

New direction beckons for daVinci as Fortress takes control

Troubled Japanese private equity real estate giant daVinci Holdings has ceded control of its platform to Fortress Investment Group, after the New York-based alternative investment firm bought \$230m of its corporate debt. The deal brings the reign of founder Osamu Kaneko as president to an end, Nikkei reported.

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The fate of Japan's largest private equity real estate firm, daVinci Holdings, is likely to be decided by New York-based alternative investments firm Fortress Investment Group following a deal by the US business to assume \$230 million of daVinci's corporate debt.

daVinci, founded by Japanese-American Osamu 'Sam' Kaneko in 1998 raised more than \$6 billion across five opportunity real estate funds over the past decade. The firm generated strong returns through its early funds. But it is said to have paid inflated prices for assets, particularly in 2006 and 2007 including an approximately \$2 billion deal to buy the Pacific Century Place office building in Tokyo, Japan's biggest ever single asset investment, through its latest vehicles.

The firm increasingly gained a reputation for aggression with lenders and tenants alike, market participants told *PERE*. This placed it in an untenable position when the global economic downturn reached Tokyo's real estate investment market, and it found itself confronted with falling capital values and subsequent breaches across the loans it had borrowed.

In December last year, control of Pacific Century Place was taken by lender Shinsei Bank, prompting a sale ultimately won by one of daVinci's rivals, Secured Capital Japan. With further liquidations likely and daVinci delisted from Japan's Osaka Securities Exchange on 1 June, Kaneko stepped down from his role as president at the end of last month, Nikkei reported.

According to one source close to the matter, a controlling position in daVinci was marketed for sale at the end of last year. He said: "The banks have taken the lead here. daVinci is no longer a viable entity from the Japanese perspective."

"(These lenders) who have the loans at the underlying asset levels said (Kaneko) has got to go so he's the sacrificial lamb."

daVinci hired Australian bank Macquarie in an attempt to identify rescue finance. Eventually Fortress, which has just completed fundraising for its first Japanese real estate fund, corraling \$800 million, agreed to purchase the corporate debt, large parts of which, *PERE* learned, were used to fund some of daVinci's large co-investment positions.

Nikkei reported the investment included warrants that enable Fortress to obtain 32 percent of the voting rights in daVinci via a debt-to-equity swap. The deal also gives Fortress the option of purchasing Kaneko's 27 percent holding in the platform should its debt default.

Most importantly for Fortress, *PERE's* source said, the deal gives it a significant presence in Japan – a market notoriously hard to enter on account of the importance placed on long-standing relationships. daVinci has approximately \$9.6 billion in assets under management, Nikkei said, but the source added it has little by way of uncommitted capital.

See the [December/January](#) issue of *PERE* for a full profile feature of daVinci.

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