

CONTRARIAN: While other financial firms are pulling back amid a volatile lending climate, Jack Cohen, CEO of Cohen Financial Corp., is plotting his company's biggest expansion in 30 years.

Growth Amid A DOWNTURN

The volume of commercial mortgage originations is falling, but Cohen Financial continues to expand. **By H. Lee Murphy**

The commercial paper market is in disarray, real estate lending has ground to a halt in many markets, and mortgage brokers everywhere are running for cover. But not Cohen Financial Corp. in Chicago. CEO Jack Cohen is opening new offices, hiring fresh talent, diving into different sidelines and laying plans for the biggest expansion in the firm's 30-year history.

Indeed, the mercurial Cohen has always shown a contrarian willingness to take broad detours around the path followed by his rivals in mortgage banking.

In the past 18 months Cohen sold off a big stake in his family business to Toronto-based

FirstService Corp., providing capital to open new branch offices in Phoenix and Washington, D.C. Additional branches are planned in Los Angeles, Dallas and Seattle in coming months.

The company, which grew rapidly in the late 1990s with a series of acquisitions, is making deals again. The purchase of a Philadelphia-based mortgage bank with more than \$1 billion in annual mortgage origination volume was near completion at press time. Three more acquisitions were in the works.

Meanwhile, plenty of other changes are afoot. CEO Cohen has hired a new team of top executives with plans to move the firm aggressively into

niches such as loan administration and asset management.

Through an off-balance sheet affiliate, Cohen also is moving back into direct lending for the first time since it spun off its old loan unit, Wrightwood Capital, in 2004. The ultimate goal is to match the array of products and services offered by bigger competitors such as L.J. Melody, the Houston-based investment banking division of CB Richard Ellis.

With 100 employees spread among 10 offices, Cohen Financial does business in some 42 states, with \$4 billion in commercial mortgage originations projected in 2007 along with another \$6 billion in mortgage servicing.

As recently as the mid-1990s, the company operated a single office, employed 20 people and posted \$150 million in mortgage originations. It now ranks among the nation's five largest commercial mortgage bankers.

Jack Cohen expects to more than double the company's size by 2010, surpassing \$10 billion in mortgage originations. Reaching that milestone would be quite an accomplishment in a shrinking industry.

There were more than \$300 billion in commercial loan originations in the U.S. in 2006, but the total was on track to fall to an estimated \$250 billion in 2007 and is forecast to fall further to \$200 billion in 2008.

Cohen, however, is undeterred. "I feel like we're changing the tires on a speeding car," he says. "We have 39 producers on our staff now, and I'd like to raise that number to 80 within three years. We've got to have greater depth in the major markets that we already serve."

The early years

Depth was always important to company founder Benjamin B. "Buddy" Cohen, a former industrial broker who founded B.B. Cohen & Co. in 1965 in Chicago's Loop. The senior Cohen built the firm based on relationships with top life insurance companies such as John Hancock and Union Mutual, as well as enterprising young developers like Sam Zell, who got his start investing in student housing

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at the University of Michigan with the help of loans arranged by Cohen.

Eventually, Cohen sold the business to Walter E. Heller & Co. in 1972, stayed on for six years, and then moved to nearby offices to start up Cohen Financial Corp. His son Jack, 50, joined the business in 1981 with degrees in engineering and construction management from Stanford University, and by 1990 had become president and CEO.

Jack's younger brother Bruce Cohen, 46, now CEO of Wrightwood Capital, became a managing director and ran the direct-lending arm until its spin-off (*see sidebar on back page*).

Buddy Cohen's retirement in 1998 paved the way for his sons' growth initiatives. Some \$80 million was raised from high-net-worth investors, who took a 75% stake in Cohen Financial. In the space of a few years, that money was used to open four new offices and acquire five smaller brokerage firms as well as provide a layer of capital to fund the direct lending operations.

Point of decision

A strategic conflict was brewing by early in this decade, however. "Bruce's business, direct lending, had gotten so good that it needed still more capital," Jack recalls. "Our company suddenly looked like two separate entities. We needed people and processes to fuel our growth, while Bruce needed capital."

The 2004 spin-off was amicable — Wrightwood and Cohen are currently housed in adjacent offices. In 2006, Jack bought back the 75% stake in Cohen Financial held by outside investors, and engineered a recapitalization that brought in FirstService as a partner.

Today Jack Cohen retains a 24% stake in his firm and the rest is divided between FirstService and a dozen top

Cohen Financial executives who have equity stakes. A key ingredient in the deal was the opportunity to link up with another FirstService affiliate, the commercial broker Colliers Macaulay Nicolls in Canada.

