



American Realty Offers Broker-Dealer System to other Non-Traded REITs

By John Covaleski, Commercial Real Estate Direct Staff Writer

American Realty Capital Advisors is making its broker-dealer unit, which markets to the retail investment community shares in its non-traded REIT, available for use by other sponsors of non-traded REITs.

American Realty, based in Jenkintown, Pa, is the first non-traded REIT to formally offer its internal broker-dealer system for use by others.

The broker-dealer unit, Realty Capital Securities, next month launches itself as a third-party service provider when it begins delivering its services to Grubb & Ellis Healthcare REIT Inc. It's also well-advanced in talks to deliver its services to five other non-traded REITs in relationships expected to begin next year.

The unit is charged with raising as much as \$3.1 billion for the Grubb REIT - the \$900 million of equity that remains to be raised under the REIT's initial registration and \$2.2 billion for a subsequent offering that the REIT registered as part for its plan to move to internal management.

That non-traded Grubb Healthcare REIT [is relinquishing management services it has received from its sponsor](#), Grubb & Ellis Investors, which included using Grubb's broker-dealer system. Its registration with the SEC notes that Realty Capital will be paid fees of up to 7 percent of the gross offering proceeds it raises, subject to reductions based on volume and special sales.

If American Realty succeeds in selling its broker-dealer services on a broader scale, it could eliminate a high hurdle for sponsors of additional non-traded REITs - the cost, time and risk involved in launching their own broker-dealer programs.

"What American Realty is doing is unique," said Brian Jones, a director with Robert W. Baird Co., an equity industries analyst. "We advise sponsors that it can take up to \$20 million to get a broker-dealer platform started." But he cautioned, "The real question is how robust the platform will be - you can spend \$10 million and have a platform that is worth nothing because it does not have the right relationships."

The vast majority of non-traded REITs operate internal broker-dealer systems, which market their companies' shares, usually priced around \$10 apiece, to financial planners, securities dealers and retail level brokers who consult with and sell financial products to retail, or individual investors.

The key for the REITs' units, often called management broker-dealers, is cultivating and managing the relationships with financial planners and securities sales people. Their work includes explaining a REIT's unique capabilities, and how a REIT might fit their clients' investment strategies.

"It's an investment wholesaling road show that REIT broker-dealers run, and they have to really know the financial advisors they deal with," said an executive with a non-traded REIT who asked to remain anonymous.

While American Realty stands out as the first to actively offer its broker-dealer to the overall non-traded REIT market, CNL Financial Group is making its broker-dealer services available in one-off deals with two non-traded REITs: [CNL Macquarie Global Income Trust Inc.](#) and [CB Richard Ellis Realty Trust](#).

Nicholas S. Schorsch, chief executive and vice chairman of American Realty, said he was inspired to create a broker-dealer that could be marketed to others when he was unable to find one for hire after registering his company in 2007.

"The big companies don't want to rent out their broker-dealers because they have relationships (with retail level broker-dealers and financial consultants) and they don't want to share them. That keeps new sponsors out," Schorsch said. "We have built those relationships and are willing to share them."

The marketing program for American Realty's broker-dealer is designed to safeguard the real estate investment interests of that REIT and its other REIT clients. It will only handle one REIT with a specialty in a specific property type - such as only one in industrial or hotels. And it will not market its services to REITs whose investment targets overlap American Realty's focus on net-leased properties.

Also, unlike CNL's relationship with Macquarie, American Realty will not take a financial stake in any of the REITs that employ its broker-dealer program.

Schorsch is hopeful that making his broker-dealer system available will encourage more sponsors to launch non-traded REITs. He said it could be particularly valuable to companies concerned that their offerings would not generate enough money to offset the costs of launching

an internal broker-dealer program.

He emphasized that in addition to the monetary costs, launching broker-dealer networks can also take more time than new sponsors may expect. He said it took nearly a year to fully assemble Realty Capital Securities and another nine months or so for the unit to get approved by the Financial Industry Regulatory Authority, which oversees securities traders.

The REIT's Realty Capital Securities broker-dealer obtained its registration from regulators in March, about 18 months after the REIT was registered. The broker-dealer has since raised about \$70 million for the REIT, which earlier had raised most of its equity from Schorsch and his partners, along with their high-net worth friends and family.

Schorsch speculated that the high costs of creating broker-dealer systems may be one reason non-traded REITs generally set very high equity targets.

By offering Realty Capital Securities as a turn-key broker-dealer, Schorsch speculated that sponsors may now be more inclined to launch REITs with smaller equity targets, of under \$500 million.

Baird's Jones said that making third-party broker-dealers available to non-traded REITs would most likely help newly launched firms focus more of their efforts on their core investment strategies. He said that management would not be forced to split its time between investment and sales matters.

But American Realty's broker-dealer program could be a tough sell. "I would have to imagine that any REIT is going to ask whether this broker-dealer would be selling American Realty and not their REIT first," said a REIT executive speaking anonymously.

The executive also noted that because of their experience with multiple REITs, American Realty's broker-dealer representatives might have trouble pitching a new REIT offering to a financial consultant to whom they may have recommended a poor-performing REIT in the past.

Schorsch countered that the established relationships that Realty Capital Securities' representatives have will make it easier for them to explain the differences between different REIT offerings to help them determine which fit best with clients' needs.

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