

Buffett's real estate brokerage still making money

NEW YORK) Ron Peltier runs HomeServices of America, the second-largest US real estate brokerage, and unlike No 1 NRT, his company is making money in the worst housing slump since the Great Depression.

HomeServices also has a parent, Warren Buffett's Berkshire Hathaway, with US\$28 billion of cash to help finance the purchase of brokerages that can't weather the housing recession.

By contrast, NRT's parent Realogy, owned by Leon Black's Apollo Management, has at least US\$875 million of debt that has an 89 per cent chance of defaulting within five years, credit default swaps tracked by London-based CMA DataVision indicate.

Three years of tumbling US home sales and prices may give Mr Peltier, who says he fields as many as three calls a week to his Minneapolis office from desperate brokerages seeking a buyer, a chance to grab market share. NRT's pace of acquisitions has dropped to four this year from an annual average of 20 since 2002 as its debt ratio - borrowing relative to earnings before interest, taxes, depreciation and amortisation - increased to 4.9 in June from 3.8 at the end of 2007.

'Cash is king,' Mr Peltier said in an interview. 'If you've got cash available, you have the opportunity to take advantage of some great buying opportunities.'

NRT's options are limited by the growing debt of its parent, said Steven Kaplan, a finance professor at the University of Chicago Graduate School of Business. Realogy said it will pay interest in October on US\$550 million of 11 per cent notes due in 2014 by borrowing US\$32 million. The company had total debt of US\$6.4 billion at the end of June.

'If you are paying debt with new debt, you're not in a position to be making acquisitions,' he said.

Richard Smith, CEO of Realogy, said in an Aug 25 interview that NRT is buying fewer brokerages because 'sellers have not been quick to drop their prices to keep pace' with the decline in revenue.

Mr Peltier said he expects to spend US\$200 million in the next two years paying 20 cents to 25 cents on the dollar for distressed brokerages to get HomeServices into new markets. The HomeServices CEO said he couldn't give details on pending deals.

HomeServices spent about US\$10 million buying companies in the past year, Mr Peltier said.

'We think we are starting to see signs of the end of the downturn, so our interest is growing in making some very noteworthy acquisitions going forward.'

HomeServices is part of Berkshire Hathaway's Des Moines, Iowa-based MidAmerican Energy Holdings\ -- Bloomberg