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Peer Insights REPORT

Q&A with Adam Tantleff

Managing Principal of New York City-based Madison Realty Capital (MRC)

Principle Series:

Family Office Insights sits down with Adam Tantleff, Managing Principal of New York City-based Madison Realty Capital (MRC), to discuss his firm's unique business proposition, new and interesting real estate opportunities he's evaluating and what's on the horizon for MRC.

Family Office Insights is a voluntary, "opt-in" collaborative peer-to-peer community of single family offices, qualified investors and institutional investors.

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Q: Madison Realty Capital has a fully integrated platform with both debt and equity investments—how does that benefit your investors?

A: Madison Realty Capital was formed in October 2004 by Brian Shatz and Josh Zegen, and I joined the firm shortly thereafter. Since then, we've done in excess of $4 Billion in transactions on both the debt and equity side of the business, which we believe benefits our investors. If you look at our platform today: we lend, we buy debt, we acquire properties and we develop. This comprehensive approach has also given us greater insights into the overall market. Many times we will see certain trends in the debt business that will tip us off to trends in the equity business and vice versa.

When we lend, we're a special situation lender with rates ranging from 8-12%. Borrowers typically come to us in a time sensitive situation or perhaps when they need to reposition or stabilize an asset. When we lend, we're not "loan to own", but we are prepared to take ownership if there is a default situation. Most lenders or banks aren't really in a position to capitalize on a situation if a loan goes into default because they don't have the in-house equity ownership expertise that we do. We have more than 50 people on staff —half on the debt side and the other half focused on property management and construction. And while we started off as lenders, during the economic downturn we recognized there was also an opportunity to buy non-performing debt.

The debt side of our business has also led to opportunities on the equity side. We have been lending throughout all of the boroughs in New York City for nearly 11 years. This has allowed us to discover a number of new submarkets and asset types that we may not have previously known about or felt comfortable investing in. But once we became more comfortable, we started to buy.

Q: MRC also pursues primarily middle market investments. Walk us through the strategy of targeting this segment of the market.

A: Yes, most MRC transactions take place within the "middle market." The larger institutions, naturally, are focused on the larger deals. On the other hand, the middle market tends to be more fragmented with local operators, and that's where we come in. We are one of the few firms able to bring institutional expertise to this space. Plus on the equity side, most real estate funds are looking to partner with a local operator. Our vertically integrated platform allows us to execute on a deal immediately without having to line up another partner.

Also in the downturns, historically if there's any liquidity anywhere, it's in the middle market in New York.

Q: MRC is now approaching the close of its third debt fund. Can you take us through the firm's investment vehicles to date? Also what's in store/are you planning additional funds or even an equity fund?

A: MRC's platform is comprised of dedicated funds backed by institutional investors including corporate and public pension funds, insurance companies, endowments and foundations, universities and some family offices. On the equity side of our business, we have historically been operating via a JV model looking for an equity partner on our deals. With the launch of our new equity fund, we'll be solely investing out of fund vehicles. The long-term goal is to create new funds, but the niche will always be this middle market focus.

Q: MRC targets family offices for investments in its funds. What are the benefits and challenges of working with family offices?

A: The challenge has been finding them. But we have also discovered a benefit is that family offices are comprised of a very close network. If you do well with one, they are more than happy to refer you to others.

Most family offices are also accustomed to investing with a local operating person with no institutional expertise. With us, they like the fact that they are investing in an institutional platform. We're dealing with some of the largest investors in the world and have certain standards we are held to because of that. We provide a different level of service that we give our investors in terms of reporting, transparency and how the overall operation is conducted.

Q: Do you find there's a cyclical nature to your business?

A: On the debt side of our business, I would say no. Our rates have historically been in the same range. What has changed over the course of cycles has been the situations of our borrowers. Our note purchasing business is more cyclical, but less so than we initially thought. There's additional regulation now and more opportunities to acquire non-performing assets. Last year we closed on several note purchases and I'd expect that to ramp up if there's another downturn. Given where we sit in the marketplace, our deal flow increases exponentially, regardless of market cycles; it's just a matter of MRC being well positioned to recognize those opportunities.

Q: On the equity side, describe the kinds of acquisition and development opportunities that MRC is pursuing, and why?

A: In all asset classes, multi family, retail, industrial, and office, we're usually seeking a value-add opportunity. Our goal when we make an acquisition is to secure a strong return on the investment and enhance its value at the property level. Our competitive advantage in the New York market lies within our network. We are familiar with all of the boroughs and are seeing several trends taking place in each to capitalize on. As an example, we feel the boroughs are "under-retailed," particularly in places like Brooklyn and Queens. Having been in these markets for a long time, we know their key dynamics.

Q: What does the future hold for Madison Realty Capital?

