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Related, Highbridge launch $800m debt joint venture

The fund management arm of the New York-based developer has teamed with the JP Morgan Asset Management subsidiary to originate high-leverage debt for US real estate projects.

Evelyn Lee

Related Companies and Highbridge Principal Strategies (HPS), a credit investment firm, have formed a joint venture to manage a new real estate debt platform. Related and Highbridge will invest $800 million in equity in real estate debt, particularly gap financing for real estate projects in the US.

“We actually have very complementary skill sets on the debt side,” said Justin Metz, managing principal of Related Fund Management, in an interview with *PERE*. Despite having a very large credit platform, Highbridge lacked a presence in real estate and saw the joint venture as a way to expand into real estate lending, he explained. “We decided that our expertise in real estate, combined with their expertise on the credit side, would make for a good joint venture partnership.”

In a statement, Alex Popov, managing director at HPS, said: “This joint venture will combine our due diligence and established credit structuring capabilities with Related’s 40-year track record in sourcing, developing and managing real estate assets to take advantage of attractive investment opportunities created by significant financing gaps in the residential and commercial real estate market.”

HPS is the principal investment business of Highbridge Capital Management, a subsidiary of JP Morgan Asset Management, and invests in both the public and private capital markets, including mezzanine debt, specialty direct lending, public credit securities, growth equity and leveraged loans. It manages approximately $16 billion in assets.

Earlier this year, *PERE* reported that Related was preparing to launch a new real estate debt platform, focusing on high-yield investments. The firm officially began raising capital for the new strategy in March, subsequently forming a joint venture with HPS and attracting additional funds from public pension and Taft-Hartley plans.

"We were looking for an amount of capital that we could deploy over an 18- to-24-month period," Metz said. "Generally, when we see good opportunities in the marketplace, they don't last forever. If you're making attractive returns, other groups will come into the space and returns will go down over time."

The joint venture already has made its first loan and expects to close on another loan in the next three weeks. The new platform generally will originate debt with a loan-to-value ratio of at least 80 percent – higher than the 65 percent LTV profile that characterized Related's previous debt venture, a $250 million construction loan fund with the United Brotherhood of Carpenters in 2010.

Next month, Brian Sedrish will join Related to oversee the new debt business, which will target investment opportunities in first lien mortgages, mezzanine loans and preferred equity positions in both land deals and non-stabilized assets, particularly 'transitional' projects such as redevelopment, conversions and new construction. The platform will focus on investment opportunities in US gateway cities, including New York, Boston, Chicago, Washington DC, Los Angeles, San Francisco and Miami, as well as certain secondary markets.

"We're looking at gateway cities because there tends to be a lot of opportunities in those cities, just from the sheer size of those markets," said Sedrish. "On the secondary side, we're looking at where there are attractive supply-demand issues." Given the opportunities currently in the market, he anticipates that the joint venture primarily will originate loans between $50 million and $100 million per transaction.

Prior to joining Related, Sedrish was the head of acquisitions for commercial real estate at Deutsche Bank, where he was responsible for purchases of distressed debt, acquisitions of nonperforming and sub-performing mortgage pools and origination of high-yield loans in the US. Prior to Deutsche Bank, he worked at Fortress Investment Group, where he originated and purchased high-yield real estate loans as well as opportunistic real estate-related assets on behalf of the private equity firm's Drawbridge Special Opportunities Fund.

Related intends to continue to build the real estate debt team further, with plans for four to five additional hires over the next six months. The new staff will be a mix of both mid-level and senior professionals.