

SNL Q2'10 League Tables: Real Estate M&A activity down but not out

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By Tom Yeatts and Jessica Gorman

The first quarter's spark of SNL-covered mergers and acquisitions activity in the real estate sector did not catch flame in the second, defying but not dousing industry players' hopes for a more active 2010 after two years of low activity.

While analysts and experts largely agree there will be some activity in the second half, they are divided as to whether there will be a significant uptick.

For much of the first half, developments related to Simon Property Group Inc.'s unsolicited offer to acquire General Growth Properties Inc. amid the latter's ongoing efforts to emerge from Chapter 11 bankruptcy protection dominated headlines.

For some time it looked as if Simon Property would acquire General Growth, but in the end a deal did not come to fruition. Following months of M&A intrigue, Simon Property in early May finally withdrew its acquisition and recapitalization proposals after Judge Allan Gropper approved an investment agreement involving the issuance of warrants to Brookfield Asset Management Inc. and Fairholme Capital Management LLC.

On July 13, General Growth said it filed its proposed plan of reorganization and disclosure statement with the U.S. Bankruptcy Court for the Southern District of New York. The reorganization plan is based on investment agreements with affiliates of Brookfield, Fairholme and Pershing Square Capital Management LP.

REIT analyst William Acheson of The Benchmark Co. LLC told SNL on July 7 that it was a "bit of a surprise" that "David Simon picked up his marbles and went home" following Judge Gropper's approval of the Brookfield-led plan.

"But frankly, I think it was the right decision given that, in [Simon's] words, it was clear the company was not for sale," he said. "Even though Simon [Property] had a pretty decent offer out there, General Growth just was not willing to consider it."

On the health care front, Ventas Inc. on June 24 said it entered into a definitive agreement to acquire 100% of Chicago-based Lillibridge Healthcare Services Inc. and real estate interests in 95 medical office buildings and ambulatory facilities for a purchase price of between \$300 million and \$400 million. Just into the second half, the company said it closed the acquisition.

Ventas Chairman, President and CEO Debra Cafaro told SNL soon after the acquisition was announced that it represented a stepping stone in a broader strategy that will see the company further expand into the medical office building segment. She said the company will be an "active acquirer" over the next three years as it pursues opportunities to further grow its MOB holdings and diversify its portfolio.

Looking abroad, Commonwealth REIT, which was then known as HRPT Properties Trust, said May 3 that it entered into an agreement to acquire MacarthurCook Industrial Property Fund, an Australian-listed property trust. During an earnings call in May, Adam Portnoy,

managing trustee on the company's board, said he hoped the acquisition would help the company establish a platform for further purchases in Australia and noted the wealth of opportunities there and in Asia. In the second half, Commonwealth raised its cash offer for the fund by 7.3%.

Real estate financial adviser rankings 2010 year-to-date

2010 YTD rank	2009Y rank	Company	Number of deals	Total deal value (\$M)
Ranked by deal value				
1	NR	Credit Suisse (USA) Inc.	1	182.3
2	NR	Genesis Capital LLC	1	54.2
2	NR	Dana M. Ciraldo	1	54.2
2	NR	Houlihan Lokey	1	54.2
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* Deal value for at least one deal is not available.

NR = Not ranked

Year-to-date data is as of June 30. 2010 YTD rankings are recalculated as of July 7.

Based on announcement deal values. Terminated deals are not included.

In-house advisers are included.

In the event of a whole-company M&A transaction completed on or before July 7 between two advisers, the target's deals will be allocated to the buyer.

Source: SNL Financial

Real estate legal adviser rankings 2010 year-to-date

2010 YTD rank	2009Y rank	Company	Number of deals	Total deal value (\$M)
Ranked by deal value				
1	NR	McDermott Will & Emery LLP	1	182.3
1	NR	Schulte Roth & Zabel LLP	1	182.3
3	NR	Hunton & Williams LLP	1	54.2
3	NR	King & Spalding LLP	1	54.2
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Early in the first quarter, Lodgian Inc. entered into a definitive agreement to be acquired by a Lone Star Funds affiliate in a \$270 million transaction, including assumed debt, and on April 20 Lone Star said the affiliate completed the acquisition.

And in March, Care Investment Trust Inc. said it would sell control of the company to Tiptree Financial Partners LP in a \$182.3 million deal, but the deal was not yet completed by the end of the first half.

Of the investment banks engaged in the two deals, Credit Suisse (USA) Inc. drew the top spot for its role as financial adviser in the Care Investment Trust deal. Schulte Roth & Zabel LLP served as legal adviser to Tiptree, while McDermott Will & Emery LLP served Care Investment Trust.

In the Lodgian deal, Genesis Capital LLC and Houlihan Lokey acted as financial advisers to the company, and King & Spalding LLP served as legal counsel. Hunton & Williams LLP acted as legal counsel for Lone Star, and Dana Ciraldo, previously affiliated with Hodges Ward Elliott Inc., acted as financial adviser.

Looking ahead, Robert W. Baird analyst David Loeb told SNL on July 8 that an increasing disparity between companies' valuations and their relative access to capital will contribute to "more and more" M&A activity over the next 18 months, especially between REITs and private companies.

"Companies with high valuations generally feel they can afford to pay a fuller price because their higher valuation represents a lower cost of capital," Loeb said. "That certainly works in stock-for-stock deals."

Meanwhile, the financing markets, which Loeb said are "not open quite wide enough" to facilitate leveraged acquisitions, remain somewhat of a limiting factor to M&A activity.

"Leverage has been a really important consideration in all M&A transactions in the last couple of decades, and we are not in an environment where lenders are lining up to provide high levels of debt for takeovers, whether those are for public companies or private companies," he said.

The Benchmark Co.'s Acheson, for his part, foresees little M&A activity taking place through 2011 among REITs in the retail and multifamily space.

"We've thinned the ranks in both the apartment sector and the retail sector pretty dramatically from where they used to be," Acheson told SNL. "The survivors that we have now have pretty well-defined asset quality and regional geographic niches. To have a large consolidation of any one of the remaining players at this time would be a very large step for any one of them."

Both Loeb and Jahn Brodwin, senior managing director for corporate finance at FTI Schonbraun McCann Group, however, see the IPO front as a potentially active site for M&A activity in 2010 and 2011. Brodwin, who advises public and private companies on debt and equity transactions and real estate acquisitions, told SNL on July 8 that the amount of M&A activity in the second half will hinge on the market's capacity to absorb IPOs. A "meaningful" number of the many companies now registered for an IPO ultimately will merge with other companies issuing IPOs or be acquired by a larger REIT, he said. So far this year, a few companies have been forced to delay or withdraw their offerings as a result of poor market response. That situation could improve if consumer confidence rises and employment figures climb, he said.

"People are just going to be waiting for the market to present itself so that they can go out and be able to raise capital in a cost-effective way," Brodwin said. "Those [companies] that feel compelled will be those that have debt maturities coming up that they need to deal with. And if the public markets are not pricing the way they need them to price, then they'll be good candidates for M&A." *i*