Sponsored Section

Clarion Partners

Recently, Geoffrey Dohrmann, publisher and editor-in-chief of The Institutional Real Estate Letter – North America, *spoke with* ***Stephen Furnary, Stephen Cordes*** *and* ***David Gilbert*** *of Clarion Partners. The following is an excerpt of their conversation.*

It's been a few months since you closed the management buy-out of the business from ING, and you've talked about returning to your roots by taking the business back private. What are those roots?

Furnary: Our management team has held an ownership position in the firm since 1982 when Clarion Partners was founded, except for the period of ING's ownership. When we say "back to our roots," therefore, we're referring to the first 16 years of our firm's existence when the partners were the owners of the firm. As part of ING, we helped to develop a global real estate platform and this was a very positive experience. But now, early in the recovery, we're convinced that the best course of action, both for our clients and our team, is to return to our original market focus — the Americas. Of course, Clarion Partners is a different firm than it was 12 years ago.

How is it different?

Furnary: Twelve years ago, we had a fairly narrow business. We were exclusively a separate account manager with about ten large clients. We focused on the four major property types with a particular focus on office, and had about $6.8 billion in private equity assets under management. Our organization also included a real estate debt investment entity — Clarion Capital — and a REIT investment management business — Clarion Real Estate Securities. Today, Clarion Partners has $22 billion in private equity assets under management for about 250 clients. We not only have many more separate accounts, but we have open- and closed-end funds that span the risk spectrum and invest in a broad range of property types, including hotels, student housing, senior housing and storage. So the Clarion platform is much broader today, and we have deep resources to draw on as we execute our clients' strategies.

Gilbert: But as much as things have changed, many important things have remained the same. Clarion Partners is now in its 30th year, and our management team is notable for its consistency. Many of our people have been part of the organization for more than 20 years, and as a result, our clients expect us to deliver on our promises as we continue to develop research-based investment options. As owners of the business, we can work even more closely with our clients to provide smart real estate solutions.

Cordes: Another key differentiating feature of our firm is that separate accounts comprise half of our business. Some of our competitors have avoided this segment of the market, but it suits us very well, and we've consistently been successful with this client base. We'll continue to custom-tailor strategies for separate account clients and to offer a range of strategies in the commingled fund format.

What drove you to buy out ING at this time?

Furnary: ING was being required by the European Commission to shrink its global footprint and to put its core banking business back on a solid footing. As part of this restructuring, ING announced the sale of its real estate business, either as a whole or in separate components. The chance to buy the Clarion Partners business back from ING got our entrepreneurial juices flowing, and we were excited by the opportunity. We felt strongly that it would be the best outcome for our clients.

What were the advantages of being part of the platform?

Cordes: Twelve years ago, we didn't offer the breadth of investment opportunities we felt our clients wanted. As part of a global platform, we could provide unique new options to our existing investors, and enhance our ability to attract new clients. As part of ING, we could intelligently combine ING's capital with our own, and as a result, we significantly diversified our investor base; about 20 percent of our clients today are international. We've also expanded our product offerings. But now we're ready to take Clarion to the next level. Specifically, we're planning to take our existing capabilities and scale to a new set of investors, outside of the traditional institutional space.

Gilbert: Many benefits of ING's global real estate platform can easily be executed by the Clarion Partners' organization, or are no longer necessary, so this is a very good time to again operate independently. For example, Clarion Partners ran the ING Real Estate Investment Management global client relations group, and we have the ability to continue the high level of service that off-shore investors expect. With respect to investing U.S. client capital offshore, investors today have somewhat different priorities. Being part of a global firm was a giant advantage years ago because real estate investors were just beginning to consider international allocations. Today, investors have many options and strong opinions about potential partners. They often prefer to choose their own overseas partner rather than relying on an affiliate of their US manager. Finally, 12 years ago, when it came to research on international capital flows, it was extremely helpful to be part of ING's global platform. Now the information is everywhere, readily available to our own highly skilled research team.

Furnary: It's also important to remember that in the past, investors placed great emphasis on significant co-investment capital and many investment managers forged affiliations with larger entities to access that capital. After the most recent financial crisis, less co-investment is required, but the source is extremely important. Capital direct from the principal is valued more highly than large amounts of money from an affiliated parent.

What new strategies are particularly important given where we are in the cycle now?

