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Real Estate

Families going straight to asset owners to find buyers

Investors save on manager fees; owners tap fertile market

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Wealthy families looking to sell iconic buildings are knocking on the doors of institutional investors, taking advantage of institutions' growing interest in investing directly in real estate.

Real estate-owning families are looking to institutional investors — particularly sovereign wealth funds and pension funds — as buyers of their properties.

It's a win for investors that are keen to save on real estate money manager fees, hold properties long term and invest a lot of money at one time. It's also a plus for the families who want to unlock value in long-held properties, industry insiders say.

It is hard to quantify how many deals have

occurred, however, because they are being marketed to only a few selected investors.

The burgeoning trend is "more of an effort on both parties to do direct deals," said Ron Dickerman, president and founder of New York real estate money management firm Madison International Realty LLC. "We're only scratching the surface."

Another part of the attraction of buying outside the public auction process is that institutional investors get more time in which to complete the transaction.

"Auctions put an enormous constraint on bigger institutions and sovereign wealth funds that do move glacially," said Tim Ng, managing director at New York-based boutique consulting firm Clearbrook Global Advisors, which is assisting on some of these



CHAMPING AT THE BIT: Ron Dickerman believes both sides are eager to make more real estate deals.

deals. "Instead of a window of 30 days, there is a 90- to 140-day window. ... Everyone is more relaxed and you are no longer dealing with a competitive situation."

Mr. Ng declined to name the families or

identify transactions and potential transactions. He estimated the properties that could be involved in these transactions are each worth between \$600 million and \$1.5 billion.

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Some of the well-known real estate families include the Silversteins of Silverstein Properties Inc., a Manhattan-based real estate development and investment firm that is rebuilding the office component of the World Trade Center; the Ratner family of Forest City Enterprises Inc., a New York developer; and the Speyers of developer Tishman Speyer Properties LP.

The largest institutional investors are eager to invest directly in real estate. According to survey released last week by MSCI Inc.'s real estate subsidiary, Investment Property Databank, 22% of institutional investors are doing direct real estate deals.

The real estate investment world is in the midst of a dramatic turn as large investors are pulling their real estate investment management in-house, said Peter Hobbs, managing

director and head of research at IPD.

"Asset owners are concerned about the cost ... and there is a risk that they undervalue the value of the fiduciary capabilities of the manager," Mr. Hobbs said. Instead, investors are using intermediaries such as brokers to bring them deals, he said.

The families are willing to forgo an auction process because they feel they can get the price they want by offering the property to a few selected buyers, fewer than 10, in a quiet listing.

"It's not as much pressure as an auction in which there are 15 to 20 institutions in a competitive bid," Mr. Ng said. "It's becoming more and more prevalent ... but it's in the beginning stages."

Meanwhile, prices for trophy properties are extremely high.



GOING AROUND: Tim Ng said institutions are bypassing managers and avoiding management fees.

Prices are approaching or have surpassed peak levels in a number of markets, said Dan Fasulo, managing director of New York-based real estate research firm Real Capital Analytics Inc. Commercial real estate in New York, San Francisco and Boston already have surpassed the market peak of the fourth quarter of 2007, according to Real Capital Analytics data.

Some sovereign wealth funds want to invest in trophy properties in star-power cities such as New York and London that are an easier sell to their boards.

"If you're an owner of real estate, it seems to me you are thinking about selling or tying up low-interest-rate debt because you won't see debt this cheap for a long time," said Glenn A. Sonnenberg, president of

real estate investment manager Latitude Management Real Estate Investors Inc., Beverly Hills, Calif.

Owners of high-profile buildings want to sell the buildings for estate-planning purposes and to take advantage of property appreciation in the gateway cities, he explained.

And institutions "are bypassing a manager, bypassing management fees and seeking better returns," Mr. Ng said.

Meanwhile, sovereign wealth funds and pension funds have been staffing up their in-house real estate divisions to invest directly.

Clearbrook executives are in the process of negotiating for a trophy building with a real estate family.

So far, a couple of transaction structures have emerged. In one structure, the family would give the buyer a 100-year lease for the land for a low rate and sell the building outright. This gives the family a revenue stream and the buyer cheap financing for the purchase of the building, Mr. Ng said. The second is a sale.