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FEATURE: The breakout kings

With the private equity real estate space continuing to see more new players, PERE highlights those firms with the right combination of strategy and personnel to succeed in the long run. December 2012/January 2013 issue.

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INTRODUCTION

Despite the difficulties presented by the current fundraising environment, a handful of new private equity real estate firms continue to crop up each year. Unfortunately, the sad fact is most of these firms are unlikely to become long-term successes and even fewer will become significant players in the market. Still, there are benefits to investing with such firms, provided that the ones with the right combination of strategy and personnel are chosen.

Among the benefits of investing with emerging managers is that many of these firms often are led by motivated veteran professionals and seasoned managers with extensive experience and networks, much like their larger counterparts. The difference is that such firms have the ability to participate in smaller or off-market transactions not on the radar of larger firms and funds, whose larger target deal size are more likely to only see large-cap returns.
In addition, several studies have 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. As a result, a number of savvy institutional investors, including the California Public Employees' Retirement System, the Teacher Retirement System of Texas and the New York State Common Retirement Fund, have set up investment programmes dedicated to finding and fostering managers that show signs they're going to excel with their next couple of funds.

In speaking to industry players about what constitutes an emerging manager, however, it is clear that everyone still 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, but others see that 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 new 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, or they can be firms that have been around for quite awhile but only recently have sought institutional capital. Lastly, in terms of capital, the firm has less than $2 billion in total assets under management and 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 breakout players in their markets. With continued success and a little bit of luck, some of these firms may even grow into significant players.

ARA Asset Management
Headquarters: Singapore
Founded: 2002
Chief executive officer: John Lim
Strategy: Pan-Asia offices, retail and residential assets, with a particular focus on China

At first glance, Singapore-based ARA Asset Management seems an odd choice as an emerging manager, particularly given its founding in 2002 and big plays in the Asian REIT world, where it has most of its assets under management. However, the firm's private real estate funds division, led by Ng Beng Tiong, started much later and only recently finished raising capital for its second opportunity fund, ARA Asia Dragon Fund II, on $441 million. That followed a $1.13 billion vehicle in 2008, which included commitments from the California Public Employees' Retirement System (CalPERS), the largest US pension plan.
In an announcement earlier this year, following repeated commitments, CalPERS senior investment officer Ted Eliopoulos heaped praise on the 983-staff outfit for its strong discipline and capabilities. This time around, the pension giant committed $50 million to ARA's second fund and $480 million to a longer-term separate account. That followed an admission by the Teacher Retirement System of Texas that the firm was included on its 'premier' list of managers with which to partner.
Given its strong performance in Fund I (according to PERE sources, the vehicle was generating 20 percent IRRs and a 1.92x equity multiple), it is little wonder that ambitions are running high within the corridors of 6 Temasek Boulevard. According to the firm's third quarter results presentation, ARA plans to explore the launch of RMB-denominated funds and intends to roll out more "specialist funds for strategic investors" in the near future.
As of the end of September, ARA managed S$6 billion (€3.8 billion; $4.9 billion) on behalf of its private funds. Versus the S$15.2 billion managed by its REIT platform, that seems relatively small. However, given that the platform is barely half a decade old, it is understandable why this firm is on our list of emerging managers to watch.

Bei Capital Partners
Headquarters: Hong Kong
Founded: 2012
Founder: Collin Lau
Strategy: Alternative investments in China and the Asia-Pacific region, starting with real estate

When a new company called Bei Capital Partners registered with the Hong Kong authorities earlier this year, there was nothing to indicate that it was the new real estate investment vehicle of China Investment Corporation's former global head of real estate, Collin Lau. Indeed, before PERE revealed news of the company, only a handful of real estate professionals even knew it existed.
Behind the scenes, however, Lau was busy sounding out various investment partners – and these discussions seem to be bearing fruit. Bei Capital is understood to have corralled approximately $1 billion in equity commitments already and has begun putting the money to work. Indeed, a debut real estate transaction in China has been completed and further acquisitions have been lined up.
Where Lau's new firm distinguishes itself against its fellow emerging managers is in the structure of its investment vehicle. Developed as an evergreen enterprise company to be participated in by a select number of investors, Bei Capital expects its product to live for as long as its investments or investors require – something traditional commingled funds sometimes fail to do. When the vehicle's initial capital is invested, the same vehicle can be recapitalised again periodically. Similarly, the firm's remuneration and capital interests have been aligned to reflect the life of its investments, and these will be reviewed periodically as well.
Lau has turned from being head of one of the world's most-coveted institutional investors to being a principal once again – he previously was an investment manager at Starr International, the New York-based financial services and investment firm. Furthermore, he has returned to the market with a clear perspective of what the world's largest institutions want from their real estate investments. Given the immediate backing that Bei Capital has received, it appears his perspective is shared.

