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REAL ESTATE: Another sign of crisis

Developer stops making interest payments on \$500 million in land-backed loans

By JOHN G. EDWARDS
REVIEW-JOURNAL



Focus Property Group Chairman John Ritter won land in Henderson with a \$557 million bid at a Bureau of Land Management auction in June 2004. In another sign of the housing and lending downturn's effects, Focus has stopped making interest payments of \$500 million in land-secured loans. Photo by [Clint Karlisen](#).

[Focus Property Group](#), one of the largest developers in Southern Nevada, has stopped making interest payments on \$500 million in loans secured by 4,800 acres in the Las Vegas Valley, Pahrump and Victorville, Calif., company executives said Monday.

The company said 2,100 acres of the land involved is in metropolitan Las Vegas, 1,700 acres in Pahrump and 1,000 in Victorville. The company started notifying lenders late last week that it would not make its February interest payments.

[Chairman and Chief Executive Officer John Ritter](#) said he is negotiating with lenders and looking for a solution that will preserve the assets securing the loans and ensure his company's continuing viability.

Focus Property's disclosure is the latest sign of the housing and lending crunch that has spurred massive defaults on subprime and other residential mortgage loans in Nevada. Nevada has the highest foreclosure rate of any state and there is a massive inventory of vacant single-family homes in the valley.

As the inventory of vacant homes has grown, new-home building has all but screeched to a halt, wiping out demand for vacant land. Ritter's company developed the land for home builders and, to a lesser extent, shopping center developers.

"We haven't sold a piece of single-family residential (land) since early 2005," Focus Chief Operating Officer Tom DeVore said.

Ritter believes his company owns more raw land than any other entity in the Las Vegas area except The Howard Hughes Corp. Ritter has made news in recent years by buying large chunks of land from the Bureau of Land Management at auctions.

To finance these purchases, Ritter's company borrowed from hard-money lenders, who solicit investments from individual investors. These lenders make short-term loans to developers, typically at double-digit interest rates. Ritter said the rates on his company's loans average 11 percent.

Builder's Capital and half a dozen other local hard-money lenders, sometimes called private lenders, are servicing the loans that Ritter wants to restructure. Ritter said he owes \$200 million more that he is not seeking to restructure now.

"To the extent we're humanly able, we're going to stand behind our obligations," DeVore said.

Ritter called the current real estate market conditions the worst he has seen in 26 years in the business.

"In almost all categories of real estate, liquidity has dried up," Ritter said.

The lenders who service loans funded by individual investors have no attractive option to working with Ritter, one analyst said.

If the hard-money lenders foreclose on behalf of their investors, the lenders will be forced to do the developers' work or sell the land at fire-sale prices during the worst real estate slump in recent years. In addition, the lenders would face the difficult task of getting numerous individual lenders to approve ways to convert the asset into cash.

Focus retained the financial advisory services of the Blackstone Group, a giant private equity company with \$98.2 billion in assets under management.

Ritter said his company is pursuing several ways of restructuring the loans, but he said Focus does not intend to file for bankruptcy protection.

The company is asking for forbearance so that it will not be required to make interest payments, possibly for two years, one source said.

As one way of compensating for concessions, lenders have proposed that Focus give them a portion of the potential gain when the land is ultimately sold, said Michael Saltman, principal owner of Vista Financial Resources. Saltman said loans to Focus account for \$40 million of about \$65 million in total loans at Vista Financial.

"(Ritter) will work this through to his benefit and to the benefit of all the people who have been lending him money throughout all of these years," Saltman said.

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Steve Brockman, president of Builder's Capital, said his firm met with Focus briefly last week.

"It's a top priority for us, and I'm sure for the other private lenders in town," Brockman said.

Las Vegas isn't immune to a credit crisis, Ritter said.

"Long term, I don't think there's a stronger market in the country," he said. "I'm giving it a couple of years to work through the crisis and inventory. And then, we're off to the races again."

Ritter had been flying under the development radar until November 2002 when he outbid Olympia Group's Garry Goett at a Bureau of Land Management auction, paying \$160 million for nearly 1,000 acres that would become part of the Mountain's Edge master-planned community in the southwestern Las Vegas Valley.

He bought 485 acres of BLM land for Providence in the northwestern valley for \$113 million in 2003 and raised the bar for land prices in 2004 when he paid \$557 million for 1,940 acres in Henderson for the Inspirada community. He picked up another 1,710 acres at the gateway to Kyle Canyon for \$510 million in 2005.

Contact reporter John G. Edwards at jedwards@reviewjournal.com or (702) 383-0420. Review-Journal reporter Hubble Smith contributed to this report.

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KS wrote on *March 15, 2008 03:26 PM*:

Andy Flaherty's death had NOTHING to do with what has happened to FOCUS, and anyone close to the situation knows that. He was an incredible man who's death was unexpected and tragic. There is absolutely NO investigation into his death, and that's why there has been no media coverage.

Colin wrote on *March 04, 2008 05:58 PM*:

Where can one find out more about the death of Andrew Flaherty. I am surprised that a google search, searching the LVRJ and all the news station websites does not return any information about his death.

I would think this would be a media worthy story. The only thing out there is his obituary. This is really sad news.