

Ready to break out

Despite numerous firms formed in the private equity real estate space over the past several years, only a handful are likely to make it and even fewer will become big players

Regardless of how you slice it, the fact is most of the private equity real estate firms formed over the past several years are unlikely to become long-term successes. Even fewer will become significant players in the market. It's enough to make an LP wonder why it should bother with so-called emerging managers at all.

According to Marc Weidner, managing director at Franklin Templeton Real Estate Advisors, the reason to bother has to do with the benefits of investing with the right emerging manager. And he should know, as the fund of funds manager, which recently hosted a conference on emerging real estate managers, tracks some 300 such firms but will invest in just three to five of them.

The first benefit of emerging managers is the strong alignment of interest typically due to a significant percentage of personal capital invested in the firm's funds. Second, these firms often are led by motivated veteran professionals and seasoned managers with extensive experience and networks. Lastly, such firms have the ability to participate in smaller or off-market transactions not on the radar of larger investors.

That last benefit is noteworthy, as LPs that tend to focus on the larger, more established players with larger funds are likely to only see large-cap returns. If that is the goal, then mission accomplished. But if the LP is looking for exposure to more than just large deals, then it is missing something by not investing with emerging managers.

Furthermore, Franklin Templeton conducted a study that found there is a strong correlation between the number and size of a fund and the returns of that fund, and that is that returns go down as the fund number and size increases. The trick, Weidner said, is to invest with a manager that has done well in its initial funds but has not grown too large and therefore is likely to outperform its peer group.

In speaking to Weidner and other industry players about what constitutes an emerging manager, it quickly became clear that everyone has a different set of criteria. Some people consider established platforms spun out from financial institutions to be emerging managers, while others limit their definition to start-up firms looking to raise their first fund. Some institutional investors even are encouraging the inclusion of minority- and women-owned businesses in their investment programmes and are doing so under the header of emerging managers. Others, however, see this as more of a subset of the greater emerging manager universe.

For the purposes of this feature, *PERE* has defined an emerging manager as a relatively newer player to the private equity real estate space, but not necessarily the greater real estate industry. The firm's founders or key managers typically have established a track record at larger firms and now are looking to succeed on



their own. And lastly, in terms of capital, the firm is targeting a fundraising of roughly \$500 million or less from a first, second or third institutional real estate fund.

The next several pages profile 10 private equity real estate firms around the globe that are on the verge of becoming breakthrough players in their markets. With continued success and a little bit of luck, some of these firms may even grow into truly fearsome competitors. □

Alcion Ventures

Headquarters: Boston

Founded: 2005

Founders: Martin Zieff and Mark Potter

Strategy: Residential and commercial real estate throughout North America



Zieff: eyeing joint ventures

For Alcion Ventures, 2008 was a major turning point. Not only did the Boston-based real estate investment firm launch its follow-up real estate fund and add to its staff, but it also was the year that it changed its name. Founded in 2005, the firm changed its name from Halcyon Ventures to Alcion to distinguish itself from a similarly named asset management company that also launched a real estate opportunity platform.

Alcion, led by ex-AEW Capital Management principals Martin Zieff and Mark Potter, seeks investment opportunities that target returns of 20 percent for its investors. On the firm's overall marketing strategy, Zieff said in a statement: "Our primary investment focus is to form joint ventures with local real estate entrepreneurs in major North American metropolitan cities – including Boston, Chicago, Los Angeles and Toronto – to invest in the acquisition, development or repositioning of residential and commercial products."

Based on its fundraising initiatives, Alcion is experiencing consistent, steady growth. In 2005, the firm closed its first real estate investment fund, Alcion Real Estate Fund I, with equity commitments totaling \$348 million. That fund was backed in part by Harvard Management, which manages the asset of the university's endowment. With \$410 million in commitments as of April of this year, according to documents filed with the SEC, the firm is almost ready to close Alcion Real Estate Fund II, a \$500 million vehicle launched in 2008.

Arch Capital Management

Headquarters: Hong Kong

Founded: 2006

Founders: Richard Yue and Ayala Corporation

Strategy: Opportunistic real estate in Asia



Yue: managing growth

Arch Capital Management, the firm founded by ex-Citigroup and AIG executive Richard Yue and Philippines-based Ayala Corporation in August 2006, is undergoing some major growing pains. Or more accurately, the Hong Kong-based private equity real estate firm is experiencing a major growth spurt.

