Some Real-Estate Firms Make IPO U-Turn

Companies Cite Greater Difficulty in Going Public, Better Access to Credit Markets and Healthy Acquisition Environment

By A.D. Pruitt

Equity Capital Management LLC., a private-equity firm focused on real estate that owns single-tenant office, retail and warehouse buildings, told the world last summer it planned to become a publicly traded company.

REAL-ESTATE FINANCE

This month, it changed course. Instead of selling common stock to raise $380 million as a real-estate investment trust, it sold more than 30 properties to raise $625 million.

"I'm not so sure the timing is right" for an initial public stock offering, said Shelby Pruett, the Chicago company's chief executive. He noted that the track record of many REIT IPOs priced last year was disappointing. "The majority of those traded below their IPO price."

Equity Capital isn't the only real-estate company having second thoughts about going public. This month alone, two other companies delayed or abandoned plans to become publicly traded REITs. **AG Financial Investment Trust** Inc., based in New York, withdrew its $300 million IPO designed to make it a mortgage REIT: **Verde Realty**, an industrial landlord based in Houston, withdrew a $300 million IPO, citing market conditions.

"These private companies that said, 'Hey, I want to be a REIT,' and got the ball rolling 12 months ago, are now saying, 'Wait a minute'," said Jim Sullivan, head of REIT research at Green Street Advisors, a research firm in Newport Beach, Calif. In the past 15 months, 17 real-estate firms have withdrawn or postponed $5.4 billion of IPOs, while 11 priced deals to raise a total of $2.8 billion, according to Dealogic Inc.

The change in sentiment about going public reflects several trends. First, other avenues for raising capital are looking brighter. Closely held companies have better access to credit markets than a year ago and now are able to borrow at low interest rates to pay down or refinance debt. Rising property values and stronger demand for properties have made it easier, and more profitable, for building owners to sell.

At the same time, real-estate executives complain that going public has become more difficult. Investors are demanding that IPO candidates hold a sizable number of assets and not too much debt. And they require potential REITs to price their IPOs at a significant discount to net asset value, because the prospect for bigger returns are better.

This year, only two REIT IPOs have priced, according to Dealogic. This includes a $648.3 million offering in January priced at $20.50 a share by **American Assets Trust**, a San Diego owner of retail, office and apartment properties.

Lodging company **Summit Hotel Properties** Inc. priced a $253.5 million offering in February at $9.75 a share. Both priced at discounts to the net asset values and are trading only slightly above the IPO prices.

Closely held companies had been lining up to go public because their chances of raising debt and equity were better as a REIT. They also were under more pressure during the commercial real-estate crises to pay off loans that fell into distress.

Now that capital markets have reopened for private players and the market's acquisition appetite has increased, going public isn't as much of an imperative.

Equity Capital owns mostly investment-grade buildings that it acquired from companies under long-term sale-lease-back agreements.

Mr. Pruett declined to identify the buyers of the $625 million in properties, the deal terms or the exact number of properties sold. Mr. Pruett did say the majority of the assets went to a REIT and the rest to a joint venture of institutional investors.

A person familiar with the deal said **Realty Income** Corp., an Escondido, Calif., REIT, purchased $544 million of the assets totaling 33 properties. The assets were a mix of office, retail and distribution centers. Some were to be part of the planned IPO filed in August.

Mr. Pruett says Equity Capital hasn't withdrawn the IPO filing but is uncertain when it might try to go public. "We still think the public market has a lot of merit," he said.

