

DEALS OF THE DOWNTURN

■ The financial crisis has raged on now for five years, but a few savvy property investors found gems in the gloom.

Mike Phillips reports

It was five years ago this week the phrase “credit crunch” started to form on the lips of *Property Week* readers.

A phrase that was born somewhere on the trading floor of a bank or boardroom of a pension fund, spread as quickly as bank liquidity was receding, becoming common parlance in the business world, appearing on the pink pages of the financial press, and then infiltrating this magazine and the world on which it reports.

Little did anyone know, but the world had changed forever. The seemingly inexorable rise of the IPD index ground to a halt in July and the flood of money from private investors into property funds suddenly changed direction – small signs of the catastrophe that was to come.

The subsequent half-decade has been traumatic, and it is likely to take the same amount of time before property can truly say it has recovered. But out of the chaos of the last five years some remarkable deals have been born, from which fortunes and legends will be made.

So what have been the deals of the downturn – the ones about which in 20 years’ time grey-

haired sages will lean on the bar of *Finos* and say, “Do you remember the guys who bought ...?”

Property Week asked a brains trust of more than 100 top investors and advisers to name the deals that stand out – those they had wished they made themselves.

Our criteria were relatively loose. The transaction simply had to have occurred after June 2007, in the UK, and would not have been possible without the chaos of the credit crunch. Any type of deal, leasing or investment was welcome. It did not have to be a good deal for both parties. In fact, it rarely was – property is not quite a zero-sum game, but in times of uncertainty, it is pretty close.

This is not a straight vote – the results are not based on a count of the suggestions received, but have been used as a guide for a list that highlights the standout moments from five years of turmoil.

That said, some suggestions did crop up more than others, as did some companies. Blackstone and London & Stamford Property seemed to be the most admired investors, and could have populated a list of 10 phenomenal deals on their own.

Patterns emerged. The best deals seem to have been sealed in 2009, and gave investors access to

prime London offices at yields normally associated with secondary regional offices.

Outside London, it was the chance to buy into dominant regional shopping centres that threw up the best purchases.

Sovereign wealth funds, often dismissed as dumb money, are well represented. Sophisticated funds from the Middle and Far East used their size and cash resources to undertake huge and highly profitable trades.

Opportunistic funds, whose *raison d’être* is to be brave while others tremble, of course did well.

On the flipside, the UK’s biggest REITs appear on our list only as a source of assets to be tapped at historically low prices, rather than taking advantage of the distress themselves. The top four deals all involved FTSE 100 companies selling at the bottom.

Some buyers have not yet sold on their assets to crystallise a profit. But where this is the case, a sale is either close enough, or values have risen so sharply that it is unlikely anything will happen to derail them.

The best deals of the downturn may well yet not have been made. But this list will be hard to top. ■



10 Blackstone's purchase of Chiswick Park from Schroders and Aberdeen Property Investors, January 2011

Perhaps it is a little too early to call this a truly great deal. But Blackstone took advantage of investors in the fund that owned Chiswick Park wanting to sell to buy into a property that was fundamentally under-rented compared with the surrounding market. The recent 215,000 sq ft letting to Aker at £46/sq ft has raised the estimated rental value at the park by 25%, and is likely to have added £100m on to the value.



