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GLOBEST'S 15TH ANNIVERSARY

REIT M&A: Much Since 2000, Much More Ahead

By Paul Bubny | National

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NEW YORK CITY—As part of our 15th-anniversary celebration, the editors of GlobeSt.com sounded out the members of advisory board for their thoughts on the moments that have defined commercial real estate since 2000. Some of these events, such as the 2008 capital markets meltdown and 9/11, were one-time occurrences with long-term implications. Others, such as **consolidation** and **privatization** in the **REIT** sector, are ongoing.

In the view of GlobeSt.com's advisors, these mergers and acquisitions have had a profound effect. For one thing, as **Merrie Frankel**, VP and senior credit officer with **Moody's Investors Service**, points out, REIT consolidation has created "bigger companies with access to the capital markets." **Sean O'Shea**, managing director of the net lease group at **BRC Advisors**, sees a dramatic impact on all sectors." In particular, he cites the impact that the merger between **Cole Real Estate Investments Inc.** and **American Realty Capital Properties** had on pricing and performance in single-tenant net lease.

However, **Mark Rose**, CEO of **Avison Young**, is of the view that we ain't seen nothin' yet. Asked about the wave of REIT mergers and privatizations, Rose asks, rhetorically, "Has it actually happened?"

Rose says the 2007 sale of **Equity Office Properties** to the **Blackstone Group** was "newsworthy and clearly signaled a top of the cycle, but it was simply that—a very smart Sam Zell knowing to sell at the peak. There is much more to come in terms of consolidation as REITs enter a period of rising rather than declining interest rates. There are efficiencies to be gained and critical mass to be created."

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 will 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 this past April.

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. As of this past April, after many mergers and consolidations, there were 177. "More and more REITs are popping up," he explained.

By 2035, however, Panovka predicted that the number will be whittled down to about 70, including four or five large ones in each sector. **Ronald Havner**, chairman and CEO of P**ublic 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 of Havner's fellow panelists, **Ventas** chairman and CEO **Debra A. Cafaro**, brought her REIT to prominence in the healthcare sector in part through M&A with smaller real estate trusts. In 2004, VTR acquired **ElderTrust** for $184 million, then paid $1.2 billion for **Provident Senior Living Trust** in 2005, acquired **Sunrise REIT** for $2 billion in '07, merged with **Nationwide Health Properties** in a 2011 $7.4-billion stock-for-stock deal and, most recently, bought **ARC Healthcare Trust** for cash and stock in a 2014 transaction valued at $2.6 billion. That's in addition to billions of dollars worth of privately-held portfolios and entity-level deals.

As for the aforementioned ARCP, its $11.2-billion deal for Cole was the largest in a series of REIT acquisitions that transformed it into the largest publicly traded net lease real estate trust in the space of a year. The Cole deal was preceded by a $3-billion merger with **American Realty Capital Trust IV** and the acquisition of **CapLease** for $8.50 per share, or about $2.2 billion. Subsequently, an accounting scandal led to the resignation of ARCP's senior management, the hiring of a new CEO in the personage of **Glenn Rufrano** and a change of name to **VEREIT**.

On the industrial side, **Prologis** grew to its present size in part through acquiring other companies. Prior to the launch of GlobeSt.com, the company that began life as Security Capital Industrial Trust bought **Meridian Industrial Trust** for $1.5 billion in 1998, the same year SCI changed its name to Prologis. **Keystone Industrial Trust** followed in '04 for $1.5 billion, development firm **Catellus** was snapped up the following year for $5.3 billion and, in a 2011 "merger of equals" that the two parties had discussed repeatedly over the preceding decade, Prologis and **AMB** joined forces under the Prologis name, creating a $40-billion industrial platform.

Large-scale M&A deals have also taken place on a strictly regional basis. In 2014, **Essex Property Trust** and **BRE Properties** agreed to merge, creating a West Coast apartment REIT with an enterprise value of $16.2 billion. On the East Coast, **SL Green Realty Corp.** paid $6 billion, including the assumption of debt, to acquire rival office REIT **Reckson Associates Realty Corp**. The 2006 deal greatly enlarged SL Green's class A footprint in the Westchester and Fairfield County submarkets.

In addition to Equity Office, other REITs have been taken private in the years since GlobeSt.com was launched, notably multifamily trust **Archstone-Smith**. A partnership sponsored by **Lehman Brothers** and **Tishman Speyer** closed on the $22.2-billion deal in the fall of '07, amid signs that the housing boom was ebbing.

In the years following Lehman's September 2008 bankruptcy filing, the investment bank's estate began selling off its real estate holdings. The Lehman estate reached an agreement in November 2012 to sell its Archstone unit to a pair of the unit's onetime rivals in the publicly traded space: **AvalonBay Communities** and Zell's **Equity Residential**.

About Our Columnist

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