In March, Arch's chief sponsor, Ayala, sold its 50 percent position in Arch to New York-based alternative investments fund manager The Rohatyn Group. In exchange, Rohatyn enabled Ayala to increase its existing stake in its \$3.2 billion emerging markets asset management business. This means that Ayala is now an indirect stakeholder in Arch.

Apparently, however, Ayala's exit isn't slowing down Arch's fundraising efforts. In fact, it is quite the opposite. Shortly after Ayala announced it was selling its stake in the firm, Arch launched its second pan-Asia opportunity fund. The new vehicle, Asian Partners II, has a capital raising target of \$500 million and, despite its exit, Ayala has committed seed capital of \$50 million. While the vehicle has a 60 percent investment ceiling on assets in China, Ayala's strategic shift also means the new fund can now invest up to 10 percent of its equity in the Philippines, something the direct ownership by Ayala influenced the firm from pursuing.

Investors in Arch's funds included pension funds, corporate investors and high-net-worth investors, predominantly from Europe and Asia. The new fund's IRR target is between 18 percent and 20 percent, in line with many other opportunity funds in Asia and similar to its first fund, which raised \$330 million in 2007 and is understood to be on course to hit its return targets.

Artemis Real Estate Partners

Headquarters: Chevy Chase, Maryland

Founded: 2009

Founders: Deborah Harmon and Penny Pritzker

Strategy: Distressed properties and debt in the US



Pritzker: strong alignment

Although it only has been in existence for a little less than two years, Artemis Real Estate Partners has quite the pedigree. The Chevy Chase, Maryland-based private equity real estate investment manager was formed in September 2009 by chief executive Deborah Harmon and chairman Penny Pritzker – two women who not only have a wealth of experience in the real estate industry, but also ties to the current Presidential Administration.

Indeed, Harmon, the former president and chief investment officer of JE Robert Companies, was appointed by President Obama in June 2009 to serve as a Commissioner for the White House Fellows program. Pritzker remains the chief executive of Chicago-based Pritzker Realty Group and serves on President Obama's Council on Jobs and Competitiveness, which advises the Administration on economic growth and job creation. She previously served on the President's Economic Recovery Advisory Board.

According to the firm's website, Harmon and Pritzker created Artemis to offer attractive risk-adjusted returns to investors and manage institutional third-party capital in a variety of real estate strategies, primarily distressed properties and debt. Another aspect of the firm's strategy is that its co-founders and principals invest significant capital alongside its investors.

Shortly after the firm was formed, Artemis launched its first fund, a commingled vehicle targeting an impressive \$500 million. Although many details on the fund are still under wraps, as of February of this year, Artemis Real Estate Partners Fund I had raised \$112.5 million, including a total of \$50 million from Harmon and Pritzker and another \$50 million from the New York State Teachers' Retirement System.

BEOS

Headquarters: Berlin

Founded: 1997

Founders: Stephan Bone-Winkel, Ingo-Hans Holz and Job von Nell

Strategy: Sale-leaseback transactions and mixed-used acquisitions in Germany and Switzerland



Bone-Winkel: dividend oriented

BEOS was founded in 1997 by Stephan Bone-Winkel, Ingo-Hans Holz and Job von Nell. The independent investment, development and asset management company has roughly 30 employees and manages a commercial real estate portfolio totaling more than 2.1 million square feet throughout Germany and Switzerland. Investors in its funds have included German institutional investors, Service KAG and INTREAL International Real Estate Investment.

BEOS specializes in sale-leaseback transactions and the acquisition of mixed-used properties combining office, production and logistics space. Major sale-leaseback transactions that the Berlin-based firm has arranged include deals with such companies as Alcatel, Kodak, Siemens and SwissCo.

Currently, BEOS is raising equity for its second real estate vehicle, Beos Corporate Real Estate Fund II, which already has raised €200 million of its €400 million target. The dividend-oriented fund is targeting properties in Germany, specifically those with high occupancy levels and tenants with good credit ratings. It also seeks to have a mix of tenants in its portfolio, broadly diversified by type of use and industry. The fund is seeking such properties in urban centres like Hamburg, Berlin, Dusseldorf, Cologne, Stuttgart and Munich, as well as growth regions throughout the country.

Glenmont Capital Management

Headquarters: New York

Founded: 1999

Founders: Lawrence Kestin and Joseph Smith

Strategy: Distressed equity and debt opportunities across the US, with an emphasis on multifamily and hospitality



Smith: targeting modest deals

Glenmont Capital Management invests in middle-market, opportunistic real estate and real estate-related investments, primarily throughout the US. Since its inception, the New York-based private equity real estate firm has invested more than \$1.3 billion through joint venture transactions on behalf of its discretionary investment funds.