Public Doubts

REIT deals priced, withdrawn or postponed in the past year. Total, three largest and median

Priced

TOTAL DEALS: 11	Value $2.8 billion	
American Assets Trust	$648.3 (in millions)	1/12/11
Campus Crest Communities	382.3	10/13/10
CoreSite Realty	311.0	9/22/10
MEDIAN	210.0	

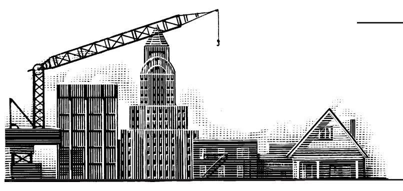
Withdrawn or postponed

TOTAL DEALS: 17	Value $5.4 billion	
Americold Realty Trust (withdrawn)	$600.0 (in millions)	12/1/10
Callahan Capital Properties (withdrawn)	500.0	9/7/10
DLC Realty Trust (postponed)	500.0	8/11/10
MEDIAN	300.0	

Source: Dealogic

Equity Capital Management

This Missouri office building was part of the $625 million in assets sold by Equity Capital Management this month.



PLOTS & PLOYS

Breaking News From WSJ.com's Developments Blog

No Spring Seen In Housing's Step

Survey Says Home Prices Won't Bottom Until 2012, Predicts 1.4% Fall in 2011

U.S. home prices won't hit bottom until next year, according to a quarterly survey of 111 economists and other housing analysts by MacroMarkets LLC. The survey shows how economists have continued to delay their expectations for a housing recovery.

The analysts expect home prices, as measured by the S&P/Case-Shiller home-price index, to fall an average 1.4% in 2011. The survey was conducted during the first two weeks of March. By contrast, in last June's survey, economists expected prices would gain 1.3% this year.

"The sentiment among our expert panel regarding the U.S. housing-market outlook continues to deteriorate," said Robert Shiller, the Yale University housing economist who co-founded MacroMarkets.

Panelists now expect home prices to gain 1.3% in 2012, with a firmer recovery taking shape in 2013.

About one-third of panelists expect prices to increase this year, but none call for more than a 3% annual gain. The remainder expect prices to stay flat or to fall by as much as 11%.

—Nick Timiraos

Waves Of Discontent

Rivals vying for ownership of a private island community off the coast of Miami once home to a Vanderbilt are now dueling in bankruptcy court.

One attorney claiming to represent **Fisher Island Investments** Inc. on Monday filed court papers consenting to an involuntary Chapter 11 bankruptcy petition that creditors filed against it Thursday, while another lawyer making the same claim said in an interview Tuesday that the company wouldn't consent. That attorney, Joseph Rebak of law firm Tew Cardenas, said he and the other lawyer "are absolutely not on the same team." He said that they represent different groups battling in state court for control of Fisher Island Investments.

At stake are the full rights to the 216-acre island's residential development program, its inventory of for-sale condominiums, yacht slips and memberships in the island's club, which is housed in the former mansion of William Kissam Vanderbilt II, the great-grandson of Cornelius Vanderbilt.

Six creditors said they are owed a total of $32.4 million.

—Jacqueline Palank

Delinquency Resolved

Norfolk, Va., averted a calamity involving its convention-center hotel when the hotel's owner recently resolved a mortgage delinquency.

The partnership that owns the 405-room Norfolk Waterside Marriott had gone delinquent on the hotel's $62 million securitized mortgage in February, according to Realpoint LLC.

But the property's owner, a partnership of London-based **Investcorp Properties** Ltd. and the **Procaccianti Group** of Cranston, R.I., and the loan's servicer, **C-III Asset Management**, recently resolved the matter by modifying the loan.

—Kris Hudson

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DEAL OF THE WEEK | By Kris Hudson

Hotel REITs Go Upscale

Publicly traded real-estate investment trusts have emerged as goliaths in the acquisition market for hotels as the hospitality industry continues its rebound from the recession.

Case in point: **LaSalle Hotel Properties** Inc., owner of 35 upscale hotels, last week paid $80.1 million for the Viceroy Santa Monica hotel on California's coast. The purchase was LaSalle's seventh of an upscale, trophy hotel in a little more than a year, amounting to $596 million in spending by the real-estate investment trust, or REIT.

