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Related closes distressed asset fund

By Anjli Raval in New York

Related Companies, the US property developer and manager that recently entered the fund management business, will announce the closure of its first distressed asset fund with equity commitments of $825m.

The Related Real Estate Recovery Fund, which exceeded its target of $750m, is among the biggest US commercial real estate vehicles raised in 2011 and the largest investment fund run by a property developer, according to Preqin, the alternative investment research group.

Investors have been circling the US commercial property market as banks and other institutions have been forced to sell off swaths of property assets since the financial downturn.

Jeff Blau, president of Related, said the fund, which has attracted investment from sovereign wealth funds, public pension plans, endowments and family offices, provided a one-stop shop for investors, highlighting the company's services from providing sourcing, due diligence and financing to construction, design, leasing and sales.

"When we entered into the downturn, development slowed down and a lot of opportunities presented themselves to buy distressed assets from banks and other institutions that we had a longstanding relationship with. We wanted to put together a vehicle to use the resources we have as an operator and create value in execution" Mr Blau said.

Related's primary investments have been the acquisition of distressed construction loans that were originated for new development, property conversion and renovation.

Ben Carlos Thypin, director of market analysis at Real Capital Analytics, said there was $178bn in distressed commercial property in the US. "That pile of existing trouble, combined with all of the properties that are worth less than the amount owed on loans they have coming due in the next few years should provide ample investment opportunities for distressed property funds," he said.

Last year saw $30.7bn in sales of distressed property in the US, up more than 23 per cent from 2010.

James Corl, managing director at Siguler Guff, a New York-based private equity firm which invested over $100m in the Related Real Estate Recovery Fund said: "We are looking for quality assets that others think are risky, but that we or the developer has a unique capability to resolve. These are deep distressed assets whose value has been obscured by something that most investors see as a problem, such as properties that are complicated to deal with from a physical as well as legal standpoint."

He added that the business model for commercial real estate investment is changing. "Instead of a generalist Wall Street-sponsored model, owner-operator specialist models are emerging as ones that investors are embracing. A two-level pay structure [in which an investor has to pay fees to both the fund manager and the operator] is too much in the current economic climate," he added.

Among US distressed asset funds over the past 12 months, Lone Star Funds raised the largest amount, attracting $5.5bn. Among operator-led funds,Vornado Realty Trust drew in $800m, JBG added $752m and Rialto Capital Management raised $700m, according to Preqin.

Related’s fund management platform was established in 2009 when it hired Justin Metz, formerly of Goldman Sachs, to build a team. Since then, the company has initiated a smaller multi-family property fund and construction loan fund. Together with the new distressed asset vehicle, Related manages approximately $1.5bn.

Mr Metz said uncertainty in global markets could hold the company in good stead. “Ongoing turmoil in the eurozone will also provide further buying opportunities. European banks have been quick to sell US assets as they look to liquidate portfolios and raise capital,” he said.