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Related and Corvex Target CommonWealth's Management

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For four decades, New York-based Related Cos. has been known primarily as a developer of apartments, retail and offices.

Now, it is trying on another hat: activist investor.

Related and Corvex Management LP on Tuesday launched a play to shake up the management of [CommonWealth REIT, CWH -7.91%](#) a publicly traded owner of office buildings generally located in second-tier cities and suburbs. Related and Corvex, which is run by [Carl Icahn](#) disciple Keith Meister, made public a letter they sent to CommonWealth's board that demanded that CommonWealth halt a planned stock offering and disband its external management structure.



Related and Corvex, which had purchased 9.8% of the company's shares, also released a slide presentation that called CommonWealth "massively undervalued" with its property "trapped inside an entity which structurally fails shareholders."

A spokesman for CommonWealth rejected the criticism of the management structure and blamed the company's disappointing performance recently on its large number of suburban buildings, which have been hard hit by the financial downturn. He said the company was changing its focus to own more urban property and is planning to sell dozens of suburban properties.

The spokesman said the company's board will "thoroughly review the filing and then decide when or how to meet" with Related and Corvex.

CommonWealth stock soared 54% to \$24.40, up \$8.55, in 4 p.m. trading Tuesday on the [New York Stock Exchange NYX +1.19%](#).

Related and Corvex said they believe the company's assets put it at a value of around \$40 a share.

In a subsequent letter sent Tuesday, the companies offered to pay \$25 a share to buy out the company, giving it a value of around \$2.1 billion. Alternatively, absent any reforms, they said they would move for a shareholder vote to replace the board.

The move is new ground for closely held Related, which recently began work on its 26-acre Hudson Yards project in Manhattan, a mixed-used project that is the largest development in the city.

Founded by [Stephen Ross](#) in 1972, the company expanded its turf during the downturn, buying up numerous distressed real-estate projects, including a stalled, half-built hotel skyscraper in Chicago that Related is now turning into rental apartments.

Many of Related's deals outside of its bread-and-butter real-estate development—including the CommonWealth moves—have been spearheaded by Jeff Blau, the company's 44-year-old chief executive, who started at Related as an intern from the University of Michigan, Mr. Ross's alma mater. Mr. Blau became chief executive last year. Mr. Ross kept his position as chairman and is still involved in day-to-day operations.

Mr. Meister was vice chairman of Icahn Enterprises G.P. until 2010, when he formed Corvex. Since then, he has taken activist positions in other companies, including food company Ralcorp Holdings Inc.

CommonWealth first came into Related's cross hairs late last year, when the company began closely examining its portfolio of more than 500 office buildings scattered around the country, from Philadelphia to Denver. It struck a deal with Corvex in January.

CommonWealth's share price has underperformed the market, a fact analysts attribute to an acquisition spree and to its unusual management structure for real-estate investment trusts. Under the structure, CommonWealth's executives are employed by a separate company and hold a relatively small percentage of the stock.

Because the executives are compensated based on their assets under management, the managers are "incentivized to acquire assets—regardless of the quality—and we believe the company has an incentive to issue as much stock as possible to fund acquisitions," analysts at [Citigroup](#) Inc. [C +2.35%](#) wrote in a research report Monday, after CommonWealth announced a stock offering.

In an earnings call in 2011, CommonWealth President Adam Portnoy said similar companies that have a more-traditional management structure "have engaged in far more aggressive growth tactics than we have ever used."