

THE WALL STREET JOURNAL.

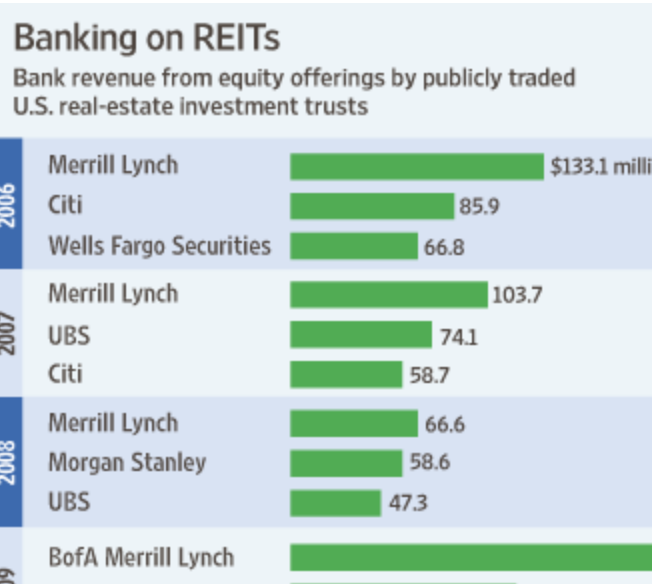
WSJ.com

JANUARY 13, 2010

Bank of America's Secret of Success: Real-Estate Banking

Bank of America Corp.'s shotgun marriage to Merrill Lynch & Co. has produced plenty of ill will, and big profits in real-estate investment banking.

The Charlotte, N.C., bank blew away the competition last year in the business of underwriting stock offerings by commercial real-estate firms. The secret of success: Bank of America leveraged its relationships with real-estate borrowers to generate a flood of investment-banking work, much of it handled by former Merrill bankers who decided to stick around after the securities firm was acquired last year.



Bank of America hopes to repeat its success by dominating what is expected to be one of the biggest businesses in real estate this year: helping troubled private companies tap the public markets. Many expect a rash of initial public offerings by private companies comparable to the one that followed the commercial real-estate collapse of the early 1990s, with large payoffs for underwriters.

"We have lists of companies that we think are good candidates for the public market, and we're proactively reaching out to them," said Jeffrey Horowitz, who heads real-estate investment

THE WALL STREET JOURNAL. MOBILE READER

Download free for BlackBerry® for a limited time only.

Download free for iPhone™ for a limited time only.

Print Powered By FormatDynamics™

THE WALL STREET JOURNAL.

WSJ.com

banking in the Americas for Bank of America. In IPOs of real-estate companies, Bank of America's capacity to issue debt commitments will matter as well, Mr. Horowitz said, because company executives will look for underwriters who also can provide a credit line that will allow the company to expand.

Bank of America is a lead lender on \$43 billion in outstanding credit facilities to 53 different real-estate investment trusts, or REITs, more than any other bank, according to SNL Financial Inc. Last year, as access to capital became scarce for real-estate owners, these lending relationships went a long way in building market share for the bank's investment-banking arm, which also was bolstered by the team that joined the firm as part of Bank of America's acquisition of Merrill Lynch in 2009.



Katie Orlinsky for the Wall Street Journal

Former Merrill Lynch investment bankers, such as Jeff Horowitz, have contributed mightily to Bank of America's profits since the merger.

For example, as debt-laden warehouse company [ProLogis](#) faced questions from investors last spring about whether it would be able to avoid bankruptcy, the REIT turned to Bank of America for a plum assignment: to lead what became a \$1.2 billion stock offering. At the time, ProLogis was negotiating for a loan extension with Bank of America, the lead arranger of a \$3.8 billion line of credit that matured in October.

ProLogis Chief Financial Officer Bill Sullivan said the company tapped Bank of America to run the

stock offering because of the lending relationship.

"Our view, very consciously, was, 'Hey, let's let these guys make some money ... and that will help us as we go to deal with some of the bank-line issues,'" Mr. Sullivan said.

