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A Pratt-matic approach to REIT investing

By: Colleen Lobner March 03, 2011

(Crainõs) ð Reagan Pratt is spearheading the newly acquired REIT business of Harrison Street Real Estate Capital LLC, which is looking to take advantage as the industry basks in the attention of well-capitalized investors.

Harrison Street recently scooped up the Transwestern Investment subsidiary, which invests in REITs and real estate-related securities on behalf of institutional clients.

Mr. Pratt, 47, manages the six-person team at Harrison Street Securities LLC as a principal and portfolio manager along with Jim Kammert, a former co-head of REIT research for Goldman Sachs & Co.

The deal closed Dec. 31 and brought $350 million in real estate assets under the wing of Chicago-based Harrison Street, which is led by former Motorola Inc. chairman and CEO Christopher Galvin.

Mr. Pratt maintains a strict line with investments, says Transwestern Investment CEO Stephen Quazzo.

ñHe evaluates companies on a whole multitude of metrics that he obviously closely follows, and when companies fall above or below, he acts accordingly,ò he says.

A native of Ontario, Canada, Mr. Pratt graduated from the University of British Columbia in 1992 with a masterõs degree in urban land economics. After moving to Chicago in 1993, he joined JMB Institutional Realty Corp.õs direct investment advisory group until moving over to public securities in 1997. The firm merged with Heitman Advisory Corp. in 1994.

He spent four years as a portfolio manager with Heitman Real Estate Securities before being hired by Transwestern to launch its REIT subsidiary in early 2005.

Mr. Kammert, 47, grew up in Pittsburgh and attended Lafayette College in nearby Easton, where he graduated in 1985 with a degree in economics and business. He received his MBA from the University of Chicago in 1989. Prior to joining Transwestern in 2005, he served as a director of research for European Investors Inc., a New York asset management firm, and worked at Goldman Sachs from 1999 to 2003.

Here is an edited version of Crain's interview Wednesday with Messrs. Pratt and Kammert:

Q: In the wake of Chicago-based Ventas Inc.õs announcement Monday of the $5.8-billion acquisition of Newport Beach, Calif.-based Nationwide Health Properties Inc., what are your thoughts on the health care sector?

Reagan Pratt: If you step back, but not so way back, health care was sort of an afterthought within the public companies. It made up maybe 2% or 3% of both of the public real estate securities indexes. It's now become the second-largest. ...

I suspect it was something intrinsic to NHP's senior management that they either wanted to step back or stuff of strategic merit, because that was a very good company with a very good balance sheet, very good assets and as I said, very good management.

We weren't surprised Chicago-based Ventas bought them. We were surprised that NHP sold.

Q: How does your portfolio break down?

RP: We're only focused on probably about 150 companies. If you look at our benchmark, there's really six property types that make up about 80% of the benchmark: regional malls, shopping centers, apartments, health care, hotels and office/industrial.

We're very good at understanding which companies and which managements and which assets look relatively better. It's very hard to make the kind of call and say that we think apartments are more attractive than office, at this point. We can certainly see that apartments have much better underlying income growth over the next 24 months. Everyone can see that, and that tends to get reflected pretty quickly in public-market pricing.

It's a little bit different than the private-equity model where you can focus on an asset class that's not in favor. The public market, people vote with their feet on a daily basis and you really don't get those mispricings.

Q: Do you think that REITs today are being aggressive enought?

RP: I've been pushing companies to be more aggressive. Not to buy anything they can, but to buy anything they want. é

One of the things about the Ventas transaction we liked was that it was all stock. So Ventas increased the size of the company by 40% and actually delevered the balance sheet. That really doesn't happen often in corporate America.

Q: What are some of the more high-quality REITs out there right now?

RP: That's sort of a loaded question in our view, because we always look at relative valuing. There's little niches that we like: San Francisco-based Digital Realty Trust Inc., Washington, D.C.-based DuPont Fabros Technology Inc. A related space is the cell tower space. We think that these companies are basically almost licensed to attract money as you get more demand ð 3G, 4G, whatever G is coming next.

James Kammert: We like the life science area, too. So the public companies like Pasadena, Calif.-based Alexandria Real Estate Equities Inc. and San Diego-based BioMed Realty Trust Inc.

Q: What do you see as some of the challenges facing the REIT industry today?

RP: They have a blank check access to capital. Being disciplined in the use of that capital, that's how we assess a lot of companies.

JK: New supply I always say is the bane of every real estate party. But I think the sustained very, very low levels of net new supply addition are going to give a reasonably steady wind in the sails of all commercial real estate owners here for an extended period of time.