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Investors Re-Open the Spigots to Private Equity Funds

New Money Flows Into Funds Targeting Debt, as well as Equity Ownership

After a very slow start to private equity fundraising in 2013, the funding spigots seemed to open up again last week. Ten sponsoring investment firms reported raising more than $3.5 billion to pump into the recovering commercial real estate markets. That amount is well more than half of what was reported raised in all of the first quarter.

Not surprisingly, Blackstone Group led the way - as the private equity giant has been doing for the past few years in fundraising. Other firms benefiting from the flow of funds included: Cabot Properties; Paulson & Co., Edge Principal Advisors; Invesco Real Estate; Noble Investment Group; Henderson Global Investors; Pembrook Capital Management; Velocis Fund; and Adler Kawa Real Estate Advisors.

Blackstone Group reported pulling in $2 billion for its Blackstone Real Estate Debt Strategies II.

Launched last summer and currently one of the largest debt funds in market, the fund has a $3 billion target and will focus primarily on high yield lending on commercial real estate in North America and Europe.

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Speaking at the firm's first quarter earnings call to analysts, Steve Schwarzman, chairman, CEO and co-founder at Blackstone said: “In April we had a first closing on our new debt strategies drawdown fund of $2 billion and are targeting a final close of $3 billion, which is way below the demand for this product.

“We capped the fund at this amount in order to match its size with the current market opportunity," he added. "Including the April close, our real estate debt strategies platform is now $9 billion in total, up from $0 in 2008, and as I mentioned, we could have made it significantly larger.”

The fund will focus primarily on high yield lending on commercial real estate through new loan originations and purchases of legacy loans and securities, but Blackstone said the fund could also be used to pursue a broad range of real estate related debt and non-controlling equity investments, primarily by purchasing and/or originating performing loans, not from control or direct ownership of real estate assets.

The fund’s broad investment mandate, which includes junior mortgage debt (e.g., B-Notes), mezzanine debt, whole loans, participations, commercial mortgage backed securities (“CMBS”) and preferred equity, should enable it to take advantage of volatility in both the public and private markets, according to Courtland Partners Ltd., which evaluated the fund for the Pennsylvania Public School Employees Retirement System (PSERS). In addition, Courtland believes Blackstone’s breadth and depth of resources and capital enable it to invest in large and complicated transactions where there often is limited competition. PSERS has committed up to $100 million to the fund.

At the end of March, Blackstone’s first debt strategies fund had $2.83 billion of capital committed, $690.94 million of available capital and a total net internal rate of return (IRR) of 13% on an annualized basis since inception on total invested capital basis after management fees, expenses and carried interest.

Through capital recycling, Blackstone is still deploying from the 2008 fund which was expected to cease once the first closing of the successor fund completes.

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Blackstone's debt strategies drawdown fund appreciated 2.7% for the quarter and 10.8% over the last 12 months to the end of March.

Cabot Properties in Boston is seeking to raise $650 million for its latest fund Cabot Industrial Value Fund IV LP also has lined up $75 million commitment from the PSERS.

Cabot Industrial Value Fund IV is a value-add fund that intends to invest in industrial properties, primarily in the United States. Up to 20% may be invested outside of North American markets, including major markets in the United Kingdom, and the Netherlands. Since 1998, Cabot has invested $4.6 billion in 923 industrial properties, and sold 551 properties.

PSERS relationship with Cabot began in 1998, when directly held industrial properties were traded for 5.5 million shares of the public Cabot company. In 2008, PSERS committed $100 million to Cabot Industrial Value Fund III.

Paulson & Co., headed by noted New York hedge fund manager, John Paulson, also launched a new private equity vehicle in the past two weeks. Paulson Real Estate Fund II LP has reportedly raised $330 million. In addition to its hedge funds, Paulson & Co. manages real estate private equity funds which focus on various types of distressed real estate recovery opportunities.

Paulson's second fund has already purchased 12 million common shares of homebuilder William Lyon Homes. Paulson has invested a total of $30 million in the firm.

In its previous real estate fund, Paulson & Co. raised approximately $300 million.

Edge Principal Advisors, a New York-based real estate investment management company, announced the final closing of its second discretionary fund. Total equity commitments for Edge Principal Investments II LP were $300 million raised from a diverse range of investors including institutions, family offices and foundations.

Edge invests in all property types and, with leverage, has more than $1 billion of buying power.

Edge's first fund, deployed during 2010 and 2011, invested in apartments, retail centers, office buildings, hotels, ground-up developments and distressed debt. These investments were made both directly and through strategic joint venture relationships.

Evan Mallah, a principal at Edge, noted "our business was founded to take advantage of compelling risk-adjusted opportunities across a diverse range of geographies and asset types."

Fund II has been actively deployed since March 2012 and is approximately 30% committed today.

Invesco Real Estate was selected by the California Public Employees' Retirement System as a new manager for its multifamily real estate program, which CalPERS will seed with $250 million.

The Institutional Core Multifamily Investors partnership will seek to build a stable income-oriented portfolio of institutional-quality core apartment assets focusing on select target markets in the West and Midwest U.S.

