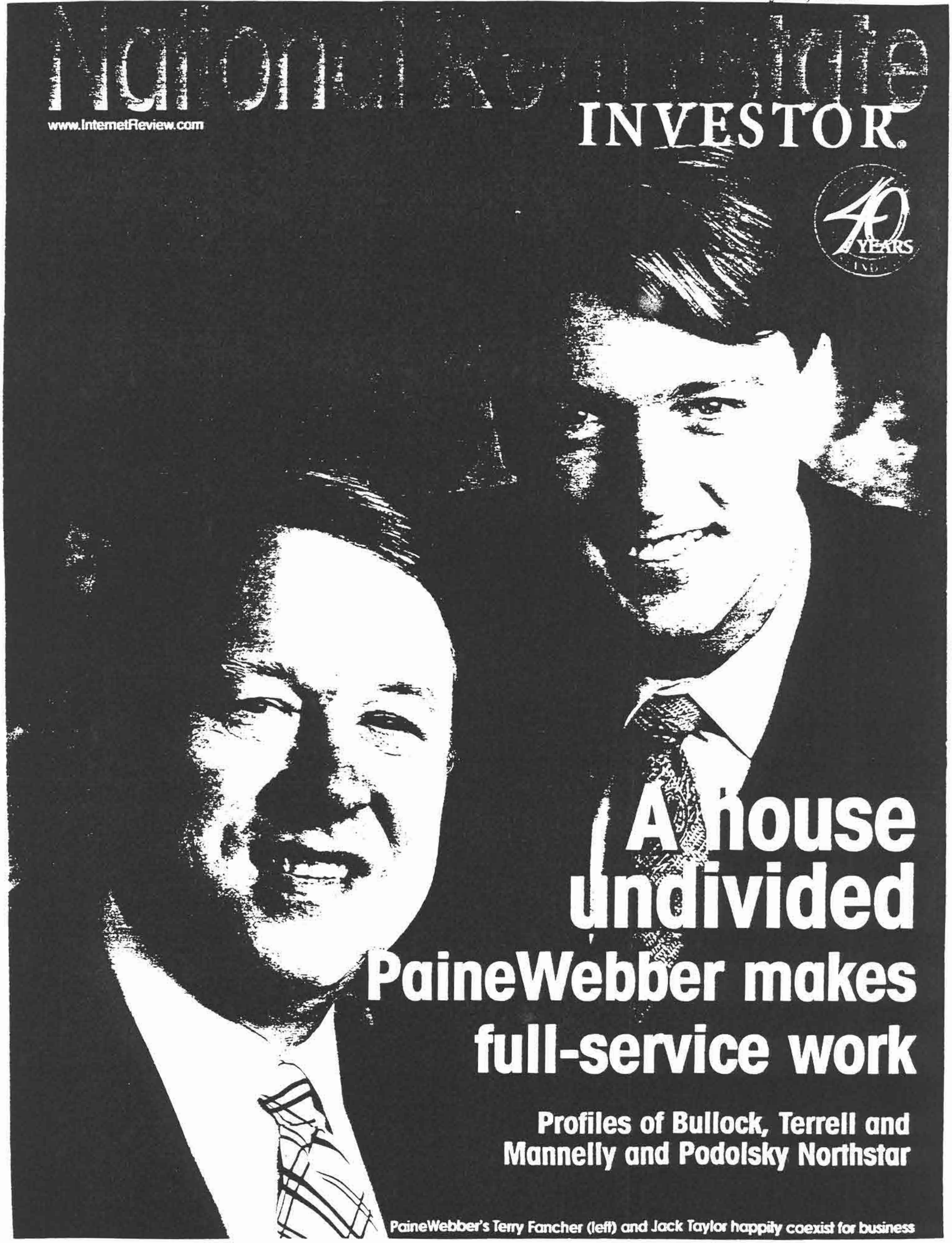
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PaineWebber's Terry Fancher (left) and Jack Taylor happily coexist for business

PROFILE

# PaineWebber's mantra goes against Street model

**Loyalty and Wall Street are often diametrically opposed, but PaineWebber replaces quick hits with client nurturing.**

**By Ben Johnson**
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Debt. Equity. On Wall Street, the two sides of the house almost never meet in the middle, especially in these turbulent and highly competitive times for the commercial real estate industry. Only a handful of firms have unlocked the secret to successfully serving their clients with a true full-service mantra – long-term vision over short-term deal-making.

Enter a quiet little firm called PaineWebber. Of course, PaineWebber is anything but a little firm, but in real estate circles, it has quietly staked out a rather unique niche for itself, most often known for having one of the most long-lived and successful teams in the real estate finance business.

