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Managing Partner of Hanover Real Estate Partners Reed Miller

EXCLUSIVE

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By [Moirá Dickinson](#)

Reed Miller is a managing partner of Hanover Real Estate Partners, which he founded in the early 1980s with partner Kenneth Boyle. Previously, Miller was a vice president at Eastdil Realty, where he handled office and hospitality asset financing; Boyle spent 15 years at Lehman Brothers, during which time he was responsible for the work-out, repositioning, financing and disposition of a national portfolio of real estate assets valued at more than \$1.5 billion. Hanover, based in Greenwich, Conn., specializes in the acquisition, operation and management of institutional real estate assets, with a focus on acquiring and repositioning undervalued properties.

SNL spoke with Miller about his company's strategy, as well as his views on the overall state of the commercial real estate sector. What follows is an edited transcript of that conversation.

SNL: Let's talk a little bit about Hanover's strategy. From what I've read, you look to buy underperforming assets and reposition them. What has led you to take this approach?

Miller: We believe we're value creators because we're hands-on real estate people; we're not only financial, but we're hands on. We manage and own every asset that we have. We don't do any third-party work; the only other work we'll do is if we have a vested interest in it somehow with our own money in it. We have found that we've had the best luck working with either underperforming assets or working closely with corporations that are single-user occupiers of space — let's say they own their own building or they net-lease a building, that kind of thing.

Most of these corporations today do not have the same needs for space that they had 20 years ago, 15 years ago when they entered into the net lease of a total building or [made the decision to] own a building. They are really better off deploying their assets or their equity into their business, where they have expertise. As we all know, with the change in business with the computer and telecommunications, now you have a lot more shared office space and open floor plans. So where a company might have had a million square feet, they now can operate out of 500,000 square feet because of so many efficiencies. That has really changed the business and is going to continue to change the real estate business and the occupancy of buildings.

So we've found our best strategy is to work with these corporate owners of these properties, to acquire the building from them and to reduce the amount of square footage they are occupying to a space that works for their business. In a lot of cases, they have sublet out the space they were not using. Typically, it's not their business and they don't do a good job at that. They don't do a good job managing it and usually don't command the best rates for that space. So we have gone back in and really restructured the whole building, moving that owner down to the space they require and need. We will then give them new dollars or clean up that space for them. Then we will take over the

existing leases of the subtenants they might have had in the building and operate going forward to maximize the building.

What's your view on potential acquisition opportunities? Do you see a number of businesses that own their buildings that would be willing to transfer their ownership over to you?

Yes. We just did this in San Antonio with two buildings that were occupied by a bank, and each one was about 70,000 square feet. They stayed on in one of the buildings for a bank branch, and then we assumed a few of the tenants they had in the building. We have proceeded to lease or work on leasing up the balance of the building. But it's happening across the country and will continue to happen as corporations look for any way or opportunity to get back to their core business. Also, lease rates are down, and it's not always an opportune time to be selling right now, but [because] lease rates are low, they can sell a building, take back a long-term lease, get off of their real estate obligation and go forward and do their business. So we're seeing more of that.

We're always looking at other opportunities in the market, debt, etc., and we're seeing things maybe start to loosen up toward the end of next year — end of 2010, third quarter, fourth quarter and maybe into 2011. But, again, like everyone else is telling you, you need some debt markets.

Do you see acquisition opportunities in the debt markets? Do you ever buy a loan in hopes of owning the property?

We bought loans to own the loans. We own about \$350 million of loans. We didn't buy them to own; we would. We are looking at some now. But that's been a very, very slow market. The banks have been holding onto them because they're not getting pressure to get them off their books.

This value-creation business that we've been discussing, this is mostly in the office space, correct?

We've taken a Burger King and converted it into a bank branch two years ago in Del Mar, Calif., when bank branches were ... everybody had to have one. Now we'll probably be converting bank branches back to Burger Kings. We're not driven by an asset class because we're private; we're a different story than a public REIT. We own warehouse, we own some residential land, we own retail, and mostly office; we own some mortgages. We're driven really by the quality of the deal and then what is its location and standing in the market.

You touched on being private and the flexibility it gives you to examine each deal as it comes. Have you ever considered going public? What do you like about being private versus public?

We considered going public four years ago, five years; we didn't do it. At the time, we felt we were going to be giving away more than we needed to. So we found being private gave us much more ability to be more agile, to move quicker. We don't have the constraints ... of public shareholders and reporting.

Looking into 2010, we talked a little bit about acquisitions loosening up at the end of the year, what else do you see going forward? How do you see the capital markets today, and do you see them improving in the future? What factors are you looking at most closely?

Right now, it's inch by inch. We've been able to get mortgages; it's been very hard. The insurance companies are coming back in. They've been sort of the first ones in. The banks have to start lending. The TALF program and some of that has helped. It's not going to get there fast enough for the small property owners. It's like waiting for an ambulance that isn't going to get there, and when it does it's going to be DOA, dead on arrival. It will just take too long to get there. It's sort of inch by inch, minute by minute, slowly but surely lending is coming back, but it's ultra-conservative and it has to be. There is a huge gap between what someone has an existing loan at and what loans will be made available to that person. It could be a \$100 million loan that person has on a building and today somebody might only loan them \$50 million.

Where do you come up with the other \$50 million?

Do you all plan to step in at that level at all?

We've looked at stepping in at the gap level if we can, if that makes good sense. Again, we look at all those levels.

That's all I had. Is there anything else you'd like to add, maybe about your general feel of the market today?

On the feel side, we've got a ways to go. We're bouncing around the bottom; we're probably going to go a bit lower. There's a lot more blood-letting to go yet; it's going to be tough. It's going to be a few years before there is normality, I guess. It's going to be a long haul. Real estate is always on a lag, one way or another.

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