Founded in 1999 by former Colony Capital principal Lawrence Kestin and former Bankers Trust private equity real estate executive Joseph Smith, Glenmont makes investments in the \$20 million to \$100 million range. According to its website, its investments focus on domestic opportunities with more modest equity requirements than those generally being sought by larger real estate opportunity funds. The firm seeks investments in complex single-asset transactions, select commercial and residential development or redevelopment projects and real estate-related companies, including entity-level recapitalizations and securities investments.

The firm closed on its third fund, Glenmont Real Estate Partners III, in December 2009. That fund is a \$100 million vehicle targeting distressed equity and debt opportunities across the US, with an emphasis on the multifamily and hospitality sectors.

Earlier this year, Glenmont formed a joint venture with Tarpon Partners to acquire a first mortgage note secured by 414 unsold residential units at a luxury waterfront condominium project in Daytona Beach, Florida, for roughly \$60 million. Simultaneously, the firm acquired title to the units via a deed-in-lieu of foreclosure agreement executed with the current owner, enabling the venture to gain control of the \$240 million project for less than 25 percent of its original cost.

GTIS Partners

Headquarters: New York

Founded: 2005

Founders: Tom Shapiro, Rob Vahradian, Josh Pristaw, Bill Cisneros and Joao Teixeira

Strategy: Affordable housing, for-sale condominium, warehouse/logistics and office projects in the US and Brazil



Shapiro: expanding in Brazil

After rebranding itself as GTIS Partners last year, the New York-based real estate investment firm, previously known as GoldenTree InSite Partners, is looking to increase its investment efforts in Brazil. Not that GTIS hadn't already set its sights on the market.

Indeed, since being formed in 2005 by Tom Shapiro and senior managing directors Rob Vahradian, Josh Pristaw, Bill Cisneros and Joao Teixeira, GTIS has invested roughly \$750 million in Brazil. And this year, it expects to invest a further \$250 million to \$350 million of equity in the country, targeting in-fill affordable housing, for-sale condominium and office projects in São Paulo and Rio de Janeiro.

As the investment landscape continues to evolve in Brazil, GTIS is hoping to expand its deal flow to include more industrial assets. After closing a partnership in December with development firm Ager Incorporacoes to acquire and develop office, some residential and industrial warehouse assets in and around Rio, the firm is set to close its first joint venture with an industrial developer.

Still, GTIS is looking into opportunities in the US. In May, the firm expanded its joint venture with Hovnanian Enterprises to design, sell and deliver homes in homebuilding communities in Northern Virginia, Maryland, Pennsylvania and California. The venture now owns 1,168 lots in eight communities and expects its gross home sellout to exceed \$500 million. Roughly \$123 million in capital has been invested in the overall joint venture, with Hovnanian contributing 25 percent and GTIS providing 75 percent.

Savanna

Headquarters: New York

Founded: 1992

Founders: Nick Bienstock and Christopher Schlank

Strategy: Opportunistic real estate along the East Coast



Bienstock: exceeding expectations

Although Savanna seeks opportunistic equity and debt investments across multiple property types and locations, the New York-based private equity real estate firm didn't start out that way. In fact, when former Capital Trust executive Nick Bienstock and former Westside Federation for Senior Housing project manager Christopher Schlank formed the company in 1992, their initial acquisitions were relatively small in scale, concentrating mainly on residential redevelopment deals in Manhattan financed by friends and family.

All that changed in 1998, when Savanna took a big leap forward. The firm began to expand its focus to larger redevelopment and repositioning transactions in the Northeast and Mid-Atlantic states. The firm also started bringing institutional capital partners into each transaction, including US private equity real estate funds, REITs and hedge funds. Then, in 2006, the firm got into the fundraising game by launching its first opportunistic real estate fund. Savanna Real Estate Fund I, a vehicle focused on value-added office, residential, industrial, retail, land and development deals along the East Coast, closed in 2008 with \$313 million in commitments.

Nowadays, Savanna is involved in large-scale fundraising efforts. In April of this year, the firm closed its second fund on \$550 million, exceeding its original target of \$400 million by a wide margin. Savanna Real Estate Fund II, which raised commitments from a mix of US and international investors, concentrates on office properties in such prime cities as New York, Washington DC and Boston. Additionally, it was revealed in the March issue of *PERE* that Savanna expects to deploy \$200 million in equity in New York this year, sourcing between four to six distressed transactions, primarily office deals.

