



Rick Gallitto: Tremont Realty Capital Assumes Investment Management Role

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Out of the ashes of Finova Realty capital, a division of Finova Corp. that dismantled in 2000 with its parent's looming bankruptcy, Tremont Realty Capital was born. Co-founded in August 2000 by ex-Finova regional director Rick Gallitto, the Boston-based commercial mortgage brokerage and investment management firm has a different strategy than its predecessor for its direct lending business. Instead of relying on short-term public capital that isn't necessarily the right fit for longer-term real estate investments, Tremont is pursuing clients with a longer investment timeline, such as pension funds, endowments and high-net worth investors. Access to such so-called "patient money" is typically gained through investment management.

In June 2004, Tremont struck its first investment management deal with Guggenheim Real Estate LLC, a \$1 billion open-ended fund in Chapel Hill, N.C., that invests in industrial, multifamily, retail and office properties. Tremont will oversee Guggenheim's \$150 million real estate mezzanine loan strategy during the next 12 months. Rather than build a large staff to manage its real estate portfolio, Guggenheim has opted to raise capital and do research, and let others - namely those with ties in the developer and lender community - manage the investments. NREI talked with Gallitto about Tremont's foray into real estate investment management.

NREI: Why has Tremont expanded into real estate investment management?

Gallitto: It's a lot more exciting when you're controlling the capital and you're making real estate decisions. We have knowledge of real estate capital markets, and can make decisions that protect the principal investment of the investor and provide lucrative returns for them. For that knowledge, we get better compensated than just being in the brokerage business.

NREI: What led to the relationship between Tremont and Guggenheim?

Gallitto: We had been pursuing an investment management strategy and Guggenheim was looking for a firm with a sourcing and distribution network that would be an ideal manager. Most of us [at Tremont] are seasoned professionals who have been in the real estate finance business for 20 years. We have a distribution network of eight offices and 15 producers nationwide.

NREI: Can you characterize the relationship? What is Tremont's role?

Gallitto: They hired us to source, underwrite and manage commercial real estate mezzanine investments on their behalf. They have the capacity today to make up to \$150 million in mezzanine investments over the next 12 months, and that figure is expected to grow as their fund continues to grow. We have an exclusive relationship to provide mezzanine investments to Guggenheim. Tremont will continue to expand its investments management strategies outside the mezzanine box, but we are obligated to bring to Guggenheim anything that fits within the mezzanine parameters. The deal size ranges from \$3 million to \$30 million. The loan term is two to 10 years, and the targeted yield requirement is 12%, plus loan fees of 1.5%

NREI: What value and expertise do you bring to Guggenheim?

Gallitto: Our intimate knowledge of the capital stack. We're involved in transactions where we build the capital stack from senior debt up to mezzanine and equity. Because we're out there working with lenders and other institutional providers of capital, we see opportunities where we can use our Guggenheim capital and help fill the gap. That's a huge value to Guggenheim.

NREI: How much of your business volume does Guggenheim represent, and what will be Tremont's direction over the next five years?

Gallitto: If we invest the \$150 over the next 12 months that would represent 25% of our total transaction volume. I would expect over the next five years that 60% to 80% of our transaction volume will be related to our investment management products, and only 20% to 40% related to our brokerage business. I see our investment management business becoming the dominant component of our business.