

Landmark Partners

Recently, **Geoffrey Dohrmann**, publisher and editor-in-chief of The Institutional Real Estate Letter – North America, spoke with **Bob Dombi** and **Paul Mehlman** of Landmark Partners. The following is an excerpt of that conversation.

What exactly does Landmark Partners do?

Mehlman: Landmark Partners is a leading source of liquidity to owners of interests in venture, mezzanine, buyout and real estate limited partnerships. Landmark's real estate group acquires interests in private equity investment vehicles via the secondary market.

Is there a typical ownership situation that you focus on?

Mehlman: Our approach is broad-based. In most instances, we're acquiring interests in real estate funds from institutional investors who chose to exit early. In addition, we'll acquire interests in single or multi-property joint ventures if a partner wants to exit, and we'll also recapitalize a fund or partnership that requires additional equity. Across all of these types of investments, we're typically investing into existing ownership structures with an existing management team in place and portfolios where a good portion of the real estate assets that will be owned have been identified. We really work to be a resource in the marketplace by providing a creative solution that can address the portfolio management needs of both limited partners and general partner sponsors.

What would be some of those needs?

Dombi: In the ordinary course of managing an investment portfolio, needs emerge where an investor may be best served by selling partnership interests. Sometimes they need to recapitalize the rest of their portfolio. Sometimes they simply need to rebalance their portfolio. Maybe they are dealing with manager or strategy concentration issues. There are a multitude of reasons an investor might need to liquidate a position. The decisions are based on whether they want to continue to fund legacy investments or whether it makes sense for them to try to monetize those positions and redeploy the capital.

Do you invest in other ownership structures besides LP units and recaps?

Mehlman: We focus on acquiring partial interests in existing structures, but that wouldn't necessarily be an LP position in a fund. We've acquired privately traded REIT shares. We've injected capital into corporate structures. There have also been instances when we've taken a portion of the GP investment and left the GP in place as the manager of the fund.

What are the advantages of buying partial interests in existing vehicles?

Dombi: From our standpoint as a buyer there are three distinct advantages to secondary transactions. First, you are able to minimize the J-Curve when buying a highly funded LP interest. This creates a faster return of capital as a fund or joint venture is closer to realizing proceeds from asset sales. Sec-



Bob Dombi is a partner in Landmark's real estate group and is responsible for fund raising, sourcing, underwriting and managing real estate investments. Since joining Landmark in 1999, he has participated in the formation and investment of all of Landmark's real estate secondary funds.



Paul Mehlman is a partner in Landmark's real estate group and is responsible for fund raising, sourcing, underwriting and managing real estate investments. He joined Landmark in 1996 and worked on closing the firm's first real estate secondary transaction. Since that time, he has participated in the formation and investment of all of Landmark's real estate secondary funds.

ABOUT LANDMARK PARTNERS

Landmark is a private equity and real estate investment company specializing in secondary funds. Formed in 1989, the firm has one of the longest track records in the industry and is a leading source of liquidity to owners of interests in venture, mezzanine, buyout and real estate limited partnerships. Ninety-five percent of its total capital is committed to secondary products. The remainder is committed to its co-investment, fund-of-funds and growth capital programs.

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ond, you are investing with hindsight. We are able to underwrite assets and review the original strategy to better understand future performance. Third, a secondary investment is highly diversified. We are gaining exposure to a diversified basket of attractive institutional-quality properties, managers and strategies. This diversification minimizes a tremendous amount of risk as no one asset, property type or region will have a material impact on the performance of the investment.

How has the real estate secondary market changed since your first transaction in 1996?

Dombi: We were the one and only player in the institutional real estate marketplace back in 1996. Since then, the number of buyers has certainly expanded, but more importantly, this has been lead by significant growth in the number of sellers. In the recent past, there was an unprecedented amount of investment in closed-end, value-added and opportunistic funds, and

now a number of those investors are looking to exit. Additionally, there is a greater acceptance of investors being sellers in the marketplace. The secondary market has become more trusted, and the GPs are more knowledgeable and accepting of secondary transactions. The market has clearly moved into a more mature position where there is a higher level of transaction activity both from the standpoint of the inventory that is available and the number of participants.

