Baupost Hedge Fund to Expand in Europe With London Office

May 06, 2011, 12:06 PM EDT *By Patricia Kuo*

May 6 (Bloomberg) -- Baupost Group LLC, a $24 billion Boston-based hedge fund run by Seth Klarman, will open its first overseas office in London this year as the sovereign deficit crisis prompts a wave of distressed debt sales, two people with knowledge of the plans said.

Jim Mooney, a managing director at Baupost, will oversee the operation to tap investments mainly in commercial real estate, structured products, corporate and debt that trades at distressed levels, said one of the people, who declined to be identified because the move hasn't been made public.

U.S. investors are pushing into Europe amid a deepening sovereign deficit crisis and forced asset sales by the region's lenders that may total 1.3 trillion euros ($1.9 trillion) over the next decade, according to PricewaterhouseCoopers LLP.

"There are enough opportunities for distressed debt funds to play with in Europe, they won't be sitting on idle cash," said Steven Mitra, a London-based partner at investment firm LNG Capital LLP. "It's a good time to start buying real estate in peripheral cities or peripheral countries in Europe."

Spain's DinoSol Supermercados was taken over by creditors last month as cash-strapped consumers cut spending amid government austerity measures. Bank of Ireland Plc began selling most of its 3 billion euros of project finance loans on April 4 to boost reserves after stress tests found provisions short at the country's largest bank. Kohlberg Kravis Roberts & Co. hired Mubashir Mukadam in March to head European distressed debt.

Build-Up

Baupost plans to build up the team in London with several external hires to work with Mooney, the person said. It had carried out investments in Europe from the U.S. A spokesman at Baupost, who didn't want to be identified, declined to comment.

Distressed debt investors profit when a company is forced to restructure and they recover more than the amount implied by loan prices by taking the company's assets or shares. Loans considered distressed typically trade below 70 percent of face value.

Hedge funds dedicated to buying distressed debt in Europe have earned 5.5 percent this year following a return of 8.7 percent for the full year of 2010, according to Singapore-based data provider Eurekahedge Pte. By comparison, European high- yield bonds have returned 6.4 percent this year and U.S. junk bonds 5.7 percent.

Klarman has doubled his fund's assets in the past three years by taking positions in companies shunned by other investors such as Ford Motor Credit Co. bonds during the financial crisis. The fund returned about 19 percent a year from 1983 through 2009, and almost 14 percent in 2010, data provided by Baupost show.

Increasing Opportunities

Investment in commercial property may rise by 25 percent worldwide this year, after returning confidence produced the most deals in the fourth quarter since 2007, Jones Lang LaSalle Inc., the world's second-largest commercial real estate brokerage, said in January.

"There are an increasing number of opportunities in Europe for investors like Baupost to invest in direct commercial real estate through joint ventures with existing owners who need to deleverage and restructure existing investments," said Nassar Hussain, who founded London-based Brookland Partners LLP in 2009, a boutique real estate investment banking firm.

LaSalle's property fund unit raised about 560 million euros from investors to buy properties in Europe. Blackstone Group LP, the world's largest private-equity firm, last month agreed to buy a west London business park from Schroders Plc for 480 million pounds ($789 million).

"As your assets under management grows you need to cast a wider net, looking for new markets and new products," said Craig Abouchar, a money manager at Castle Hill Asset Management in London, which oversees about $2 billion.