

Clarion Partners and Gables Residential

Recently, **Geoffrey Dohrmann**, president and CEO of Institutional Real Estate, Inc., sat down to speak with **Steve Furnary**, **Sue Ansel** and **Ed Carey** about Clarion Partners' recent recapitalization of Gables Residential, which owns and manages a national 35,000-unit multifamily residential portfolio. The following is an excerpt of their conversation.

What is the history of the relationship between Clarion Partners and Gables Residential?

Steve Furnary: Gables is a market-leading, vertically integrated multifamily real estate company with a 32-year history in the management, construction, development, acquisition and disposition of multifamily and mixed-use communities. The operating expertise of the Gables team of more than 1,100 associates is complemented by Clarion Partners' active portfolio management leadership, client capital management, research, and strategy initiatives and investment risk management review processes.

Following Gables' 10-year tenure as a publicly traded REIT, Clarion Partners, as the co-GP managing member, led the Gables take-private into a closed-end fund vehicle in 2005. In February 2015, following a competitive marketing process, Clarion led a group of existing and new investors in the recapitalization of Gables. We are thrilled to be working with Sue and Gables' senior management team to continue our 9-year track record of actively managing the company across market cycles.

Can you describe the Gables portfolio? What is the average age of assets in the portfolio? How does it compare to REITs?

Sue Ansel: Gables utilizes a build-to-core strategy; currently 80 percent of our existing portfolio was built by Gables and comprises 52 stabilized assets and 12 development assets for a total of



Gables Sheridan, Atlanta, Ga.



Stephen J. Furnary is the chairman and CEO of Clarion Partners and one of the firm's founding partners. Steve is the chairman of the Clarion board of directors and executive board and a member of the investment committee. He has been responsible for the firm's strategic direction since its inception. Steve began working in the real estate industry in 1974.



Sue Ansel is president and CEO of Gables Residential. She has 27 years of experience with Gables, serving in her current role since 2012. Sue was promoted to COO in 2005 and prior thereto, she held positions in acquisitions, development and operations, and served as the lead for important company initiatives including the advancement of real estate technology efforts and third-party client services.



Ed Carey is a managing director at Clarion Partners and the portfolio manager of Clarion Gables Multifamily Trust. As portfolio manager, Ed has overall responsibility for fund management and strategy. He joined Clarion in 2007 and has more than 29 years of real estate experience.

approximately 17,000 units. Because of our focus on building a premier product and dynamic portfolio pruning, the portfolio is among the highest quality multifamily portfolios in the United States. According to Green Street Research, the portfolio's average age of 12 years compares favorably to the average of 22 years within the publicly traded multifamily universe. Additionally, the portfolio's high percentage of Class A properties is much higher at 82 percent than the same universe's 44 percent.

Gables researched, developed and initiated a strategy of investing in "Established Premium Neighborhoods™ (EPNs)" about 15 years ago and now owns assets in nine major metropolitan markets: South Florida, Atlanta, Houston, Dallas, Southern California, Washington, D.C., Austin, Denver and Boston. EPNs within these metro markets are characterized as supply-constrained submarkets with high per square foot single-family home values, higher population density, high household incomes, proximity to employment centers, enter-

tainment/lifestyle venues, quality education systems and a “renter-by-choice” demographic. Some examples of EPNs are Uptown in Dallas, Downtown in Austin, and Buckhead in Atlanta. EPNs appeal to renters-by-choice who are willing to pay a premium for location preference, best-in-class design and amenities, and superior service.

Talk about Clarion Partners’ interest in the multifamily sector.

Ed Carey: We were attracted to the multifamily sector generally both because of its historic performance relative to the other core property sectors in the NCREIF index and also because Clarion’s research is showing that U.S. job growth, dramatic demographic changes and pent up household formation tend to favor multifamily in this cycle.

Can you talk further about those demographics in the United States and their impact on multifamily residential?

Carey: The U.S. multifamily sector is riding the wave of the Millennial generation, those between the age of 18 to 33, which is 79 million strong and larger than the baby boom generation. The mean age in this demographic is about 24, but the average age of first-time home buyers is now 30. The changing lifestyle of the Millennials, with later marriage, later child rearing, and lower home ownership rates driven by the realization that house prices don’t always go up, suggests that this generation will likely stay in the rental pool over the next several years. While they establish their lifestyle, we think they will likely rent instead of buy.

Which U.S. markets in particular are interesting right now?

Furnary: Rental demand is primarily driven by job growth and population growth. The U.S. job market is strengthening and almost 3 million new jobs were added in 2014, the highest level since 1999. Consequently, we are seeing robust absorption of multifamily units in major metros where Millennials desire to work such as New York, Seattle, Denver and the Bay Area, as well as the fast-growing metros such as Austin, Dallas and Houston in the Texas markets, and Atlanta and South Florida.

What differentiates Gables as a management company?

Ansel: Gables has built a brand associated with best-in-class community design, superior customer service, and social responsibility. The company currently owns an interest in 17,000 units, a scale which has enabled us to invest in sophisticated, efficient operating systems to optimize perfor-



Gables 12 Twenty One, Arlington, Va.

mance. We take pride in our ability to attract and retain talent through our focus on training and growth opportunities. The learning and development team has been recognized as one of the top 125 training programs in the world across all industries, not just real estate, for the past six years.

The company’s fully integrated management platform also informs our asset management decisions. The property management team works closely with the development team to provide feedback on product choices, floor plans, amenity features and in-unit selections to ensure a continually evolving, improving and competitive product offering.

Gables had the distinction of being ranked number 1 for its sustainability efforts and corporate citizenship by the Global Real Estate Sustainability Benchmark, known as “GRESB,” in North America for two years in a row. In 2013, Gables was ranked by GRESB as number 1 in the North America Residential Sector and number 2 globally in the Residential Sector. Gables communities and Gables associates are frequently awarded “best in class” designations by multifamily industry award competitions, including the Gables Corporate Accommodations team being named company of the year on multiple occasions. ❖

CORPORATE OVERVIEW

Clarion Partners has been a leading U.S. real estate investment manager for 33 years. Headquartered in New York City, the firm has offices in major markets throughout the United States, and in Brazil, Mexico and London. With \$33 billion in total assets under management, Clarion Partners offers a broad range of real estate strategies across the risk/return spectrum to its more than 200 domestic and international institutional investors.

CORPORATE CONTACT

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