# AEW Europe

*Recently, **Sheila Hopkins,** senior editor and managing director – Europe with Institutional Real Estate, Inc, spoke with **Russell Jewell** of AEW Europe. The following is an excerpt of their conversation.*

**Russell Jewell** is the Head of Private Equity Funds at AEW Europe and a member of the firm's Executive Committee. He has been active in the European real estate markets for over 25 years. Jewell trained as a Chartered Surveyor in London before moving to Spain in 1988, where he was a Partner at Jones Lang Wooton in Madrid and subsequently at Healey&Baker in Barcelona. Returning to the UK in 1994, he was a Fund manager at Pacific Investments and then moved to Merrill Lynch in 1998, where he was Head of Global Principal investments (GPI) for Europe for eight years. GPI invested the firm's capital in a variety of opportunistic real estate equity and mezzanine positions across Europe and included financing the acquisition of two major European public property companies, Haslemere Estates and Green Properties. In 2006 Jewell joined Strategic Value Partners, a hedge fund focusing on building a substantial German real estate portfolio and on the acquisition of European real estate debt and CMBS.

*It's been awhile since we've talked. Can you fill us in on what AEW Europe is doing these days?*

We have a number of exciting new initiatives that we have been working on in 2012 that represent several new directions for the firm. Since we last spoke, AEW reached €18.5 billion in assets under management in Europe and €36 billion globally. We issued our first real estate debt fund this year with its first close in June. We also have established a new UK real estate fund platform through AEW UK, which had a first close on their new UK Core Fund in December 2011. The firm has raised over €1 billion of new capital over the past 12 months and aims to have first closes on several further new initiatives by Q1 2013.

*How are you investing all of that new capital?*

We use a variety of structures, including separate accounts, club deals, joint ventures and commingled funds to access the markets. Our strategies run from core to opportunistic. In Europe, we are a particularly large investor and manager of logistics. We also do a lot in the retail and office spaces throughout Europe, as well as in the residential space in France and Germany. So we are as diversified and broad as you can get. Our investor base is also diversified, with a large percentage being very large institutions from outside of Europe.

*What sorts of returns are those investors looking for?*

We are seeing an increasing number of large investors both inside and outside Europe looking to generate 8 to 9 percent returns without taking on undue risk. Institutions are looking for returns that are realistically underwritten and managers who have the track record to achieve them. These investors have a distinct advantage in that they do not require financing and can therefore complete deals that would normally only be doable with substantial amounts of debt, which in this environment is no longer available.

*Does having a large parent company help attract these investors?*

AEW is one of the few firms that has a genuinely broad infrastructure in terms of being able to originate and execute transactions in addition to fund management, operations and reporting. We have an extensive network of on-the-ground professionals as well as comprehensive head office resources, including full financing, legal, structuring and reporting teams. We do it all in-house, and that is a difficult platform for most firms to achieve. We also benefit from co-investment from our shareholders, which is attractive to investors who specifically look for the manager's alignment of interest. If you have an institutional shareholder base who are willing to re-up, it gives the market confidence and is thus easier to raise capital from new investors.

*Can a company as large as AEW move as quickly as this market requires?*

Absolutely. We are focused on leveraging our global and diversified platform, while still being proactive in the market and being as nimble as we can when it comes to sourcing interesting investments. We constantly look at new deals coming on to the market and are quite selective in the acquisitions we have executed, which totalled €1.9 billion in 2011. Considering that we review €1.5 billion of investment opportunities each week alone, we move quickly when the right opportunity presents itself.

*You mentioned that you do opportunistic investing. I'm not sure I knew that.*

We are quite a large and active opportunistic investor. Our funds currently have about €4 billion in gross asset value invested in Europe across various asset classes. In the US, we have had a successful real estate private equity platform since 1988 and our European strategy is very similar with the possible addition of commercial real estate–backed debt. Since we have a number of investment professionals who have specialized in European distressed real estate opportunities over the last two decades, including myself, we are aiming to put our expertise to use in extracting value from the unprecedented market conditions we are witnessing across European property markets today. We feel that the time is right to get involved in capital constrained opportunities such as restructuring situations, where we may have to acquire the underlying loans as opposed to the properties directly. The important distinction is that we will always be buying with a view to owning or controlling the property itself.

