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Asian Investors Gulp Twice

But Two American Partners Betting California Still a Safe Haven

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LOS ANGELES

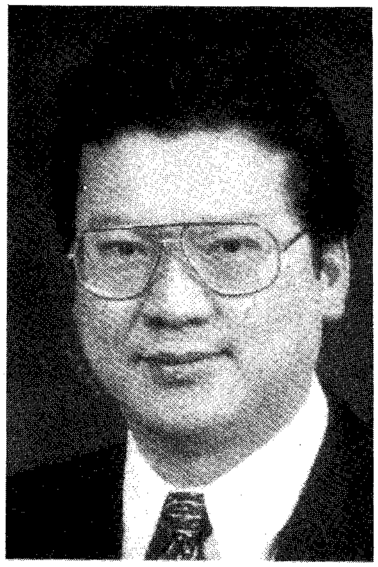
DOES THE COLLAPSE of markets and economies throughout Asia presage an end to the wave of U.S. real-estate acquisitions by investors from Hong Kong, Taiwan, Indonesia and elsewhere in the region?

Richard Alter is convinced the answer is no, and he has a lot riding on being right.

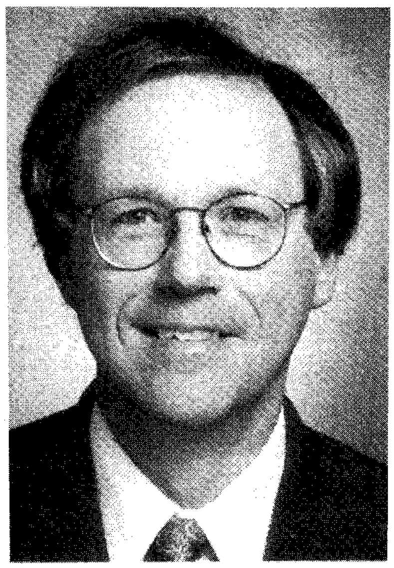
Together with his Taiwan-born partner, Eddy Chao, Mr. Alter has carved out a niche for himself: He scours Southern California for reasonably priced hotels and offices and then lines up partnerships of interested Asian investors to acquire them.

Clients of his company, Financial Capital Investment Co., differ markedly from the big Japanese institutions that bought Rockefeller Center and other high-profile buildings in the 1980s, only to take big losses. The new Asian investors tend to be wealthy families or individuals, often of Chinese origin, who operate largely through offshore companies. Profit rather than prestige is their credo; one of Mr. Alter's deals was for a $6 million car wash in San Diego.

But many have been bigger. Among other deals, Financial Capital helped Asian buyers acquire two big hotels in downtown Los Angeles, the Intercontinental and the Biltmore. Currently, it's finalizing the purchase of a third in downtown, the Sheraton Grande, from Metropolitan Life Insurance Co. for an estimated $60 million. Both sides expect the sale to close in December.



Eddy Chao



Richard Alter

With such deep pockets, the new Asian investors have become a force in California's reviving real-estate market. Consulting firm E&Y Kenneth Leventhal calculates that Asian buyers have purchased more than $6.3 billion in U.S. real estate since 1993, about 22% of it in California. In downtown Los Angeles, they are leading buyers of hotels and offices.

As economic troubles have roiled southeast Asia in recent weeks, the 48-year-old Mr. Alter has felt a few ripples: Some Thai investors who had been interested in a stake in the Sheraton Grande, for example, pulled out. But overall, he remains upbeat. Asians buy U.S. property to diversify their investments away from the hothouse atmosphere at home, he says, and they put a premium on the relative safety of the American market.

Indeed, Mr. Alter says he's seeing an increase in the number of investors attracted by U.S. real estate even as Asian markets tumble. He's careful to guard the anonymity of the investors with whom he works, but a few did agree to talk, and they largely concur with Mr. Alter's view that Asian investors come to the U.S. because they want stability.

David Chen comes from a Taiwanese family that made its money with hotels and steel manufacturing back home. Today, he says his family has about $10 million invested in the U.S. The Chens are one of the investors with whom Mr. Alter and Mr. Chao are currently working to acquire a Holiday Inn hotel in Monrovia, a northern suburb of Los Angeles with a big Chinese population. The price is about $14 million.

"Investments will definitely keep coming to the U.S.," says Mr. Chen. "All Asian people have the same reason: more security for their money."

Still, as the crisis in Thailand, Indonesia and Malaysia spreads, some are starting to question Mr. Alter's optimism. "With Asia imploding big time, will these guys have to take a hiatus?" asks Jack Rodman, national director of the Pacific Rim advisory group at E&Y Kenneth Leventhal. Speaking of Asian investment in the U.S., he adds: "Maybe in the long term it is a bubble, not a wave."

Mark Sullivan, a partner at Price Waterhouse in Los Angeles, expects the Asian turmoil "will have a chilling impact on investment from certain countries." But he anticipates the effect to be limited, with a continued flow from Hong Kong, Taiwan and China.

If that does happen, Mr. Alter and Mr. Chao are well-placed. Financial Capital now has a strong track record, thanks to its involvement in more than $400 million of property deals over the past three years. "They are leading the pack," says Mr. Sullivan. "I don't know anyone more successful at representing Chinese money."

Mr. Alter first got involved in real estate when he quit his job at a car-rental company in 1982 to become a developer. Quickly identifying Asians as promising business partners, he worked with both Chinese from Hong Kong and some Japanese companies. Those established ties are the key to his success, he says.

During the property downturn of the 1990s, he sent prospective investors market reports and advised them to sit out for a while. "They are very slow to trust you," he says. "The secret is to give people free service for years. That's how you'll get the business."

His partner Mr. Chao, 45 years old, came to the U.S. to study forestry in the late 1970s and stayed. They have worked together since 1989. While Mr. Chao primarily works to extend his network of interested investors in Asia, Mr. Alter handles the paperwork and hunts for opportunities in the U.S., talking with possible sellers. They include Japanese companies still sitting on their overpriced holdings of the 1980s.

The $63 million acquisition of the Biltmore hotel last year was a good example of the pair in action. Financial Capital negotiated the sale by the Japanese owner, who had originally acquired it for $230 million, to a Hong Kong company whose contact person in the U.S., Terry Lee, had gone to junior high school with Mr. Chao in Taiwan.

"In the U.S., you need somebody who can take your hand and walk you through the transaction," says Mr. Lee, explaining why his group, Regal Holdings Ltd., used Financial Capital's services. "They deliver."

Not everything has gone smoothly. Mr. Chen recalls a couple of small investments in the late 1980s that didn't work out well. Mr. Alter says his biggest mistake was overleveraging a $10 million office building in Los Angeles that he acquired in 1988 and which the lender foreclosed on in 1993. Nonetheless, most recent acquisitions have gained in value, some quite substantially, as the California market has picked up. For example, Financial Capital, which itself often takes a stake in the transactions, acquired the Intercontinental Hotel for a little over $40 million earlier this year.

Mr. Alter says it's very similar in size and value to the Sheraton that he's now close to acquiring for about 50% more. Even that is far below what the hotel cost to build. Encouraged by his success, Mr. Alter is now looking for properties to acquire outside California, in Hawaii and even Japan.

So is there any risk of an Asian pullback in U.S. real estate? "What will cause the Asian investment to change will be here, not there," Mr. Alter predicts. "If Hong Kong prices come to Los Angeles, then they'll stop investing."