Still, Cohen Financial knows its limits. The average Cohen deal — involving construction loans, mezzanine financing and raising equity — ranges between \$7 million and \$10 million. Big builders in Chicago, such as John Buck Co. and CenterPoint Properties Trust, are either financing their own construction or dealing directly with banks, and Cohen is rarely able to intervene. Jack accepts such realities: "I always wanted to be a singles hitter, not a home run hitter," he says.

The Cohen culture

In contrast to the latest generation of deal-of-the-moment mortgage brokers, Jack Cohen encourages his staff to foster long-term advisory roles with clients. "Nobody here has a private Rolodex," says Christopher Carroll, managing director of capital markets for Cohen and a 10-year veteran at the firm, who notes that every manager, save Jack himself, has identical office space.

"We teach our people that by becoming more than just brokers for our clients, we can get to a position of trust in which we'll do their deals for the next 20 years," says Carroll. To breed that kind of long-range thinking, Cohen is apt to hire trainees between the ages of 28 and 35 ripe for grooming. Approximately half of the trainees are MBA graduates.

"We want consistent, profitable producers here somewhere inside 10 years," Carroll says. At Cohen Financial, that means annual incomes ranging from \$100,000 to \$1 million and more for the biggest producers.

Clients are exceedingly loyal to Cohen. Sam Davis, who oversees a \$20 billion portfolio of investments as senior managing director of real estate at Allstate Corp. in Northbrook, Ill., has been doing business with the firm for 20 years, first as an executive at John Hancock Insurance Co.

“Cohen has expanded nationally, but the company has never assumed an institutional feel. It’s still entrepreneurial, with decisions getting made quickly,” says Davis.

Nimble and creative

Jonathan J. Tran, a principal with Pacific Rainier Investments Inc. in Seattle, an owner of office as well as industrial and retail assets, was faced with a tight deadline to close on the acquisition of two Class-A office buildings totaling 140,000 sq. ft. in Bellevue, Wash., back in June. He went to Cohen seeking an \$18 million loan on the \$25 million purchase price.

“I had a 15-day due diligence and 30-day closing period after that,” Tran recalls. “But my Cohen broker was able to get the loan committed and the lender’s appraisals and everything else finished within 30 days.” The loan came from Citigroup.

To assure Cohen’s competitiveness, Tran was talking to other brokers simultaneously while the negotiations with Citigroup proceeded. None could raise more than \$13 million from any lender on the project, or even match the interest rate below 6%, a mere 1.07% above the 10-year Treasury yield at the time.

The other lenders were put off by the property’s below-market rent and a lead tenant, Verizon Communications, that was a tough negotiator. Cohen helped persuade Citigroup to look beyond the initial cap rate of 5% to an average rent based on 2012 income and a value of \$45 million or more, according to Tran.

Winning over a skeptic

John B. Vander Zwaag, the president of Pembroke Capital Inc. in Bryn Mawr, Pa., was formerly an executive at Lexington Realty Trust in New York. He admits that intermediaries like Cohen Financial have had a checkered reputation with the big-

gest real estate investment groups.

Many consider the commissions that Cohen and its rivals earn — roughly a half-percent on larger loans and up to 1% on other loans — an expensive addition to any deal. But Vander Zwaag, who has employed Cohen frequently over the past four years, has cast aside his own doubts.