You mentioned the market has grown. Do you have exact figures?

Mehlman: In the late 1990s, we saw annual trading in the secondary market in the low hundreds of millions of dollars. In 2009 and 2010, we tracked \$1.2 billion and \$1.6 billion worth of trades, respectively.

How have you adapted to all those changes?

Mehlman: As our marketplace has grown, our team has expanded as well, growing more than fourfold as increased deal flow and the demands of underwriting a more complex asset base have evolved. We built our transactional team with individuals from a broad-based background — investment banking, development, private real estate fund management — and we've expanded our geographic presence. As investors moved into international funds, we've moved with them. With offices in Boston, London and Simsbury, Conn., we're able to underwrite both domestic and non-U.S. assets, as well as network with LPs and GPs in many different markets across the globe. We own interests in funds with assets in North and South America, Europe and Asia.

Where are the current opportunities in the secondary market today?

Mehlman: We're excited about the opportunities in this marketplace today and in the future. There is a range of opportunities across the entire institutional investor universe, whether it is pension funds, financial institutions, endowments, foundations, high-net-worth family offices or international investors. All are participating in the secondary market for a variety of reasons. Obviously, we're coming through a period that follows a financial dislocation, and many investors are looking at investments that were cast in a very different environment and asking whether those particular strategies and sponsors fit with what they want to do with their real estate portfolio today. That restructuring of portfolios is something that is likely to continue to play out over the next several years as people rationalize between their older legacy investments and new investment opportunities. Going forward, we expect to see opportunities from financial institutions as they cope with new regulations. An additional source of opportunities will involve the needs of the GP community. Our capital can be a resource as GPs seek to recapitalize funds or underlying investments or have needs to restructure their organizations.

Dombi: It's important to remember that although the financial dislocation has certainly provided us with a certain level of activity, the majority of the transactions have been born of different needs. A certain core level of activity has sustained us over

the past 15 years, regardless of where we were in the market cycle, and that activity will continue to sustain us. We're not a program built on distress.

What pricing trends are you seeing?

Dombi: The discounts on secondary trades have compressed substantially since 2009. If you go back a couple of years, the discounts, particularly for opportunistic funds, were very high because the net asset values as reported had not yet adjusted to reflect the changed market environment. This valuation lag makes discounts appear larger. As reported NAVs have become more in line with the reality of underlying property values, we have seen a trend toward lower discounts. Today, pricing could range from par to still fairly significant discounts if the underlying assets within the fund have issues that make ultimate value realization uncertain.

Mehlman: It's not really important to Landmark that we acquire an investment at a discount, at par or a premium. What is important is that the price we pay is appropriate for the investment based on our analysis of the future cash flow potential of the underlying assets. We're really only interested in an investment that is going to generate a reasonable risk/return proposition going forward for our investment capital. We expect to provide fair pricing for the assets and to do a thorough and comprehensive job of underwriting so we can recognize value.

As you mentioned earlier, you are no longer the only player in this market. What sets Landmark apart from the competition?

Dombi: Landmark is currently investing on behalf of its fifth real estate secondary fund. We have a demonstrated track record and more experience in real estate secondaries than any other manager. The depth of experience we have developed within the organization, combined with the fact that we are also a leading private-equity secondary investor, gives us a unique position. When investors are looking to manage their illiquid portfolio, they may be looking at private equity as well as real estate. They see an advantage to dealing with just one experienced firm when it comes to providing liquidity to a mixed portfolio.

Mehlman: Our team is highly proficient in all aspects of this business. We have completed 75 real estate secondary transactions since 1996. Secondary transactions are very different from traditional real estate transactions. We're constantly evolving our process so we can be ever more efficient and thorough as we underwrite complex portfolios that may span multiple real estate funds, multiple GP sponsors and large numbers of underlying properties. That type of comprehensive approach also extends to our execution of the transaction process from letter of intent to closing.

Dombi: When we work through a transaction process, we really look to be creative problem solvers. We aren't just buyers, we are also advisers. We've been immersed in this business for a long time, so we're well versed in working with organizations to understand their needs and to mobilize our investment capital to address their unique portfolio objectives and find a creative solution. ❖