come.

Starwood Land Ventures is an opportunity fund that so far has attracted little notice as it works out of a nondescript office building in Lakewood Ranch, FL. Currently it has about \$55

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Mr. Moser will talk about Starwood's business model and their projections for land in the coming years.

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million in assets that include land and debt it has taken over from lenders. But Starwood Land Ventures has the potential to be much larger. The company is part of Greenwich, Conn.-based Starwood Capital Group, LLC, a privately held global real estate investment firm, and has access to a portion of the group's \$1.5 billion in investment capital.

"We are a large fund and would expect several hundred million dollars [in assets]. The target is north of half a billion," Moser says. Last year the company announced it would be investing more than \$150 million in real estate in Houston, \$75 million around Atlanta and \$100 million into North Carolina real estate. In November, the company acquired 2,500 home sites in Arizona, California and Florida.

Starwood Land Ventures is part of number of opportunistic funds that are scouring the country right now. As Moser says, these funds are willing to take the risk to buy and hold distressed property in anticipation that, several years down the road, prices will rise.

Deerfield Beach-based real estate consultant Jack McCabe says companies like Starwood Land Ventures might be doing us all a favor. "These buyers are going to create the bottom, and we can't begin to have recovery until we hit the bottom," McCabe says. "They also have the cash to make the deals work." Starwood buys only with cash, thanks to the resources of its parent company, and cash-strapped builders who need to unload their home sites often find that opportunity funds like Starwood are the only entities with the ability and willingness to buy.

"Banks were in denial for most of 2008," says McCabe. "For the last year they were unwilling to accept the declines in property values and, because they loaned such large sums at the height of the market, they no longer have the reserves to cover the bad loans. Companies like Starwood are in the driver's seat now. They are in an extremely strong bargaining position and are going to drive the market at least through 2011."

John Peshkin, the former president of British homebuilder Taylor Woodrow's North American subsidiary, which was based in Bradenton, founded Starwood Land Ventures after he left Taylor Woodrow in 2006. He and Moser, who was the president of Taylor Woodrow's U.S. Tower Division (the condo division) had anticipated the housing bust as early as the end of 2005, says Moser, and had started talking about "land ventures" at that time. Peshkin launched Starwood Land Ventures in August 2007, and Moser joined him immediately. Peshkin left Starwood last August to "pursue local opportunities," Moser says, and his position has been taken over by Starwood Capital. "We report directly to Starwood now," says Moser.

Starwood Land Venture finds local joint partners in every market in which it wants to invest. Moser works the eastern portion of the United States, while another Starwood

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executive (and Taylor Woodrow alum), Michael Forsum, handles the western United States. The joint partners are all local developers. "You need to know the submarkets really well," says Moser, "not just Dallas, but north Dallas." Moser's division has joint ventures with companies in Georgia, Texas, North Carolina, Maryland and Virginia. These joint partners put in no more than 20 percent of the investment, provide local knowledge and usually manage the properties once they're purchased.

Moser says Starwood Land has no formula for just how much they will pay for distressed properties—in some communities it could be 50 percent to 60 percent less than the original purchase price and in other communities, it could be a steeper reduction. "When John and I started this we were expecting a 20 percent to 30 percent reduction," he adds.

But many properties have suffered much more dramatic reductions in value. For example, national home builder D.R. Horton Inc. sold thousands of home sites at a steep loss last October. Horton originally bought 2,000 lots in a Southern California blue-collar community for \$110 million (\$55,000 a lot) and sold them for \$7.8 million (or \$3,900 a lot), according to the Wall Street Journal. Starwood Land Ventures, along with its joint partner, Foremost Communities, purchased about 250 of those lots.

Moser says Starwood will hold those lots in most cases and eventually sell them for much more. As a hypothetical, Moser says it wouldn't be unusual for Starwood Venture to buy lots at a discounted \$15,000 per site and sell for \$42,000 a site. In the past year, the incentive for builders to sell at these fire sale prices has often had something to do with federal tax law, which allows companies to take the losses they've had in one year and apply them to profits from previous years, generating a hefty tax refund. The Wall Street Journal reported that D.R. Horton's fire sales reaped it a \$519 million refund.

The key to making sure their approach works is making sure there are large national home builders who are healthy and want to buy in the markets Starwood is considering. Starwood works closely with those national builders. "They'll be the ones buying our land," Moser says, "and they have to have the appetite for your lots. That will only happen in the most desirable locations."

