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Montecito Cos. retools business plan amid downturn

Investment strategy includes buying 600 foreclosed homes in next 12 months

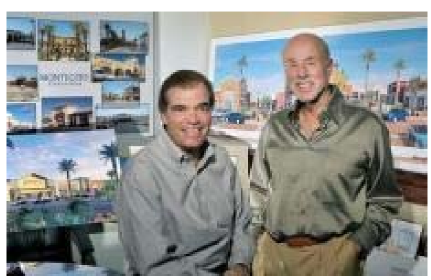
BY TONY ILLIA

Montecito Cos. is retooling its business model amid a market downturn. The Las Vegas-based company, a commercial real estate power player, is responsible for more than $2 billion in development ranging from office parks and shopping centers to homes and hotels. Montecito's noteworthy projects include Alexis Park, the 495-room nongaming hotel at 375 E. Harmon Ave., the 148,000-square-foot Citibank Park retail/office complex near the Strip, and the 330-acre, 10 million-square-foot Town Center master-planned development in northwestern Las Vegas.

"We developed, developed, and we started buying a lot of land in both Las Vegas and Houston," Montecito Chairman Robert Schulman said. "Capitalization rates dropped way down. It was one of the greatest times we had seen."

That was then, this is now. Montecito, a 30-year-old company, is re-creating itself, focusing on acquiring distressed entry-level homes in the $100,000 to $150,000 price range. It plans to rent the residences and then sell them within five years. Montecito's initial $2 million investment fund has acquired about 15 homes since July 1; residences are in two of the valley's largest master-planned communities -- Summerlin and Green Valley. The move served as a trial run for larger, more ambitious investment plans.

"There is no development going on. It no longer makes economic sense. All real estate values are decreasing, except we are starting to see some stabilization in home prices," Schulman said. "We're now going to 100 percent pursue acquiring foreclosed homes. We think they're phenomenally undervalued homes."



bill hughes | BUSINESS PRESS
Bob Schulman, right, is chairman and CEO of Montecito Cos., and Frank Nielsen is president. Montecito is embarking on a strategy of buying foreclosed homes in upscale neighborhoods.

Montecito wants to capitalize upon the market disparity by acquiring 600 homes within 12 months, investing around $80 million in Southern Nevada. Gateway Realty, a Montecito subsidiary, will purchase and divest the residences. It plans to buy homes less than 10 years old. Montecito will target American Nevada Co.'s 8,400-acre Green Valley master-planned community in Henderson and The Howard Hughes Corp.'s 22,500-acre Summerlin master-planned community in west Las Vegas.

FILE PHOTO
MARTINIS AND MUSIC SIGNED A 10-YEAR, $2,290,540 LEASE FOR 4,975 SQUARE FEET OF RESTAURANT AND BAR SPACE INSIDE THE FORMER REDSTONE GRILLE AT 4970 S. FORT APACHE ROAD IN LAS VEGAS.

"We think there is still a lot of demand for homes," Schulman said. "We believe people are waiting to buy affordable homes."

Montecito believes homes are 40 percent to 50 percent undervalued. Median home sales prices were $140,000 in June or 37.8 percent less than 12 months earlier, the Greater Las Vegas Association of Realtors reports. The industry's biggest competitor is now the resale market, in which much of the inventory is bank-owned. Clark County had 65.6 percent more existing-home sales than new-home sales in 2008, reports Home Builders Research Inc., a Las Vegas-based residential market analyst. The valley had 10,464 new-home sales last year, the market's lowest count in 20 years, despite median prices that were $35,000 less than those in 2007, Home Builders Research reported.

"Like apartments, home rentals create a great cash flow with some sheltered income," Schulman said. "The homes will also appreciate and they'd be disposed of individually."

Montecito, meanwhile, is placing its commercial real estate development efforts on hiatus until market conditions return to normal, which it suspects won't occur until 2012. The company now has a couple of thousand acres of residential land in Arizona and California; it had previously sold most of its residential property in Southern Nevada. Montecito has since downsized its company amid the real estate market downturn.

"We're down 75 percent in our overhead. We want to engineer our business so it will take a much smaller organization for whatever we tackle," Schulman said. "We have very good people who are still with us. I don't care to rebuild the big organization we had in the past. It's more fun this way."

MILLION-DOLLAR DEALS

Martinis and Music signed a 10-year, $2.3 million lease for 4,975 square feet of restaurant and bar space inside the former Redstone Grille at 4970 S. Fort Apache Road in Las Vegas. Grubb & Ellis Las Vegas' Michael Kammerling represented the lessor, Redstone Grille LLC; PR Property Group's Phillip Roy represented the tenant. The reported average rent equals $3.84-per-square-foot.

Silver Meadows Properties LLC bought an 11-year-old Sinclair gasoline station with a 4,286-square-foot convenience mart, on 0.62 acres, at 6525 W. Sahara Ave. in Las Vegas for $2.1 million, or $490 per square foot, from Schrogin/Baar II Ltd. Marcus & Millichap Real Estate's Steven Terry and Todd Manning represented the seller.

Aaron Rents signed a 10-year, $1.5 million sublease for 16,706 square feet of retail space inside Sahara Nellis Plaza at 2513 S. Nellis Blvd. in Las Vegas. Grubb & Ellis l Las Vegas' Michael Kammerling represented the lessor, Walgreen's Co.; Grubb & Ellis Las Vegas' Chris Godino and David Lipp represented the tenant. The reported average rent equals 75 cents per square foot.

General Monitors Transnational bought Venture Development Group's former 5,202-square-foot offices inside Hills Business Center at 1731 Village Center Circle, Suite 120, in Las Vegas for $1.5 million, or $288 per square foot, from VDG Hills LLC. Prudential

IPG Commercial's Dean Willmore, Amy Ogden and Linda Gonzalez represented the seller; Nevada Development & Realty represented the buyer.

Contact reporter Tony Illia at **tonyillia@aol.com** or 702-303-5699.

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