

## Sealing The Deal: Brownstein Key To \$2B Mexican REIT Deal

By **Kaitlin Ugolik**

*Law360, New York (February 18, 2014, 6:54 PM ET)* -- Mexican real estate investment trust Fibra Uno's \$2 billion July purchase of a retail portfolio from MRP Group LP was the largest real estate deal Mexico had seen, and it set a precedent for future deals in the consolidation of the country's retail property market.

Attorneys from Brownstein Hyatt Farber Schreck LLP's corporate group led the deal on behalf of MRP, having worked with MRP's predecessors in the establishment of the firm more than a decade ago.

In addition to the obvious challenges of dealing with the transfer of 49 commercial properties covering nearly 1 million square meters, the novelty of doing a deal of this size in Mexico, which only introduced REITs in 2004, added a level of unique difficulty, according to Steve Demby, who led the Brownstein team.

"[There is a] lack of institutional structure there, so this transaction was challenging in that it pushed [the legal and professional parties] to their limits," he said. "The sheer size really taxed the resources."

Fibra Uno launched on the Mexican Stock Exchange in 2011 as Mexico's first REIT and has been followed in the ensuing years by several more hoping to capitalize on the growing value of Mexico's largely privately-owned real estate. The fibras' consolidation of well-performing properties had taken small steps until last year's deal with MRP, which, while hugely successful, demonstrated how far the market has to go in terms of creating an infrastructure for facilitating such deals.

MRP's local law firm Creel Garcia-Cuellar Aiza y Enriquez SC had never seen a deal so large, and the notaries who worked on the deal were equally inexperienced. Less expected, logistical issues cropped up as well: at closing, it was hard to get everyone involved into the Mexican law firm's office.

Mexican law requires all parties to be present as each property is officially transferred by a notary. For this deal, that required filling up about seven different conference rooms in Creel's offices, according to corporate and business group shareholder Margaux Trammel.

"This was a great experience for everyone, including the notary, because there had never been so many properties sold at the same time," she said.

Brownstein does not have an office in Mexico, so the firm took the opportunity to work with local counsel in an equal partnership, something shareholder Thomas Romer argues can be more beneficial in

a deal like this than having a handful of attorneys located in the country.

“I think this is a model other firms should pay attention to. Just setting up an office in another location doesn't really give you the ability to deliver the best service,” Romer said. “That's where I'm focusing our model of hiring the best co-counsel in the jurisdiction and creating a team approach between law firms, rather than having a one-stop shop.”

On the heels of several years of significant growth in Mexico as one of the most sophisticated players in the region's commercial real estate market, MRP began planning an initial public offering in 2013. Instead, the company chose to take Fibra Uno's deal, selling all of the assets owned by its Funds I, II and III. MRP plans to continue developing, owning and operating properties through Fund IV.

Along with amassing a large portfolio of properties, MRP had created a management platform, which was also part of the sale to Fibra Uno, along with about 10,000 leases. About 30 MRP employees moved to the fibra to help integrate the management platform, which is unique among Mexican real estate companies.

Fibra Uno assumed MRP's debt on the properties, the amount of which was not disclosed, though it was not a large amount, according to Demby.

Most of the funds for the deal came from secondary offerings executed by Fibra Uno, in addition to a bond deal worth several hundred million dollars that the REIT conducted shortly before the transaction.

The structure that the Brownstein team worked out, in which MRP transferred a massive amount of property in addition to a lucrative management platform, is expected to serve as a guide for future transactions of its kind as Mexico's growing middle class demands more from the retail sector and the fibras continue to consolidate.

“There's still a lot of existing demand that can be filled there,” Demby said. “I think you will continue to see major consolidation and major growth.”

It's not clear that there are currently any other portfolios of the size and scope of MRP's, but there's no question that the fibras will be on the hunt for similar, if smaller, deals, according to Demby.

“The public markets are hungry for this product,” he said. “I think you will continue to see Fibra Uno and some of the other fibras continue to grow, because investors [can get] good returns. It wasn't really major financing that did this deal, it was really the public markets.”

--Editing by Andrew Park.