

Madison Real Estate: good times for buyers in secondary markets and fund restructuring specialists

Madison Real Estate Beteiligungsgesellschaft mbH, Frankfurt, is currently much in demand. "Partly this is due to the growing importance of secondary markets in Germany, but in some ways also the conditions in financial markets," said Managing Director Michael Siefert in an interview with THOMAS DAILY. Increasingly initiators of closed-end funds are also being pulled into the maelstrom of the financial crisis because banks hardly issue any financing for fund products and investors are becoming noticeably reticent. It is a situation in which demand for capital grows on the one hand and on the other the opportunity to divest fund shares early becomes increasingly important. That situation fits well into Madison's core business which consists of the acquisition of secondary market shares in closed-end real estate funds. "With our business we create liquidity which is hardly available by any other means; we are positioned to offer institutional as well as private investors the opportunity to divest their shares prematurely," explains Siefert. In addition Madison has developed fund restructuring as an additional facet of its German business. In this effort Madison participates in closed-end real estate funds with balance sheet problems.

Madison Real Estate Beteiligungsgesellschaft mbH, Frankfurt, is currently much in demand. "Partly this is due to the growing importance of secondary markets in Germany, but in some ways also the conditions in financial markets," declared Michael Siefert, Managing Director of the German office, opened in 2002, by Madison International Realty, LLC. He spoke to THOMAS DAILY at Expo Real 2008. Madison's core business consists of the acquisition of secondary market shares in closed-end real estate funds. "With our business we create liquidity which is hardly available by any other means; we are positioned to offer institutional as well as private investors the opportunity to divest their shares prematurely," explains Siefert. In addition Madison has developed fund restructuring as an additional facet of its German business. No wonder then that Madison is one of the companies that can profit from the financial crisis. "Currently we are receiving many requests for capital," indicated Siefert. "We are registering strong demand by first-time investors who in the event of need may want to divest their shares in the secondary market prematurely. Already at the time a fund is being launched in the initial market questions arise more and more often about the possibility to divest shares prematurely," added Siefert.

Bankers and investors constantly more reticent

The initiators of closed-end funds are being increasingly pulled into the maelstrom of the financial crisis, which affects them in two ways: On the one hand banks are becoming more and more reticent. It could be overheard at the Expo that some banks no longer want to undertake financing until the end of the year, or if so, only at more stringent conditions. On the other hand investors are standing aside. The readiness to commit capital to closed participations for correspondingly long terms has notably declined in past weeks. The Hamburg-based issuers MPC Capital and HCI Capital are among the prominent examples of those issuers suffering the consequences of the financial crisis. Both companies recently had to reduce their 2008 earnings and placement projections. In both cases it was attributed to the financial crisis which creates an unfavorable climate

for investments and drags placement efforts downward. It therefore makes sense that in the current market environment buyers of secondary market shares and fund restructurers are garnering more interest.

Restructuring funds with balance sheet shortcomings but solid properties

In addition to its core business Madison in Germany has been developing its business in restructuring closed-end funds. In this work efforts are being made to rescue funds suffering the consequences of financial difficulties from bankruptcy. Madison is focusing on funds that have balance sheet problems but whose properties continue to perform well. "An investment in a so-called distressed fund is only of interest to Madison if the precarious position is due to financing issues," according to Siefert. However, the real estate aspects have to be intact. This has to do with Madison's adherence to a passive investment strategy. "We act as a passive financial investor. In investing in a fund we do not strive for a majority position," explained Siefert, "with such a passive approach it is hardly possible to rectify any difficulties that the underlying properties might have". Accordingly the Madison investment team subjects the fund's real estate as well as the fund management to a detailed quality check. "If we are not convinced of the property, we do not invest," says Siefert, thus illustrating the corporate strategy. As examples of successful fund restructuring Madison cites the Falk Fonds 77, which also marked Madison's first venture into this business segment, and the SAB Vorsorgefonds III – Hamburg-Harburg (see article in an earlier issue of THOMAS DAILY).

Capital for fund shares and restructuring originates in the United States

The capital used by Madison to buy secondary market shares and restructure funds originates in the United States. Siefert declares: "Our investors consist primarily of U.S. family office funds and foundations." That is to remain that way. "We did not come to Germany in order to find new investors," suggests Siefert. In the long-run, however, it could be conceivable for Madison to acquire new investors also in Europe, including Germany. In the meantime Madison has expanded its business to Great Britain and the Netherlands because these countries, too, have large institutional funds and offer correspondingly lucrative investment opportunities.

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