

How developer Ed St. John has beaten the market

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Baltimore developer Ed St. John has a history of investing when others are recoiling, and his moves have earned him a reputation as one of Greater Baltimore's savviest commercial builders. Now, the president of St. John Properties Inc. has cashed in on the sour state of residential home building and has staked \$10 million on its recovery.

If all goes as planned, St. John will have pocketed \$18.3 million in six years, dating back to October 2005. He already has made \$9 million on the fall of the Philadelphia Housing Index, which tracks the value of the nation's largest home builders. He stands to make the rest if the market turns around by fall 2011. Here's how:



Jan. 11, 2006: The index spikes to a high of 280.33 points. St. John has second thoughts: "From Oct. 29 until about May 10, I thought I had just thrown my money away," he said.

Oct. 28, 2005: Through an investment package created for him by Morgan Stanley, St. John invests \$7.5 million in put options based on the value of the Philadelphia Housing Index. It stood at 238 points then. The put options essentially gave St. John the right to buy and sell them for what they were worth back in 2005. To keep from losing more than his initial investment, he agreed to cap his profits at 120 percent, or a rate of no less than 188 points. St. John made his move, on the advice of his son, Trey, long before phrases like subprime mortgage crisis or Alt-A loans became front-page news. "We were only talking about one thing, and that was these [adjustable rate mortgages] were going to come through and people weren't going to be able to pay," he said.

Oct. 31, 2007: More than \$50 billion in ARM's reset from their introductory rates in October 2007, sparking a wave of foreclosures nationwide. The housing index closed that month at 159.21, down 33 percent from Oct. 22, 2005. In the same month, St. John pledges \$10 million to the McDonogh School in Owings Mills for the naming rights to the private school's planned student center.

Oct. 28, 2008: The index closes at 78.02 points, a 67 percent drop in value from three years earlier. St. John exercises his option, and since the value of the index had fallen by 20 percent or more, Morgan Stanley paid St. John \$9 million in profit.

Oct. 23, 2008: With his put options still active, St. John exercises a call option for \$10 million based on the index gaining 30 percent of its value within three years. If it hits or passes 110 points by then, St. John stands to make \$9.3 million in profit. "I think that it is conceivable that, in three years, the market will be back to where it was in 2002, which was a normal market," he said.



St. John

Nov. '05 Dec. '05 Jan. '06 Feb. '06 March '06 April '06 May '06 June '06 July '06 Aug. '06 Sep. '06 Oct. '06 Nov. '06 Dec. '06 Jan. '07 Feb. '07 March '07 April '07 May '07 June '07 July '07 Aug. '07 Sep. '07 Oct. '07 Nov. '07 Dec. '07 Jan. '08 Feb. '08 March '08 April '08 May '08 June '08 July '08 Aug. '08 Sep. '08 Oct. '08

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