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PhillyDeals: Hoping to profit in a down real-estate market

By Joseph N. DiStefano

"Some people told me I'm a vulture," said **J. Anthony Hayden** of the $60 million he's raised to buy "underperforming" buildings while the market is weak.

"I don't like that word," he told me. "But I looked it up. Vultures do not kill. They clean."

People lie when they say the real-estate business is only about location.

It's also about timing. Hayden found an interesting time to start a real-estate fund: Capital is scarce, but prices are falling. One owner's ruin is another's opportunity.

Hayden spent a lot of the last 40 years selling other people's real estate, first for **Cushman & Wakefield**, then for his own former firm, now called **Beacon Commercial.**

On the side, he bought buildings for his own account. He'd sign a contract, then "scramble around to find investors."

His backers, starting in the late 1990s, included **James J. Maguire,** founder of **Philadelphia Consolidated Holding Corp.**, a Bala Cynwyd-based insurance underwriter.

Maguire and his family sold their interest in the company to **Tokio Marine Insurance Co. Ltd.** for around $800 million cash last year, around the time Hayden started raising money for a fund he calls **Hayden Real Estate Fund 1 L.P**.

Maguire signed on to Hayden's plan to finance the purchase of underused office and industrial properties that the fund says will be "improved, repositioned, managed, and ultimately sold or refinanced."

Its first acquisition wasn't "distressed," except to the extent the seller, **Brandywine Real Estate Investment Trust,** needed to raise cash as bank financing got scarce. (Hayden sits on the board of the other and larger locally based publicly traded office company, **Liberty Property Trust**.)

The fund bought two Brandywine buildings in **Whitelands Business Park** in Exton that totaled 67,000 square feet. It paid around $9 million earlier this year. The buildings were 85 percent occupied, which Hayden boosted above 90 percent after leasing space to insurance wholesaler **Crump Group Inc**.

It was a rare deal in a slow market. REITs such as Brandywine are mostly selling, not buying. Public pension funds have also lost much of their property appetite after they "were burnt badly," according to Hayden, by the real estate collapse. He added: "We're talking to a couple of corporate pension funds" about backing deals.

Philadelphia commercial real estate people say deals are at a standstill because sellers are reluctant to cut prices as deep as buyers now expect. Sometimes that's because lower prices wouldn't leave them enough to pay back the money they borrowed to buy properties in the inflated mid-2000s.

The situation will last until prices recover or banks run out of patience.

Unless things turn around quickly, investors like Hayden figure they're going to be able to move in and pick up more property cheaply as banks foreclose or owners surrender.

"The seller's never going to come down to the numbers that we want," Hayden told me. "But the lenders, all they want to do is get it off their books. We strongly believe there will be opportunities presented by these lenders who want it off their books before the end of the year."

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