

Brain Trusters

Net Lease Expertise Drives New Investor Cycle

By Brad Berton

Reflecting the ongoing flow of capital into U.S. income properties of pretty much all sizes, net leased real estate assets of all shapes continue to attract interest from equity investors.

Offshore buyers recently closed a multibillion-dollar net lease deal, and domestic institutions have likewise driven 10-figure transactions in the sector while eagerly capitalizing, through multimillion-dollar lots, new investment funds that target net leased prop-

erties. And hundreds, if not thousands, of individuals continue to pour billions into net lease specialty private REITs,

"There are more people having the same conversations (with sale-leaseback prospects) than there were even just a couple years ago."

mostly at \$10 per share. "There are a lot of investment vehicles out there (targeting net lease deals)," acknowledged


Anthony Williams, chief executive of the new Public Properties Realty Investment Trust.

—Dave Robshaw, AIC Ventures

So how are the latest funds' managers avoiding the heaviest competition for net leased assets and generating attractive


returns under the free-flowing equity spigot? Williams' new venture—with a deep-pocketed partner—illustrates the premise that specializing in the net lease arena will work best by targeting assets that reflect the management team's expertise and core competencies.

Williams, former mayor of Washington, D.C., is the point man for Public Properties, which targets sale-leasebacks with public-sector entities, particularly city and state government bodies but perhaps federal agencies and non-profit





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enterprises, as well. Arlington, Va.-based investment banking firm Friedman, Billings, Ramsey Group Inc. capitalized the startup, which aims to qualify for REIT status.

Williams said his long and broad experience as an economic development and finance official at the local, state and federal levels, including the District of Columbia's ascension to a top credit rating during his mayoral tenure, should combine strategically with Friedman, Billings, Ramsey's extensive history underwriting, capitalizing and "nurturing" real estate enterprises. "We think the combination of my experience and FBR's capital expertise will help (government entities) understand how they can tap embedded asset values and reduce property expenses for the benefit of their constituents."

Based on responses from public-sector property owners and prospective investors in the new enterprise, Williams expects "substantial" activity ahead as Public Properties develops its team and infrastructure. He anticipates that the trust will fund operations through a sequence of capital-raising efforts, though he was not able to disclose an initial roster of investment transactions, which was still being finalized at press time.

Alternative Investors

Of course, not all the new net lease investment vehicles are as highly specialized as Public Properties. But they certainly intend to exploit expertise honed over the course of their respective brain trusts' careers. For instance, the latest net lease fund sponsored by alternative-investment specialty advisory firm Angelo, Gordon & Co. aims to capitalize on the operation's long-developed expertise underwriting complicated credit risks. Hence AG Net Lease Realty Fund L.P.'s focus on long-term sale-leasebacks of office and industrial properties that are occupied by businesses with double-B or poorer credit ratings, explained Gordon Whiting, managing director for the firm.

New York City-based Angelo Gordon also boasts more than 40 expert operating partners around the country that can assess a property's likely residual value if a tenant vacates a property sooner than expected, even by a decade or more, Whiting continued. That expertise is critical in today's immensely competitive net lease investment environment, as analysts are able to quickly crunch all the credit and real estate numbers relevant to the investment opportunities that are certain to draw multiple bids, he stressed.

Angelo Gordon raised \$160 million in equity capital for AG Net Lease Real-

ty Fund, intending to leverage it into as much as \$500 million in net lease investments, primarily sale-leasebacks. Investors range from pension funds and endowments to high-net-worth individuals and families, Whiting explained.

There is little doubt that the increased focus on niches within the net lease

arena reflects the sector's strong appeal to deal-seeking capital, noted veteran net lease dealmaker Jonathan Hipp, president & CEO of Calkain Cos. "There's no shortage of interest from investors," he said. "We keep seeing sponsors set up vehicles for private institutions and high-net-worth individuals, exchange-

motivated buyers who've just sold properties, retirees, even offshore investors from the Aussies to the Emirates."

As Hipp's Down Under reference suggests, Australian-led investment groups have been the most visible of the growing roster of offshore buyers that are targeting net leased U.S. real estate.

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