

REITs Will Lead the Way in 2010

By Paul Bubny

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NEW YORK CITY - Will REITs lead the way back to an active commercial market? Industry veteran Bruce Schonbraun says 'yes.' "The public markets are the leading source of capital right now," FTI Schonbraun McCann Group's head of real estate tells GlobeSt.com. He predicts a wave of IPOs in the hospitality, retail and office sectors.

"When the financial community saw that the world wasn't coming to an end and the banking system wasn't going through Armageddon, the focus started to shift to where the value was, and it was clearly in the REIT sector," says Schonbraun, who's also head of FTI Consulting's global real estate practice. "They're generally well-capitalized, low-leverage companies, and they're going to be the most powerful over the next year, because private capital just hasn't returned to the marketplace in any meaningful fashion."

With about \$20 billion in public equity raised last year, REITs rallied from a nosedive in their stock values following the Wall Street meltdown of September 2008. "In hindsight, it's clear that the REIT stocks took an early hit," Schonbraun says. "They

were marked to market way before the private market. The public markets may overreact at times, but they tend to be right. Having been beaten down as far as the REITs were, they became a good opportunity on a relative basis."

Some of those REITs that successfully raised funds were long-established players such as Boston Properties and SL Green Realty Trust, while others were newly minted. There will be more where they came from, Schonbraun says.

"At the end of last year and the beginning of this one, we saw what seemed to be a large door opening and a wave of new REITs coming out," he says. "Over the past few weeks, the number of IPOs has backed up a bit. I'm not sure whether that had to do with some indigestion over all these companies coming out, or the broader market getting beat up. But it seems clear to me that you're going to see a number of IPOs in the marketplace."

Schonbraun predicts that for institutional investors with cash to invest, REITs, rather than assets, will be the vehicle of choice. In addition to the liquidity offered by REITs, he says, the

public markets are "marked" daily, thereby providing institutional investors with a clear picture of the state of their investments.

In turn, Schonbraun predicts that REITs will invest in a diverse array of property types this year. Student housing, healthcare facilities, self-storage and multifamily properties will all be attractive sectors as far as REITs are concerned.

As for private capital, it will get back into the market when liquidity does, says Schonbraun. "Without reasonably priced debt, it's extraordinarily difficult for private money to come into the marketplace," he says.

When that begin to occur, Schonbraun predicts more transactions. "When there's more buyers and sellers, there will be a validation of value," he says. "Surprisingly, there are more buyers right now than sellers, because there's very little forced selling. In fact, it's difficult to validate where



Schonbraun

prices have adjusted to."

Debt maturities will spur sellers to act, as will the need for private equity firms to return proceeds to limited partners. Additionally, Schonbraun cites recent changes to REMIC rules as a catalyst for more proactive solutions to CMBS servicers. Moreover, he says banks may be more inclined to work out their commercial real estate loan portfolios as their own profits increase.



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