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All in the Family

BY: SEAN ROTH | REAL ESTATE EDITOR

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Ed Kobel is president and chief operating officer of Tampa-based DeBartolo Development LLC. Photo by Mark Wemple.

REVIEW SUMMARY
Company. DeBartolo Development LLC, Tampa
Commercial properties owned. 45
Total square footage of all commercial owned. 9.3 million (As of Oct. 5)

Thirty-two years ago, Ed Kobel set out with a Veterans Affairs loan and a healthy dose of ambition.

Never knowing his father and raised by a single mother in a blue collar Pittsburgh neighborhood, the 21-year-old had just returned to civilian life from four years spent in the Army. With slim savings, Kobel used the government-backed loan to buy a Colorado apartment complex. From that single property, Kobel was able to amass a portfolio of more than 80 apartment buildings.

And that was just the start.

Over the next few decades, Kobel would create a development company responsible for more than $300 million worth of property before spearheading the growth of a company double that size.

Through his time in commercial real estate, Kobel also came to learn the name of Ed DeBartolo Sr., best known as the father of the American shopping mall.

What Kobel didn't know, was that DeBartolo, who died in 1994, was also his father, and Kobel would eventually lead the family's real estate business, DeBartolo Development LLC.

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Today, Kobel is chief operating officer and president of the real estate firm, one of the largest in Tampa Bay. DeBartolo Development LLC holds $1.8 billion in developments and land, and has managed to grow its assets significantly since the start of the recession.

Gaining momentum
Kobel's real estate path begin back in the early '80s, in Colorado Springs, Colo., where he completed his last Army assignment. It was there he built his first apartment business.

Kobel would parlay the equity from one building to finance the next, which he says allowed him to purchase them with little or no cash down.

"That was how I first met my wife, Becky," Kobel says. "She managed a title company, and I kept going in and out building my business. She became my first employee."

When he sold his apartment properties, he kept the mortgage note on many of them, which, based on the high interest rates at the time, generated a large personal income.

Kobel says even then he was attracted to development. He named his first company Kobel Development even though it didn't technically develop anything.

"When you think about taking ideas and raw land and coordinating with architects, builders and tenants to come up with a project that meets with the desirability of the market, it sure was attractive," he says.

After selling his apartment properties, Kobel looked for a mentor who could help him get into the development business. He found Ed Rudolph Jr., a developer who was working on the Olympic Training facility in Colorado Springs.

Kobel says he felt drawn to the former Olympic speed skater because of his business acumen and character. After interviewing with several other developers, Kobel, who was 22 at the time, finally landed a meeting with Rudolph.

"I told him I would work for free," Kobel says. "Some days I would get his car washed or other things like that, but I could also sit in on any meeting I wanted to."

Kobel says Rudolph taught him the development business by example. Eventually, Rudolph suggested that Kobel purchase a shopping center Rudolph had previously owned.

Kobel took the deal. He purchased the center for $3.2 million and, after stabilizing it, sold it for a profit of nearly $4 million. It was the start of Kobel's new company, Trinity Development. Over the next several years, Trinity Development would develop or redevelop more than $300 million worth of retail real estate. The Colorado Springs-based firm amassed offices in Denver, Phoenix and Chicago, and ultimately sold off all of its real estate assets.

In 1995, Kobel's background led him to into a partnership position with a DeBartolo Property Group affiliated company, Fortis Advisors, in Scottsdale, Ariz. It was with the private real estate investment trust, Fortis, that Kobel first experienced institutional fundraising.

"We had a chance to go to Wall Street to raise a lot of money," Kobel says. "Fortis Advisors raised $500 million privately in the '90s, which was the energy behind Fortis."

Kobel didn't know it at the time, but that experience raising institutional-level capital would be hugely helpful in his future task of growing DeBartolo Development after the recession.

Fortis was a retail developer — much like the DeBartolo Property Group — but also dabbled in multifamily, office and industrial real estate. During its life, Fortis handled more than $600 million worth of real estate that it sold mainly to large real estate investment trusts.