Gilbert: We hit bottom in the capital markets nearly two years ago, so we're clearly into a growth phase of the economy — although it's not yet widely reflected in the fundamentals. Investing early in this part of the cycle means we're beginning to move from defense to offense. We're moving deliberately, however, because there are uncertainties, particularly the prospect of slower job growth. Sectors we like now include health care, student housing, technology and energy, which all rely on fundamentals other than job growth. We continue to invest in retail, typically in community or neighborhood centers where traffic is driven by necessity shopping. We love industrial markets — they've lagged the recovery. In addition, corporations are extremely profitable now, and as they rebuild inventory, industrial space is being absorbed. We're also selectively engaged in multifamily development and redevelopment. Finally, we're looking at opportunities to recapitalize overlevered borrowers and even buying some performing and nonperforming loans.

Earlier you mentioned that you are investing in the Americas. Where are you looking south of the border?

Furnary: We're active in Mexico — we haven't fully committed the capital we raised for our fund — but our latest focus has been Brazil. From a macroeconomic perspective, Brazil has enormous strength, and we expect it, like other emerging economies, to continue to outpace many of the developed countries, including the United States.

Cordes: We've done extremely well in retail in and around Mexico City. We've made several industrial investments that are performing strongly, as well as middle-class housing, which we see as having good potential. Obviously Mexico has a number of issues, but we're confident they will eventually be resolved, and that there will be more investment opportunities in the future.

Is Clarion looking at investment strategies outside the mainstream?

Cordes: We don't purposely look outside the mainstream, but we don't limit ourselves to just swimming with everyone else, either. For the past 30 years, our strategies have been based on identifying an investment arbitrage in a particular property type, geography or specific and unique opportunity. We continue that approach today. Right now, the most attractive opportunities we see are investments in property cash flows through existing debt. We're looking at buying mezzanine debt, dealing directly with the owners as a way to get to the asset. This recapitalization approach enables us to invest in assets we'd like to own but which would be too expensive, or not available. We are finding that investing by deleveraging the asset is an attractive strategy as long as we are extremely disciplined about choosing the property types in the particular geographies we expect to outperform.

Furnary: To make an arbitrage strategy work, we need access to off-market deals. We have ten offices housing 26 acquisition specialists, as well as very deep teams in asset management and portfolio management. These "boots on the ground" give us an unparalleled ability to evaluate opportunities and maintain deal flow by sourcing deals on a local basis.

Are there other strategies that interest you in this climate?

Furnary: One of the other things we continually evaluate is primary markets versus secondary and tertiary markets. Although primary markets are, and will continue to be, our main focus, we're always looking for relative value. With the overwhelming preponderance of capital flowing into prime markets, some of the smaller markets can offer better relative value.

Gilbert: We also are constantly looking at other platforms that might be accretive to what we have in place, or that might provide a different way in to the investment marketplace. That's another way to get at opportunities for our investors, both existing and new.

What is your vision for the firm's future?

Furnary: Our job is to make sure that we have the best athletes in the right positions to drive investment performance — the mantra of this company — and to communicate with our investors regularly, whatever the news. We want to grow the business by having smart, adaptable, investment-oriented people working throughout our organization.

Cordes: Clarion will excel by completely and totally focusing on delivering investment performance to our clients. By applying informed judgment to our research, we'll be able to generate that performance across multiple investment strategies.

Furnary: Growth is going to come from performance. Reputation gets us in the race but delivering results gets us to the finish line. The challenge is not to get complacent. It's all about keeping fresh, nimble and able to achieve the results we've promised. ❖

Steve Furnary, Chairman & CEO, is one of Clarion's Partners founders and an equity partner in the firm. He is the Chairman of Clarion Partners' Board of Directors and Executive Board, and a member of its Investment Committee. Steve has been responsible for the firm's strategic direction since its inception.

Steve Cordes, Chief Operating Officer, is a Managing Director, an equity partner and Head of Portfolio Management at Clarion Partners. He is a member of the firm's Board of Directors, Executive Board and Investment Committee. Steve is also the Portfolio Manager of the Lion Gables Apartment Fund.

David Gilbert, equity partner and Managing Director, is Clarion Partners' Chief Investment Officer and Head of Acquisitions. He is a member of the Clarion Partners Executive Board and Operating Committee and is Chairman of the firm's Investment Committee. David is also responsible for Clarion Partners' Research and Investment Strategy Group.

ABOUT CLARION PARTNERS

Clarion Partners has been a leading U.S. real estate investment manager for almost 30 years. With more than $22 billion in total assets under management for 250 investors both domestic and international, Clarion Partners offers a broad range of real estate strategies across the risk/return spectrum — from core to core-plus and value-added to opportunistic. The firm, which is headquartered in New York, has a presence in major markets across the United States, Mexico and São Paulo, Brazil.

CORPORATE CONTACT
Hugh Macdonnell, Managing Director
230 Park Avenue | New York, NY 10169, USA
Tel: +1 212-883-2727 | Fax: +1 212-883-2993
hugh.macdonnell@clarionpartners.com
www.clarionpartners.com