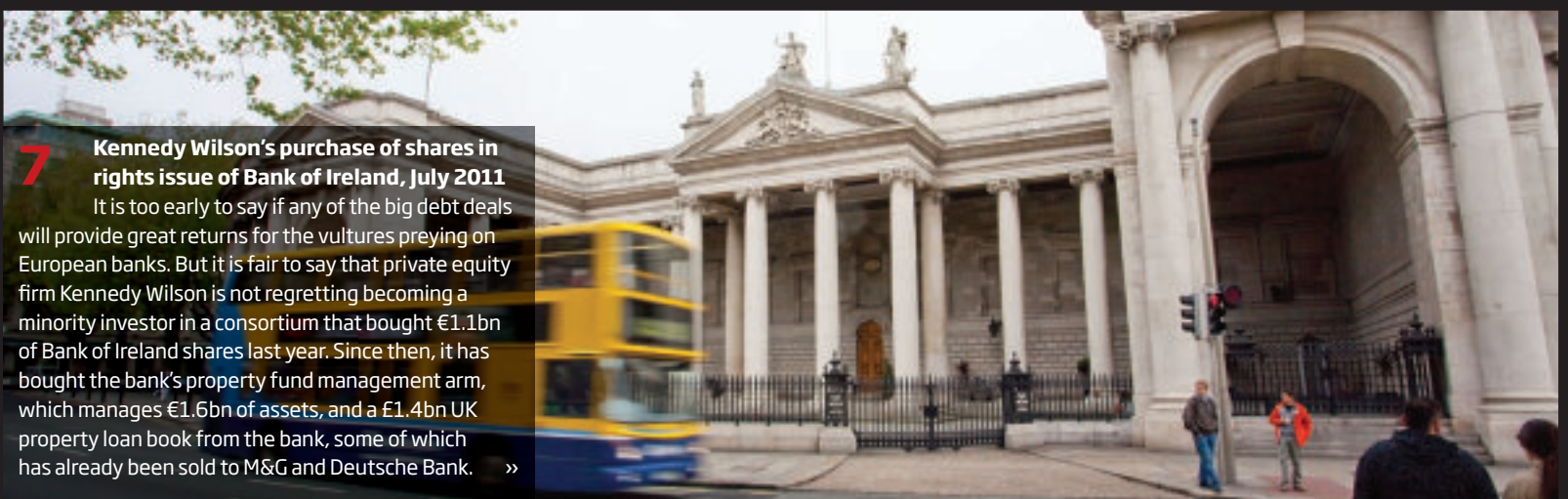
9 Development Securities and Patron Capital's purchase of Manchester Evening News Arena from Capital & Regional and GE Real Estate, May 2010

One of the few fantastic deals done outside London, the joint venture between DevSecs and Patron bought the 21,000 seat arena and 120,000 sq ft of offices for £62m in cash, and straight away agreed a new 25-year lease with venue operator SMG Europe. This drove the value up by at least 20%, and the duo has taken equity out of the purchase with a new £48m Lloyds Banking Group debt facility.



8 State of Oman Investment Fund's purchase of 75% stake in Bishops Square from Hammerson, June 2009, sale to JP Morgan client, December 2010

The first instance in our list of a buyer taking advantage of a REIT selling a prime asset to shore-up its balance sheet. The Omani fund bought the stake, after Hammerson had completed a rights issue, in a deal that valued the scheme at £445m. A year and a half later, the world had not ended, financial services still existed, prime property had been buoyed by quantitative easing, and the Omanis had sold at a price that valued the scheme at £557m.



7 Kennedy Wilson's purchase of shares in rights issue of Bank of Ireland, July 2011

It is too early to say if any of the big debt deals will provide great returns for the vultures preying on European banks. But it is fair to say that private equity firm Kennedy Wilson is not regretting becoming a minority investor in a consortium that bought €1.1bn of Bank of Ireland shares last year. Since then, it has bought the bank's property fund management arm, which manages €1.6bn of assets, and a £1.4bn UK property loan book from the bank, some of which has already been sold to M&G and Deutsche Bank. »



