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EVENT COVERAGE

M&A is 'Wave of the Industry' for REITs

By Paul Bubny | National

Panovka predicted about 70 equity REITs by 2035, down from the current figure of 177.

NEW YORK CITY—Consolidation among **REITs** has been seen as a foregone conclusion for much of the modern history of the sector. For example, **Sam Zell** has gone on record as saying that the industry has too many REITs—in fact, 30 large ones, including his own, would be sufficient—and that consolidation over the next two decades would achieve the goal of a smaller, more concentrated pool.

The reality is a little more complicated, as explained by **Robin Panovka**, co-chair of the 20th Annual **REIT Symposium** hosted by the NYU School of Professional Studies **Schack Institute of Real Estate** on Wednesday. In opening remarks leading into a panel discussion on **M&A** activity, Panovka, a partner with law firm **Wachtell, Lipton, Rosen & Katz**, noted that 20 years ago there were 178 equity REITs. Today, after many mergers and consolidations, there are 177. "More and more REITs are popping up," he explained.

By 2035, however, Panovka thinks that number will be whittled down to about 70, including four or five large ones in each sector. **Ronald Havner**, chairman and CEO of **Public Storage** and a member of the consolidation panel, said he foresees 20 to 30 large REITs in 20 years—but there will also continue to be several smaller ones.

One reason for that, said **Green Street Advisors**' **Michael Kirby**, is that not all REITs benefit from scale. Although **Ventas Inc.**—whose chairman and CEO, **Debra A. Cafaro**, was also a panelist—has grown into the leading healthcare REIT through M&A, Kirby said the "local sharpshooter" model can also work.

He cited **Acadia Realty Trust, EastGroup Properties** and **Boston Properties** as prime examples. "They're just very good at what they do, and they've decided to focus on the areas where they're excellent," said Kirby, chairman and director of research at Green Street. Conversely, he said, some larger REITs fall short when it comes to focusing on niches.

A sector such as healthcare, however, lends itself to scale. "When you have a $1-trillion domestic market that is just starting to become institutionalized, the opportunities to grow and make money for shareholders are very significant," Cafaro said. She noted that Ventas has achieved its growth not only through mergers with other REITs but also through the acquisition of private operators, such as the $1.75-billion deal to acquire **Ardent Health Services** announced earlier this month.

Along with firms such as Acadia that have opted to stick to their knitting, another factor helping to keep the number of REITs larger than smaller has been the wave of companies that convert to real estate trusts or spin off some or all of their real estate into separate, publicly traded companies. **Sears Holdings**' announcement earlier this month that it would spin off 265 of its stores into a REIT is just one recent example, and Kirby sees no end to the "ladder trend" of REIT conversions.

That being said, Kirby thinks the industry has been "unusually quiet" when it comes to M&A activity. He cited a number of reasons why this activity will soon reach a more typical level.

One of those factors has been a new wave of activist investors, and while Cafaro opined that "the pendulum has swung too far in favor of the activists," Kirby said such investors serve a purpose and that they've just gotten started. "Frankly, there are REITs that have just survived too long," he said.

Another factor cited by Kirby was the volume of capital coming into commercial real estate, at a pace comparable to what we saw in 2007. That's especially the case when sovereign funds compare the returns possible from various alternative investments, and find that real estate looks pretty good by comparison.

There's also "an aging first generation of REIT managers," said Kirby. Many CEOs who took their companies public in the 1990s are now in their 60s or older, and are less reluctant to sell—and thus put themselves out of a job—if they're planning to bow out soon anyway.

Whatever the root cause, Havner thinks more M&A among REITs is inevitable. "Consolidation is the wave of the industry," he said. "It's been that way for the past 20 years and it will be that way for the next 20 years."