

BEYOND THE BUSINESS CARD

GIVING YOU THE BACKSTORY BEFORE THE FACE-TO-FACE MEETING

During his second year of graduate school at Cornell University in Ithaca, N.Y. after working in investment banking, Alex Zikakis and his girlfriend — now his wife, Lany — pointed at cities on a U.S. map and discussed where they wanted to live. San Diego, with its sunny days and sandy beaches rose to the top of the list.

Degree in hand, Zikakis moved across the country to accept a job in the real estate consulting group at Kenneth Leventhal & Co. and started his family, which now includes three sons aged 15, 13 and 9. From San Diego, Zikakis traveled the nation liquidating the real estate assets of failed savings-and-loan institutions. The experience taught him that he needed to figure out how to make money in each phase of the real estate cycle. He founded Carlsbad-based Capstone Advisors to do just that. The firm has been the asset manager for more than \$5 billion of residential and commercial real estate on behalf of institutional investors. It also invested in commercial properties and residential land for its own account.

These days, Capstone is consulting and managing assets for financial institutions that now own more property than they ever expected to operate. And as an opportunistic investor, the company is amassing a portfolio of land to develop and sell lots to homebuilders when the housing market improves.

ALEX ZIKAKIS

TITLE: Founder and president
COMPANY: Capstone Advisors
EDUCATION: Bachelor of Arts in finance from the University of Colorado at Boulder and Master of Business Administration from Cornell University

What made you want to get into real estate?

It's a fragmented industry with lots of chances for entrepreneurship. In Manhattan, I worked at the World Financial Center and I had a view of an office tower going up across the street. I thought, "There's something tangible. Somebody's building that thing, someone's leasing and developing and funding it." I knew there was some part of that real estate process that I wanted to get involved with. [Unlike investment banking] I could explain it to my mother. Raising money for private companies just didn't hold any interest for me.

What non-real estate experience in your background do you draw upon in your real estate work?

Coming from a very detailed-oriented and hard-working industry of investment banking and working at Kenneth Leventhal, that taught me attention to detail and to really strive for perfection and to produce a very, very high-quality product. The work ethic in both of those environments was very strong. Both had 80-hour work weeks. It honed my skills down to focus on excellence and really drive and be able to work under a lot of pressure and assimilate and understand a lot of data.

What is the most challenging aspect of your job?

In the big picture, it's looking at where we are in the real estate cycle and being able to figure out what sector we can move into that has the greatest risk-return trade-off. And being able to shift from the old business plan we've been operating under, wad it up and throw it away and build a new business model.

First, it was buying and selling performing mortgages. Wall Street came in and that got more difficult. Then commercial real estate had been so depressed for so long in the late '90s that there was a chance to buy commercial real estate and ride the recovery.

Then that market became more and more liquid and more people came into it. At the beginning of the 2000s, we saw there was a lot of opportunity in the housing market and it wasn't very liquid. We threw away the business plan and decided to be a capital provider. We did that until 2005 when we said we have to throw this business model away because it's time for this sector to go through the next part of the cycle.

Then we had to figure out how to manage through a downturn. It has by far been the most challenging part of my career, to be at the front end and manage a severe economic downturn. You have to make tough choices — shrink down, liquidate the portfolio and not let your ego get in the way of the process.

Where do you see the biggest opportunities?

I think the biggest opportunity today is going to be staying alive for a lot of companies. You have to manage through the downturn, keep a core platform together with people that work well together and maintain your reputation.

I personally don't think there's a lot of real estate opportunity. There's a lot of fee opportunity in servicing people who are ending up owning assets they didn't intend to own. One of the opportunities coming out of the next part of the cycle is that it's a good time to reflect and see how companies are going to reposition themselves. All of the old rules that the industry was operating under are going to be out the window.

Everyone is waiting for the mountain of distressed assets to get dumped onto the marketplace. I have doubts about how much is going to get dumped into the market or just get restructured. I think it will be a lot of time before those assets are put back in the market at market-clearing prices. It's going to be hard to put big money to work any time soon.

What keeps you up at night?

On one level, not a lot. My sleepless nights were in '06 and '07 when the residential market was starting its correction and I was trying to manage through what I thought was coming down the pike.

What concerns me now is the American public that's overleveraged and the institutions that are overleveraged. I worry about the 11 million mortgages that are delinquent. A lot of those mortgages are going to end up in foreclosures, which is going to put stress on consumers and the banking industry.

The other thing that concerns me is job loss. The bane of the real estate industry is job loss, whether you're talking about commercial real estate or residential real estate. We've had higher unemployment than we've ever seen in our lives, so I worry about how long it's going to take to get all of those people back to work.

These are big-picture things, but I'm not losing sleep over them.

What is something most people don't know about you?

I'm pretty adventurous. I like to do a lot of adventure-type travel. I do mountaineering, big wave surfing, outrigger canoeing — anything outdoors and big.

When you have some free time, how do you most like to spend it?

I have three boys, so I spend a lot of time with my kids and wife, running, surfing, reading, traveling, paddling, just generally being active.

What's in the trunk of your car?

One of those collapsible camping chairs, so that when I go to my kids' sporting events I have a place to sit, a beautiful handmade wooden paddle that I keep for my outrigger canoe and my running shoes.

If you could have any super power, what would it be?

I would fly.

— Mandy Jackson

