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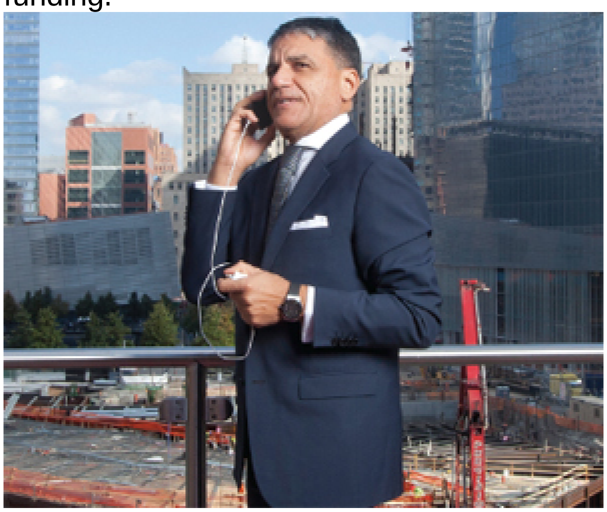
The Israeli bond boom

NYC developers increasingly turn to land of milk and honey for low-interest capital

By Rey Mashayekhi

The $361 million the Moinian Group raised through a bond offering on the Tel Aviv Stock Exchange in May was the greatest confirmation of a growing trend in New York real estate financing. New York-based developers are increasingly looking to Israel's debt market for funding.



Joe Moinian

Tapping the small-but-sophisticated corporate bond market — which was valued at $80 billion last year— is not an entirely new idea. It started nearly a decade ago as a novel approach for raising cash, but it has gained serious momentum in the last two years.

Moinian's offering, valued at 1.4 billion Israeli shekels, set a record for the largest debt issuance in Israel to date by a U.S. real estate player. But it's a record that isn't likely to stand for long: Jeff Sutton's Wharton Properties is planning a $500 million offering this summer, according to a prospectus issued in May.

"Lower borrowing costs and investor demand have led to an Israeli bond boom," Joseph Moinian, founder and CEO of the eponymous firm, told *The Real Deal*. The appeal for New York firms, he said, stems from the fact that they can issue low-interest debt on either their entire portfolio, or a large piece of it, rather than financing properties individually. That helps increase the amount of money they can raise — and spreads out the risk.

In addition, unlike U.S. markets, the Tel Aviv Stock Exchange allows companies to make debt-based public offerings. They do, however, have to become public companies in Israel to do so.

For the investors, all of this creates an opportunity to place a relatively safe bet on the booming New York real estate market.

Milk, honey and cash

To date, 10 American real estate companies, from Gary Barnett's Extell Development to Stephen Ross' Related Companies to smaller firms like the Brooklyn-based Brookland Capital, have tapped the land of milk and honey for funding.

Gary Barnett

U.S. real estate companies were responsible for up to $700 million in bonds issued on the Tel Aviv Stock Exchange in 2014, and estimates have that figure swelling to as much as $2 billion this year.

New York-based real estate firms — which have been responsible for all debt offering among U.S. real estate firms in Israel to date — appear to have a competitive advantage because of the appeal of the Big Apple. That is convincing more developers to test the waters, especially because many of them have limited, if any, access to U.S. corporate bond markets.

Sources said two financial consultants in Israel, Gal Amit and Rafael Lipa, were instrumental in popularizing the use of the country's bond markets in the U.S. Brooklyn developer Abe Leser brought them on in 2007 to help source funding for New York projects. But when sourcing capital proved difficult, they suggested a different approach.

Boaz Gilad

In the U.S., most private developers get financing on a project-by-project basis and often establish limited liability corporations for each new venture to assume the debt. Amit and Lipa suggested that Leser's private firm package a portfolio of asset-backed LLCs and float the portfolio on the Tel Aviv market as a public offering.

The pair's firm, Victory Consulting, has since worked with Pinnacle Group, Lightstone Group, GFI Capital Resources, Brookland and other New York players to do the same. Lipa said Victory has been involved in the deals for 7 of the 10 U.S. firms that have issued bonds.

The approach not only allows moderately sized, private American real estate firms access to the type of corporate bond offerings usually accessible only by industry behemoths, but also gives them far lower interest rates than they could find in the U.S. In the U.S., the LLCs tend to use mezzanine loans, which generally carry rates in the double digits, whereas Israeli bonds are generally issued in the low-single digits.

"The traditional structure in the U.S. is, we do each project by an LLC and do debt based by the project. You don't see bonds on a corporate level, unless you're a huge REIT," said Boaz Gilad, co-founder of Brookland, which raised $35 million last year.

Gilad said the firm has a six-year bond, but is already exploring the possibility of issuing another round before the end of the year.

Ori Eisenberg of One Ha'am, a New York-based financial advisory firm that worked on the Moinian bond issuance, said "the entry barrier is much lower" for small companies.
"You don't need to be a $2 billion, a $3 billion company to get in," he said. "You're a big entity in Israel if you offer $200 million" in bonds.

Mutual love

The process of accessing capital in the markets in Israel isn't easy.

Some American firms have explored the possibility of bond offerings, but pulled back or failed in their attempts.

Companies that sell bonds in Tel Aviv must clear hurdles like domestic Israeli ratings agencies that grade their debt, for instance.

Still, the enthusiasm New York companies are showing toward the Tel Aviv Stock Exchange is being matched by Israeli investors.

Eisenberg said demand for Moinian's debt offering approached $550 million.

Israeli investors "like New York because of the transparency and liquidity in the market," Eisenberg said. "If you're investing in Detroit or L.A., it's much more difficult to find out details [on specific property assets]. In New York, you have every deal being reported" in the press.

Of course, many of the city's real estate developers and financiers still have reservations regarding the Israeli bond market. At a panel last month at the CUNY Graduate Center, RXR Realty president Michael Maturo said his firm has explored the possibility of a debt issuance, only to find "hidden costs" related to currency translation.

Maturo also noted that an offering would require RXR to become a public company in Israel. "If you're a private company and you don't want the world to learn what you're doing, it's a problem," he said.

At the same panel, however, developer Steve Witkoff said the market offers company's access to "single-digit capital," and pointed to "really smart guys with access to the U.S. markets" who have opted to raise money in Israel.