

SPECIAL REPORT: With a focus on London and New York

FTProperty

Friday November 26 2004



PROFILE

MAXWELL DREVER

Going against the flow

At 63, Maxwell Drever has made a career out of going against the flow. A self-declared “contrarian investor”, the moustachioed entrepreneur has made his millions from buying properties which no-one else would touch.

Just as Mr Drever likes to swim every morning in the icy waters of San Francisco Bay, so too he likes to dive into markets where others are loathe to dip a toe.

Often the target apartments are in US cities where prices have fallen. Usually they have structural flaws, such as stairwells which need construction work.

Mr Drever's first property investment was in 1967 when he put a \$5,000 investment with nine business partners into a triplex in Sausalito, near San Francisco. They sold that building on for a 300 per cent profit.

In the 1970s he invested in blocks of flats in Seattle after property prices fell sharply when Boeing laid

off 60,000 workers. By the end of the decade he had again sold them on.

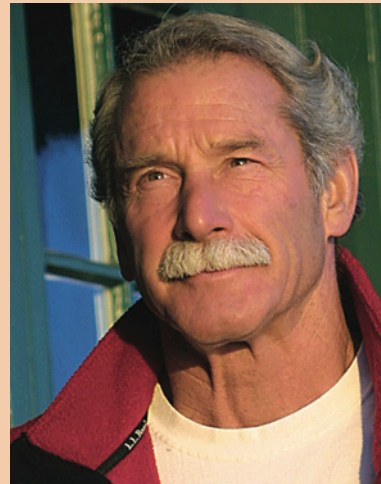
In recent years, he has invested in apartments in what he calls “tech-wrecked” cities, such as Austin, Atlanta, Dallas and Houston, that have been hit by the fall-out from the dotcom boom.

These properties are always in good areas, he insists. “We are not a bottom fisher, someone who buys poor quality properties. If you buy stuff in a good area you will do as well if not better.”

In 1997, when Mr Drever's former business was bought out by a real estate investment trust (Reit) for \$670m, the portfolio included almost 20,000 apartments.

Subsequently he travelled around the world for four months with his wife and daughter. But on his return, he could not resist going back into business.

He has already completed three new funds, worth



Maxwell Drever: contrarian

\$20m, \$45m and \$115m, raising money from private investors at a minimum of \$100,000 a time.

A fourth fund is halfway to its \$150m target. However, Mr Drever is making apocalyptic warnings about the state of the residential property market.

Yields (rental return compared to the price of a building) have fallen to a level that is now very risky for some investors, he believes.

Some buildings are selling for a yield of about 5 per cent. The money raised in his latest fund is likely to sit on the sidelines awaiting opportunities which will result, he believes, from a property crash.

“For us, the givens are ‘sell now’ and ‘keep your powder dry,’” he says.

“With everybody and their brother-in-law crowing

about the increasing value of their real estate, the current herd mentality is at least in denial about the frothy multi-residential market.”

Many of the buyers in today's market have funded themselves with bank borrowings, taking advantage of low interest rates.

Mr Drever predicts that these property owners could be hit by only small increases in the cost of borrowing.

A 0.25 per cent rise in the 10-year Treasury yield, he predicts, would cause “additional financial stress”. A 1 per cent rise would - for some - put properties in a “death spiral”.

It was implausible to suggest that US interest rates would not go up sooner or later, he argues, given the recent rise in Chinese rates and the record US federal deficit.

“What I have seen in 30-plus years of contrarian investing is that people think things are never going to get better or they think they are going to go to the moon.”

When these investors go to the wall, he believes, his company will be in pole position to buy properties at knockdown prices.

Jim Pickard