

# Amstar Advisers

Recently, **Geoffrey Dobrman**, publisher and editor-in-chief of The Institutional Real Estate Letter – North America, spoke with **Gabe Finke** and **Rob Toomey** of Amstar Advisers. The following is an excerpt of that conversation.

*Amstar is not very well known in the institutional investment community. Can you give us a CliffsNotes version of who and what you are?*

**Finke:** Amstar is not widely known in the U.S. institutional market primarily because we were founded in 1987 to manage the real estate allocation of a single European client, and as such, we have purposely kept a low profile. But having a low profile doesn't mean that we haven't been very active. Since inception, Amstar has invested more than \$3.5 billion across all product types, with an emphasis on office, multifamily, hotel and retail, primarily in U.S. markets but also in a few select international ones. We currently have \$1.5 billion in assets under management globally. In addition, we are a SEC-registered investment adviser, are GIPS compliant and are a data-contributing member of NCREIF/Townsend.

*How have you managed and executed your strategy?*

**Finke:** Amstar employs a cradle-to-grave investment management process, where the principal sourcing investments is also responsible for closing and executing the business plan all the way through disposition. These investments typically involve acquisitions and ground-up developments, where we can improve and stabilize property cash flows. Once we stabilize the property, we normally elect to exit the investment, subject to favorable capital markets that will result in strong returns for our clients. We then redeploy that capital back into underperforming assets and repeat the process. Over the years, our U.S. activity has outperformed the NCREIF property index, modified for leverage and strategy, and has provided our clients with very strong returns while utilizing moderate leverage.

*There are lots of investment management models. Why did you settle on the cradle-to-grave approach?*

**Finke:** We believe it is the best approach for our clients. Every investment we make goes through thorough due diligence and an investment committee vetting process. Because we are not organized functionally, we believe our approach assures complete accountability for every decision, aligns the interests of our employees with our clients, keeps our teams closer to their properties and markets, allows us to develop well rounded real estate professionals, and promotes an environment that encourages stability among senior management. This approach has always emphasized quality investing rather than quantity. In other words, we are not interested in growth for growth's sake.

*But you are interested in growing. Why do you see this as a good time to add to your client base?*

**Toomey:** We started investing for our client in 1987, and we have been growing with them ever since. While they are very happy and remain committed long-term to Amstar, they are currently fully allocated. In order to take advantage of opportunities we are seeing today, and to keep our highly talented employees sharp and motivated, we need to expand our capital platform. We



**Gabe Finke** joined Amstar in 2003 as general partner and CEO. Finke's real estate experience spans more than 20 years and includes acquisitions and development totaling more than \$5 billion in major markets across the United States and Europe.



**Rob Toomey**, executive director, has been with Amstar for 11 years and is responsible for Amstar's Mid-Atlantic and Southeast office and industrial investments. In addition, he leads the client service and marketing group for all of the company's domestic fundraising activities. Toomey currently serves on the company's executive and investment committees.

## CORPORATE OVERVIEW

Established in 1987, Amstar is a real estate investment manager that offers both commingled funds and tailored separate accounts to its international and domestic clients. With approximately \$1.5 billion in assets under management, Amstar's current portfolio consists primarily of office, hospitality, multifamily and retail holdings within the major markets of the United States and select markets in Europe and Latin America.

## CORPORATE CONTACT

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think U.S. institutional investors are a natural fit, given our profile and track record.

*Besides "highly talented," how would you characterize your team?*

**Finke:** We have a veteran group of senior executives who have been around each other and investing at Amstar for an average of 10 years. We believe we have assembled one of the strongest teams in the business, and we continue to attract the best talent. Compensation is structured so that our teams' interests are directly aligned with those of our clients. In other words, we are largely compensated at the back end of an investment's performance.

*How else do you align your interests with those of your investors?*

**Finke:** First of all, to the extent investors find it attractive, it's important for managers to co-invest with their investors. Real "skin in the game" disappeared in the last cycle. We think it needs to come back in vogue. We demand it of our local development partners, and our clients should demand it of us. In addition, the cradle-to-grave process means that our professionals are not

compensated for sourcing or closing or managing or selling, but that their compensation is tied to the entire life of an investment and paid only after we have monetized returns for our clients.

In the end, aligning interests really comes down to the mindset of the adviser — and we have that mindset. For example, in the last cycle, starting in 2005, we elected to defer what we felt were unsustainable profit-sharing levels. We put excess profits from 2005, 2006 and 2007 in a reserve account in case the markets corrected. We have been reversing those reserves in 2008, 2009 and 2010. Electing to do this at our expense means we have no “claw back” issues and that has resulted in a stronger relationship with our clients and reinforced to them that we are committed to maintaining a long-term relationship.

