

THE REAL DEAL

NEW REITS TO TARGET NEW YORK CITY IN 2010

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By Adam Pincus



From left, Nicholas Schorsch, CEO of American Realty Capital, and David Fick, managing director of Stifel Nicolaus

A handful of new "blank check" real estate investment trusts seeking to raise billions of dollars from investors in the public markets starting in early 2010 are targeting New York City properties, according to their recent filings.

Six public REITs filed prospectuses with the U.S. Securities and Exchange Commission over the last two months to raise nearly \$4 billion for the acquisition of different types of real estate in limited regions including New York. They are expected to begin the offerings in early 2010.

What makes this batch of public REITs unusual from traditional public offerings, experts said, is that they are so-called "blank check" or "blind pool" entities, meaning the new company does not yet own any assets, but instead is seeking to raise capital based on the reputation of the managers and the offering plan.

David Fick, managing director of equity research at St. Louis investment firm Stifel Nicolaus, estimated there were about 20 blind pool REITs nationally, which were evidence of a completely new trend.

"We have never seen a wave of successful blind-pool REITs in the history of public REITs," he said. "This is really the first time."

The largest proposed REIT that targets New York City is the Midtown-based American Realty Capital New York Recovery REIT, which is seeking as much as \$1.7 billion starting early next year from the capital markets to buy income producing properties in Manhattan.

Commercial sales agents, such as Ivan Hakimian, associate broker with Soho-based Itzhaki Properties, said REITs have been more active kicking tires in recent months, after disappearing for much of the past two years.

"In 2006 and 2007, REITs were all over the place. But in the last two years they were not around," he said. But over the past six months they have been visiting buildings and making offers. "I am starting to hear more from the REITs," he said.

There were five other blind-pool equity REITs that filed in November or December and are coming to market in 2010 that include New York City assets as possible targets. Each includes two or more regions beyond New York.

Terreno Realty is seeking to raise \$345 million for industrial properties; developer Hines, to raise \$750 million for Class A properties; and Piedmont Office Realty Trust, to bring in \$345 million. Two additional REITs are Callahan Capital Properties, looking to raise \$500 million for Class A real estate and Pyramid Hotels & Resorts, which is hoping to bring in \$275 million.

New public REITs are just one of the many types of investors -- including private equity funds; existing REITs such as Vornado Realty Trust and SL Green Realty; and wealthy individuals and families -- that have raised or expect to raise capital to make purchases of distressed assets nationally.

Fick worries that a limited number of properties may trickle in on the market, primed with loads of cash.

"There are going to be a lot of assets in the market that will be [forced] to sell and must trade. The question is how much capital is going to be chasing them," Fick said. "My view is you have to be careful because there could be too many dollars chasing too few opportunities."

Property investment advisors, such as Arthur Margon at California-based Rosen Consulting Group, which provided advice to several of the new REITs, said New York was considered well-positioned for a recovery.

"New York looks to be one of the strongest [urban markets] over the next five to seven years," said Margon, who is head of his firm's New York City office.

American Realty Capital's chairman and CEO Nicholas Schorsch said his REIT would target Manhattan, unlike the other recent proposed REITs that target three or more geographic areas.

"We are focused on buying income producing properties [in Manhattan]," Schorsch said. "We think the market is coming near bottom in New York over the next 18 months and with vacancy rates climbing and rents down it is a perfect time to buy."

The company plans to focus on office and retail properties priced between \$10 million and \$500 million, the prospectus says.

Since he and the other managers do not yet have assets to show to investors, the importance of the reputation of the manager is magnified in a blind pool trust because the stock price is based solely on management and its offering plan, experts said.

Margon said executives such as Timothy Callahan, president and CEO of Callahan Capital, who was formerly CEO of Trizec Properties and Equity Office Properties Trust, has a strong institutional reputation to help him raise capital.

Some CEOs have come under criticism. Fick faulted Schorsch's management of a specialized REIT he founded in 2002, claiming Schorsch was forced out and was skeptical about whether he could raise the \$1.7 billion.

Schorsch was CEO of American Financial Realty Trust, which bought assets such as retail bank properties. That REIT was sold in 2008 to the SL Green Realty affiliate Gramercy Capital. Schorsch defended his tenure to The Real Deal, and said he left by mutual consent.

The New York-focused REIT would be Schorsch's second in two years.

Another trust that sought to raise as much as \$1.5 billion since January 2008 had raised \$106 million by October this year, the prospectus said.

Other REITs have had trouble raising capital in recent months, including Apollo Commercial Real Estate that originally sought \$400 million but raised just half that.

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