



## A Conversation With... American Realty Capital's Nicholas Schorsch

Weighing the benefits of investing in non-traded REITs

If nothing else, the past few months—underscored by the tremendous equity raise in the public REIT space—proves that investors' appetites have not waned. But as attractive as publicly traded trusts are, their non-traded counterparts offer many of the same advantages—annual dividend, reasonably predictable cash flow—without some of the risks. This is partly what drew the management at Boston-based American Realty Capital to the sector, says the company's chairman and CEO, Nicholas S. Schorsch. Formerly at public REIT American Financial Realty Trust, the majority of the team can boast experience at both ends of the spectrum. Indeed, Schorsch, who founded AFRT, is well versed in the fine points and foibles of the public arena.

These days he and his team are scouring the market for choice acquisitions to tuck into American Realty's portfolio. Last month, the firm closed on 39 of the more than 100 bank branches it intends to purchase this year. The \$53-million sale is a part of a larger agreement with Wachovia Corp. to acquire its surplus vacant branches. Schorsch recently spoke with REAL ESTATE FORUM about the non-traded REIT sector and the overall state of the market.

### What are the benefits of being a non-traded REIT?

Many of the traded REITs are burdened with an awful lot of legacy assets that were bought at the height of the market. They're burdened with a lot of debt, like you see with Maguire Properties or Macquarie. There was \$16 billion raised in the traded REIT space, not including the debt and other issuances that have recently occurred. Most of that money is being used to reposition balance sheets and stabilize loans that are coming due, whereas REITs in the non-traded space are focusing their energy on accumulating new assets. They don't trade day to day; they trade on net asset value. So it's a whole different investment strategy, where it's more of a long-term play. You're not encouraging investors to come in and get out on a daily basis. And they understand that the lack of liquidity means they have to really be interested in the long term and your asset class as an investment. It makes investors a little more focused. And it also gives the REIT the ability to stay in a pure play—invest-

ing, taking those assets, growing them and creating shareholder value. It's almost like buying into a closed-end fund, but you have all the transparency and oversight of the Securities and Exchange Commission, plus the tax benefit of the REIT status.

### What opportunities are you seeing in the market?

The fact that there is a lot of distressed debt and a lot of distressed financial institutions is creating a certain level of distressed sellers. There are also a lot of corporate clients that are looking to generate capital, whether it's GE or Walgreens. Their cost of capital to raise money in the stock market has gone up precipitously because stock prices have dropped. So that creates demand on the sale-leaseback side because we're looking at hold-to-period properties. So buying good assets from distressed sellers is now a real possibility. Now you have a situation where the sellers are looking for exits. Maguire, for example, is handing over its properties from the old EOP portfolio to the lender. Now you have an opportunity.

Opportunities are being driven by market sectors. But buyers are very few and far between because you need to have a lot of capital. You need to be looking at a capital stack that is probably 40% leverage or less in today's market, maybe even 30% to 35% leverage. And it creates great opportunities for a buyer who has cash. There are more opportunities than ever before, but buyers should be more discerning. And most importantly, buy income-producing property because in today's market, the last thing you want to do is be stuck with a fixer-upper.

### Are we returning to the basic tenets of investment?

Absolutely—low leverage and amortization. Banks should be able to make money the straight up way. They shouldn't have to securitize loans. They should be making loans they want to keep on their balance sheet. It's harder to get a big loan today than it is to get a small loan. All of these big finance companies are no longer looking at who has the biggest deal. They're looking at diversification and mitigation of risks. They want to spread their money out with lots of small bets. Rationality is coming back. —*Danielle Douglas* ♦

Reprint orders: [www.remreprints.com](http://www.remreprints.com)