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Getting it right

By David Clucas

LOUISVILLE - Marcel Arsenault felt pretty lonely in the real estate market in 2006 and 2007.

While many of his professional peers were buying commercial real estate during those years Arsenault was selling.

The local real estate investor, who headed up Broomfield-based Colorado & Santa Fe Real Estate, saw trouble ahead. Outstanding commercial debt was growing at unsustainable rates, he observed. The story ahead for commercial real estate would be much the same of what was unfolding in residential real estate, he predicted.

Arsenault put his money where his mouth was. He sold nearly \$300 million of his firm's apartment, retail and office investments throughout the United States - about 80 percent of Colorado & Santa Fe's 140 properties - including his company's headquarters in Broomfield.

The 63-year-old investor, who sports a ponytail and mostly wears jeans to work, then doubled down on his bet by taking the sale proceeds to short the commercial real market. At the time, Arsenault told the Business Report it was a tough decision to bet against his own industry.

But as it turned out, Arsenault was right. And his moves have generated a large amount of cash - right at a time when cash is king.

Real Capital Solutions

Putting that cash to work is Arsenault's next step. He recently changed his company's name to Real Capital Solutions Inc., which is now headquartered in Louisville and employs 35 people.

"It better represents what we do now," Arsenault said. "We're in the real estate business, we've got capital, and we provide solutions."

Arsenault isn't ready to invest money back into commercial real estate, yet. He still sees the bottom at least a year or two away, but the company has been investing in residential real estate since late 2008.

"We've bought \$200 million in distressed residential real estate, and we believe we can buy another \$400 million to \$500 million without a sweat in the next couple of years," he said. Those figures could increase as interest from outside investors grows.

The capital that Real Capital Solutions can provide in these down economic times is what attracts most attention to the firm, but Arsenault believes the company's strength lies in its solutions.

"Most every bank has more money than us," he said. "But they don't have the solutions ... they don't know how to fix the roof, keep the swimming pool from turning green or deal with HOAs. We do."

Arsenault credits the solutions part of the company to surrounding himself by the right people. He's focused on bringing in young energetic minds from the nation's best business universities. And when searching for acquisitions, he's not just interested in the buildings, but people and expertise as well.

Recently, Real Capital Solutions purchased Greenwood Village-based Village Homes and about 1,000 of its residential lots out of bankruptcy for \$22 million.

"Senior management came with the deal," Arsenault said.

Looking ahead

Heading into the second half of 2010, it's been a little less lonely for Arsenault. With his recent success, more people are listening.

Arsenault said his top advice is always to remain objective and analytical.

"Most real estate practitioners don't have analytics, they have opinions," Arsenault said. "I've got scar tissue all over from the times I wasn't objective. I don't look for the story to justify what I do, I look for the story to drive what I do."

The story Arsenault sees ahead is one that has replayed itself many times in the past - a credit market and real estate cycle of boom and bust.

"The signs are mixed for the overall economy, but it's clear that housing is at its bottom. It will be a slow recovery, though, over the next three to five years," he said. "Commercial real estate hasn't bottomed, yet. There's still too much debt out there. The Fed is helping the banks with a lot of extend and pretend. The big debate is whether we'll skate over the thin ice, or are we going to crash through?"

Arsenault thinks the ice will crack on commercial real estate once interest rates rise in a year or two.

"If you study all the cycles of the past, every one of them a four- to five-year bottoming period," he said.

Arsenault believes the federal government is doing what it can to help, but the economic consequences of its rescue - such as inflation - will be unavoidable. He likened the economy to a car speeding toward a steep cliff, with the government throwing all gears in reverse rapidly.

"Well, we avoided the cliff, but the ditch on the other side of the road is still going to cause damage."