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DEAL OF THE WEEK | By Robbie Whelan

Corus Buyer Scores Big Win

When a group led by veteran investor Barry Sternlicht paid nearly $2.8 billion in 2009 for the assets of failed commercial-real-estate lender Corus Bank, which went under during the financial crisis, many of his competitors were sure he had overpaid. Turns out they were wrong.

Last week, Mr. Sternlicht's group agreed to sell four high-end apartment buildings to Winthrop Realty Trust, a Boston-based REIT, for $246 million. It was a small transaction but it represents one of the final steps in unwinding the Corus investment—one of the highest-profile real-estate deals of the downturn. Mr. Sternlicht says he has doubled the value of the $1.4 billion investment made by his Starwood Capital Group and its partners.

Mr. Sternlicht's trade shows how real-estate investors who put their chips down during the darkest days of the downturn, which at the time seemed highly risky, are starting to cash in their bets as the market improves.

"We're starting to see the first waves of flips from investors who bought distressed deals in 2009," said Dan Fasulo, a managing director at Real Capital Analytics, a New York research firm. "It's nice to see them harvesting some of the gains from that purchase."

The Winthrop deal is the first portion of a 13-building portfolio of rental apartment buildings that the Starwood group is selling. Mr. Sternlicht says that once all 13 buildings are sold, all that will remain of the Corus portfolio will be $300 million in real estate assets.

"This has been a great, great risk-adjusted trade for everyone," Mr. Sternlicht said. The group his company led, which included private investment firms TPG Capital, Perry Capital LLC and WLR LeFrak, bought the Corus portfolio in October 2009 using about $1.4 billion in equity and about $1.4 billion in interest-free debt from the federal government.

Corus, which was one of the nation's leading lenders to condominium developers, was seized by federal regulators in September 2009 after more than half of its condo construction loans fell into nonaccrual or foreclosure.

Its deposits were assumed by another bank, but the Federal Deposit Insurance Corp. took control of its $4.5 billion loan portfolio. The FDIC, in turn, established a joint venture to own the loans, and later that year, Starwood and its partners won the bid to buy 40% of that venture. Under the terms of the regulator's structured-sale program, the FDIC held on to the other 60%, meaning that the federal government also will take 60% of the Starwood group's gains.

At the time, Starwood's bid scared off the competition; it was 20% higher than the next-highest amount offered by any of the other bidders, including Santa Monica, Calif.-based Colony Capital LLC and New York's Related Cos.

"When they acquired the Corus portfolio, there were two or three groups that were hotly bidding on it, and people said they overpaid," says Michael Ashner, Winthrop's chief executive. "I really don't think they did. They're going to make a very good return."

In late 2009, Starwood established a property asset-management firm, ST Residential, to help it relaunch stalled apartment towers and sell individual condos on a retail—or one-by-one—basis. In South Florida, where Corus had lent money on some 2,300 condos and where a recent wave of cash from foreign investors has driven condo prices to nearly $350 per square foot—close to what they sold for during the boom—only 25 units from the portfolio remain, Mr. Sternlicht said.

Now, with most of Corus's condos sold, the Starwood group has moved on to selling its rental-apartment portfolio in bulk. In last week's deal, Winthrop signed a contract to buy four luxury apartment buildings in Phoenix, Houston, Los Angeles and Stamford, Conn., representing 761 rental units.

In a regulatory filing, Winthrop said the four buildings—44 Monroe in Phoenix, Highgrove in Stamford, Conn., Mosaic II in Houston and the San Pedro Lofts in Los Angeles—are all between 87% and 95% occupied, and loaded with the type of luxury amenities typical of high-end condo towers built during the boom, including spas, club rooms, yoga studios, infinity pools, and sun decks with barbecues and outdoor fireplaces.

"What we're selling now—these are assets that we rented, because we didn't think there would be a for-sale market for them," Mr. Sternlicht said. "It's quicker and more efficient to sell them off as rental properties."

Winthrop's Mr. Ashner said the deal isn't typical for Winthrop, which is best known for buying distressed real estate, renovating it and selling it for a profit, rather than buying fully leased luxury apartment buildings.