

Unlisted REIT Ponders Massive Portfolio Sale

by Parke Chapman

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The hottest sellers market in recent history is apparently too much for the nation's most prolific office buyer to resist. Wells Real Estate Funds—sponsor of Wells REIT I and II—is considering the sale of roughly 20% of its real estate portfolio, according to a Form 8-K filing last Thursday.

Wells notified shareholders last Thursday about plans to dispose of these properties. Commercial Mortgage Alert reports that 32 office and industrial properties along the Sun Belt will go on the block. A spokeswoman for Wells Real Estate Funds declined to elaborate on the 8-K details.

This is a potentially huge disposition given Wells' aggressive strategy of buying office properties over the past few years. Real Capital Analytics data pegs Wells as the largest buyer of Class A office properties in both 2002 and 2003. Wells-sponsored programs own more than \$6 billion in real estate assets with more than 30 million sq. ft. of space, reports the company. A 20% chunk of that portfolio equals \$1.2 billion worth of real estate though the number could be much higher depending on the sale prices of these properties.

"It would be very hard for me to be critical of Wells selling in this current environment," says Barry Vinocur, editor in chief of Realty Stock Review. "This seems like a very prudent thing for Wells to do. You have to be crazy not to be selling assets in this market."

Critics of the Norcross, Ga.-based company claim that Wells overpays for their properties. But heated demand for Class A office properties has driven prices through the roof, and Wells officials maintain that they lose more bidding wars than they win. For example, public REITs made more than \$34 billion worth of core property acquisitions in 2004, and that was up from \$22 billion in 2003. This suggests that private REITs, such as Wells, are facing more competition for properties.

"If Wells goes out and sells these properties and pockets some big profits, that tells people that they didn't make bad investments, doesn't it? It's certainly one way to make the case that they are doing the right thing," adds Vinocur.

Last June, Wells sold a four-story, Class A office building in Tampa, Florida, for \$31.2 million. That sale marked the first time that the Wells REIT had ever sold a property that it owned exclusively. Wells bought the property in 1998 for \$21.2 million.

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