These days, nearly any large, high-end U.S. hotel that goes on the market will attract LaSalle, **Host Hotels & Resorts** Inc., **Pebblebrook Hotel Trust**, **Chesapeake Lodging Trust**, **Sunstone Hotel Investors** Inc. or some combination thereof. This year, public hotel REITs have accounted for 47% of U.S. hotel acquisitions by dollar volume, up from 20% last year, according to property-research firm Real Capital Analytics.

"When we get to the final negotiation table, with second- or third-round bids, usually at least two of [the bidders] are public REITs," said Jon Bortz, chairman, president and chief executive of Pebblebrook.

Mr. Bortz's REIT, formed in 2009 to buy hotels at distressed prices, has spent $699 million on nine properties, including San Francisco's Argonaut Hotel last month. Chesapeake, another blank-check REIT formed in January 2010, has contracted to purchase seven hotels for $530 million. A blank-check REIT goes public without assets and raises money to purchase properties.

LaSalle's latest acquisition, the 162-room Viceroy, initially attracted 10 bidders. The final price amounts to roughly $494,000 per room for seller **Viceroy Hotel Group**, which had owned the hotel since 2001. LaSalle said it will keep Viceroy as the 44-year-old property's manager.

"It's just a pretty spectacular location, and it's a great market," LaSalle President and Chief Executive Officer Michael Barnello said of the hotel, located a block from the beach on Ocean Avenue.

The Viceroy's price reflects the hotel acquisition market's focus this year on high-end properties, a trend that has inflated the average sale price. U.S. hotel sales averaged $153,463 a room at their peak in 2006 and tumbled to $97,610 a room at their nadir in 2009, according to Real Capital. However, this year, they are averaging $158,570 a room, mainly because only the highest-quality, trophy hotels in big markets are trading as buyers favor stability.

The Viceroy fit LaSalle's preferences as an upscale hotel in one of LaSalle's eight target markets.

LaSalle, of Bethesda, Md., paid cash for the Viceroy. In its seven recent purchases, the REIT has assumed only $64 million of debt, paying for most of its deals with proceeds from its sales of common and preferred shares and three hotels it recently divested.

REITs like LaSalle are prevailing in bidding wars for several reasons. First, they have easier access to capital than private buyers by selling stock on the public markets. Second, they have more financial flexibility because they usually don't carry as much debt as private buyers. Third, some REITs, such as LaSalle, will pay high prices for properties with the intention of trimming costs to squeeze more profit from them.

"They tend to pay a little more for assets, but LaSalle is more aggressive on asset management than its peers," said Mike Salinsky, an analyst with RBC Capital Markets. "It's not what they pay for it, but what they can create in terms of margins going forward."

Another factor pushing up hotel prices: Gauging the future value of a hotel entails more guesswork than does buying malls and offices. Those other properties have long-term leases that make future earnings predictable. In contrast, a hotel buyer might bid high in anticipation of a steep rise in rates and occupancy.

And conditions can change rapidly. Early in the hotel recovery, LaSalle's Mr. Barnello took flak from peers when he paid $95 million, or roughly $400,000 per room, for the Sofitel Lafayette Square hotel in Washington in March 2010. Since then, additional U.S. luxury hotels have sold at higher prices.

"In general, you can't judge an acquisition for several years," Mr. Barnello said.

Outpacing other REITs' acquisition volume is Host Hotels & Resorts, which tends to buy larger hotels. Host has purchased 13 hotels in the past year for a combined $1.5 billion, including the 773-room New York Helmsley hotel and the 1,625-room Manchester Grand Hyatt in San Diego.

Another big acquirer of late is **Ashford Hospitality Trust**, a REIT that this month foreclosed as a lender on the **Highland Hospitality** Corp. portfolio of 28 upscale hotels, gaining a 72% equity stake.

Getty Images

LaSalle Hotel Properties paid $80.1 million for the Viceroy Santa Monica on California's coast.