A: We will continue to grow and scale our business. We have also been staying ahead of our anticipated growth in terms of number of employees and growing internally before the deal flow comes to us. In addition, we are establishing footholds in other regions up and down the East Coast, with a continued focus on the Tri-State region. In the coming years, I wouldn't be surprised to see us open satellite offices in Miami and/or on the West Coast. In order to grow our business, we need to have a presence there.

Adam Tantleff

Adam Tantleff is a Managing Principal of Madison Realty Capital. He is responsible for overseeing investor relations and has raised in excess of $1 Billion for the firm's debt and equity investments. Prior to joining Madison, Tantleff was an equity partner at Suffolk Capital Management, a multi-billion dollar institutional money manager, where he was employed from March 1998 through April 2005. At the time of his departure from Suffolk Capital Management, Tantleff held the dual roles of senior equity analyst and director of marketing. Tantleff graduated from George Washington University with a Bachelor of Business Administration degree in small business management in 1997.

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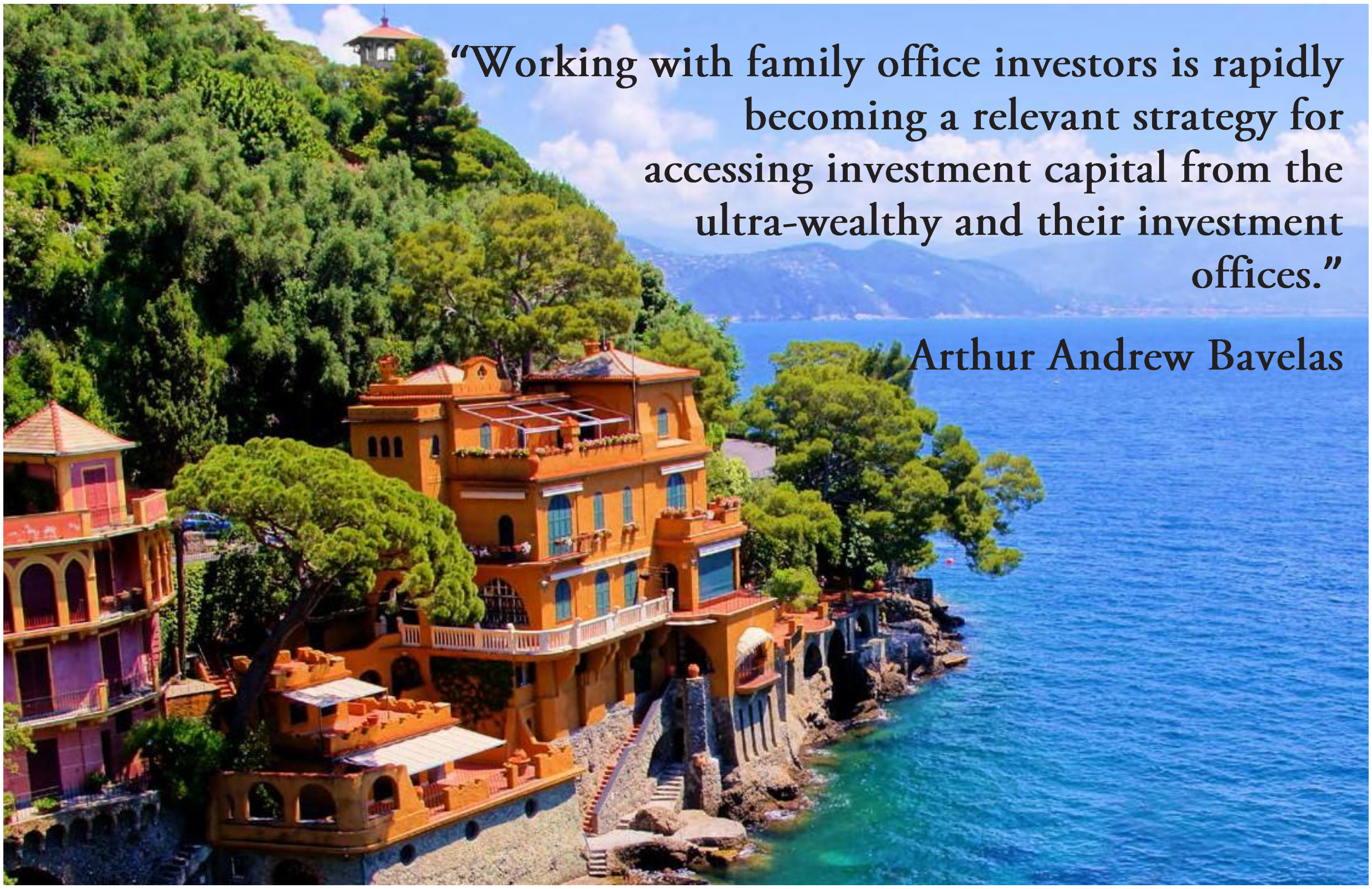
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Arthur Andrew Bavelas