

INVESTMENT VEHICLES

Partnership Raising 2nd Industrial Fund

A partnership between **USAA Real Estate** and long-time industrial player **Lewis Friedland's Cobalt Capital Partners** is raising more than \$300 million for Cobalt Industrial REIT 2, a value-added vehicle. The fund targets about a 15% return by investing in multi-tenant distribution buildings of up to 250,000 square feet in markets nationwide. With leverage, the new vehicle will have roughly \$1 billion of buying power. The predecessor fund raised \$227 million of equity last year, including \$50 million from USAA. Friedland, who is Cobalt's managing partner, oversees fund operations.

Niche Fund Closes

Harrison Street Real Estate Capital has closed its debut fund with \$208.5 million of equity, above the original goal of \$150 million. The Chicago company kicked in \$22 million of the fund's equity. The fund, Harrison Street Real Estate Partners 1, will have more than \$800 million of buying power, with leverage. Harrison Street was formed in 2005 by three executives: former **Heitman** managing director **Christopher Merrill**; former **Motorola** chief executive **Chris Galvin**; and his brother, **Michael Galvin**, who heads **Galvin Enterprises**, a venture capital firm. The vehicle is targeting an 18-20% return through acquisitions or developments in niche sectors, such as medical-office buildings, garages, self-storage facilities and senior and student housing. The fund charges a 2% annual management fee. It has set a 9% preferred return for limited partners, after which the fund operator receives 20% of profits. Harrison Street didn't use a placement agent.

India Fund Eyes First Closing

Kotak Mahindra Investment's second opportunity fund is expected to have a first closing next month. Market players say the vehicle, Kotak India Real Estate Fund 2, will likely have \$150 million when it reaches that milestone. Overall, the fund should exceed \$400 million — above the original equity goal of \$350 million — and will have more than \$1.2 billion of buying power with leverage. About \$250 million of the fund's equity is expected to come from U.S. players, with the remainder from European, Asian and Australian institutions. **Deutsche Bank** is the placement agent. Kotak itself is expected to kick in 5% of the total. The fund seeks a 20% return by investing in Indian properties, including residential development and infrastructure projects. It will invest with local operating partners on a variety of projects, primarily in second-tier cities. The fund

series is headed by chief investment officer **Hari Krishna** and chief executive **S. Srinivasan**. The new vehicle is the successor to a \$105 million fund raised in 2005, solely from Indian investors.

Endowment Backs European Fund

University of Michigan has committed \$20 million to Redwood Grove International, a planned \$2 billion real estate private equity fund from London-based **Grove International Partners**. The fund seeks a 20%-plus return by forming or investing in companies that buy underperforming or distressed properties, and distressed debt opportunities, primarily in Japan and Germany, but also elsewhere in Europe. **Renaud Haberkorn**, a Grove International partner based in London, oversees European investments with the help of partner **Markus Hens**, who handles German investments. Singapore-based partner **Michael Kandarakis** oversees Asian investments. Redwood Grove is soliciting equity from a mix of U.S. and foreign institutional players. Grove International is contributing \$25 million to the vehicle. The fund charges a 1.5% annual management fee and no acquisition fee. After limited partners receive a 9% return, Grove is entitled to 40% of the profits. When the investors' return reaches 20%, Grove's slice of the profits drops to 20%.

LACERS Looks to Value-Added Fund

Los Angeles City Employees' investment committee has recommended a \$10 million commitment to Next Block Medical Fund 1, a planned \$250 million value-added fund being raised by Dallas-based **Valencia Capital Management**. The commitment is expected to be approved by LACERS' full board next month. The fund seeks a 17% return by investing in office, retail, residential, and mixed-use properties located near medical centers in major U.S. markets. **Courtland Partners** is the real estate consultant to the \$10.5 billion-asset Los Angeles pension system.

Illinois Teachers Commits to Two Funds

Illinois Teachers has made new commitments to two funds, totaling \$250 million of equity. The \$39.1 billion-asset system committed \$100 million to **Beacon Capital Partners'** value-added Strategic Partners 5 fund, which is expected to close this spring with more than \$3 billion of equity. It also committed \$50 million to Blackstone Real Estate Partners 6, a planned \$10 billion opportunity fund from **Blackstone Group**. Separately, Illinois committed an additional \$100 million to Lion Industrial Trust, a core open-end fund operated by **ING Clarion Partners**. The new commitment doubles Illinois' equity in the fund, which has more than \$3 billion of equity overall. **Callan Associates** is Illinois' consultant. ❖

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