

## Foreigners May Boost M&A Market

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The credit crunch is expected to put a big crimp in the booming real estate merger market, but foreign investors could step in to stem some of the decline in activity. The M&A market was propelled to record heights in the first half, through a combination of high leverage, rocketing property prices and the ready ability to flip properties from acquired companies. The peak came in February when Blackstone Group acquired Equity Office Properties for \$39 billion and then subsequently sold off a large portion of the REIT's portfolio. But now that lenders have turned off the credit spigot, such "chop shop" deals won't fly, said Spencer Haber, a former Lehman Brothers executive who heads hedge fund player H2 Capital Partners. Haber, who spoke last week at an M&A conference in New York sponsored by **Information Management Network**, said other sources of capital will have to fill the void. One obvious possibility, other panelists said, would be demand from investors based outside the U.S. Foreign players may look to buy U.S. real estate companies because of the cheap dollar and the relatively high returns and low risk available in the U.S. "International investors will be a key force in the U.S. markets," said Sri Sambamurthy, a managing director with Starwood Capital. "After the frenzy of the last six to eight months," added Rick Koenigsberger, a managing director of hedge fund XE Capital Management, "the only thing that might alter a slowdown . . . is a tremendous influx of foreign capital." In addition to privatizations, opportunities may exist for foreign and other core players to provide capital for struggling REITs, either by buying stock or by creating joint ventures to acquire stakes in their portfolios.

## THE GRAPEVINE

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The Federal Reserve's decision last week to cut short-term interest rates by a half point will likely reduce some of the upward pressure on cap rates. So said panelists last week at a real estate mergers conference sponsored by **Information Management Network**. Before the move, a cap-rate increase of up to 100 basis points was likely because of the credit crunch, said one panelist, Rick Koenigsberger, a managing director of hedge-fund operator XE Capital Management. But the Fed's action may improve the "psychology" of buyers and hold a cap-rate increase to about 50 basis points, said Koenigsberger.