Exeter Property Group
Headquarters: Plymouth Meeting, Pennsylvania
Founded: 2006
Founders: Ward Fitzgerald and Tim Weber
Strategy: Value-added industrial and suburban office in the eastern, central and southern US

Formed by chief executive officer Ward Fitzgerald in 2006 as an investment manager and operator of US industrial and business park properties, Exeter Property Group is rapidly growing as an expert fund manager in the industrial and warehouse real estate space.
This summer, Exeter closed on $615 million in commitments for its latest value-added industrial vehicle, Exeter Industrial Value Fund II. The Plymouth Meeting, Pennsylvania-based real estate investment firm initially targeted $425 million for the fund, with a hard cap of $575 million, but it ultimately raised the hard cap to $615 million to accommodate a couple of last-minute large investors.
Even with a higher hard cap, Fund II was oversubscribed, with Exeter turning away $40 million in commitments from three investors that had asked to increase their allocations. "There was a crush of interested investors at the end," noted the firm's director of investor relations, Rayenne Chen.
Fund II is seeking value-added investments in industrial, flex and business park properties and first mortgages against such properties throughout major markets in the eastern, central and southern US. As of June, Exeter had invested $200 million of the fund's equity in 14 transactions, including the acquisition of a three-building, 600,000-square-foot industrial property in Louisville, Kentucky from Prologis in March.

Now comprised of a 30-strong staff working out of offices in Philadelphia, Washington DC, Atlanta, South Florida, Dallas, Louisville and Chicago, Exeter manages more than $1 billion in assets through commingled funds, separate accounts and joint ventures. At the rate it's been raising and investing capital, that figure could jump substantially by the end of next year.

Federal Capital Partners
Headquarters: Chevy Chase, Maryland
Founded: 1999
Founders: Esko Korhonen and Lacy Rice
Strategy: Value-added debt and equity investments across the Mid-Atlantic region of the US

Federal Capital Partners was formed in 1999 by former Carlyle Group principals Esko Korhonen and Lacy Rice. The firm currently manages about $2.4 billion in assets and, over the past several years, has more than doubled its staff to 34.
In July, it was announced that Federal Capital had completed fundraising for its second real estate fund, FCP Realty Fund II, raising a total of $529.2 million in commitments. The firm raised Fund II's original $500 million hard cap to accommodate several large commitments that were made toward the end of the fundraising period, which had been extended to July following an influx of new investors that expressed interest in the fund towards the end of the process.
Fund II is pursuing a similar value-added investment strategy to Fund I, targeting equity and debt investments predominantly in the multifamily sector, as well as opportunities in office, retail and industrial. However, since its first fund, Federal Capital has expanded its geographic focus from the greater Washington DC and Baltimore area to also include Pennsylvania, Virginia, Delaware, West Virginia, New Jersey and the Carolinas.
"We are excited at the prospects for our fund given the opportunities created by continued disruptions in the capital markets and the positive growth outlook for markets in the Mid-Atlantic region," said founding managing partner Korhonen about the firm's latest commingled vehicle.
As of the summer, Fund II has invested $103 million, or about 20 percent, of its capital on 14 transactions totalling $367 million. Among the more significant deals made on behalf of the fund was the acquisition of 1616 Walnut Street, a 279,770-square-foot office building located in Philadelphia, through a joint venture with local investor and developer Cross Properties and 806 Capital.

ICG-Longbow Real Estate Capital
Headquarters: London
Founded: 2006
Managing partners: Kevin Cooper and Martin Wheeler
Strategy: Senior, mezzanine and whole loans backed by UK property

At this point in time in the European property cycle, ICG-Longbow Real Estate Capital is emblematic of the way various financial organisations are exploiting the financing gap left by traditional banks retreating from real estate lending. The London-based company, which is 51 percent owned by Intermediate Capital Group, has just moved into fundraising mode for its third UK real estate debt fund. Not only that, but it is hoping to raise money on the public markets via an initial public offering.
ICG-Longbow, whose chairman is David Hunter, recently appointed placement agent Threadmark to help raise £500 million (€615 million; $807 million) for Longbow UK Real Estate Debt Investments III, which would be double the size of the firm's predecessor fund, Longbow UK Real Estate Debt Investments II. That vehicle accumulated £242 million of capital commitments and closed in September 2011. Target returns for Longbow UK Real Estate Debt Investment II are stated as being 14 percent per year, and the new vehicle is thought to be targeting a similar IRR. It also means that ICG-Longbow is on the fundraising trail again less than one year after raising its current vehicle.
Meanwhile, ICG-Longbow has hired Investec to advise upon the IPO of ICG-Longbow Senior Secured UK Property Debt Investments, which will invest in senior UK commercial property debt by making new individual loans with a maximum exposure of 65 percent loan-to-property value – seen as less risky than mezzanine real estate investments. The firm hopes to raise a minimum of £100 million by floating the closed-ended real estate debt entity on the London Stock Exchange. ICG-Longbow was started in 2006 as an investment manager focused solely on the UK in order to provide senior, mezzanine and whole loans to Britain's commercial real estate sector. It later become majority owned by Intermediate Capital Group, the London-listed credit company.

