

October 07, 2009

Written by Mark Heschmeyer (mheschmeyer@costar.com)

Starwood Capital Wins Rights to Corus Bank Assets

Deal with the FDIC Values Corus' Assets at 60 Cents on the Dollar

The Federal Deposit Insurance Corp. (FDIC) signed a bid confirmation letter to sell a 40% equity interest in a limited liability company created to hold assets of Corus Bank NA to Northwest Investments LLC, a consortium managed by Starwood Capital Group that also includes TPG Capital, Perry Capital and WLR LeFrak. The FDIC will hold the remaining 60% equity interest.

The transaction represents one of the largest acquisitions of distressed commercial real estate assets in this recession and is valued at approximately \$2.77 billion.

The Office of the Comptroller of the Currency shuttered the \$7 billion Chicago-based bank and appointed the FDIC as receiver last month.

The commercial real estate industry has been closely following the auction of Corus' assets because the winning price is widely expected to set a floor value for busted condo deals in such markets as South Florida, Las Vegas and Southern California. Corus had a very high concentration of commercial property construction and development loans - particularly condominiums - that rapidly became nonperforming assets when the economy soured.

The rapid collapse of property values in that segment of the industry, and those geographies in particular, were indeed taking a toll on Corus Bank. In the last year and a half, the bank reported losses totaling \$1.23 billion. As of June 30, it had more than \$3 billion in nonperforming loans and foreclosed properties on its books.

The FDIC conducted the sale of a \$4.5 billion portfolio of Corus' real estate-owned assets, as well as nonperforming loans, loans in imminent risk of default and loans in foreclosure. Eight entities submitted bids. The FDIC said the winning bid presented the greatest return for the receivership of all competing bids.

The portfolio consists of more than 100 loans backed by 8 million square feet of property and 102 properties including 79 condominium buildings, 14 multifamily complexes, eight office buildings and one land development project. Properties are located in a number of markets, including Los Angeles, Miami, Washington, D.C., New York, Chicago and Atlanta. There are over 12,000 condominium units, accounting for 15 million square feet.

"The portfolio is unique - not only because of the average loan size - but also due to the exceptional quality and geographic diversity of the assets," said Barry Sternlicht, chairman and CEO of Starwood Capital. "The financial structure of this transaction affords the buyer to be exceedingly patient to protect, maintain and enhance the assets while maximizing profit potential for the equity participants."

"This is a unique opportunity to purchase a sizeable portfolio of high-quality assets with strong recovery potential in key U.S. markets," said Kelvin Davis, a partner at TPG. "A number of TPG principals were very active in real estate investing during the last distressed cycle in the early 1990s, and we are excited to be participating in this promising opportunity as part of our broader real estate interests."

Northwest Investments is paying \$554.4 million for the 40% equity interest. Based on that price, Northwest will be paying a little less than 31 cents on the dollar for the equity interest in Corus assets, which leaves the FDIC with a \$831.6 million stake. In addition, the FDIC is kicking in an equal amount of debt (\$1.386 billion). The combined debt/equity investments produces a price of approximately 60 cents

CONTINUED: Starwood Capital Wins Rights to Corus Bank Assets

on the dollar for the Corus assets.

The \$1-plus billion in debt that the FDIC is kicking in will go to fund construction of incomplete buildings, operating deficits in completed buildings and other asset-related working capital needs over the next three to five years. The loan carries an interest of LIBOR plus 3%. Any draws on the advance must be repaid in full prior to any cash distributions to the equity holders.

The deal is expected to close officially next Thursday, Oct. 15.

Download this story and all of the stories in the Watch List Newsletter here. The Adobe pdf version also includes all of this week's leads of distressed properties and loans of concern, lease cancellations applied for in bankruptcy proceedings, all of the local and national facility closures & layoffs, banks with distressed real estate portfolios and lists of loans approaching their maturity date. Plus the pdf version contains bonus news items not found in these columns or the CoStar Group web news pages.

Receive notice when a new Watch List Newsletter column is published by receiving The Watch List E-Mail Alert. It's the quickest way to link directly to the news and leads you want. Just e-mail me your name, title, company, company business, city, state, and e-mail address. You can reach me by clicking on the byline above or e-mailing me at Mark Heschmeyer