Urdang

Recently, Geoffrey Dohrmann, publisher and editor-in-chief of The Institutional Real Estate Letter – North America, *met with* ***Todd Briddell*** *and* ***David Rabin*** *of Urdang. The following is an excerpt of their conversation.*

How would you describe Urdang?

Briddell: Urdang is a 24-year-old real estate organization with two principal strategies — listed global real estate securities (REITs) and direct value-added opportunities in the United States. We are the real estate investment management arm of The Bank of New York Mellon (BNY Mellon), which has $1.3 trillion in total assets under management. Our principal office is in Philadelphia, and we have an asset management office in Newport Beach, Calif., as well as portfolio management teams in London and Singapore[1] to service our public securities business and global investors.

What are the advantages of being part of BNY Mellon?

Briddell: BNY Mellon provides an institutional framework and infrastructure while giving us entrepreneurial autonomy. Having a strong institutional partner provides our client base, particularly those outside the U.S. who may not know Urdang, with a high degree of comfort and trust that would be difficult for us to achieve independently.

Rabin: We've been fortunate to have a parent that has a long-term view, as well as one of the highest credit ratings of any bank in the United States. BNY Mellon supported our growth even during the downturn, during which we were able to open new offices and add headcount, allowing us to come out of the crisis stronger than ever.

What advantages are there in having both private and public strategies?

Briddell: For the past 20-plus years, the public market has been a leading indicator for the private equity real estate market, and our focus and experience with the listed market without a doubt influenced decisions at the investment committee level on the private equity side. At the same time, research on the private side provides our public real estate investment team with a good indicator of tenant demand. Supply is relatively easy to predict, but demand is much more difficult. The one- or two-quarter advantage gained by the collaboration and synergies between our private and public investment teams is very important.

How are you adapting those strategies to today's market environment?

Briddell: Understanding that the U.S. is going to experience low to modest growth until the deleveraging process ends means that we are focusing more on global strategies to target growth opportunities. But it also means that we are looking for smart ways to access real estate within the U.S., where we see potential for value investing. Real estate is an excellent option for investors looking for yield and some degree of asset protection, which fixed-dollar investments like bonds don't provide. Investing in core properties, however, might not be the smartest way to go, as we believe they have become overpriced in many markets.

Rabin: Until we see sustainable job growth, we believe demand is going to remain fairly tepid for office, industrial and retail properties. Even the multifamily space will see a cap on the rental growth that can be achieved unless we start to see job and income growth for renters. This means we need to find attractive properties in primary markets that we can enter at a very attractive basis so that we can compete effectively with other owners in the market. But we don't want to simply buy commodity properties at a low basis and then just compete on price — commodity properties and tertiary markets are the first to take the hit when you go into a recession, so we stay away from those. It's a combination of having the right assets (i.e., the ones tenants most want to occupy) at the right basis.

What are the major lessons you've learned over the past several years?

Briddell: The lesson on leverage continues to be taught — leverage helps tremendously on the way up and hurts significantly on the way down. We currently have an over 2x debt coverage ratio in both of our value-added funds,[2] even though they're 2004/2005 and 2007/2008 vintage funds. Secondly, managers must maintain control over their investments and create effective alignment of interest through performance-based compensation that flows to all key individuals tasked with the business plan. We believe partnering with successful, experienced joint venture partners who co-invest their own funds and share in the upside is the best way to access quality investments and maximize performance, as long as the investment manager maintains control and exercises appropriate supervision. From a market perspective, diversification continues to matter. Diversification in the future will mean being global. Finally, you have to make sure that you've got the right people assigned to the right jobs. In the last bull market run in real estate, too many decision makers were focused on financial engineering and priced-to-perfection underwriting. Too little emphasis was placed on control, liquidity, risk-management, building quality and the quality of the rent rolls.

Rabin: I'd add that to be successful in any market environment, you need to have excellent communication with your client base and be constantly discussing the strategies that you're implementing, as well as reminding people that you're a fiduciary, not only in the words that you're saying, but in the actions that you're taking. Plan sponsors are going to remember those who made prudent decisions and communicated appropriately, and those who did not.

How do you see the industry evolving over the next five to seven years?

Briddell: Getting back to basics, including simplified fund structures that get closer to the real estate, is a goal for many institutions, which will change the type of products that are sought by investors. In addition, we're seeing increasing interest in the REIT market. Despite its volatility during the crisis, it provided much-needed liquidity. As more dollars shift from defined-benefit to defined-contribution, the role of REITs in 401(k) and similar DC plans will grow significantly.

Rabin: Investors are becoming more global in their focus, and that's going to impact their investment decisions and how they build their portfolios. I also think a change is taking place in how risk is perceived. Our ability to evaluate and measure risk is critical to our making the right investment decisions for our clients.

How does Urdang work with operating partners?

