

The Madison way

Madison International Realty is not a traditional secondaries firm in that it buys direct interests in buildings rather than fund interests. In an interview with *PERE*, president and founder Ronald Dickerman explains the latest trends helping his business

Madison International Realty, a New York-based firm with offices in Frankfurt and London, is not regarded by other secondaries investors as a traditional player. Rather than acquire fund interests, it focuses on buying direct interests in buildings on a secondary basis.

On the fundraising front, it is a niche that has curried favour with investors. In 2010 and 2011, Madison's senior management went on the road to collect commitments from investors for its latest offering, Madison International Real Estate Liquidity Fund IV, and succeeded in closing on \$520 million in equity – an amount that represents an oversubscription level of more than 20 percent.

Perhaps Madison's most notable deal arrived in 2008, when it bought a 38.5 percent stake in New York's iconic Chrysler Building for \$10 million and increased its stake to 48.9 percent in 2010. In total, it has invested \$55 million in the skyscraper, acquiring its ownership interest from a number of German investors that invested through Commerzbank, which held the building in a joint venture with Tishman Speyer.

Since then, there have been further eye-catching deals involving landmark offices, the latest of which arrived just last

month when Madison announced the purchase of a 56.95 percent stake in the Trianon complex in Frankfurt from Morgan Stanley. It bought the interest from Morgan Stanley's P2 Value fund, an open-ended property fund for German investors that the German financial regulator BaFin ordered liquidated. Although Madison declined to disclose the price, sources familiar with the situation have revealed that the firm acquired the stake for €92 million.

Completed in 1993 and featuring a roof in the form of an upside-down pyramid, the Trianon complex is considered one of the most prominent buildings comprising the Frankfurt skyline. It measures some 46 stories and 700,000 square feet, with the property's main tenant, DekaBank, under lease until 2024.

In an interview with *PERE*, Ronald Dickerman, Madison's president and founder, explains that there are three trends helping his business model. The first is a reluctance by property owners to sell, even though underlying investors



Dickerman: being approached by investors

may be looking for an exit.

"Many property owners don't want to sell their properties because, although cap rates are low, rental rates have not recovered. So their view is to hold it for three, four or five more years to participate in rental rate recovery and then think about selling," Dickerman says. "What is happening is a lot of asset sales have been delayed and a lot of underlying investors are looking for alternative exit strategies. We are being approached by a tremendous number of investors – the building isn't going to be sold, but they want to sell their interest."

The second trend, Dickerman explains, is that a lot of fund sponsors were willing to execute partial interest sales in their core assets. They do not want to sell everything or lose control, but they need liquidity. "We view it as a direct secondary interest," he says. "The owner takes some chips off the table now and hopes to play some part in rental recovery later."

The third angle stems from the way banks no longer seem to be 'extending and pretending', Dickerman notes. "We are finding that banks are saying: 'I want my money back now, and you are going to need to make an amortisation payment of 20 percent to 30 percent of the principal in order to pay down the loan,'" he says. "We just executed a transaction in the US where we bought a 49 percent interest in the building, the proceeds of which were used to redeem a mezzanine loan at 40 cents on the dollar."

Obviously, Madison has a very differentiated business model. "It has allowed us to be much more discerning about the buildings in which we invest," Dickerman says. "We are looking for core assets with stability of cash flow, whereas equity investors are looking for an alternative or early exit strategy." □



Trianon in Frankfurt: secondary interest sold to Madison