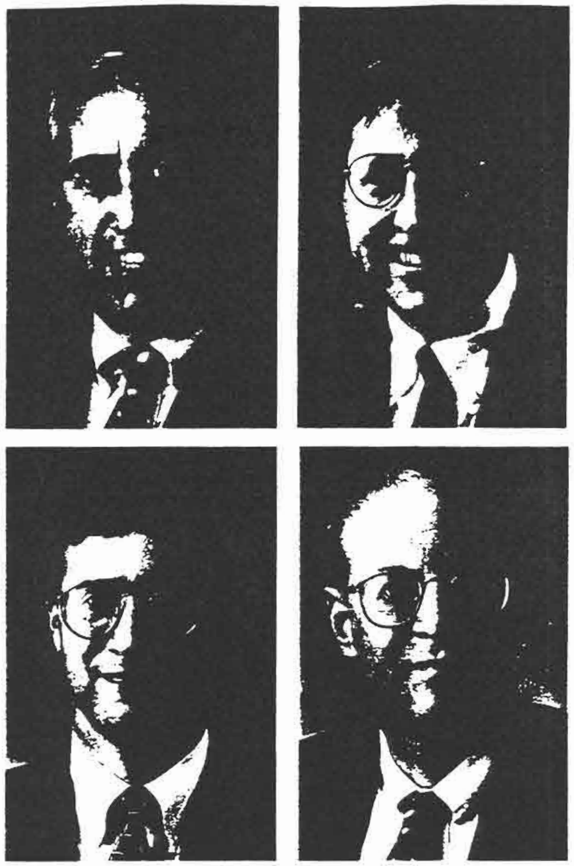
Talk to any of the senior players at the helm of PaineWebber's real estate group, and you hear the same story over and over again. Full-service. Long-term mentality. Great boss. Real teamwork. Of course, you could interview a dozen top Street firms and come up with the same story, right? But in case history after case history, you begin to see a pattern here, a way of thinking, that is most unStreet-like these days.

"We're not in for the quick hit," says John "Jack" Taylor, co-managing director on the debt side of the real estate group. "We're trying to think about the longer term fundamentals both of the real estate that's backing the transactions that we do and the real estate clients' needs, as well as the capital investors' needs. It's taking more than a one-year bonus cycle view."

PaineWebber's real estate group has been together a startling 13 years. Managing Directors Taylor and Terry

Fancher, who heads up the equity operation, started with Kidder Peabody back in 1985, and they have always worked for the same boss, Steven Baum, director of capital markets at PaineWebber.

The 85-member group is set up as an independent operating unit within PaineWebber proper, with its own profit & loss center. Why the "kid-glove" treatment? As Fancher puts it, "We are one of the most important businesses overall within PaineWebber. Because of that, we have a very strong degree of support from our firm's senior management and the relationship goes two ways. They are very supporting and trusting of us and we're very cognizant and protective of that support by being very careful about what business we do and very sensitive to the longer run implications to both PaineWebber and to our clients."



***(Clockwise from top left) Fred Caven, David Jarvis, Renny Mendez and Ron Wechsler.***

From REIT to conduit, as a group, PaineWebber delivers the usual financial spectrum for commercial real estate's needy bunch - principal transactions, conduit origination, CMBS new issue and secondary market trading, structured loan transactions, mergers & acquisitions and all sorts of investment banking activities.

"It's an integrated group without hard functional lines between the two groups (debt and equity)," says Taylor. "We share a floor and a lot of clients and our P&L, which makes everybody play as nice as possible."

Fancher echoes that mentality. "If you look back to our history, there's just no internal rivalry in our group. It is very stable, very long-range, long-term oriented. We are absolutely committed to being a full-service, major player serving the real estate community broadly, and we've been doing that for years and we expect to continue doing that for years. Sometimes one type of product will be a bit more in vogue than another, but frankly over time it's been quite balanced. Because it's one group, because it's balanced, because we have the stable leadership, what we have found to be a great advantage vis a vis some of our competitors, is we can approach a situation, immediately size up what that situation requires, and then orchestrate to deliver those products, those services, that capital without any political considerations. Our goal is to get it in, evaluate it and figure out what the situation requires and deliver it, and that has just worked exceptionally well."

From the old days at Kidder to the present market peak, the team's experience has served it well. "It's a longer term vision evidenced by our longer term history through bad markets and good markets," says Taylor. "We've been putting money into transactions and giving financial advice to other people who are putting money into transactions since the mid-'80s. We view this as not a temporary market cycle, but a secular change in how real estate is being financed and assembled. That really is a fundamental differentiation between ourselves and some of our major competitors. We're about providing a full range of services to a broad range of clients and establishing longer term relationships with select clients."

According to Fancher, the firm serves up financial advice to the real estate community along with executing capital markets transactions to raise capital to serve its clients' needs.

"We can't serve everybody. But we put a lot more priority on having deep, intensive relationships with the people that want us to be working with them on a daily ongoing basis. We really have a core group of some of the top clients and we're just very deeply involved with them in every phase of what they do," says Fancher.

