



Alternative
Insight

PERE

VOL 8 | ISSUE 10 | DEC 2012/JAN 2013 | perenews.com

FOR THE WORLD'S PRIVATE REAL ESTATE MARKETS



SEIZE THE MOMENT

We identify ten emerging managers to watch

DON'T BLINK

The challenge of persuading LPs to invest in Asia

BEING KEITH

The founder of Europe's Patron Capital opens up about life in the fast lane

VIVA ESPAÑA

Funds circle over Spain's €90bn bad bank

GO CANADA

CPPIB's head of Americas investing gives his first interview



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

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. □

ICG-Longbow Real Estate Capital

Headquarters: London

Founded: 2006

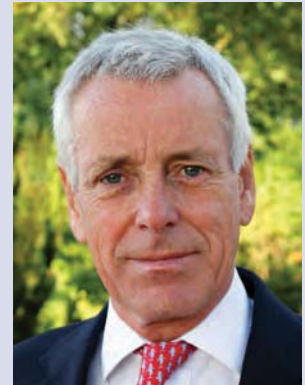
Managing partners: Kevin Cooper and Martin Wheeler

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 became majority owned by Intermediate Capital Group, the London-listed credit company.



Hunter: taking advantage of Europe's funding gap

Kayne Anderson Real Estate Advisors

Headquarters: Armonk, New York

Founded: 1984

Founders: Richard Kayne and John Anderson

Strategy: Value-added and opportunistic student housing properties

Under the leadership of Al Rabil, the real estate investment arm of Armonk, New York-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.



Rabil: leading the charge in US student housing

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.