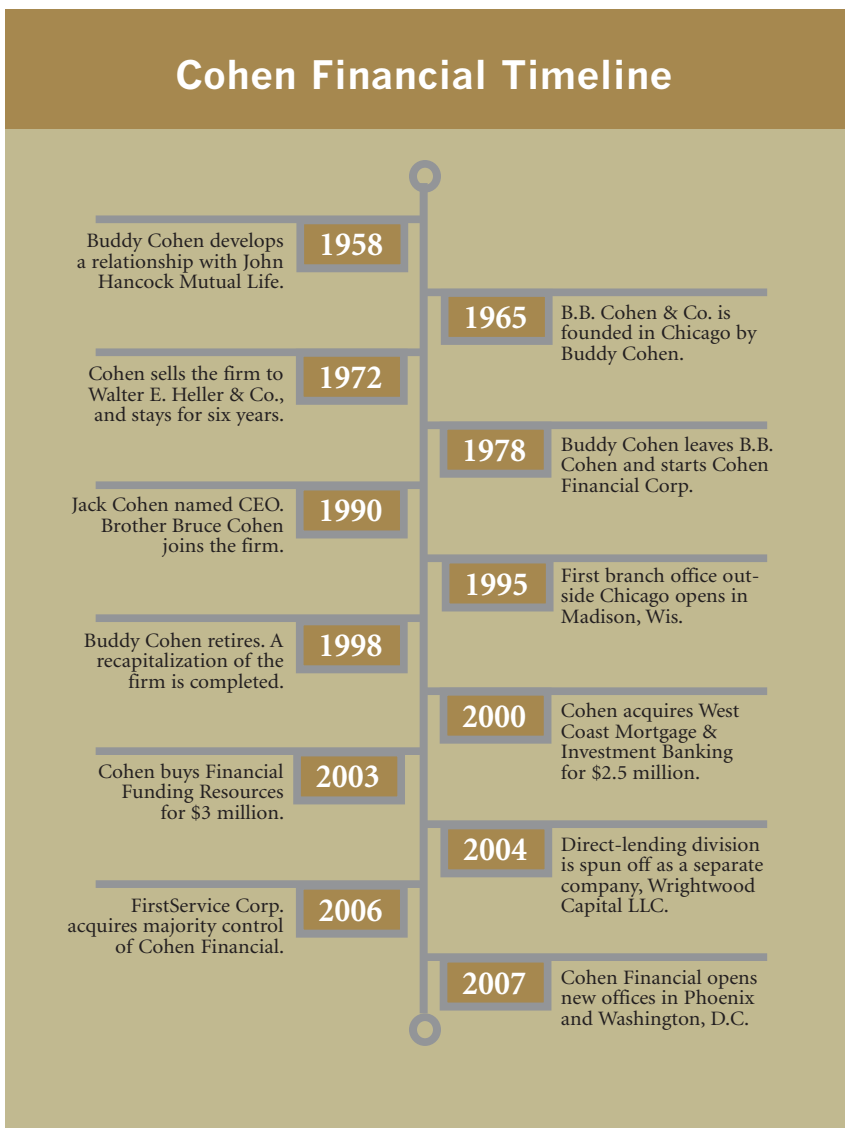
“The theory is that the biggest borrowers can stay abreast of the capital markets on their own. But at Lexington, I found we could not know who the most competitive lenders were day today,” Vander Zwaag acknowledges. “It was Cohen we came to rely on for that knowledge. And as big as Lexington was, we found we didn’t have the buying power with lenders that Cohen had.”

In 2005, Lexington acquired a portfolio of 27 single-tenant office properties in two-dozen different markets from Wells Real Estate Funds of Norcross, Ga. The acquirer needed \$570 million in financing for the \$850 million deal, but did not want to cross-collateralize the assets.

That meant 27 separate mortgages with a single lender. Working in partnership with Holliday Fenoglio Fowler LP of Pittsburgh, Cohen was able to line up J.P. Morgan as the lender on every office property and the deal was closed within three months.

“Cohen and Holliday took our deal to just five or six lenders, and quickly narrowed the field to two or three,” says Vander Zwaag, who was an executive vice president at Lexington at the time.

Cohen Financial Timeline



Martin H. Graff, the owner of M.H. Graff & Associates Inc. in Winnetka, Ill., is also a fan of the company. His investment firm owned a 110,000 sq. ft. shopping center in Cedartown, Ga., that fell on hard times in 2005 when anchor Wal-Mart moved across the street. There were five years left on the Wal-Mart lease, but Home Depot came knocking on the door and wanted to buy the entire site.

Graff turned to Cohen, which negotiated a complex exchange of financing — paying off Graff's original mortgage early — that paved the way for Home Depot's arrival. "Cohen was involved A to Z in the financing structure on that deal," recalls Graff, who owns 17 shopping centers in seven states. "What I like about Cohen is that their brokers are with you right to the end."

Survival of the fittest

With conduit lending shut down lately,

Cohen executives calculate that commercial real estate transaction activity has fallen by half. But executives are philosophical about the downturn, and even see a silver lining.

"Markets breathe in and out. And we're in a period where the market is breathing out," says Mark Strauss, a managing director who has been with the firm six years and is based in Newport Beach, Calif. "No tree grows to heaven. The mortgage bankers who survive through this period will be those who are truly educated as professionals."

Carroll of Cohen Financial adds that unlike the frothy market of the recent past, today's mortgage bankers will need to devise more creative structures for financing. "This will require situational finance, not order taking," he says.

Jack Cohen's recent hiring binge has indeed brought in some impressive talent. Adrian Corbiere, 62, is now

heading the capital markets unit from offices in Washington after running the multifamily program at Freddie Mac for eight years.

Manny A. Brown, 52, was installed as the new chief operating officer in April. Ironically, Brown has no experience in real estate. Previously, Brown owned a golf equipment company. Before that, he built other companies from the ground up. "I've been in a lot of different industries," Brown explains. "Growth is my forte. I love working with small businesses and showing them how to expand."

Jack is a long way from retirement, but already he's preoccupied by the Cohen legacy. "Most mortgage banking companies never outlive their founders," he observes. "I want Cohen Financial to outlive all of us. We're building something here that can endure."

H. Lee Murphy is a Chicago-based writer.

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