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REAL ESTATE

Activist Explores a New Frontier: Property

Fund Manager Jonathan Litt Targets Real-Estate Investment Trusts

Jonathan Litt, who manages a $100 million hedge fund, has had outsize influence in the generally clubby REIT business.
Keith Bedford for The Wall Street Journal

By **ROBBIE WHELAN**
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STAMFORD, CONN.—On the table in the boardroom at the offices of Jonathan Litt 's hedge fund sits a relic of his days as a research analyst: a cherry-red gumball machine emblazoned with the words "REIT Bubble Gum: Good Till It Pops," and the logo of Smith Barney, a former employer.

Mr. Litt once sent the novelty gift, along with a poem about the stretched valuations of real-estate investment trusts, to some 700 clients and colleagues, an unusually blunt message for an analyst.

These days Mr. Litt is a money manager, but he is just as outspoken. He has emerged as the REIT sector's only regular activist investor, aiming to challenge companies to make shareholder-friendly changes.

His company, Land and Buildings, is tiny by hedge-fund standards, with just over $100 million in assets under management. But he has had outsize influence in a business known for being clubby and insular.

"There just are not a lot of people looking to be activists in the space," Mr. Litt, 50 years old, said in an interview at his Stamford, Conn., office. "You can make a business out of it."

According to Land and Buildings, its fund has produced average total returns of 40% from the five activist campaigns it has waged in the last three years, not including expenses.

Mr. Litt's fund is too small to take the large stakes typical of activist investors in other sectors. But some say he is able to punch above his weight based on the strength of his ideas.

"He has always represented the investors very effectively," said Sam Zell , the billionaire Chicago real-estate magnate, who has known Mr. Litt for more than 20 years. "That's what this industry needs, to hold people's feet to the fire."

Mr. Litt started his real-estate career in the late 1980s as an analyst for BrookHill Properties, a small investment firm, and was later an analyst for pension-fund manager European Investors. In the early 1990s, he switched to the sell side, analyzing hundreds of offerings and newly public companies for investment banks including Paine Webber and Co. and Salomon Bros. In 2000, he joined Citigroup Inc. and later became head of global property investment, leading a team of 44 people.

Because of their tax structure, REITs are constantly raising money from investors, which means big fees for the bankers underwriting the offerings. Some analysts in the 1990s felt the need to produce positive research about the companies that their banker colleagues serviced, said Paul Adornato, who started working with Mr. Litt at Paine Webber in 1996 and is now an analyst at BMO Capital Markets.

"Jon took a very different view," Mr. Adornato said. "It's part of Jon's DNA to be critical of companies and of the info they put out for investors."

Mr. Litt in 2008 set out to launch his own fund, using seed money of about $50 million from Citigroup.

Eventually he set his sights on BRE Properties Inc., a West Coast apartment operator he said was undervalued. Mr. Litt in 2012 urged BRE's board to sell the company, and later offered to buy it for $60 per share, about $8 above its price at the time. The company responded that Mr. Litt's offer, which didn't have financing, wasn't serious. Itt later agreed to be sold to a competitor, Essex Property Trust Inc., in a deal that valued the company at $56.21 per share.

Constance Moore, chief executive of BRE at the time, says Mr. Litt is persistent and smart, but his investment theories are sometimes weakened by his lack of experience running a company.

"He has a view on how to create value…But it's from an investor's perspective. He's never been an operator. That's not his forte," she says.

Activism isn't new to REITs, but it is rare. Many REITs are registered in Maryland, where state law protects them from unsolicited takeover bids.

What's more, in most hostile takeovers, the suitor must offer an attractive premium to the target's share price in order to persuade shareholders. In real estate, where assets are easier to value than in other industries and cash flows depend on relatively predictable changes in rent growth, fewer acquirers are willing to offer such premiums.

Still, Mr. Litt this year has been involved in three highly public efforts to push for changes at REITs.

In his most contentious battle yet, Mr. Litt on Nov. 17 sent a letter to Associated Estates Realty Corp., an apartment company based in Ohio, disclosing a 2.9% stake and naming a full slate of directors that Mr. Litt says he plans to propose at the company's 2015 annual meeting.

Associated Estates has called the claims in Mr. Litt's letter "unfounded and misleading." Its shares are up 31% since Mr. Litt took a position in June.

In March, meanwhile, Mr. Litt won an appointment to the board of New Jersey office landlord Mack-Cali Realty Corp. after accumulating about 0.5% of the company. The

LITT'S HITS

Hedge fund manager Jonathan Litt has pushed for changes at several public real-estate companies.

Las Vegas Sands, 2012

Prescription: Spin out retail and lodging assets
Result: Management makes certain strategy changes
Return: Sells shares in 2014 for a return of 97% excluding expenses

BRE Properties Inc., 2013

Prescription: Sell company: estimates value at $68 per share
Result: Deal to sell to Essex Property Trust Inc. at $56.21 per share
Return: 61%

Pennsylvania REIT, 2014

Prescription: Sell 17 of 33 malls
Result: Share price up 21.7% since Litt's letter
Return: 21.7% so far

Mack-Cali Realty Corp., 2014

Prescription: Stock is undervalued
Result: Named to Mack-Cali's board; CEO later says he will step down
Return: A loss of 12.7% so far

Associated Estates Realty Corp., 2014

Prescription: Proposes a full slate of new directors
Result: Situation is ongoing
Return: 31% so far

company's CEO, Mitchell Hersh, last month announced he would step down, causing a brief rally in Mack-Cali's share price. Mr. Litt declined to say what changes he pushed for at the company. Mack-Cali declined to comment.

In October, Mr. Litt targeted mall owner Pennsylvania REIT, urging the company to slim down by selling 17 of its 33 malls in order to unlock what he argued was a potential 50% increase in share price. The company's stock is up 21.7% since Mr. Litt began his effort. Pennsylvania REIT declined to comment; the company is still in dialogue with Mr. Litt.

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