Over that same time period, the DeBartolo real estate businesses were in transition. Edward DeBartolo Jr., Edward DeBartolo Sr.'s son, took the retail development company DeBartolo Realty Corp. public in 1994 as a real estate investment trust. In 1996, it merged with Simon Property Group to create Simon DeBartolo Group Inc., the largest public real estate company in North America at the time, with a total market capitalization of $7.5 billion.

Separate of the public company, the DeBartolo family created DeBartolo Development LLC as the private retail development wing of DeBartolo Holdings, in 2001.

Real estate in his blood
In the same year the DeBartolo family created DeBartolo Development LLC, Kobel got a surprising call from Edward DeBartolo Jr. that would change his life.

"Eddie and I found out we were half brothers," Kobel says. "We both have the same father [DeBartolo Sr.]."

Kobel says the call and resulting discussions with a shared acquaintance resulted in the two getting together for a nervous meeting at Shula's Steak House in Tampa in January 2002.

"The DeBartolo family has huge hearts," Kobel says. "Although obviously the circumstances under which we met were a little strange, the family received me with open arms. It was fantastic. They were extremely gracious and generous."

DeBartolo Jr. describes that first meeting as friendly and mainly focused on the past, his family and his father. He says as the two got to know each other the business similarities between Kobel and his late father became apparent.

"Genes are genes," DeBartolo Jr. says. "Ed's business philosophy and acumen are similar to my dad's. He has a non-stop attitude and his clock is always running. He's a dealmaker. Basically, that's the way my dad was."

The brothers had several more meetings during the next few months and started talking about Kobel moving to Tampa from Phoenix, which he eventually did.

In early 2004, the DeBartolo family made Kobel president and chief operating officer of the development company.

Beating the recession
Today, the 54-year-old Kobel has shaped a vastly different DeBartolo family development from the ones of his father and half-brother.

The developer has been transformed into a diversified commercial real estate investor with a growing portfolio of properties and high-profile land for future development.

A big key to the company's current success is that DeBartolo Development pulled back on most of its development efforts before the real estate bubble burst.

"We saw that there was too much money going into real estate," Kobel says. "We could see deals, where we would offer $5 a square foot, and sell, in one case, for $15 a square foot with the land owner getting 25% of the deal and of course, 100% financing."

Heading into the recession, Kobel says the business structure of DeBartolo Development was already particularly suited to ride out the trough.

"We weren't portfolio builders," Kobel says. "They did selective disciplined deals. The DeBartolo family is one of the largest shareholders of Simon stock; in essence, that's their portfolio. We would develop [projects] with partners and then sell them off to that partner. We didn't want to build a huge juggernaut business; our goal was to mitigate risk and provide great returns to the family."

While most of its development competitors are retreating or sitting on their holdings, DeBartolo Development has been aggressively buying apartments, hotels, retail centers and development land and starting opportunity funds and joint ventures with institutional investors and others to buy even more.

It has acquired roughly $1 billion in distressed real estate since the recession. Its new collection of land for future mixed projects includes the prominent Georgetown waterfront site in Tampa, Mills Park in Orlando and —through a ground lease from the Department of Hawaiian Home Lands — a Kapolei, Hawaii, site for the developer's largest regional mall, Ka Makana Ali`i.

This year, the company and its first opportunity fund, DeBartolo Opportunity Fund I LP, have acquired retail centers in Nashville and Chicago suburbs, three hotels in Florida and high-profile development sites in the Chicago area, Windemere and Orlando.

It also started construction on the $39 million, 360-unit Andros Isles Apartments in Daytona and the $114 million mixed-use apartment community Optima Center in Chicago.

As the market works through its troubles, DeBartolo Development plans to operate its acquisitions, complete its two developments and sit on its raw land assets, with the exception of its Hawaiian retail center. The company expects to name an architect for the decade-long development project soon and break ground in mid-2012.

Jamie May, a senior director with the Marcus & Millichap company Institutional Property Advisors in Tampa and a frequent broker of DeBartolo properties, describes the company as a contrarian buyer.

"They choose to buy in times like this, and they pay all cash and can close very quickly," he says. "This is their time to shine. But once the cost to buy properties increases beyond a certain level, they will go back into development mode, where they can again build [projects] for less than they can buy them."

Kobel and the DeBartolo Development staff regularly scour the country for the company's bread and butter projects — low risk, but high reward — regularly considering billions of dollars worth of real estate a month.