"We believe adding a measured allocation to high-quality apartment assets will enhance the overall risk and return profile for CalPERS investment portfolio," said Ted Eliopoulos, senior investment officer for CalPERS real estate program.

CalPERS currently holds approximately $2 billion in assets in its multifamily program, with a total of $24.5 billion in the Real Assets portfolio.

Noble Investment Group, an Atlanta-based lodging and hospitality real estate investment firm, closed its

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most recent dedicated hospitality investment fund. Noble Hospitality Fund II was significantly oversubscribed and exceeded its cap with $220 million of equity commitments from prominent state and corporate pension plans, leading university endowments and foundations, fund of funds and the principals of Noble.

Approximately 75% of the capital for Noble Hospitality Fund II was committed by repeat investors and those with a long-term relationship with the firm. Noble Hospitality Fund II has a two-year commitment period.

After making no new investments from May of 2008 through April of 2010, Noble has strategically increased its investment activity. In 2012, Noble fully invested its most recent hospitality real estate fund which had a three-year commitment period and $310 million in equity commitments. During the past 12 months, Noble has acquired or opened ten hotels representing approximately $300 million in investments.

"We have been actively investing our new fund since the third quarter of last year and we will continue to utilize our exceptionally strong relationships throughout the lodging industry to source opportunities as well as our internal core competencies to execute our investment strategy," said Rodney Williams, Noble's chief investment officer and managing principal.

London-based Henderson Global Investors is currently pursuing capital raising for a new $200 million institutional investment opportunity targeting the U.S. student housing market niche. The Henderson Student Housing Fund will invest in high quality by-the-bed student housing properties across target markets and the investment management firm said it has a current active pipeline of attractive investments.

"Henderson believes the student housing sector possesses strong near-term demand/supply characteristics and is attractively priced relative to other sectors," said AJ Richard, director of portfolio management for Henderson North America.

Pembrook Capital Management in New York held its final closing of PCI Investors Fund II LLC with $154 million in capital commitments. Limited partners in PCI Investors Fund II include public pension funds and national, regional and community banks.

Pembrook is a commercial real estate investment manager that provides balance sheet financing for transitional properties throughout the capital structure including first mortgages, mezzanine (construction and acquisition/ recapitalization), bridge loans, note financings, and preferred equity for most property types, as well as tax-exempt bond financing for the acquisition, construction and rehabilitation of multifamily housing.

Over the last three years, Pembrook has invested more than $400 million in 36 financing transactions in markets throughout the United States, primarily in middle market transactions with total capitalization in the $10 million to $50 million range.

Investments have focused on financing for multifamily development and renovation projects as well as transitional retail, office, and industrial properties. Pembrook prefers U.S. markets with high barriers to entry, strong demand and limited new development.

Velocis Fund, a Dallas-based real estate investment fund, closed its Fund I. Equity commitments exceeded $135 million, bringing the total assets under management to more than $222 million. The firm successfully exceeded initial goals with its final closing.

Current equity commitments provide the fund with more than $330 million of purchasing power, incorporating moderate leverage. In light of current assets' performance, management expects to raise another $30 million dollars of co-investment equity from investors, giving the fund approximately $425 million in purchasing power. The fund is currently 40% invested and is sourcing new assets for purchase.

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The fund targets U.S. real estate assets in demand driven/supply constrained markets in the $10 million to $50 million range, focusing on core-plus office, medical office and retail properties.

Management said the fund is specifically sized to acquire a diversified portfolio of assets that may be too large for individual investors, but too small for many large institutional investors. Velocis investors include high-net worth individuals and large family offices in the United States, Mexico and Europe.

Velocis owns seven assets in Texas and one in Colorado. The portfolio includes two office buildings in Houston; a medical office building in Austin; two shopping centers in Austin; a medical office building in Fort Worth; a shopping center in Fort Worth; and an office building in Denver.

The fund's most recent acquisitions were two shopping centers in Austin: West Woods Shopping Center and Springdale Shopping Center. Together the centers have more than 350,000 square feet of retail space.

Launched in 2010, Velocis is led by co-founders and principals Fred Hamm, Mike Lewis, Steve Lipscomb and Jim Yoder.

Adler Kawa Real Estate Advisors, a Miami Beach-based real estate investment firm, has raised $41.05 million of a target of $100 million for its new Adler Kawa Real Estate Fund II

Adler Group and Kawa Capital Management teamed up earlier this year to launch the firm focus on acquiring income-generating assets in the Southern and Eastern U.S.

"Our investment philosophy to date - namely our focus on multi-tenant properties in U.S. markets experiencing economic growth and favorable demographic trends - will continue to guide our strategy," said Matthew L. Adler, president and CEO of the firm. "Additionally, the professionals responsible for acquisitions and asset management of Adler Group's existing commercial portfolio will maintain a day-to-day role in Adler Kawa's investment decisions and operations," said Mr. Adler.

Prior to launching Adler Kawa, Adler Group and Kawa Capital Management recently teamed up to acquire a portfolio of flex properties in Houston and the Greenbriar Business Park in Nashville, TN.

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