

# How Banks Help Rich Clients Invest in Vegas Hotel, NYC Tower

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432 Park Ave. Source: Citi Private Bank/EarthCam

- ▶ JPMorgan, Citigroup, HSBC private banks offer property deals
- ▶ Stakes include Manhattan's 432 Park Ave., L.A. mansions

What does Manhattan's tallest residential tower have in common with the Hooters hotel-casino in Las Vegas? They're investments for rich families.

JPMorgan Chase & Co., Citigroup Inc. and HSBC Holdings Plc are among banks presenting elite customers with offerings once confined to big institutional investors: access to real estate projects such as Manhattan's [432 Park Ave.](#), Las Vegas's Hooters hotel and \$100 million Los Angeles mansions. With the ranks of the rich growing, the perk gives wealthy clients a chance to benefit from soaring property values and step into marquee deals.

"It's a way clients globally are gaining exposure to real estate in bite-sized chunks," said Paul Forshaw, London-based head of real estate fund management for HSBC Alternative Investments Ltd., which requires clients to put in at least \$5 million for "club" deals.

“Our clients have financial resources, absolutely,” Forshaw said. “But it can still be difficult for people to enter the real estate market when they don’t have a track record. That’s where people like ourselves can help.”

## Rising Demand

While banks have long helped clients find property deals, the push into direct transactions for groups of wealthy people seeking high-profile investments has been relatively new. For JPMorgan and Citigroup it began about four years ago, as real estate started rebounding from the financial crisis, and demand is accelerating. Citi Private Bank offered five such deals to clients so far this year, compared with three in 2012.

Typically, managers target internal rates of return in the mid-teens for the real estate investors, according to a person with knowledge of the matter, who asked not to be named because the performance information is private.

The banks are serving a growing class of ultra-rich customers who want alternatives to stocks and commodities for their portfolios. There are more than 17,160 families with at least \$100 million in investable assets globally, up 27 percent since 2009, according to Boston Consulting Group. They’re increasingly looking for direct investments rather than putting money in funds, seeking more transparency about what they own, lower fees and shorter terms on how long their money is locked up.

“We’re definitely seeing more interest in direct transactions from our international clients,” said Robert Klein, global head of alternative investments at the private bank of New York-based JPMorgan.

Clients from outside the U.S., including those from Asia, Latin America and the Middle East, typically contribute two-thirds or more of the capital raised in Citigroup’s deals, said Daniel O’Donnell, global head of private equity and real estate at the company’s private-bank unit.

## Billionaire Clients

The minimum investment in Citigroup’s real estate transactions usually is at least \$250,000. The bank also has formed club deals where the threshold is usually more than \$1 million. They’re typically offered to a group of billionaire clients who seek similar types of real estate projects or locations, and participants usually have 30 days to opt in to a specific investment, O’Donnell said.

Among Citigroup’s investments was providing equity for 432 Park Ave., the 1,396-foot (426-meter) tower where a penthouse is under contract for about \$95 million. The private bank raised more than \$400 million from clients for the building. It also is providing more than \$200 million in funding for the construction of a

60-story Boston tower that will be a hotel and condominium managed by Four Seasons Hotels & Resorts.

Private-banking clients are usually more attracted to deals in major cities, said William Fuhs Sr., the former chief executive officer of New York Private Bank & Trust, who now advises family offices on real estate investments.

“If you’re sitting in Dubai and somebody says that you can acquire this shopping mall in Podunk versus taking a position in the tallest residential building in Manhattan, it doesn’t matter what else they tell you about the Podunk place,” said Fuhs. “It’s in New York and it’s the tallest. It must be good.”

## Price Surge

The deals carry potential risks such as escalating construction costs and sales of buildings taking longer than expected before investors see a profit. Commercial real estate prices in major U.S. cities also are more than 30 percent above their 2007 peak, making the investments less attractive as yields fall.

“Entering a market today brings a different bundle of risk and return than in 2010 or 2012,” said Jacques Gordon, global strategist for LaSalle Investment Management, which oversees real estate around the globe. “You should be able to get more rent growth but you are running closer and closer to the wind on pricing relative to bonds.”

Wealthy clients of HSBC have invested several billion dollars in real estate since 2009, Forshaw said. Demand has increased since then, but finding good opportunities at attractive prices has become harder because more global capital is seeking these types of assets, he said.

About 18 months ago, HSBC invested in Dublin’s Liffey Valley shopping center. Other transactions include a stake in the former Bertelsmann building at 1540 Broadway in New York and a partnership with Houston-based developer Hines to buy the Broadgate Quarter offices in London. The deals offered to HSBC private-bank clients have been in commercial real estate as well as one in student housing.

## Vegas, L.A.

Junius Real Estate Partners, part of JPMorgan’s private bank, has invested about \$600 million on behalf of clients since 2012. It teamed with Trinity Hotel Investors a few months ago to acquire the 696-room Hooters hotel-casino in Las Vegas. The purchase and renovation, which will include a rebranding, will cost more than \$100 million, said John Fraser, Junius’s managing partner.

Junius also renovated and sold a package of 17 Marriott hotels and took a stake in the Salamander Resort & Spa, set on 340 acres (138 hectares) in Virginia’s wine and horse country, outside Washington.

It's now planning construction of 274 apartments in San Francisco's Mission District and recently unveiled plans for The Park Bel Air, three [estates](#) on a Los Angeles hillside with partner Domvs London. Buyers can have a more than 55,000-square-foot (5,100-square-meter) mansion built on one of the plots for a starting price of \$115 million.

In Europe, Societe Generale SA raised 31 million pounds (\$48 million) from 40 private banking clients about 18 months ago to buy a London office building, and is now seeking other real estate opportunities on the continent, in particular in the Benelux countries, according to Eric Verleyen, the private bank's chief investment officer.

The banks say they're selective about deals and while they're scouring for more, they aren't after volume.

"We're not trying to force-feed them deals through a fire hose," said Citigroup's O'Donnell. "We're trying to find a handful of opportunities that add value for clients."

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