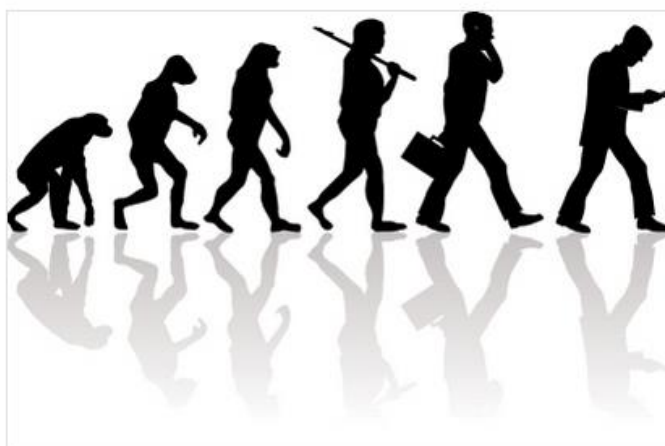




A new approach



Traditionally focused on the funds of start-up firms, real estate emerging manager programs are evolving, with newer mandates looking to invest in deals alongside smaller operating partners. December 2014/January 2015 issue

Real estate emerging manager programs are undergoing an evolution. What was once a straightforward proposition of investing in the funds of first-time managers either directly or through a fund of funds structure has morphed into a system of programmatic joint ventures with small owner-operators, which may or may not even manage a fund. While the traditional route of investing in emerging managers has continued, a number of newer programs set up over the past couple of years have opted for the JV path, which in some ways follows the preferences of investors with regard to their overall real estate portfolios.

One timely example of this evolution is AVP Advisors. In gearing up for its next real estate emerging manager offering, the Los Angeles-based firm has switched from a fund of funds structure to a vehicle targeting programmatic JVs. "Our first vehicle was a fund of funds, so we really didn't have control over investment decisions or other major decisions," said Barry Chase, managing principal, in explaining his firm's strategy shift to PERE. "Under our new programmatic JV structure, we're going to have more of an opportunity to really be able to mentor and guide."

The new strategy also capitalizes on the growing trend among institutional investors to go direct with owner-operators as opposed to investing in commingled funds. "They want to get closer to the real estate and the decisions that are being made at the property level, but there's also an element of questioning certain aspects of the commingled fund structure," said Suzanne West, who joined AVP as a managing principal in August. "There's a view right now that, if they go direct and they go through programmatic JVs, they will have better execution with a better source of deal flow and be able to 'turn the spigot off' if the circumstances change."

Of course, AVP is just the latest player to jump on the programmatic JV bandwagon. Last year, the California Public Employees' Retirement System opted for a similar approach for its \$200 million real estate emerging manager program with Canyon Capital Realty Advisors. And prior to that, the New York State Common Retirement Fund set up a \$300 million program with Artemis Real Estate Partners.

In addition to the new approach to emerging manager programs, there remains varied definitions of what constitutes an emerging manager. For the purposes of the following feature, PERE has defined such a 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 a while but only recently have sought institutional capital through a commingled vehicle. In terms of capital, the firms included generally have less than \$2 billion in total assets under management and are targeting a fundraising of around \$500 million or less from a first, second or third institutional real estate fund.

On the following pages, PERE profiles 10 private equity real estate firms around the globe that are on the verge of or just beginning to experience success with their strategy among investors. With continued success and institutional support, we expect that some of these firms will evolve into lasting players.

BKM Capital Partners

Headquarters: Irvine, California

Founded: 2013

Co-founders: Nima Taghavi and Brian Malliet

Strategy: Value-added, multi-tenant industrial property in the western US

BKM Capital Partners is a fledgling real estate firm that is beginning to get noticed. Indeed, the Irvine, California-based operator and fund manager with a tight sector-specific and geographic focus – in this case, multi-tenant industrial real estate in the western US – is being spoken about among investors and consultants for more than one reason.

