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Developer Lets a Bet Ride

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World Market Center Las Vegas

Never one to retreat when he can attack, Related Cos. Chief Executive [Stephen Ross](#) is doubling down on the furniture-mart business.

One of the worst bets that the real-estate developer made during the boom years was to develop a huge \$1.1 billion furniture-showroom complex in Las Vegas to compete with High Point, N.C., the historic capital of the country's furniture markets. When the housing crisis hit and furniture sales plunged, the showroom businesses in both cities were clobbered and Related and many High Point property owners were forced into restructuring talks with lenders.

But instead of pulling back, Related has formed a new venture to take control of 11 buildings with about 6.5 million square feet of core showroom space in High Point, said people familiar with the matter. At the same time, the venture is resolving Related's debt problems in Las Vegas by restructuring the existing debt and putting in new capital, the people said.

The result: The Related venture will have nearly 12 million square feet of space in the two cities, giving it dominance, if not control, of the furniture-showroom business in the U.S. The company probably doesn't need to be concerned about antitrust issues because there is an exemption in the Hart-Scott-Rodino Act for property investments.

Related's partners in the venture are the private-equity firms Bain Capital and Oaktree Capital Management, which will help inject new capital, said people familiar with the matter. When completed, the venture is expected to be valued at about \$1 billion, including equity and assumed debt, according to people familiar with the transactions. Also, as part of the deals, creditors have agreed to wipe out as much as \$400 million in debt to stabilize the properties.

High Point, a city of just over 100,000 residents, was the natural place for furniture shows more than 100 years ago. Many leading manufacturers had grown up amid the area's hickory and oak trees that provided their raw materials.

But as the shows grew and manufacturers left the area, some furniture buyers questioned the wisdom of holding the show in a remote city with limited services to support up to 80,000 visitors. High Point's patchwork transportation system, dependent on church vans and school buses, didn't quite cut it for many attendees.

Related Cos. formed a venture that is restructuring debt on the furniture showroom complex known as World Market Center Las Vegas.

Enter Related, which figured it wouldn't be hard to sell furniture buyers on Las Vegas over High Point. In 2005, the company opened the first phase of the World Market Center Las Vegas, a complex that now includes three buildings designed by architect Jon Jerde.

The war was on. At first, the lure of Las Vegas proved strong, and crowds at Related's two furniture shows grew to as many as 50,000 people a year.

But High Point fought back, ratcheting up the Southern hospitality. The state of North Carolina has kicked in millions of dollars, and a nonprofit High Point International Home Furnishings Market Authority was established to streamline the market's operations. Key changes included discounted hotel and restaurant rates for buyers and free shuttles and trolleys to showrooms, events, hotels and airports. "People were unhappy because a bit of an arrogance had set in," said Brian Casey, chief executive of the authority.

The war turned into a death struggle when the recession hit, and furniture companies began failing. In Las Vegas, Related tried in vain to restructure at least \$500 million in loans it racked up on the World Market Center.

Meanwhile, last summer, one of the High Point landlords, [Vornado Realty Trust](#), gave five buildings back to the special servicer overseeing its \$191 million securitized mortgage in lieu of foreclosure transaction. A special servicer also was appointed to manage about \$81 million in troubled debt backed by five other High Point properties controlled by Walton Street Capital.

The Related venture's doubling-down strategy has involved buying distressed debt backed by most of the High Point buildings as well as cutting deals with owners. If the deals are completed, the venture will control portfolios formerly owned by Vornado and Walton Street Capital, as well as the 3.4 million square-foot International Home Furnishings Center currently owned by Bassett Furniture Industries Inc.

To be sure, the success of Related's new strategy will hinge on the housing recovery. Wholesale U.S. furniture orders, the lifeblood of the trade shows, rose about 4% last year to \$19 billion from a year earlier, still below the \$26.3 billion logged in 2005, according to Ken Smith of Smith Leonard, a High Point, N.C., accounting firm that tracks the industry. But many furniture-company executives are optimistic the deal will be good for the industry and aren't worried about consolidation leading to higher rents.

"Our market has gotten smaller over the last five years as the housing market has imploded," said Doug Bassett, chief operating officer of closely held Vaughan-Bassett Furniture Co., which makes bedroom furnishings. "There's plenty of places to go to get very attractive rates." ###