Kayne Anderson Real Estate Advisors
Headquarters: Armonk, New York
Founded: 2007
Founders: Richard Kayne and Al Rabil
Strategy: Value-added and opportunistic student housing properties

Under the leadership of Al Rabil, the real estate investment arm of Los Angeles-based private equity firm Kayne Anderson Capital Advisors has really made quite a name for itself in the US student housing space. Not only has the firm been busy in a niche market that's garnering more attention from the industry, but it has exceeded its own expectations.
Last year, Kayne Anderson closed its second fund, Kayne Anderson Real Estate Partners (KAREP) II, on $575 million in equity commitments, well above its initial target of $350 million. KAREP II is a continuation of KAREP I, although the first fund was a combination of opportunistic and value-added acquisitions, whereas KAREP II is "far more on the opportunistic side," Rabil told PERE. As a result, the firm's latest fund is targeting net IRRs of 16 percent to 20 percent.
Recently, Kayne Anderson sold a portfolio of 19 student housing properties with 12,049 beds and one property under development to American Campus Communities for $862.8 million. However, don't mistake that move for a shift in strategy. "We felt it was an opportune time to go to market and realise a premium exit," Rabil said.
Kayne Anderson still is investing on behalf of KAREP II. Approximately 54 percent of the fund's capital is accounted for, and it is anticipated to be fully invested within the next nine to 12 months. Although Rabil would not comment on any upcoming fundraising plans, sources have said that Kayne Anderson plans to stay in the fundraising business. With the success the firm is seeing with its investment strategy and its place within the rapidly growing student housing market, we here at PERE would not be surprised to see Kayne Anderson continuing to lead in the student housing space next year and beyond.

Nordic Real Estate Partners
Headquarters: Copenhagen
Founded: 2005
Chief executive officer: Mikkel Bülow-Lehnsby
Strategy: Logistics, retail and self-storage in the Nordics

Nordic Real Estate Partners (NREP) is hotly tipped by several multi-managers as an up-and-coming manager and star of the future. "In spite of all the headwinds in the property sector, they have expanded their team infrastructure over the last few years and have been able to increasingly get performance results and attract investors," one multi-manager said.
As its name suggests, NREP concentrates on the Nordic markets of Denmark, Sweden and Finland. Not only does it have a tight geographic focus, but the firm also has a niche investment strategy honing in on modern logistics, 'necessity-driven' retail, self-storage assets and, to a lesser extent, residential property. The firm employs around 30 professionals and counts large Nordic and international institutions among its LP base.
NREP recently launched its second value-added retail fund, NREP Nordic Retail 2, holding a first close this summer on €121 million in equity. Among the investors were JØP (the pension for Danish lawyers and economists), PBU (the pension of early childhood teachers) and German insurer Talanx Group. A second close is expected during the first quarter of 2013, when the firm hopes to increase its equity haul to €200 million to €250 million.
This year, NREP also launched the NREP Development Fund I, an opportunistic vehicle targeting developments and conversion projects in Copenhagen, Helsinki and Stockholm. Going back a little further to 2009, the firm launched Pelican Self Storage, an opportunistic vehicle that won a $100 million commitment from an unnamed US pension.
Mikkel Bülow-Lehnsby is the chief executive officer and co-founder of NREP, having previously worked at Egmont, a media production company. Prior to that, he started an online financial information company called FX Line in 2000 and worked as an analyst at Goldman Sachs for one year in 1998.