First, **BKM** has caught the eye for several recent deals, which are on the smaller side but nevertheless look like they should perform. For example, the firm bought Hayden Island Business Park, a 98,516-square-foot property in Portland, Oregon that it acquired with 84 percent occupancy at rents 40 percent below current market rates. It also bought Patrick Commerce Center, a 223,009-square-foot industrial park in Las Vegas, where occupancy had dropped to 55 percent.

The other reason that **BKM** is getting noticed is because it is out in the market raising its first fund. The newcomer is shopping **BKM** Industrial Value Fund I, which is targeting \$200 million in commitments and is scheduled to close in June.

Lastly, **BKM** hit the headlines when it was announced that John Mack, the former chairman and chief executive officer of Morgan Stanley, was joining its board of advisors. Meanwhile, Michael Hernstad and Charlie Ittner have been hired as executives. Hernstad was formerly at Colony Capital, where he was director of finance and accounting, and Ittner formerly was director of investor relations at Platinum Equity.

BKM was founded just last year as the real estate arm of The Niru Group, which is the private investment management firm of video game entrepreneur Nima Taghavi. The firm was co-founded by Brian Malliet, who sold his previous real estate venture, **BKM** Development, to Voit Real Estate Services in 2009.

Cale Street Partners

Headquarters: London

Founded: 2014

Founded by: Edward Siskind

Strategy: Senior and mezzanine debt, as well as equity capital, in Europe

For a while, it seemed like Edward Siskind, the former global head of Goldman Sachs' Real Estate Principal Investment Area (REPIA), was out of the game altogether. Sure, he had been serving on the advisory board of Bridges Ventures, the London-based fund manager that specializes in sustainable and impact investing, and as a member of the steering committee of the international advisory board for the academic real estate initiative at Harvard University. Still, those felt like fringe roles.

Now, however, Siskind is back with a firm of his own and has seeded the new platform with some \$1.5 billion of capital from the Kuwait Investment Authority. Called Cale Street Partners, the firm also has made a splash with a couple of big hires – including as **Dean Hodcroft**, head of real estate, hospitality and construction for the EMEA region at accountancy EY – and has been tipped as the primary bidder for a €1 billion portfolio of European offices being sold SEB Asset Management.

Sources have been suggesting for at least a year that Siskind was looking to step back in. He was spotted in the US courting various sources of capital for his new venture, which was established as a Europe-focused real estate finance firm providing senior and mezzanine debt as well as equity capital in partnership with 'best-in-class' developers, operators and institutions. If fresh commitments do materialize, his firm will be even more seriously regarded.

Siskind began his career at Goldman in 1988 and was one of the founding members of REPIA in 1992. He relocated from New York to London in 1999, becoming one of the most influential professionals in European private equity real estate. He became REPIA's global head in 2009 amid a string of departures in the wake of the global financial crisis. Now, with a fresh venture and capital in hand, he is one to watch again.

Cardinal Capital Group

Headquarters: Dublin

Founded: 2002

Founded by: Nick Corcoran and Nigel McDermott

Strategy: Mezzanine debt backed by commercial property in Ireland

Cardinal Capital Group is not exactly new, having been established in 2002 as a proprietary investment boutique and asset manager. However, the Dublin-based firm is one of those entrepreneurial outfits that has levered existing relationships – in this case, with Wilbur Ross of WL Ross & Co – to launch a closed-ended real estate fund for the first time.

WLR Cardinal Mezzanine Finance is a joint partnership between Cardinal and Wilbur Ross that has not received much publicity of late, but PERE understands that the fund has held a first close on around €270 million from a small group of top-tier limited partners and is on its way to raising €350 million. Those in Dublin say it is the first fund of its type, specifically a mezzanine debt fund focused on commercial real estate in Ireland.

In addition, it is understood that a key man on the fund is Brendan O'Regan, who left Ireland's National Treasury Management Agency (NTMA) as head of origination in October to take up a role at Cardinal. O'Regan's role had evolved at the NTMA, where he formerly managed investments in unlisted global private equity real estate funds on behalf of the National Pension Reserve Fund.

