

Real estate liquidity bubble 'forming', Sternlicht says

Barry Sternlicht, CEO of Starwood Capital, warns the US government's bailout programmes are not needed in today's markets as capital looks to the asset class in the search for yield.

By Zoe Hughes

US government efforts to prop up the commercial real estate markets are not needed anymore amid warnings a "liquidity bubble" is forming, according to Starwood Capital Group chief executive officer Barry Sternlicht.

Programmes such as the Public-Private Investment Program (PPIP), in which real estate investors purchase legacy AAA securities with government financing, were not necessary in today's market as capital started to flow back into real estate in the search for yield.

Speaking at the Knowledge@Wharton Road to Recovery real estate forum in New York today, Sternlicht said low interest rates was creating a cadre of "capital tourists", who were particularly eyeing public real estate markets for yield, and liquidity.

He warned that many asset classes were starting to over-heat once again, saying: "We have no memory as a nation ... we are doing it wrong over again."

Programmes such as PPIP, and the government's Term Asset-Backed Loan Facility (TALF), were "valid" strategies, he said, but: "The markets are reequitising. There's a liquidity bubble forming ... The credit markets are healing ... they are over-heating."

Starwood has raised more than \$1 billion in capital commitments for each its two opportunity funds, one targeting a global strategy and the other hotels. The firm also launched a blind pool mortgage REIT, Starwood Propetry Trust, in August raising more than \$900 million from public markets.

The Starwood CEO also challenged banks to mark more real estate assets to market. He also said the US government, particularly the Federal Reserve, was staffed with officials who "know nothing business. They are really brilliant, wonderful people but they know nothing about business. They interfere in business ... with the best intentions." But, he said, that interference was having "unintended consequences".

Starwood recently paid \$2.7 billion for a \$4.5 billion portfolio of real estate assets from failed bank Corus. The firm invested 20 percent equity in the deal, financed partially by the government. The US taxpayers took a 60 percent stake in the deal, with Starwood retaining a 40 percent interest, Sternlicht said.

The firm has recently bought in London, but Sternlicht noted one condo disposition in Miami. A Nigerian high-net-worth individual paid Starwood \$8 million cash for a penthouse in the Florida city. "The US is on sale for foreigners," Sternlicht said. "The US is cheap."