Rabin: While there are plenty of larger firms that have institutional joint venture programs, we seek local oper-

[1] Urdang is represented in London and Singapore by BNY Mellon Asset Management International Limited and The Bank of New York Mellon, Singapore branch, respectively.
[2] As of June 30, 2011

ating groups where the principals are going to be actively involved in the execution of the business plan, and where the co-investment is coming directly from the principals of the firm. We want our partners up at night if the transaction or property is struggling. We also select partners who really know their market. The combination of their local market knowledge and our analytical, financing and asset management strength is a very powerful one.

Briddell: We bring value to our investors in this process through our ability to underwrite our partners. Throughout the downturn, we did not have one operating partner go out of business nor did we have one operating partner fail to fund its obligations under the operating agreements. The reason we use operating partners is not because of their equity, it's because of their expertise, so we want to make sure that they're able to stay involved throughout the lifecycle of the investment. Otherwise you've really lost the advantage of what they brought to the table.

Rabin: It's also important to note that when dealing with partners, there is sometimes the tendency to hold an asset too long. To prevent that, on a quarterly basis we adjust business plans according to market conditions. If the projected future return for that asset is not above the return threshold for the fund or client, then we move to sell it and allow the client to redeploy those dollars. We don't hold assets just to grow our assets under management.

Is there a disadvantage in extra fees and double promotes?

Rabin: There are no additional fees. Someone has to be paid to manage the properties, if not our partners, then a third-party. We can always turn the management over to a third-party if our partners don't perform, but that generally doesn't happen. We make sure that we choose partners with proven track records. There is an additional promote on the backend of the transaction, but that's above a hurdle return to the client, and we feel that it's the price you pay to have very good, local talent focused on the outcome of the transaction. Because we're perfectly aligned with our investors, we also are paying the promote to the partners — and we think it's well worth it.

Your public program has been relatively successful in attracting new mandates over the past year. What do you think has been attracting investors to your strategy?

Briddell: Investors judge firms based on people, performance and process. We have an extremely stable executive management team with a proven track record for attracting and retaining talented investment professionals. Our senior portfolio management team averages over 18 years' experience and 13 years with the firm. Looking at our investment process, we have an exhaustive and repeatable process for underwriting an array of qualitative and quantitative factors that influence the relative attractiveness of the companies in our investment universe. When paired with a robust proprietary risk-management process, we have earned not just one of the best absolute return track records in the industry, but one of the best risk-adjusted return track records. This, along with our commitment to limit AUM growth so that we can preserve our alpha focus makes Urdang an attractive option for investors.

Where are you looking for global opportunities?

Briddell: We break the world into three groupings. First of all, we have the value markets, which unfortunately are also the low-growth markets of Europe, the U.K., the U.S. and Japan. In these markets, we focus on buying companies at attractive valuations that have a degree of long-term value and higher-yield orientation. Secondly, there are the higher-growth markets including Asia ex-Japan and South America. In these markets we're looking for management teams that are able to perform well even in the face of potential policy risk, which is currently the single largest risk to growth. Finally, we group Canada and Australia into their own bucket of markets that have both high-yield and relatively attractive growth prospects. We have broader exposure to those markets than the other two groups and think that they provide some compelling opportunities for the foreseeable future. In all three categories, we focus on companies in the global gateway cities.

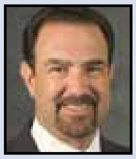
Where do you see opportunities in the United States?

Rabin: Investors are going to find ample opportunities to take advantage of the deleveraging cycle that we're going through, as long as they are mindful of their cost basis, because we don't anticipate strong, sustained rent growth in the near term. Acquiring the right properties at an attractive basis will allow us to offer value to tenants, capture market share and grow income in a flat market. If we experience a broad economic recovery, all the better, however we are not making investment decisions with that expectation.

What are your mid- to long-term goals for Urdang?

Briddell: Our goals for Urdang are to build on our reputation of creating value for our clients, to provide long-term growth opportunities for our professionals and to build a principle-based and client-focused legacy for the future. To the extent that we can achieve these goals with new or expanded real estate investment strategies and client relationships, we will do so in a very focused and balanced manner. ❖

Todd Briddell is the President and CIO of Urdang Capital Management. Briddell joined Urdang's private equity acquisitions group in 1993, founded the listed property securities group in 1995 and led the design and development of its commercial real estate debt team in 2009. He has more than 20 years of real estate investment experience.



David Rabin serves as Managing Director of the Private Real Estate Group at Urdang and is responsible for all activities relating to the direct investment in real estate including acquisitions, asset management, financing, dispositions and client reporting. He also is a member of both the Urdang Investment Committee and the Private Real Estate Investment Committee. He has 26 years of real estate investment management experience.

ABOUT URDANG

Founded in 1987, Urdang is the real estate investment subsidiary of BNY Mellon. Focused exclusively on real estate, Urdang is an investor in and manager of public, private, global, and U.S. –only real estate investment strategies. Urdang is headquartered in suburban Philadelphia, with a regional office in Los Angeles and a local presence in London and Singapore.

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