Cardinal did not return calls about its mezzanine real estate fund. However, according to its website, the main objective of the fund is to "bridge the gap between senior debt and equity. The fund provides mezzanine financing for property development and investments, including single assets and portfolio acquisitions, as well as restructuring existing loans and real estate investments."

Cardinal is run by Nick Corcoran and Nigel McDermott. Before setting up the firm, Corcoran was a founder of hedge fund manager Zurich Capital Markets while McDermott was a director of international investment and underwriting at NCB.

Century Bridge Capital

Headquarters: Beijing and Dallas

Founded: 2008

Co-founders: Tom Delatour and Keith Tucker

Strategy: Residential development in China

You would be hard pressed to find a comparable story to that of Century Bridge Capital, the China-focused, Texas-run real estate firm. In fact, co-founder Tom Delatour had not even visited the country until 2006, making the firm's rise from an unknown entity to an established part of China's private real estate investment landscape all the more remarkable.

Beyond the challenge of cultural assimilation, Century Bridge hit the fundraising trail for its first fund, Century Bridge China Real Estate Fund, with the capital markets still reeling from the global financial crisis. Generally speaking, institutional investors had fallen out of love with blind-pool, commingled funds after widespread poor performance from the prior vintage, and that was reflected in the final closing of Century Bridge's maiden fund.

At \$170 million, Century Bridge raised less than half of the \$400 million it originally targeted. However, at a time when only the best performing established managers were raising anything (bigger rival Gaw Capital Partners managed less than half its original \$900 million target), the firm's modest equity haul was widely regarded as a success.

With its maiden fund now largely deployed, Century Bridge is aiming to tap its 10-strong investor pool, as well as other investors, to back a second fund. With the Chinese real estate market widely considered to be capital-constrained, a successful fundraise should see the firm decently equipped to take advantage.

This time around, investors undertaking due diligence on Century Bridge will have visibility on what the firm can do. Indeed, it has sizeable exposure to developments in cities such as Hangzhou, Wuhan, Wuxi and Zhongshan to add to completed projects in Xian and Chongqing. Not a bad start for a bunch of Texans in mainland China.

Jaguar Growth Partners

Headquarters: New York

Founded: 2013

Co-founders: **Gary Garrabrant** and **Thomas McDonald**

Strategy: Private equity-style real estate in growth markets globally

While it has yet to raise its first fund, Jaguar Growth Partners was one of the most high-profile new real estate managers of 2014, with a busy first full year to prove it. In July, PERE reported that the New York-based investment management and advisory firm was readying its debut property fund, which will focus on growth markets in Latin America and Asia. A first closing for the fund, which is expected to have a likely target of approximately \$750 million, is anticipated during the first quarter of 2015.

Then, in October, Jaguar announced the new vehicle had received its first major endorsement with the backing of New York Life Insurance, which is expected to commit up to \$100 million to the fund. The commitment is part of a larger strategic investment by the insurance company, which acquired an interest in the firm and will join its advisory board.

Jaguar co-founders **Gary Garrabrant** and Thomas McDonald, who spent more than a decade as executives at Equity International, are pursuing a strategy similar to that of their former employer, focusing on investments in real estate-related operating platforms and companies in growth markets globally. Jaguar already has identified a pipeline of more than \$2 billion of investment opportunities to date and concurrently has expanded its staff from nine to 20 since July. New recruits include a principal of investor relations, Quyen Tran, formerly a marketing director at Perella Weinberg Partners.

In addition to its fundraising and investment activities, Jaguar also served as an advisor to Ivanhoé Cambridge, the real estate arm of Caisse de dépôt et placement du Québec, in its first direct investment in Mexico. Under the transaction, which was announced in October, Ivanhoé intends to invest up to \$500 million through MIRA Companies, a Mexico-focused real estate investment and development platform owned by Black Creek Group.