Pat Neal, president of Neal Communities, is looking to partner with Starwood. "Most of the deals are too big for me," he says, "but I am looking at two properties with them. We're hanging back until the cards collapse. Values are still declining." And that, of course, is the real risk for Starwood. No one knows where the bottom is yet, and no investor wants to jump in too fast. Neal says Starwood Land has an advantage because its principals, like Moser, were developers in a previous life. "They're not just bankers," he says. "They understand product. They know how to look at a deal and how to underwrite. We can talk the same language."

Moser likes to describe Starwood this way: "We're a finance group, but an educated finance group." Moser says he understands how so many builders got into their current predicament. "Sitting on acres of undeveloped land is not the most efficient use of a homebuilder's profile," he says. "But the demand for land was so strong during the boom that builders had to tie up the next position or they were going to run out of business. Builders got into the development business. But those builders aren't in a position to hold onto the land long term. That's where we come in." Will the building landscape change as companies like his scoop up home sites? Yes, says Moser.

"Big builders with money today will start to buy lots on a just-in-time basis," Moser says. In other words, the days of builders buying hundreds of home sites at a time are gone, at least in the near future. Now they will buy a few lots, build homes, sell those homes and then buy more lots and start more houses as they can afford them. Starwood envisions selling home sites to builders on "a small, spoon-fed basis," maybe quarterly or just three to 12 at a time. "Builders don't every want to get in this mess again," he says.

Of course the banks can still throw a cog in the wheel of any deal. While Starwood Land Ventures might not be looking for credit, the company often does have to convince the banks to sell the properties at substantially less than what is owed. Moser wasn't willing to reveal the specifics of any of Starwood's purchases, but McCabe says it is not unusual for buyers in today's market to pay 20 to 40 cents on the dollar, or even less. "I know of one guy who had more than \$100 million worth of lots, at least that's what he paid for them at the peak of the market. He let them go for \$12 million," he says.

Moser admits the banks won't always take the first offer. And there is also speculation that the federal government's bailout of banks with TARP (the U.S. Treasury's Troubled Asset Relief Program) funds could give banks enough of a financial cushion to hold onto rather than unload their toxic loans.

Nonetheless, Moser says real estate is going to be a good investment in the long run. "In the short term, maybe another one to two years, we'll see a decline in pricing and number of homes constructed," says Moser. "Then we'll see a rebound and a gradual climb to normalcy in a three- to five-year period in line with historical averages—about 4 percent to 5 percent price appreciation per year with some markets seeing a rather substantial increase in home price as certain areas are currently selling homes below the costs of replacement." McCabe also believes the market will rebound with a vengeance. It's just going to take a while.

"If you can buy and hold home sites for five to 10 years, you're going to be in great shape," McCabe explains. "Once the correction cycle comes full circle, the baby boomers are still going to be buying primary and secondary homes in

Florida. With minimal taxes and maintenance costs, it is relatively inexpensive to maintain buildable home sites. And the business structure Starwood is using to take the burden of maintaining the land off the home builders' books and offering them lots as they need them to build really is a benefit to both parties."

Moser concludes: "We are an opportunistic fund, a private equity fund that is looking for reasonable equity-style returns commensurate with the risks we are taking. It's a high-risk, high reward business we're in."

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#### *WHO IS STARWOOD CAPITAL?*

Since 1991, the Starwood Capital Group has been investing in residential and commercial land development in the United States and Europe. Starwood Capital Group and its affiliates have invested \$6 billion of equity capital and led the formation and growth of well-known companies including Europe's second largest hotel network, Societe du Louvre, a publicly traded finance company, iStar Financial (NYSE:SI); Starwood Hotels & Resort Worldwide (NYSE:HOT), which owns Westin Hotels and Resorts; and National Golf Properties/American Golf Corporation, the largest owner-operator of golf courses and related facilities in the country.

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**Russell Ward** is the **ONLY** person in the country training real estate investors how to control or buy country land at half-price. He is a full-time vacant land investor who has been involved in more than 600 land transactions ranging from .25 acre to 500 acres totaling over \$9,000,000. He has authored, ***Vacant Land Guide – How to Buy Vacant Land at Wholesale Prices***. This guide is the first and only of its type on the market today. He resides in Orange Park, FL a suburb of Jacksonville, FL.

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