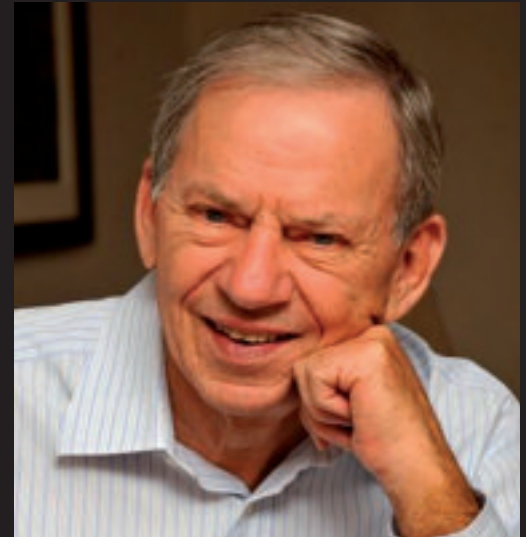
6 Nomura's leasing of Watermark Place, September 2009

As the fallout from the Lehman Brothers collapse rocked the financial markets, demand for office space from the financial sector fell to record lows. It became the ultimate tenant's market – especially in dealings with developers who had built offices anticipating a continued boom. Nomura capitalised the most. It returned from Canary Wharf to the City with a great lease at Watermark Place. A "headline" rent of £40.50/sq ft, a rent-free period of 50 months and a sizeable capital contribution was agreed with owners Oxford Properties and UBS South East Recovery fund. But then, the building was fully let, and will surely appreciate in value.



5 Metrovacesa, April 2007-August 2009

Two business partners of Metrovacesa were able to sell the same assets twice and keep the profit. The Spanish property company bought the HSBC Tower from the bank for £1.1bn in April 2007. HSBC provided a bridge loan to Metrovacesa while it arranged external debt. When it defaulted on the loan, HSBC bought the tower back for the value of the debt, around £800m, then sold it to the National Pension Service of Korea for £800m. And Legal & General Property sold its Walbrook Square site in the City to Metrovacesa in September 2007. When L&G only received around £180m of the £240m price, it took the site back and sold it again to financial news and data giant Bloomberg for its London HQ (above).



4 Natie Kirsh's investment in Minerva

Minerva's shares dropped as low as 5p, and you could see why: a pure developer with virtually no income, limited cash, whose schemes were built entirely using debt. In 2008, it was unsure if its two speculative London office schemes would ever find a tenant. But South African entrepreneur Natie Kirsh took the plunge. He started buying into Minerva at less than 10p a share in 2008, in an effort to take over the company. An acrimonious battle for control failed, and Minerva was bought by Delancey and Area Property Partners last year. Kirsh bought his shares at an average price of 20p each and sold his 30% stake at 120p a share – multiplying his money sixfold in the space of less than three years.



3 London & Stamford Property's purchase of a 50% stake in Meadowhall, February 2009

Amid falling share prices at the start of 2009, the UK's largest REITs were desperate to dispose of assets to cut debt. Raymond Mould and Patrick Vaughan's London & Stamford Property moved fast and bought half of one of the UK's best shopping centres at a 6.75% yield. They brought in outside capital from the Abu Dhabi Investment Council, and paid £588m to British Land for a stake that was on the market for £850m 18 months earlier. The deal came with an assurance that the stake would be held for three years. When that period expired earlier this year, London & Stamford began to market their stake for around £800m – almost back to boom prices. A sale of a 75% stake to Norges Bank Investment Management is imminent, and will value the shopping centre at around £1.5bn. It is less than the price sought, but selling for £750m will see Mould and Vaughan make the ultimate veteran's call.

2 William Pears Group's purchase of Trillium from Land Securities, January 2009

In 2008, Land Securities decided to split into three separate companies – offices, retail and its outsourcing arm, Trillium (chaired by Ian Ellis, pictured). The REIT's process was scuppered by its complicated debt structure, which could not be refinanced once the credit crunch bit without LandSecs making a big loss. So it decided to sell Trillium in November 2008. The initial price of more than £1.5bn tumbled along with the financial markets, while its only realistic buyer waited patiently. Telereal, owned by the William Pears Group, was the perfect fit, and picked up the business for just £750m in January 2009. The combination created marriage value, property prices began to rise in the second half of the year, and a £340m refinancing deal for the combined business further sweetened the deal. LandSecs achieved its aim of becoming more focused, but Telereal played its hand perfectly.





