

THE REAL DEAL

NEW YORK REAL ESTATE NEWS

July 13, 2015

Meet the machers behind the Israeli bond boom

Victory's Gal Amit, Rafael Lipa advised 7 of 10 NYC developers who raised funds in Tel Aviv

By Rey Mashayekhi



Gal Amit (left) and Rafael Lipa helped New York real estate firms raise \$1.3 billion on the Tel Aviv Stock Exchange

What do Allan Gross, Joel Wiener, Boaz Gilad and David Lichtenstein have in common?

No, this isn't the setup to a bad real estate joke. These New York developers have grabbed headlines for raising huge sums of money on the Israeli bond market, and they all went through two Tel Aviv-based financial advisors.

The advisors, Gal Amit and Rafael Lipa of Victory Consulting, helped developers raise more roughly \$1.3 billion through the Israeli bond market for New York projects. They've advised on 7 of the 10 deals done by these players and serve as the gateway to a source of funds that is rapidly growing in appeal. But it wasn't always an easy sell.

"Think about it: two guys from the Middle East are coming to an American company and offering them to issue bonds far away," Lipa told *The Real Deal*. "It sounds like science fiction."

Betting on jockeys, not on horses

Lipa characterized the Israeli bond market as “very advanced” and highly liquid.

“An average worker in Israel, 25 percent of his salary goes to long-term savings products,” he said. “So you have pension funds flooded with money, and they need to invest it in the capital markets.”

With so much liquidity and a limited number of companies to invest in at home, Israeli fund managers often look to invest abroad. But Amit and Lipa thought up a different approach – bringing U.S. real estate companies to Israel to take advantage of a structured debt model unavailable in the U.S.

In the U.S., real estate is typically funded on a project-by-project basis; a company establishes a holding LLC for an asset, and raises capital specifically for the development of that asset. Only large real estate investment trusts have the stature to tap into corporate-grade bond markets.

Israel, in contrast, allows even smaller real estate firms to make corporate bond issuances on the Tel Aviv Stock Exchange. Companies are able to package a portfolio of assets into a single investment vehicle – one that minimizes risk and creates “a balance sheet,” as Amit put it, allowing a company to issue debt at interest rates far below what they could find from a mezzanine lender.

It was this model that Amit and Lipa introduced to their first U.S. developer client, Abraham Leser, in 2007. The Brooklyn-based builder originally came to Israel looking to do an equity deal, but Amit and Lipa convinced him to go the debt route, and in 2008 he raised around \$40 million through his first bond offering. Since then, he’s made another four issuances – most recently closing on a \$73 million offering earlier this year.

The financial crisis, as well as traditionally higher interest rates in Israel, kept U.S. developers out of the action for a few years after Leser’s first issuance. But in 2014, the floodgates opened; Barnett’s Extell Development raised \$271 million with its first offering – eventually raising more through subsequent issuances – while Gilad’s Brookland Capital raised \$35 million. Stephen Ross’ Related Cos., which raised around \$221 million, and Lichtenstein’s Lightstone Group, which raised \$120 million, were among the companies who followed them earlier this year, as did the Moinian Group, which raised \$361 million.

First mover advantage

Most of the firms who tapped into TASE bonds as a means of financing have worked with Amit and Lipa. That’s not to say Victory has the market cornered; rival firms like One Ha’am, Clal Finance and Apex Issuances have also brought U.S. firms to the market, and Victory had no part of the three largest offerings to date – by Moinian, Extell and Related.

But several real estate players told The Real Deal that Amit and Lipa’s reputation as the “inventors” of what has become a wildly successful fundraising vehicle is what persuaded them to work with Victory.

“They did it first in 2007, and their model has now been copied,” Brookland’s Gilad said. “I first spoke with Rafi and Gal in 2007 and to their credit, they kept in touch with me.” Victory eventually advised Brookland on the company’s \$35 million bond offering last year.

Both Amit and Lipa come from finance and investment backgrounds. Amit did a stint as a regulator with the Israel Securities Authority and is a founding partner at accounting firm Amit Halfon (Slogan: “Take you into account”). Lipa worked in the Israeli insurance industry.

Lipa recalled how, several years ago, he and Amit met with a former associate of Lewis Ranieri – the legendary Salomon Brothers bond trader who pioneered mortgage-backed securities – and introduced him to their model.

“He looked at us and he said, ‘Guys, you are fucking geniuses. Fucking geniuses.’”

Some, players, however, continue to be skittish. RXR Realty president Michael Maturo recently said his company had “gone down the road” of tapping into the market, only to discover “hidden costs” associated with currency translation. Ofer Yardeni, the CEO of Stonehenge Partners, meanwhile, questioned the necessity of raising funds in his native Israel when “there is plenty of cheap capital in the U.S.”

Says Lipa: “The people who [question] this structure say, ‘I don’t understand how the Israelis are giving mezz loans at such a low interest rate,’ but it’s not apples-to-apples. Mezz loans are on a single asset deal; if a crane falls on that building, the mezz lender is finished.”

Amit noted that the most successful bond offerings are backed by stable, income-producing assets.

“It’s not that Israeli institutions are suckers that are giving away free money,” he said.

It should be noted that several U.S. companies have tried and failed to close on debt issuances in Israel – New Jersey-based Treetop Development, for example, withdrew its bid to raise around \$30 million on the market earlier this year. Victory, however, claims a perfect track record thus far. Standing in line now is retail czar Jeff Sutton, whose Wharton Properties filed a prospectus in May for what would be a record-breaking \$500 million bond issuance. Lipa and Amit, who are advising Sutton, declined to comment on the deal.

On the horizon

Victory is now looking beyond New York to take the next batch of North American real estate firms public in Israel.

“We’re now on the West Coast, we’ve been in Chicago, we’re talking to Canada, Miami, Cleveland – we’re working in other places,” Amit said.

Lipa even downplayed the Big Apple’s appeal to Israeli investors, citing low capitalization rates that “generate less cash flow to support the bonds.”

Then why have only New York firms, to date, capitalized on the trend they helped pioneer?

“Honestly speaking,” Amit said, “for us, it’s easier to fly to New York.”