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Lowe Enterprises Investors

Recently, Geoffrey Dohrmann, publisher and editor-in-chief of The Institutional Real Estate Letter – North America *spoke with* ***Brad Howe*** *and* ***Bleecker Seaman*** *of Lowe Enterpirses Investors. The following is an excerpt of their conversation.*

Lowe Enterprises Investors provides real estate investment management services on behalf of a select list of institutional and high-net-worth clients and partners through both individually managed and commingled fund relationships. The firm has been responsible for $6 billion in real estate assets, including commercial, hospitality and debt investments, since inception in the late 1980s. Lowe Enterprises Investors has been a leading value-added investor through multiple cycles, employing equity and structured debt in its investment strategies.

When we last spoke, you had just completed a transaction with The Guardian Life Insurance Company of America that provided Guardian a major interest in Lowe Enterprises Investors. It's been a year since that strategic partnership was formed. How is the new relationship going?

Seaman: Guardian has been an excellent partner for LEI. Their investment has enhanced the LEI platform in multiple ways. We interact with Guardian's senior investment team regularly, and they are constructively engaged in our business. Through their participation on the LEI Board, the Guardian team has provided valuable input to the firm's strategic direction and has provided an institutional perspective that complements LEI's natural entrepreneurial culture.

While the strategic partnership with Guardian was a major event for LEI, it has not changed our basic business approach. Guardian has provided LEI with enhanced capital resources, which has given us the capital to invest in our platform and allowed us to add to our team with some very talented new investment associates. Additionally, the Guardian relationship has provided LEI with the ability to invest significant capital alongside our clients and prospective clients. This was instrumental in helping us to establish a new investment relationship earlier this year with Allstate Insurance where LEI, Guardian and Allstate are investing together to pursue hospitality investment opportunities. As you may recall, when the deal with Guardian was consummated, Guardian committed to invest up to $200 million in various investment strategies that LEI pursues.

All in all, after a year we are very pleased with the strategic relationship that we have with Guardian Life.

Has the partnership brought unforeseen benefits as well?

Howe: Being connected with a firm that has a broad investment perspective has given us a view on the wider investment landscape. Real estate is but one of the asset classes in which Guardian is an active investor. Guardian is an active investor in fixed income, domestic and international equities, high yield, etc. Real estate investors often operate in a silo and lose sight of the broader investment markets. The connectivity that we have had with the investment team at Guardian has been valuable for us, especially in times like we have seen since early August with significant volatility in the markets.

You mentioned that you've formed a joint venture with Guardian and Allstate to pursue hotel assets. What's the status of that venture?

Howe: The LEI-Guardian-Allstate investment program was formed in May of this year when we acquired a hotel in Seattle. The investment program intends to acquire a portfolio of four to six hotels over the next two years. We currently have a strong pipeline of potential opportunities and anticipate closing on one or two more hotels by the end of the year.

Seaman: The LEI-Guardian-Allstate venture is a great template for us that we intend to replicate with other strategies and partners. It has been well documented that many institutional investors are frustrated with the commingled fund model and are looking for ways to invest in real estate with better control and accountability. The joint venture model provides that structure.

Do you have other specialized programs in the works?

Howe: Yes, we are working on a commercial value-added program called the Lowe Real Estate Recovery Fund that will invest principally in office and multifamily properties in our primary markets of San Francisco, Los Angeles, San Diego, Washington DC, Denver, Phoenix and Seattle. While the Guardian relationship has been very positive for our platform, the core of our business continues to be focused on pursuing value-add opportunities with the Lowe operating platform. Lowe is one of the leading real estate operators in their targeted market, and LEI retains a first look at all potential commercial and hotel investments that Lowe pursues.

It's an interesting time to launch a "recovery" fund when it's become evident that the U.S. economic recovery will be a slow process. Did you foresee that when you decided to form the fund?

Seaman: While fundamentals have been showing modest improvement in keeping with the weak U.S. economic recovery, we believe it is the appropriate time to be organizing capital to acquire assets at significant discounts to replacement cost and apply an active management style to create value at the asset level. Our strategy will leverage the Lowe operating platform and will identify assets where we can generate attractive risk-adjusted returns by acquiring assets that can be improved through targeted capital improvements and enhanced management strategies. We have been "local" in most of our markets for many years and with that local operating perspective we can target assets and locations that should outperform even in a more modest economic recovery.

Howe: We like to think of ourselves as "basis investors," targeting assets where we can get in cheap enough to ride through an uncertain economic cycle. Our strategy incorporates the ability to use a low basis to be able to attract tenants from property owners who are at prior cycle peak values where new leasing is uneconomical. We think it is the right time to pursue a value-added strategy as core is at risk of being over-priced based on product supply and demand. Our goal is to target assets that can become core over time through re-leasing and capital repositioning.

Will you be targeting primarily distressed assets?

Howe: Distressed is probably an over-used term in our business. That being said, we will target assets that have experienced some level of distress, whether it is capital structure distress, owner distress or asset distress — all of which impair value through under-investment in the asset or dislocated and distracted management. We believe the recent market volatility may spur lenders to accelerate the long-awaited asset recapitalizations as the proverbial "light at the end of the tunnel" now looks farther away and more uncertain.

Lowe is well known for its office and hospitality investments, so it's interesting to see that multifamily is a part of your new fund strategy.

Seaman: Lowe has been active in the multifamily sector as both an owner and developer where we have partnered with strong third-party management companies. We are confident in our ability to execute our investment strategies in our primary markets and view positively the fundamentals in the business given demographic and social trends. In addition, we have made a number of multifamily investments over the past few years with strong third-party local operators. So we have utilized our internal capabilities as well as leveraged third parties in areas where Lowe does not have a local presence.

What other investment strategies are you pursuing?

Seaman: Another area we have been active in is the real estate debt markets. Some might be surprised to find that we have one of the larger track records in high-yield debt strategies, having put to work over $900 million in high-yield debt transactions over the last 20 years. We have generally focused on subordinate and sub-performing debt investments, where we can call upon our experience as an operator to underwrite the asset from an operator's perspective. We view the market today as being attractive for sourcing mezzanine and preferred equity investments, taking advantage of reduced asset values and more conservative senior debt underwriting to generate attractive returns in a relatively safe position in the capital stack.

In addition to this historical activity, we are also looking at providing senior debt at higher LTVs, where we can provide full stack lending for borrowers and achieve high single-digit returns. In this area we can benefit from our partnership with Guardian, as they have an existing mortgage portfolio in excess of $3 billion. We would look to leverage Guardian's distribution capabilities to source attractive senior debt opportunities.

It sounds as though you've had a year of growth with more to come.

Howe: It's been a very positive year for us, and we are eager to continue to grow and expand our business by sticking to our core strengths and capitalizing on market opportunities to the benefit of our clients and partners. Growth is important to us, but even more important is maintaining the quality relationships that we've formed with our clients and partners over the past 20 years. Those relationships are the foundation of our firm both today and for the future. ❖

Bradford Howe is CEO of Lowe Enterprises Investors with shared responsibility for oversight and management of the firm's investment management business. He is responsible for equity capital raising, client relations, new business development, portfolio management and finance activities.

Bleecker Seaman is CEO of Lowe Enterprises Investors with shared responsibility for oversight and management of the firm's investment management business. He is chairman of LEI's investment committee and is actively involved in investment strategy, portfolio management and client servicing on behalf of the firm's clients.

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