1 Blackstone's purchase of a 50% stake in Broadgate, September 2009

It seems like a spectacular no-brainer now, but this deal almost did not happen. British Land had been trying to sell a 50% stake in its flagship City of London office scheme for almost a year, and myriad investors had come close but walked away – among them opportunity fund MGPA and Israeli investor Nochi Dankner. Investors were not comfortable with the upcoming lease break of the scheme's biggest tenant, UBS, and the wider fact that the financial sector was still trapped in a death spiral of losses and job cuts.

Even within Blackstone, debate was fierce. Some sources suggest the credit committee was pretty evenly split between the bears and the not exactly bullish folk who felt it was too good a deal to turn down. Eventually the button was pressed, and Blackstone put up £77m of equity to buy half of the famous scheme, a price that valued it at £2.13bn.

At a time when everyone was looking to reduce

leverage, the sale had a loan-to-value ratio of 93%, given the almost £2bn of securitised debt attached to the scheme. By this point, quantitative easing was already helping to reinflate prime property values and stabilise the financial services sector.

The most recent valuation of Broadgate was £2.9bn, which means the stake bought for £77m is now worth more than £450m – almost six times the initial investment. UBS has been secured on a new long-term lease, and Blackstone will have to fund 50% of the cost of its new building (pictured). But in a world where private equity firms seek a multiple of two times equity, the returns from this deal are off the scale.

Former British Land chief executive Sir John Ritblat will always insist it did not have to sell, while the REIT itself points to its shifting of £1bn of debt off its balance sheet and diversifying its portfolio. Blackstone will be happy to let the debate continue while it reaps the rewards, possibly through a sale when its own lock-in period expires later this year.

Those that did not quite make it ...

London & Stamford Property's purchase of 1 Fleet Place from Legal & General Property

Taking the plunge first can be one of the hardest things to do. In December 2008, when everyone else was still paralysed by Lehman's collapse, London & Stamford Property bought in the City of London for £75m, and later refinanced for £55m.

AEW's Brixton portfolio purchase

It is still too early to say whether Segro's purchase of Brixton can be deemed a success. What was definitely a triumph was AEW's purchase of a portfolio of four assets from Brixton as it scrambled for cash in March 2009. Bought for £75m, the assets were sold for more than £100m within 18 months.

CBRE's purchase of ING Real Estate Investment Management

It is too early to judge this deal a success, but CBRE showed bravery in outbidding rival Jones Lang LaSalle to buy this business from a motivated seller, using its access to corporate debt lines. It has already added \$100m to the firm's bottom line, and the deal makes it the world's biggest agent and fund manager.

Green Properties and Allied Irish Bank

Stephen Vernon's Green Properties bought a £700m portfolio of London assets from Allied Irish in the wake of the bank reporting previous owner Achilles Kallakis to the City of London police for alleged fraud in late 2008. With minimal equity put in, the subsequent rise in London values has been pure profit for Green.

Bullring stake sale

Australia's Future Fund bought a 33% stake in Birmingham's Bullring for around £200m from Land Securities, representing a 7% yield. Values have come in by at least 100 basis points, and a stake in the retail scheme is unlikely to come back up for sale again.

... and other honourable mentions

- L&G's purchase of 1 City Place in Crawley with new tenant Nestlé in tow
- Land Securities' forward sale of Park House in London's West End to Barwa for £250m
- JP Morgan's purchase of Lehman Brothers' former building at Canary Wharf in London's Docklands for its own occupation
- The Barclay brothers' takeover of Maybourne Hotel Group – if it comes off
- Starwood's purchase of the Cumberland Hotel in the West End from the Royal Bank of Scotland
- The restructuring of care home owner NHP
- King Sturge's £1.97m sale to Jones Lang LaSalle