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Katzman Is Back on the Prowl to Expand His Global Empire

'This Is a Buying Opportunity,' He Says, as Price Discounts on Real-Estate Companies Offer an Attractive Lure

By KRIS HUDSON

For international shopping-center magnate Chaim Katzman, retail-property stocks have fallen enough that the time is ripe to buy, even if his targets aren't keen on selling.

Mr. Katzman, the 59-year-old chairman of Gazit-Globe Ltd., of Israel, jumped back into the deal fray last month when his company's U.S. unit, Equity One Inc., made an unsolicited advance on smaller Ramco-Gershenson Properties Trust. Ramco, of Farmington Hills, Mich., owns 89 U.S. shopping centers. Equity One, a real-estate investment trust in Miami, owns 146.

The overture, which Ramco has yet to embrace, is standard practice for Mr. Katzman, who started building his global real-estate empire in 1991 by buying Gazit, a shell company on the Tel Aviv Stock Exchange, and using it to raise money from Israeli investors. Since then, Gazit has expanded to control 650 shopping centers across the globe, largely by acquiring properties or taking big stakes in real-estate companies rather than developing shopping centers from the ground up.

Now that real-estate companies are selling at discounts from the cost to develop new properties, Mr. Katzman is on the prowl again. In the case of Ramco, Equity One offered to acquire the company in a stock-for-stock merger but didn't propose a set price. The price of Ramco's stock, which closed Tuesday at $9.77, down eight cents, or 0.8%, in 4 p.m. New York Stock Exchange composite trading, puts the company's equity value at roughly $200 million.

Rich Moore, an analyst at RBC Capital Markets, said Ramco's stock would be trading closer to $22 a share, or a total of about $480 million, if the stock more closely reflected the value of Ramco's properties.

Another measure analysts use to value properties is the capitalization rate, which measures a property's income relative to its acquisition price. The higher the cap rate, the lower the property value.

Mr. Moore estimates that based on Ramco's stock price, the cap rate on Ramco's properties is 12.7%. In contrast, sales of U.S. retail properties this year have registered cap rates of 7% to 7.3% on average, according to Real Capital Analytics. That indicates higher prices than reflected in Ramco's share price.

It isn't clear that Mr. Katzman will be able to acquire Ramco at a 12.7% cap rate. Mr. Moore predicts a deal would be more expensive, with a cap rate closer to 8.75%.

Some analysts believe that commercial real-estate prices haven't hit bottom. Many investors who were lured back into the market by the siren's song of discounts since the recession began have gotten smashed on the rocks as values have fallen and vacancies have risen.

"There are some great values out there, but ... there are some opportunities to really get hurt as well," said Yaacov Gross, a partner at law firm Morrison & Foerster LLP, which specializes in REIT investment banking.

Mr. Katzman believes real-estate prices are at bargain levels. The Dow Jones Equity All-REIT index of 113 stocks has declined 50% on a total return basis in the past year, and prices paid for U.S. retail property have declined 25% from last year's levels, according to Real Capital Analytics.

"We definitely feel that this is a buying opportunity," Mr. Katzman said. "I'll be surprised if you don't see us trying to do more [buying]. I think the next couple of years will determine who the big players for the next 20 years are going to be."

Mr. Katzman and select others are among the few brave enough to buy while the property markets still are in turmoil. Germany's Otto family, which controls European mall owner ECE Projektmanagement, is paying $112.5 million for a 20% equity stake in Developers Diversified Realty Corp., the owner of 710 big-box shopping centers in the U.S.

Equity One has moderate debt and stable tenants, with three-quarters of its centers anchored by grocery stores such as Publix Super Markets Inc. Of its roughly $900 million in debt, none comes due in the balance of this year and only $72 million next year. Occupancy at Equity One's centers slipped to 92.1% in the fourth quarter from 93.2% a year earlier.

On a consolidated basis, Gazit has roughly $3.5 billion in equity, $8 billion in long-term debt and $1.2 billion in cash and borrowing capacity. It holds a 55% stake in Equity One.

The Ramco bid doesn't lack for drama. Equity One bought nearly 10% of Ramco's stock on the open market before meeting last month with Ramco executives to propose merger talks. Ramco didn't acquiesce, instead installing safeguards to thwart hostile bids and hiring Bank of America Merrill Lynch as an adviser. In turn, Equity One on April 9 submitted two nominees for Ramco's board.

Ramco said it will review the board candidates. The family-run company declined to comment.

—Lingling Wei contributed to this article.

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