*Where is the interest coming from for this product?*

Right now, it is mainly coming from outside of Europe. A number of European investors got badly hurt in the past with higher-risk, overleveraged products, and they are wary about investing in a high-return strategy again. Asian investors, however, are looking at these well-established, old economies of Europe, and seeing an opportunity for potentially making some good opportunistic-type returns on distressed assets.

*Are American investors interested?*

They weren't necessarily two years ago – everyone was concerned about the euro and eurozone dissolution – but interest has picked up considerably since then. I think U.S. investors came to the conclusion that we've been fretting about the euro for five years now, and if it were going to fall apart, it would have done so already. Institutions across the U.S. have been circling Europe for distressed real estate for a while now as they seem to view it as a market opportunity and are looking for the right manager to execute this play, particularly given the situation with the European banks.

*How big is the opportunity?*

It is a time of unprecedented market dislocation in Europe, which is why we are in the market raising capital right now— the opportunity is great. We would rather raise a smaller amount of capital at first and, once we demonstrate that it can be properly invested, go back to investors for more. We anticipate that this fund will be followed by a second and third European opportunity fund to take advantage of distressed assets hitting the market. We are absolutely confident there will be attractive opportunities for us in line with our investment strategy and have already seen some interesting opportunities.

*What kinds of returns are realistic for opportunistic investors today?*

Opportunistic funds are a very broad church, and I don't think in the past that investors fully focused on the risks that were being taken in order to get the high returns they were seeking. AEW is very measured in its risk analysis and approach when underwriting investments and as a consequence, we have not lost our investors capital during the downturn. That is a very different risk profile than some of the more prominent funds that were levered up to 95 percent. Some of those funds did very well, but a number of investors lost all their equity. I think most opportunistic managers at the moment will tell you that the problem with trying to find over 20 percent returns without taking huge amounts of risk is that there is not a great deal of leverage available in the market, so returns must be driven by factors other than leverage. Returns must instead come from opportunities such as pricing dislocation and dysfunctional capital structures.

*So what are you telling investors?*

We are telling investors that we know that now is the time to raise money so that we are ready to go when opportunities arise. We see the euro zone situation getting slightly worse before it gets better and feel that now is the time to start using our network of over 270 real estate professionals in Europe to identify assets where forced deleveraging, broken capital structures, non-performing loans and distressed sellers present us with opportunities suiting our investment strategy.

*Do you ever use your own core funds as the exit strategy for your opportunity funds?*

No. There are just too many potential conflicts.

*At our recent TIREL-Europe Editorial Advisory Board meeting, there was a lot of talk about debt funds. Is AEW in that sector?*

AEW recently had a first closing on our first real estate debt fund, which has effectively established a new debt platform for the firm. The target is €500 million, and we have raised about half of that so far.

*Why did you decide to expand into the debt side?*

The largest push came from some of our large investors who want secure, regular returns. Debt is a pretty compelling story when you consider you can get roughly the same return as equity for significantly less risk.

*As equity investors, do you have the skills to do debt?*

We have an extensive debt platform in our organization, specialists who spend all their time on the other side of the fence borrowing money, negotiating debt facilities and restructuring debt. We can layer that expertise onto our real estate market knowledge and the result is the ability to get a complete picture of a deal from both the asset and debt sides. It's just one more example of how we are able to adjust to today's market environment and give our investors a way to access opportunities as they arise. ❖

**CORPORATE OVERVIEW**

**AEW Europe** is a leading European real estate investment manager with 9 offices throughout Europe. The group has over 270 employees who are responsible for over €18.5 billion of assets under management as at 31 March 2012. AEW Europe offers a wide spectrum of real estate investment strategies from core to opportunistic and manages a range of sector-specific funds, separate accounts and club deal strategies.

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