Mercer Real Estate

Headquarters: London

Founded: 2011

Founded by: Michael Kovacs

Strategy: Value-added and opportunistic real estate in the UK and Europe

Mercer Real Estate is a new firm said to be raising its first dedicated real estate fund focused on the UK and Europe. The London-based firm is led by Michael Kovacs, a former vice president in the London office of Westbrook Partners who left in 2010 after a four-year stint to found his own shop. Since establishing Mercer, he has made a number of hires and has been busy partnering with various firms on a deal-by-deal basis.

More recently, Mercer decided to hit the road with its first commingled fund. According to rumors in London, the firm was contemplating alternatives to the traditional fundraising route but nevertheless has ended up appointing Atlantic-Pacific Capital as its placement agent. Alex Hurst, a vice president in the London office of Atlantic-Pacific who recently joined from Partners Group, is said to be working on the fundraise.

Mercer tends to strike small to mid-sized deals, targeting the office, residential, retail, industrial and hospitality sectors in the UK and Europe. Examples of recent deals include the October 2013 purchase of Mitre House on Aldersgate Street in London for £64 million (€80 million; \$100 million). Law firm CMS Cameron McKenna is the only tenant in the building, and its lease ends within a year. The asset was considered distressed as it was part of the Eagle Office loan portfolio and its previous owners were reported to be Brookdale, the Irish property company, and Delek Real Estate, which owned the property through Supreme Property Limited.

In an earlier deal, Mercer sold 80 Hammersmith Road to Cording Real Estate Group for £20.5 million. Thanks to a major refurbishment, the firm was able to lease the 40,775-square-foot office to five tenants at a combined annual rent of £1.285 million.

Pennybacker Capital

Headquarters: Austin, Texas

Founded: 2006

Founder: Timothy Berry

Strategy: Value-added investments in multifamily, retail, office and industrial properties in Texas

Although Pennybacker Capital solidly fits PERE's criteria for emerging managers, some might dispute that designation for the Austin-based private equity real estate firm. Earlier this year, Bob Sessa, director of real estate at the Employees Retirement System (ERS) of Texas, committed \$15 million to Pennybacker's third fund, Pennybacker III. While the pension previously invested in Pennybacker II through its emerging manager program, ERS invested directly in Pennybacker III because it considered the firm to have "graduated" from the program.

Indeed, Pennybacker is taking a significant leap forward with its third offering, which is targeting \$250 million in commitments – more than double the size of its \$105 million predecessor fund. Pennybacker III, which launched last December, collected \$102 million during its first close and is said to have raised \$165 million as of press time. Among the fund's other investors is the Teacher Retirement System of Texas, which committed \$35 million. A final close is expected by the end of the year.

Pennybacker was established in 2006 after founder and managing partner Timothy Berry divested his interests in his former real estate firm, N3 Development. The company, then known as N3 Capital Partners, was rebranded two years later as Pennybacker in honor of Austin's landmark bridge.

Pennybacker invests in and operates multifamily, retail, office and industrial properties, primarily in the four major Texas markets of Dallas-Fort Worth, Austin, Houston and San Antonio. As a value-added and deep-discount buyer of real estate assets, the firm typically "targets mismanaged, miscapitalized or other situationally distressed properties and debt instruments that are complex, off-market or undervalued," according to its website.

Propertylink

Headquarters: Sydney

Founded: 2011

Led by: Stephen Day

Strategy: Logistics and infrastructure assets across Australia

Propertylink only may have been launched in 2011, but the Sydney-based investment manager has built an enviable track record in a short time span. Its success is particularly remarkable given such formidable competitors as Singapore-based Global Logistic Properties and Australia's Goodman Group.

Led by managing director Stephen Day, Propertylink has been on a steady acquisitions spree, partnering with global investors and diversifying its portfolio across Australia. The start of the year was marked by the launch of the Propertylink Australian Industrial Partnership (PAIP), with Goldman Sachs and Grosvenor Group as the core investors. PAIP, which started with A\$100 million worth of industrial assets in March, has expanded to around A\$435 million (\$375.53 million; €299.27 million) over the course of the year, according to a recent statement.

