

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 BELT 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 Calvin, who heads Calvin 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

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series is headed by chief investment officer Han 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 INC 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. 4*