SC Management

Headquarters: Hong Kong and Singapore

Founded: 2005

Founders: Suchad Chiaranussati

Strategy: Opportunistic real estate in Japan, Singapore, Thailand, Hong Kong and Korea



Chiaranussati: back on the fundraising trail

Founded in 2005, SC Management has a staff of 14 working from offices in Hong Kong and Singapore. The firm was founded by former Westbrook Partners executive Suchad Chiaranussati, who left the New York-based private equity real estate company after working there for five years. Since then, SC Management has closed on two funds and is on the fundraising trail with a third.

SC Management currently manages roughly \$800 million in real estate assets across most property types, including hotel and residential assets. The Pan-Asia real estate investment firm seeks opportunistic investments in such markets as Japan, greater China, Singapore, Thailand, Hong Kong and Korea.

Currently, SC Management is raising capital for its third pan-Asia opportunistic fund, Real Estate Capital Asia Partners (RECAP) III. The firm is aiming to raise \$400 million from investors, and a first closing was scheduled for the end of June, as *PERE* went to press.

As of March, SC Management has invested more than 75 percent of the equity of its second fund, RECAP II, which closed on roughly \$190 million in December 2009. For the new fund, one third of the capital is expected to be deployed in Japan, one third in greater China and the remaining third in Southeast Asian countries.

Sveafastigheter

Headquarters: Stockholm

Founded: 2003

Founders: Simon de Château, Christer Andersson and Johan Knaust

Strategy: Opportunistic real estate around the Baltic Sea, primarily in Sweden and Finland



de Château: a Baltic focus

with the acquisition of the 96-room Ibis Hotel Nyköping. The hotel is located between central Nyköping and Skavsta Airport, Sweden's third largest airport.

“Our tried and tested model of working closely with local asset management partners will allow us to source assets that are not in the public domain and continue to create value during our holding period, rather than just expecting to ride the yield curve.” So said Sveafastigheter co-founder and chief executive Simon de Château on the firm's business model after holding a first close of €90 million for its third fund.

Sveafastigheter was founded in 2003 by de Château, Christer Andersson and Johan Knaust to offer institutional investors access to indirect real estate investments in Sweden. Since then, the Stockholm-based private equity real estate business has carried out transactions with a combined value of more than €2 billion. Based on that and the increasing size of the firm's opportunity funds, the market is booming.

Sveafastigheter's first opportunistic fund, Sveafastigheter Sverige I, closed on €50 million in 2003. Comparatively, in February of this year, the firm closed its third and most recent fund, Sveafastigheter Fund III, at €317 million. That fund focuses on real estate around the Baltic Sea, primarily in Sweden and Finland, where the firm expects to invest 70 percent of its equity.

According to its website, the fund's strategy is opportunistic with a value-added approach to asset management. In May, Sveafastigheter added another asset to Fund III

Wainbridge Capital

Headquarters: Jersey, UK

Founded: 2010

Founders: Edouard Fernandez and Rob Rackind

Strategy: Value-added investments in greater London



Fernandez: off to a fast start

Wainbridge Capital may be one of the newest players in the UK private equity real estate game, but the firm already has already closed its first fund. The fledgling firm's strategy is to buy value-added office and mixed-use buildings in greater London that come with capital expenditure or leasing risk.

Founded by former Hines executives Edouard Fernandez and Rob Rackind last year, the Jersey-based firm launched Wainbridge Global Opportunities London Limited, a £100 million (€115 million; \$165 million) core and value-add vehicle targeting greater London. Rackind said investments typically would be complex assets that required experienced teams to turn them around.

Earlier this year, Wainbridge closed the fund, which is backed primarily by wealthy Russian investors. At the same time, it also announced the vehicle's first investment, with the simultaneous recapitalisation and refinancing of a trophy office building, No.1 Croydon in south London, for £31 million. Following the transaction, Wainbridge holds a majority stake in the property – formerly held by a venture between Patron Capital Partners, Delek Global Real Estate and private investment firm Princeton – with Princeton increasing its ownership as well.

Wainbridge intends to launch further funds, targeting both retail and institutional investors, as well as forming joint ventures with investors and developers. It already has been awarded a number of mandates, including acting as “owner's representatives” for the majority equity investors of the 400,000-square-foot Cannon Place development in London, a 90,000-square-foot office refurbishment in Paris and the development of the new French Lycee School in North London.