In one of the more notable deals this year, Propertylink teamed up with London-based investment manager M&G Real Estate to acquire Valad Property Group's industrial portfolio of six assets spread across Australia. At a combined value of A\$138 million, the deal laid to rest mounting speculation around the bidders for the prized properties. Meanwhile, in what the firm claims to be the largest single investment it has made to date, Propertylink bought warehousing at the new Melbourne Markets for A\$77.4 million in August.

A review of other deals executed this year shows how Propertylink has spread its investments across Sydney, Melbourne, Brisbane and other Australian markets. The strategy behind this diversification, as Day said in a statement, is to "take advantage of the mispricing of traditional shorter-lease industrial assets and multi-let properties, blending them with better quality core assets in good locations."

Revetas Capital Advisors

Headquarters: London

Founded: 2009

Founded by: Eric Assimakopoulos

Strategy: Distressed real estate assets in Central Europe

There have not been many folk exploring distressed real estate assets in Central Europe and fewer still that have managed to raise dedicated capital for the purpose. Revetas Capital Advisors, however, is an exception. Founded in 2009 by Eric Assimakopoulos, the London-based firm has successfully closed its first fund, Revetas Capital Recovery Fund I, which now is close to being fully invested, and there is a rumor of a second fund coming out to further source and manage overleveraged and underperforming commercial real estate opportunities.

Revetas currently focuses exclusively on Central European economies. Although Central European assets are not distressed per se, Assimakopoulos believes that some of them are on the brink of becoming so because of a lack of capital, skill and motivation.

The back story of Assimakopoulos is as interesting as his strategy. He has 22 years of experience in real estate, beginning when he founded and built the Gnome Group from a small design business into one of the most advanced data center developers across the US and Europe during the mid-1990s. In 1999, he partnered with Morgan Stanley Real Estate Investing to create Metronexus, a technology-driven real estate firm for which he was chairman and chief executive officer, leading the acquisition and development of more than €1.5 billion of real estate across the US and Europe.

Assimakopoulos' new venture is backed by a former Lehman Brothers chief, Jeremy Isaacs, who is credited with building up the investment bank's international operations. At Lehman, Isaacs was appointed chief executive for Europe and the Middle East in 1999 and additionally was named chief executive of the Asia-Pacific region in 2000. He left the bank days before it crashed, moving on to found JRJ Group, a private firm that focuses on investments in financial services companies.

Swift Real Estate Partners

Headquarters: San Francisco

Founded: 2010

Founder: Christopher Peatross

Strategy: Office and industrial assets in select West Coast markets in the US

For any emerging real estate manager, it can't hurt to have The Blackstone Group on the resume of the firm's founder. Before forming Swift Real Estate Partners in 2010, Christopher Peatross served as president and chief executive of the firm's Equity Office Properties (EOP) platform, managing all aspects of its massive 55 million-square-foot office portfolio. Prior to joining EOP, he was managing director for Northern California at Carr America Realty, whose assets became part of EOP following Blackstone's privatization of the company in 2006.

In addition to Peatross, who now serves as president and chief executive of Swift, the firm also counts Douglass Abbey among its leadership team. Abbey was co-founder of both AMB Property, which merged with ProLogis in 2011, and IHP Capital Partners. He now chairs Swift's investment committee and is responsible for its portfolio management activities.

This pedigree has helped to attract a significant amount of interest in Swift's first real estate fund from both domestic and international investors, including foundations, endowments, public and private pension plans, high-net-worth individuals and family offices. The Teacher Retirement System of Texas, for example, committed \$15 million to the fund in January through its emerging manager program. The fund held a first close of approximately \$75 million in August 2013 and ultimately collected a total of \$325 million by its final close in April, exceeding its original \$250 million target.

Fund I will acquire and reposition office and industrial properties in select West Coast markets, particularly in the San Francisco Bay area. Fund investments so far have included the June acquisitions of the Arques Business Center, an 81,520-square-foot industrial property in Sunnyvale, California, from DivcoWest for \$25.7 million and Walsh at Bowers, a 251,060-square-foot industrial property in Santa Clara, California, also from DivcoWest for \$57.4 million.