You need look no further than Patriot American and Avalon-Bay Communities for examples of Fancher's point. Patriot, for example, has been with PaineWebber from its earliest days.

"We were involved with Paul Nussbaum [Patriot's chairman and CEO] when he had a minority interest in three or four hotels back in 1993 and 1994 and wondered how to form a hotel REIT," says Fancher. "Now Patriot American is a $7 billion company and we've been with it in every phase of its development and every major transaction they've executed."

"We brought to Patriot the idea of acquiring a paired-share company in a paired-share structure, which was a highly successful move for Patriot," says Fancher. "At the time we brought it to them, frankly Patriot was having a good run as they were and they were reluctant and weren't sure they wanted to pursue this, but after thinking about it a bit they decided to move forward and try to acquire Bay Meadows and California Jockey Club."

***Terry Fancher and Jack Taylor have worked together with PaineWebber director Steven Baum, for the past 13 years, forming one of the Street's longest running partnerships as a real estate finance group.***

The Avalon-Bay Communities transaction represented the first marriage of REIT equals, a merger coordinated in large part by Fred Caven, co-head of the PaineWebber real estate investment banking group. Caven joined PaineWebber in 1993 after running Coopers & Lybrand's national REIT practice. Interestingly, he lives in San Francisco while David Jarvis, the other real estate investment banking co-head, anchors the New York office.

Caven has seen his fair share of changes in the public markets over the years, including a slower IPO market and a shift toward more traditional corporate-type financing. "We want to have a relationship with our clients where they view us as their most intimate advisers. What that means is you do the right thing for the long term, not the short term. Our strategy is one that isn't common on the Street. The Street's much more transaction oriented. We've intentionally taken a different approach and it's worked. We've had very loyal clients who have always hung with us," says Caven.

David Jarvis agrees that the key to satisfying clients is to provide a multitude of services and an experienced team that knows how to address clients' needs.

"Wall Street is not known for longevity of working together, but we started with 12 people in '90-'91 and built it up," says Jarvis. "We've built our business on smart ideas and well-executed transactions. We wanted to have a financial solution to anything the client wants to do."

A differentiating driver behind PaineWebber's M&A work is its formal structure within the real estate group. "At many Wall Street firms if there is an M&A assignment, the M&A department is called in, but that's not the way we operate," says Fancher. "We took the point of view that REIT M&A is more about real estate than technical M&A issues, and that's consistent with our group."

On the public research side, PaineWebber's Jonathan Litt has become a recognized leader in REIT research, since joining the firm two years ago. "Frankly, we're not willing to do a piece of business if Jon Litt isn't supportive of it," says Fancher.

Another good example of relationship-building is PaineWebber's work for Bellemead, who's management team was referred to PaineWebber in an effort to go public. But after a couple of months, Bellemead decided to sell its portfolio and not take the IPO risk. So PaineWebber converted from an underwriting agent into a principal. When Bellemead's parent, Chubb, started an auction process for Bellemead's assets, Fancher and Taylor won PaineWebber management's approval to buy the assets through a unique partnership with the Morgan Stanley Real Estate Fund.

Last year, PaineWebber reinforced its presence in conduit-land by hiring Ron Wechsler away from Fitch. Recently, it partnered with Credit Suisse First Boston on a $2.5 billion mixed commercial conduit deal.

Wechsler came to PaineWebber in April 1997, and now oversees more than 30 people in the conduit. This year the conduit will do about $1 billion, but that volume is expected to double in 1999 to $2 billion.

While mortgage brokers and bankers always talk about the three Ps — price, proceeds and process – when choosing their lenders, Wechsler mostly competes on the process side. "We have a very efficient process that we quote deals very quickly, we give a very accurate quote and the borrower comes back for the next deal and so does the broker. On the other side of the fence, after we aggregate the loans, we have to sell the bonds and our goal there is establish in conduit-land a reputation for quality among the rating agencies and among the investors"

Getting the CMBS bonds into the marketplace is the job of Renny Mendez, a managing director who joined the firm in 1991 and runs PaineWebber's CMBS trading desk for both primary and secondary issues. Mendez oversees three people on the trading desk, and his group provides weekly pricing spreads to the conduit group for its conduit pricing model. The group's primary job is to aggregate large pools of loans and sell to investors through the extensive PaineWebber broker network.

> 'It's taking more than a one-year bonus cycle view.
>
> **JACK TAYLOR**
> **managing director**
> **PaineWebber**

Ultimately, it comes down to being around tomorrow. "As our clients' asset strategies shift, we'll continue to shift what we're doing, and that's really the answer, that we will always adapt to our clients' needs and that means more and more of a focus on this broad array of products that we can deliver to them. One-stop shopping. Our goal for this group is a continuation of the quality services, not always being the biggest, but being the best," says Taylor.