

Eaton Vance Expands Institutional Unit

Eaton Vance Management (EVM), in a move to expand its institutional unit, has added seven new members to its institutional marketing team.

Lisa Jones, head of EVM's institutional division, said that the impetus for the additions were sparked by the firm's recent arrival to a few milestones.

"Eaton Vance has crossed over the \$100 billion in assets under management mark," she said.

"At that point, the senior management said we want to continue to grow."

Jones explained that the senior executives also reviewed the other areas of distribution that the firm did not have a dedicated focus on.

"Given the size of the institutional marketplace, that was the place where [we] arrived. We had been doing business in the institutional channel for quite some time and had great success with our bank loan asset class. A year ago, we had about \$3.5 billion in assets under management in bank loans on behalf of institutional clients, with only a couple of people

servicing that business," she said.

"We also had some standing institutional clients in our high yield and core fixed-income product. Putting all of that together, we made the decision to put a focus on really growing the institutional business."

Getting Started

To get the ball rolling, Jones said that the firm will identify and review its existing capabilities and strategies.

"The first thing that we're focused on is identifying the existing strategies and capabilities that are institutionally ready," she said referring to the firm's high yield, large-cap value, core fixed income strategies.

Jones further explained that while the firm already has the traditional large-cap value and high yield products, EVM is in the process of building out into other areas where there is demand. She added that the firm is already branching out into new areas by augmenting existing capabilities to be better suited for the institutional market.

"We brought on board two portfo-

lio management areas," she said. "We hired Nancy Tooke, who is an experienced institutional manager in the small- and mid-cap space. Given all that's being written about pension underfunding, matching liabilities, and the pending changes to the pension accounting standards, last June we hired two industry veterans: Dan Strelow and Jeffrey Rawlins. They had been managing money over at State Street Research in this whole liability matched area for the last 16 years."

Though the firm is rapidly expanding, it will certainly not happen overnight.

"People here identify with the fact that it takes a long time to grow the institutional business," she said.

"And while we want to have some success, we are committed to the long-term, which allows us to be very focused and very deliberate on how we want to build our brand and get our name out in the marketplace. We're going to build business the right way so that it has long-term sustainability." —M.S.

U.S. Institutions Eye Brazilian Real Estate

Unsatisfied with the low returns in the global real estate markets? Brazil might be the place for you. Buy a fully leased class A office building there, and you can earn 13-15% by just collecting rent, more than double the 5-7% you'd get in the U.S. and easily surpassing the 10-11% in Mexico. But why would anyone go to the trouble when short-term interest rates in the nation are at 16.45%?

Such lofty short-term yields are perhaps one reason why, even as U.S. commercial real estate investors flock to Mexico, India and China, they have

largely avoided Brazil. The exceptions have been developers such as Tishman Speyer Properties in New York and Houston-based Hines, which began building offices in Brazil in 1998 and created a \$200 million fund with the California Public Employees Retirement System last year.

But change appears imminent. Sources said that Morgan Stanley is eyeing the Brazilian market via its Real Estate Fund V. Hugh McDonald, one of the executives overseeing the fund, declined to comment.

NAI Global, a network of commer-

cial real estate services firms, has lately heard from several other U.S. real estate investors interested in exploring the Brazilian market. Heretofore dedicated to the U.S., they are looking to Latin America in search of higher returns. A recent survey by NAI found Brazil was second only to Mexico when it comes to exciting investor interest, said Paul Reitz, a Dallas-based NAI executive.

"Most investors believe Brazil is about two to three years behind

Brazilian, cont. on page 6

Industry At A Glance

Brazilian, cont. from page 4

Mexico. Debt is increasingly available, and yields are coming down," he said.

Many of Brazil's corporate leases were negotiated a few years ago when the country's economy was weaker, so rents will have considerable room to rise as those leases roll over, Reitz said.

Thompson & Knight, an international law firm, is also hearing from U.S. clients interested in learning more about Brazilian real estate. **Edith Bertoletti**, one of the firm's Rio de Janeiro-based attorneys, said the firm's Houston office has received several inquiries about Brazilian real estate. Thompson & Knight is organizing a seminar on Brazilian real estate in New York next month.

Then there is **Equity International**. Founded by **Sam Zell**, the Chicago property mogul who many credit with helping jumpstart the real estate securitization market in the U.S., the company is now attempting to push Mexico's market along. Through one of its portfolio companies, **Corporate Properties of the Americas**, Equity International put together one of the largest portfolios of industrial property in Mexico, and encouraged **MetLife** to make its first real estate loan in the country. "Mexico right now is loaded with lenders, but virtually none of the Mexican banks was doing real estate lending before we got there," said **Chris Fiegen**, Equity International's CFO.

But that may have just been a dress rehearsal for Brazil. In June, Equity International paid \$61 million for a

one-third stake in **Gafisa**, a Brazilian homebuilder. Following **Gafisa's** IPO in February, that stake is now worth more than \$300 million. Now Equity International is about to unveil a new company that will invest in commercial property in Brazil, while at the same time creating a market for the buying and selling of corporate real estate by institutional real estate firms.

"There will be a shift in Brazil because right now, office and distribution facilities are mostly owned by corporations," Fiegen said. "That's going to change, just as it did in the U.S., and we want to own those income streams. Nobody has been able to assemble these high-quality income streams in scale, but they do exist. Outside capital just hasn't been able to figure out how to penetrate it yet."

In addition to suffering from the usual political and economic earthquakes that scare off investors in Latin America, it has been almost impossible for commercial real estate investors to access debt financing in Brazil, though that is beginning to change.

One type of debt financing that is catching on is **CRIs** (**Comissao de Valores Mobiliarios**), or real estate receivable certificates. This is commercial paper backed by lease payments. A new law took effect last year exempting investors from paying

income tax on these relatively new securities, explained **Bertoletti**.

And **Equity International** endeavors essentially to cultivate a mainstream mortgage lending market by assembling a large enough portfolio of commercial properties to enable it negotiate more favorable terms from Brazilian banks. The strategy is similar to what **Equity International** did in Mexico, **Fiegen** said.

Debt financing is currently unattractive in Brazil because the cost of capital is not significantly lower than

returns on equity. "Once you have a large portfolio in place, you can push for better terms," **Fiegen** said. "You have a better chance of getting the banks to extend amortizations, offer lower rates and lower prepayment penalties."

There are other issues, such as inflation risk and the inability to borrow in anything other than the local currency that could make

Brazilian real estate much dicier than in Mexico. "It's not for weak stomachs, but we see a lot of the early trends we saw in Mexico before it became investment grade," **Fiegen** said. And then there are the yields—which by **Fiegen's** reckoning reach as high as 20% without leverage. "We travel the world, and there aren't many places that combine yields, scale and credit-worthy tenants."

—**Dan Freed**

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—**Chris Fiegen, Equity Int'l**

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