

Another Way to Buy Real Estate

BY STEVE STEIN

Investment advisors often tell their clients that a well-diversified portfolio should include "some real estate."

Can a personal residence fill that slot? Not likely; your home may be your castle, but only in rare circumstances is it likely to become money in the bank. Nor is much diversification obtained by purchasing shares in real estate investment trusts (REITs). Although many REITs had strong returns in recent years, especially before the housing downturn, their average performance still bears a strong correlation with the broader stock market. Well-chosen REITs may belong in a portfolio, but they don't qualify as an asset class that is separate from common stocks.

The partners of Ratel Investments — Ronn Sann, Joe Gillach, and Rajvi Berry — believe they have a better answer: purchasing an interest in property through a real estate private equity fund. Ratel Investments, located in Tiburon at 1100 Mar West Street, has been matching investors and properties since 2001. According to its website, "Ratel has deployed more than \$50 million of equity in more than 20 investments whose combined value exceeds \$300 million."

Sann began his real estate career with Chase Manhattan Bank, where he helped manage and syndicate a commercial real estate loan portfolio. Gillach, after obtaining his MBA from Wharton, has worked for the management consulting firm of Booz Allen and Hamilton, and for Oracle and Sun Microsystems. Berry comes to Ratel after working for Goldman Sachs in Hong Kong, where she was executive director of Institutional Equity Sales.

As Sann explains, Ratel's investors don't own a percentage of the firm's aggregate portfolio; rather, they purchase a fractional interest in a particular parcel. Most of Ratel's holdings are residential complexes located in western states, many of them for seniors. The minimum investment is \$100,000, and the fund is only open to inves-

tors whose net worth or annual income qualifies them, under SEC rules, to purchase unlisted securities.

Sann says that Ratel's approach offers investors a good compromise between buying a small building and buying a publicly traded REIT. The drawbacks of owning a single building are: 1) too high a concentration in one asset, 2) all the headaches of being an owner-operator of a small property and 3) additional liabilities in the case of unforeseen problems with the property. (Sann points out that Ratel's ownership structure is such that the investor has no uncapped liabilities.) The drawback of the REIT is that its market value is likely to be buffeted by the same macro-economic conditions that affect other publicly traded equities.

However, Sann and Gillach acknowledge that Ratel's investments also lack one advantage of a publicly traded REIT — liquidity. While a share of a Ratel property may be sold more easily than an individual building, the investor can't merely call a broker and place a sell order. Ratel's procedure is to first offer the intended seller's share to its other investors. If there are no takers, then the seller must seek a qualified buyer on his own, and that might take time. However, Sann and Gillach say that this procedure has rarely been needed, especially since Ratel often sells properties based on its own market assessment, well before any investor had an intention of liquidating an individual holding. (In the case of such sales, the cash is returned to the investor, who may then reinvest in another Ratel deal.)

Ratel claims a track record of consistently attrac-

tive earnings. Its website announces that its average cash-on-cash return on invested equity has been 9.64 percent, or a 14.57 percent tax equivalent yield, after calculating the depreciation benefit. The firm also indicates an internal rate of return on sold properties of over 28 percent.

Ratel is also about to launch another category of fund, which will allow the investor to buy into an aggregate of properties, rather than a specific parcel. This will allow greater diversification, albeit with similar liquidity constraints.

Anyone seeking further information is invited to visit the company's website: www.ratelinvestments.com. ☛



Ratel Investments principals (l. to r.) Rajvi Berry of Tiburon, and Ron Sann and Joe Gillach of Belvedere.

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