"With 31 years of relationships coast to coast we're at the top of the funnel drinking from a fire hose," Kobel says.

Added capital

DeBartolo Development LLC's current acquisition strategy requires easy access to lots of capital. Even with the ability to leverage the DeBartolo family fortune, to capture the coming opportunities in distressed real estate, the firm started looking for deeper pockets and partners.

Since 2007, DeBartolo Development has provided the real estate and construction know-how to Forge Capital's financial background through the joint firm Community Reinvestment Partners II (CRP II). The more than $85 million joint-venture fund, with money raised from Regions Bank, SunTrust and TIAA-CREF, invests almost exclusively in community redevelopment areas and primarily in grocery-anchored community shopping centers.

"We wanted a developer who could be our point person," says Robert Moreyra, co-founder and managing principal of Forge Capital. "We did another fund back in 2003 with Ram [Development Co.] that was just focused in Florida. We wanted to broaden our geographic reach with a second fund, so we partnered with DeBartolo, which is obviously very well known nationally."

Moreyra says that the name recognition alone of having DeBartolo Development involved in the venture has been helpful, as have DeBartolo's banking relationships throughout the country.

One notable exception to the joint venture's retail focus is the planned Trump Tower site in downtown Tampa. CRP II purchased the 1.67-acre site of the proposed Trump Tower Tampa and the adjacent 67,487-square-foot CapTrust building along with a third partner O,R&L Facility Services a few months ago for $5 million.

The fund is expected to increase its purchasing significantly over the next several months as its nears its scheduled investment deadline in 2012.

As a side benefit of DeBartolo Development's work on the planned Trump Tower, the firm has struck a partnership with Clearwater hotel investor/operator the Liberty Group of Cos., buying distressed hospitality properties.

Punit Shah, president and chief operating officer of Liberty Group, traces the two companies' relationship back to a chance meeting he had with Kobel over a replacement hotel development on the site.

"We had wanted to talk to them about doing the retail for the deal there that didn't come together," Shah says. "It turned out that both of our families have roots that go back to Youngstown, Ohio. Eddie DeBartolo Sr. and my father used to own hotels there. Eventually it came up, why don't we get back into business again?"

Shah says Kobel was quickly able to grasp the Liberty Group's business strategy and that the company has been essential in helping the company to find capital swiftly.

"They were able to look at a deal and have feedback on it extremely quickly," he says. "[Kobel] knows that now is the time to make money. A lot of large developers had huge intentions and got caught up in the recession. [DeBartolo is] aggressive and at the same time, cautious."

In 2010, DeBartolo Development opened its partnerships up to individuals with the launch of a private security fund to buy distressed real estate. DeBartolo Opportunity Fund I raised $40 million in capital in nine months. With two apartment complexes, two hotels and a retail center in its portfolio, Kobel says the fund is just one project shy of being fully invested.

Bound by U.S. Securities and Exchange Commission regulations, DeBartolo Development was unable to confirm the returns it markets to investors, except to say that it is above the S&P average return of 11%.

Earlier this month, the firm also announced a new partnership with Glencoe, Ill.-based luxury residential firm Optima Inc. for a large mixed-used development in Chicago.

Asked about how the family-owned company transitioned to having to report to investors, Kobel says it has been easy.

“We didn’t change,” he says. “We treat them like family.”

A tech recession

Looking forward, DeBartolo Development LLC President and COO Ed Kobel says it will likely take another three to five years for the real estate market to fully work through its volatility. Along with all of the more common market maladies, Kobel, a well known technophile who uses an iPad to read his research each week, says a large part of the current economic turmoil is sparked by a rapid technology change similar to popularization of the Web in the mid-‘90s.

“Through technologies, such as cloud computing, we are doing roughly three times the business with two thirds the staff,” Kobel says. “A lot of people are bashing Wall Street for sitting on cash …. many of those companies are just being singled out for adapting new technology, which requires less people to do the same amount of work.”

Bucking the prevailing wisdom, Kobel reports that capital for investments is plentiful now.

“I’ve been doing this for 31 years and I’ve never seen this much equity for debit,” he says. “The difference now over the last 10 years is that the money is only available for projects that can been thoroughly underwritten.”

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