

SQUARE FEET

The 30-Minute Interview/Howard L. Michaels

Q. You must be quite busy, given the state of the credit markets.

A. Because of the demise of many investment banks — Bear Stearns, Lehman, etc. — we've been able to pick up that slack and provide that missing capital.

Since 2007, when the credit crunch started, we've closed over \$6 billion in transactions. This year we're going to close in excess of \$2 billion. Probably the biggest deal we did this year was at 485 Lexington Avenue, which is a one million-square-foot tower. We brought in some overseas investors to acquire that building.

Q. Where does most of your capital come from?

A. We have relationships with high-net-worth investors and what's called family offices, which are not institutional funds but amalgamations of wealthy families who have their money run by professional money managers and who are looking to invest in real estate. You really have people all over the world — Russian, Asian, German, Israeli, Arabic.

Q. Aren't they more interested in buying actual property?

A. The truth is, some of the foreigners are more accustomed to buying real estate than they are debt, but they're getting educated. Right now, that's the game in the United States — buying the debt — because you don't have a lot of buildings being sold.

Q. What's the minimum to invest through your firm?

A. Probably \$20 million.

Q. Could the average investor get

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involved on a smaller scale?

A. You could buy the debt on a single-family house for, say, \$50,000 or \$100,000. The everyday person shouldn't be buying distressed debt. It's tricky business.

Q. Tell me about your more memorable deals.

A. We raised \$630 million last year for Charlie Kushner on 666 Fifth Avenue when most people couldn't raise a nickel. He had \$500 million cash invested and a \$335 million mezzanine loan that was due on June 30. He could have lost half a billion dollars.

One of the best deals we did was raising \$300 million of equity for Macklowe Properties, for the General Motors Building, before the Apple Store was there. Donald Trump had taken over the building; he had some very high temperature debt.

Q. Yes, but Macklowe's real estate empire ultimately collapsed. Did Harry Macklowe ask you for help later on?

A. No, he hired other brokers for that.

Q. What kind of rates can one expect to pay when borrowing through you?

A. It depends on the deal. But for the most part, investors aren't going to invest capital unless they get a double-digit return.

Q. How is your newest venture,

the Carlton Exchange, doing?

A. It is operational. We're going to be putting over \$1 billion in loans on the market in November. The banks will get more exposure for their assets, the bidders can go to a central location to see what's available. But it's not an auction in that it has to be sold right away. It's more like the Multiple Listing Service you have for homes.

Q. Is your company expanding?

A. We've been hiring. We opened an office in Los Angeles this year — we have five people there. We have an office in Atlanta, West Palm Beach, Washington, and we probably added seven or eight people here in New York.

Q. You sound like someone who really loves his work.

A. The reality is, I can't wait to get out of bed in the morning. I don't need an alarm clock, because there's \$1.3 trillion of loans coming due in the next four years and most of those loans are over-leveraged and they're going to default. There's a trillion opportunities of deals for us to find!

Q. Is the market near a bottom?

A. You still don't have conventional financing, and until you have that, you're not going to have a traditional real estate market. The only assets that are really available are distressed.

Q. Your wife, Jennifer, is a Democratic fund-raiser. You are a Republican. Any conflict there?

I'm not very political. She's successful in her thing. I'm into real estate. That's all I'm going to say.



Mr. Michaels, 54, is the chairman and chief executive of the Carlton Group, a real estate investment bank that specializes in equity and debt placement. The company also has its own portfolio of properties and mortgages, and recently started the Carlton Exchange auction Web site, which lists real estate loans for sale.

Interview conducted
and
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VIVIAN MARINO