Orchard Street Investment Management
Headquarters: London
Founded: 2004
Chairman: Chris Bartram
Strategy: Commercial property in the UK

Orchard Street Investment Management has been growing quickly over the past two years, but it cemented its reputation as an emerging manager to watch just a few months ago when the Government of Singapore Investment Corporation (GIC) agreed to re-up to its latest special situations fund. The follow-on commitment by one of the highest-profile sovereign wealth funds in the world gave the London-based firm a fund capable of investing around £200 million (€243 million; $316 million) in UK commercial property. The first time GIC parked some of its vast capital with Orchard Street was in 2009, when its maiden special situations fund went on to purchase £130 million of property.
Perhaps Orchard Street, whose chairman is Chris Bartram, is seen as a manager of separate accounts rather than a fully-blown commingled fund manager, nevertheless its progress in this area has been eye-catching. In June, the firm won a mandate to provide real estate investment advice to the BBC Pension Fund. The agreement saw Orchard Street take over the management of the £300 million (€373 million; $470 million) UK portion of the pension's £1.1 billion real estate portfolio from the incumbent manager, CBRE Global Investors.
The BBC assignment came hot on the heels of another recent success. Just prior to that win, Orchard Street landed the mandate to manage assets on behalf of St James' Wealth Management. In addition, the firm also has a long-standing arrangement to manage the real estate assets of the British Railways Pension Fund, giving it a total of £3 billion in assets under management following the BBC win.
In advance of its recent mandate streak, Orchard Street beefed up in terms of professional experience via the appointment of John Humberstone as a partner in 2010. Previously, Humberstone was a managing director at Brookfield Asset Management for three years. Prior to that, he worked at GE Capital Real Estate as a director.

Waypoint Real Estate Group
Headquarters: Oakland, California
Founded: 2008
Founders: Doug Brien and Colin Wiel
Strategy: Buys, renovates and rents single-family homes throughout the US

Single-family rentals were one of the most buzzed-about investment strategies of 2012, but Oakland, California-based Waypoint Real Estate Group was one of the earliest investors in the space, having pursued the strategy since the firm’s founding in 2008.
Pioneering a new strategy seems to suit the company’s two co-founders, Doug Brien and Colin Wiel, both of whom had colourful backgrounds prior to starting Waypoint. Brien, who previously was a managing partner of Redwood Capital Management Group, was a place kicker in the National Football League from 1994 to 2005. Wiel started out as a mechanical engineer before becoming an investor in real estate, venture capital and angel investments.
In August, PERE reported that Waypoint was raising its first institutional real estate fund, seeking $200 million in equity commitments. The firm previously amassed $100 million from high-net-worth individuals through a series of funds and received a $50 million commitment from Columbia University’s endowment through a dedicated vehicle last year.
In January, Waypoint announced a partnership with GI Partners to purchase up to $1 billion in single-family homes by the end of 2013, with GI committing up to $400 million through a separate account with Waypoint. GI Partners’ commitment represents about 40 percent to 50 percent of the equity that Waypoint will need to purchase a total of 12,000 to 15,000 single-family homes for rent by the end of next year.
In support of its ambitious goals, Waypoint announced in October that it had secured a $245 million loan from Citigroup, at a time when the purchases of foreclosed homes still are financed almost entirely with equity. Meanwhile, the firm has been expanding rapidly in recent months and currently has 250 employees and more than 2,500 homes in California, Arizona,
Illinois and Georgia.

Wheelock Street Capital
Headquarters: Greenwich, Connecticut and Boston
Founded: 2008
Founders: Merrick Kleeman and Jonathan Paul
Strategy: Opportunistic investments in North America, particularly in the hotel and residential sectors

Wheelock Street Capital beat the odds against first-time fund managers by raising its maiden solo fund this year, and the opportunistic vehicle even managed to become oversubscribed less than one year after its official launch.
The Greenwich, Connecticut- and Boston-based private equity real estate firm held a final close of $525 million on Wheelock Street Real Estate Fund in July, exceeding its hard cap of $500 million. Limited partners included endowments, pension plans, foundations and family offices such as the New Jersey Division of Investment, the University of Texas Investment Management Company and the City of Phoenix Employees’ Retirement System.
A key contributor to the fund’s success was the firm’s track record. Wheelock previously raised two investment funds of $100 million and $150 million through a joint venture with Boston-based hedge fund manager Baupost, completing 13 deals on behalf of the two vehicles.
The backgrounds of Wheelock’s two co-founders didn’t hurt either. Merrick Kleeman served as head of acquisitions at Starwood Capital Group from 1997 to 2007, while Jonathan Paul previously co-founded Rockpoint Group.
Wheelock also stood out from the pack with its investment strategy, which essentially is a hybrid of the traditional allocator and operator fund models. The firm functions as an operator when it invests through its in-house hospitality and residential land platforms and as an allocator through joint ventures with third-party managers for investments in other property types.
The new Wheelock fund, which is focused primarily on the US, will target opportunistic returns through distressed, high-yield debt, preferred equity and equity investments. To date, the fund has invested $322 million in eight transactions, including its most recent acquisition involving the homebuilding assets of John Wieland Homes and Neighborhoods in November.