*You've mentioned long-term relationships several times. How does Amstar's corporate culture encourage those types of relationships?*

**Finke:** We have a culture of respect inside and outside the firm. We think if you treat people fairly and with respect, they will give you the best they have to offer. This applies to everyone that we do business with. We think our emphasis on building and maintaining relationships delivers superior results, especially in tough times.

**Toomey:** For example, due to our relationship-focused culture, we treat brokers very well. In our experience, when brokers recognize that we are fair, quick to make decisions and pay commissions on time, they jump at the opportunity to do business with us. When you combine these attributes with our acquisition strategy to invest in high-quality assets in great locations at a basis that is below our direct competition, you have a sustainable model for success. As an example, we have two office properties in two different submarkets within Nashville, Tennessee. In 2010, both exceeded their fair share of their respective submarket's total net absorption by capturing 80 percent and 40 percent of the absorption, respectively. Despite the recession, we have actually seen occupancies within our office portfolio increase in the past two years.

*Have you been able to continue to execute your strategy during the past couple of years?*

**Finke:** Absolutely. Our strategy is flexible enough to adjust to various investment scenarios, so we haven't been forced to the sidelines. We were fortunate enough to be net sellers in 2005, 2006 and 2007, so we had a substantial cash position equal to about 20 percent of our portfolio's value the day Lehman collapsed, which provided us with a solid footing going into the recession. Having a significant amount of cash allowed us to deleverage the entire portfolio and eliminate any near-term refinancing risk. Since that time, we've continued to sell stabilized core assets, particularly multifamily. In fact, we sold several very well located and high-quality multifamily properties in 2010, with results that exceeded our expectations. All received broad interest and very aggressive pricing — 5 percent cap rates or below — that confirmed that it was in our client's best interest to be a seller of core property in 2010.

**Toomey:** We've also been active buying distressed hotel properties. Last year, we were able to buy irreplaceable real estate in Maui and Austin at a deep discount to replacement cost. As you know, there is not much competition for non-cash flowing properties right now, so well located, high-quality hotel properties can be a great investment for the right buyer.

**Finke:** On the asset management side, we have been successfully leasing our projects. For all of our investments, but in particular office, we are very conscious of our investment basis — going in, at stabilization and at disposition. This strategy has allowed us to successfully lease our office space even through the recession.

*What is your secret to leasing properties in a tough economic climate?*

**Toomey:** We have a culture that encourages decision-making and responsiveness. When it comes to leasing, we can turn proposals and leases around in hours, not days or weeks. Most tenants and customers recognize that responsiveness on leasing is directly correlated to responsiveness in property management issues. In other words, their needs will be addressed in a timely manner. Our asset managers are very bottom-line focused and are empowered to make decisions without undue bureaucracy. They are able to pick the best local third-party leasing agents and property managers who they believe will be best suited for a specific property and opportunity, without conflicts or distractions. We employ the same nimble approach to acquisitions and development.

*Where do you see opportunities in the next two years or so?*

**Toomey:** Currently, we are using two strategies that provide a balance between risk and return. We have extensive experience in both, and both are executable in today's market. “Restore to Core” is our office acquisition strategy. “Develop to Core” is our multifamily development strategy.

“Restore to Core” focuses on acquiring exceptional office properties that would be considered core today had it not been for the effects of the recession. Within 13 targeted markets, we are seeking large, high-quality assets in exceptional locations with adequate parking, efficient floor plates and the ability to attract credit tenants. Sounds like a core strategy, right? Not exactly. While the physical attributes of these properties are core, the properties we are targeting are only 60 percent to 70 percent occupied.

Our “Develop to Core” strategy involves developing exceptionally high-quality, well located multifamily properties in select markets that warrant new supply in the next three to seven years. We are focusing on 11 to 13 markets where we have a competitive advantage through experience and past relationships so that we are able to align ourselves with local partners who have significant and demonstrated performance. We target not only the strongest markets, but the strongest submarkets within those markets. We have been developing for 23 years, so we really know how to underwrite and mitigate development risk.

*Tell us more specifically what you are trying to accomplish in the next 12 months.*

**Toomey:** As you have pointed out earlier, we are relatively unknown in the institutional markets. Last year, we spent a lot of time asking people to get to know us as we got to know them. Through those discussions, we found several institutions that have an interest in investing capital through a separately managed account program with a manager that has meaningful experience and a very successful track record in the strategies proposed. During the next 12 months, we will be going back to those institutions to secure an additional long-term client or two that want to grow with us over time, exactly as we have done with our current client. ♦