



MARYLAND'S BUSINESS &amp; LEGAL NEWS SINCE 1888

## Alex.Brown Realty blends old and new for healthy profits

BY JEN DEGRIGORIO

*jennifer.degregorio@mddailyrecord.com*

From a 12<sup>th</sup>-floor office at Baltimore's 300 E. Lombard St., some **Alex. Brown** alumni are using decades-old lessons learned at the venerable city financial institution to manage multimillion real estate portfolios for some of the country's wealthiest customers.

It all started in 1972, when **Alex. Brown Realty Inc.** began as a service for clients of parent company Alex. Brown, founded in 1800 as the nation's first investment bank. Customers looking to invest in real estate could go to the realty arm of Baltimore's premier banking house to find buying and development opportunities.

But Alex. Brown Realty broke away in 1991, five years after its parent had gone public. The company of 30 employees has managed to keep a low profile ever since, despite the reputation of its forebear and clients

Alex. Brown Realty remains independent of **Deutsche Bank**, which owns the successor to Alex. Brown. But the company has not forgotten its roots. For both philosophical and business reasons, it maintains the same name and flag-shaped logo of its parent.

"The Alex. Brown culture is one we still emulate," said President and Chief Executive Officer John M. Prugh, who has worked with Alex. Brown for 30 years. "Alex. Brown — the connotation with anyone in this region who has been here for more than a few years would be very positive."

The company's strategy also has remained constant. It targets midpriced



MAXIMILIAN FRANZ

**John M. Prugh, President and CEO of Alex. Brown Realty Inc., sits in front of a vintage Alex.Brown flag. Prugh has worked for Alex.Brown for 30 years.**

commercial properties in suburban markets that need upgrades before being sold for a profit.

"We'd rather find an asset that has more space to lease, that has to be improved in some way or another before its value can be maximized," Prugh said. "We get to buy it at the better price and therefore create better return."

The method of acquisition, however, has changed. Instead of raising money for individual purchases, Alex. Brown Realty now buys portfolios of properties using multimillion dollar funds capitalized by investors that share in the portfolio's profits. The ultimate goal is to liquidate a portfolio by selling off its assets in about 10

years.

The investment manager has used that strategy to buy \$2 billion worth of real estate across the country, earning profits for well-heeled individuals and institutions that combine their cash for the funds. Along with company shareholders, investors have included organizations such as the **Baltimore Fire & Police Employees' Retirement System**, the **Abell Foundation** and the **College of Notre Dame**. Wealthy individuals, such as former Rouse Co. Chairman Anthony W. Deering, have also contributed to funds.

In January, the company finished capitalizing its sixth fund, worth \$255 million.

The fund should allow Alex. Brown to buy between 50 and 70 properties worth \$765 million.

### Interest

Alex. Brown Realty's funds have gotten progressively larger since the company left its parent. Its first fund in 1994 comprised just over \$20 million, less than 10 percent of its last fund.

Prugh attributes the increased interest in Alex. Brown Realty to a growing interest in real estate as an asset class. Alex. Brown Realty has delivered an average 15 percent net return to investors, Prugh said.

"The equity markets have been so volatile and the fixed interest rates have been so low that fixed income is less attractive," Prugh said.

That has led more institutional investors, particularly pension funds, to invest more of their wealth in real estate.

"Pension funds are under tremendous pressure to generate returns," said Anirban Basu, an economist with the **Sage Policy Group** in Baltimore. "This is a form of real estate investment in which you're not generating income, but you're betting on the value of commercial real estate appreciating over time."

Indeed, the Baltimore Fire and Police Employees' Retirement System has devoted more funds to real estate in the last decade, said Executive Director Thomas P. Taneyhill. The pension fund has been investing with Alex. Brown Realty since 2005.

"Real estate, in general, is looked upon as being an asset class that will provide additional performance than what is expected from fixed incomes," Taneyhill said. "We went into real estate for additional performance."

Speculation has also come into play, Basu said. The recent housing boom opened investors' eyes to the profitability of property ownership.

"There's such an appetite for risk, particularly with respect for investment in commercial real estate," Basu said. "I can see that a lot of investors want to find a way into commercial real estate in a big way, and this type of leverage allows them to do that without having to actually manage the real estate."

To invest with Alex. Brown Realty, an individual must own assets worth at least \$5 million. An institution must be worth at least \$25 million. The **U.S. Securities and Exchange Commission** does not allow low net-worth entities to invest in such funds because they are deemed too risky, Prugh said.

Despite the risk associated with real estate, Alex. Brown has earned successful returns by cornering a niche market of properties that cost between \$5 million and \$20 million. Most private equity funds investing in real estate are worth more than \$300 million, according to Alex. Brown Realty's research. But such funds tend to purchase more expensive properties.

"We think it's an interesting area to be in because, at that size range, most of the

sophisticated investors are too big to invest efficiently in that asset," Prugh said. "You have the broadest size sector in the real market being ignored by the vast majority of the most sophisticated capital in the country."

That gives Alex. Brown Realty a leg up on the competition, according to Al Morrison, whose Baltimore company **Asset Strategy Consultants** advises institutions about investing their wealth. The company has advised clients to invest with Alex. Brown Realty despite its general wariness about real estate assets.

"From our perspective as consultants, we think of real estate as an asset class that is inefficient," Morrison said.

"They have a long time-horizon of being involved in real estate," said Morrison. "We're looking for managers who are more opportunistic."

Owen Rouse, senior vice president and principal of **Manekin LLC**, said Alex. Brown Realty's investment strategy is a traditional one. What is impressive and draws clients, he said, is the company's history in the business. A third of its employees have worked with Alex. Brown for 20 years or more, Prugh said.

"It's terrific that you can have that bragging right," Rouse said. "These guys have been doing what they're doing regardless of the real estate cycle."

"I think what you have is quality individuals doing quality investing with quality partners," he said.

*Reprinted with permission of  
The Daily Record Co. ©2007*