REITs became desperate for equity capital last year as most sources of debt financing shut down. Publicly traded REITs raised about \$24 billion in equity in 2009, almost double what they raised in 2008, according to Dealogic.

Bank of America was the "left bookrunner" of 39 of the 78 stock offerings by existing publicly traded REITs in 2009, according to Dealogic. The title of left bookrunner usually is awarded to the investment bank that leads a stock offering, and that bank often receives a disproportionate take of the fees. Dealogic data show that Bank of America earned \$208 million in fees from REIT equity offerings in 2009, nearly double what the second-place bank, [J.P. Morgan Chase & Co.](#), earned.

Bank of America was a lead lender to REITs in 26 of the 39 stock offerings in which it was the left bookrunner, according to an analysis of data provided by Dealogic and SNL Financial. For the 39 offerings in which it wasn't the left bookrunner, Bank of America was a lead lender to only nine of the issuing companies.

"I have always taken the position that unless firms provide us with debt capital, we don't give them any business," said Debra Cafaro, chief executive of [Ventas Inc.](#), a health-care-related REIT that raised \$312 million of equity in April with Bank of America as lead bookrunner. As debt became hard to come by for real-estate companies last year, Ms. Cafaro said, that position "became an imperative" for executives across the REIT industry.

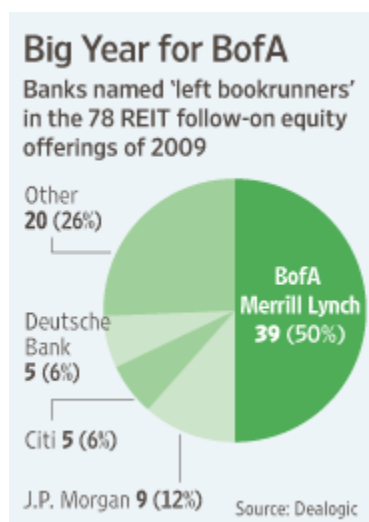
The success of investment-banking teams like the one at Bank of America cuts to the heart of the bonus debate rattling Wall Street. Former Merrill Lynch investment bankers such as Mr. Horowitz have contributed mightily to Bank of America's profits since the merger. In the first three quarters of last year, Merrill Lynch turned profits of \$2.2

THE WALL STREET JOURNAL.

WSJ.com

billion, or about one-third of Bank of America's overall earnings of \$6.5 billion. Bank of America investment bankers are likely to get bonuses that are close to 2007 levels as the bank tries to stem defections in the wake of the takeover, according to people familiar with the situation. A Bank of America spokesman declined to comment on bonuses.

J.P. Morgan, another big lender to REITs, also saw more business in 2009. The bank earned \$119 million for arranging REIT equity offerings in 2009, or 13% of all the fees earned by investment banks for arranging those deals, according to Dealogic. That is nearly double the bank's market share in 2008. J.P. Morgan was a lead lender on \$35 billion in credit lines to REITs. A J.P. Morgan spokeswoman declined to comment.



To be sure, though, there is a flip side to Bank of America's presence in real-estate lending. The bank reported in October that net charge-offs on loans in commercial real estate increased \$244 million, to \$873 million, in the third quarter of 2009.

Merrill Lynch helped to jump-start the REIT industry by taking debt-burdened private landlords public in the early 1990s, and much of its team joined Bank of America after the merger. Mr. Horowitz led the Merrill real-estate investment-banking team at the time of the merger. Ron Sturzenegger, Bank of America's

global head for real estate, gaming and lodging, said the number of employees at the combined Bank of America and Merrill Lynch real-estate team was cut by about 50% in the wake of the merger.

Mr. Sturzenegger said the merger with Merrill Lynch helped lubricate the slew of stock offerings and debt restructurings undertaken by REITs last year.

"As our corporate bankers worked on restructuring the debt side, our investment bankers were able to give much more confidence about the ability to raise equity simultaneously," Mr. Sturzenegger said.

Write to Anton Troianovski at anton.troianovski@wsj.com