

# Amstar Global Partners

Recently, *Geoffrey Dohrmann*, publisher and editor-in-chief of *The Institutional Real Estate Letter – Europe*, spoke with **Jason Lucas** and **Gerry Morgan** of *Amstar Global Partners (AGP)*. The following is an excerpt of that conversation.

*Amstar Global is a relative newcomer to the European institutional real estate markets. Can you give a brief overview of your firm and its investment strategy?*

**Lucas:** Amstar Global is the international division of Amstar, a U.S.-based investment manager, which since its founding in 1987 has invested more than \$4.3 billion globally with an emphasis on office, multifamily, hotel and retail properties. Amstar Global was founded in 2007, when valuations in U.S. real estate were reaching their peak, to seek out better risk-adjusted returns for our clients internationally. Amstar Global raised and deployed its first €214 million fund, Amstar Global Property Fund I, in late 2007 and 2008, focusing on retail, industrial and hotel development in Turkey, Russia and India. In June, we closed Amstar Global Property Fund II, a €95 million fund that was raised entirely to capitalize three pre-identified shopping centre developments in Turkey.

*What can you tell me about the strategy for Amstar Global Property Fund II?*

**Lucas:** Fund II's strategy is to develop Western-designed, institutional-quality retail properties within specific under-supplied markets in Turkey. The strategy is a continuation of our Fund I joint venture partnership with Renaissance Construction and Development, a highly regarded Turkish-based international contractor and developer with a demonstrated track record for developing significant retail properties. All three of the retail sites we are developing are fully entitled in high barrier-to-entry city centre locations on or near major transportation corridors. Additionally, each property is in a city that has more than 1 million people and has a retail base that is significantly under-supplied, giving Fund II an "early-mover" advantage.

*Participants in Fund II are institutional and high-net-worth investors from Europe and the United States. How did you succeed in the difficult fund-raising environment?*

**Lucas:** Our focused investment strategy and existing platform were instrumental in raising money from several new institutional clients. The shopping centres in Amstar's first international property fund opened 99 percent leased and have received numerous awards, including "Europe's Best New Retail Project" by the International Council of Shopping Centers and the "Best Outlet Shopping Center in Turkey" by Turkey's Trade Council of Shopping Centers & Retailers. By continuing this successful strategy, Amstar offered investors the comfort of being partnered with an experienced investment manager.

*How are your investments in Amstar Global Property Fund I progressing?*



**Jason Lucas**, president of Amstar Global, has more than 10 years of real estate experience across the United States and Europe. Lucas heads Amstar Global's underwriting, due diligence, asset management and disposition functions.



**Gerry Morgan**, CFO of Amstar Global, has more than 20 years of real estate and financial management experience. Before joining Amstar in 2011, Morgan was managing director of financial planning and strategy for Prologis and CFO of American Residential Communities.

## 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 \$1.9 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 international markets.

## CORPORATE CONTACT

### Jason Lucas, Amstar Global President

Amstar Advisers

1050 17th Street, 23rd Floor

Denver, CO 80265

Tel: +1 303 534-6322 Email: [jason.lucas@amstar.com](mailto:jason.lucas@amstar.com)

**Morgan** The majority of the properties in Amstar Global Property Fund I are nearing or have already reached stabilisation, allowing management to focus on continuous operational improvements and the identification of potential exit strategies. Despite a difficult vintage, Fund I has performed well and is positioned for several attractive exits during the next two years.

*How does Amstar Global's strategy differ from other companies that invest internationally?*

**Lucas:** Compared with the majority of international investors, whose strategies often involve investing in existing core product, at Amstar we are comfortable taking development risk in markets that have a need for well located, core real estate. We team-up with best-in-class partners and rely on a great deal of development experience to execute our investment strategy.

**Morgan** Additionally, and similar to Amstar's U.S. real estate investment team, we utilise a cradle-to-grave investment process. The same managers who underwrite an investment also see it through development, stabilisation and disposition. This model ensures a sense of ownership and allows for a seamless investment process that other firms often lose by separating their underwriting, development and asset management functions.

*Why did the fund choose not to invest in more established European markets in Western and Central Europe?*

**Lucas:** In 2007, we decided to leapfrog Western and Central Europe because those markets had become saturated with capital, similar to what we were experiencing in the United States. Instead, we chose to invest in Turkey, Russia and India to take advantage of better valuations and capitalize on the strong economic growth and compelling demographic trends in those countries. By doing so, we differentiated our investment strategy from competitors' to offer something new and potentially more lucrative to investors.

*Why did Fund II choose to focus on Turkish retail development?*

**Lucas:** The supply and demand fundamentals in Turkey are very favourable for the immediate development of institutional-quality retail properties in specific, undersupplied markets. Despite rapid increases in income and retail spending, institutional quality retail space per capita in Turkey is only 30 percent of the European average. Additionally, we believe that demographic trends — such as an expanding middle class, a low median age of 29, the increasing female participation in the labour force and increasing global brand awareness — will continue to drive demand for modern retail in Turkey.

*What, in your opinion, are Amstar's competitive advantages?*

**Morgan** First and foremost, Amstar has 25 years of development experience and a strong team of seasoned finance and development professionals. We supplement the expertise of our team by employing in-country experts who have hands-on development and investment experience in our target markets to work directly with our operating partners. In terms of strategy, our advantage is to be an "early-mover" in markets where there is a lack of institutional-quality real estate. Another advantage has been our ability to locate and partner with the best local operating partners to help execute our strategy.

*What criteria did you use in selecting your operating partner; Renaissance?*

**Lucas:** Renaissance is the second-largest general contractor in Russia and Turkey and has completed more than 420 projects valued at \$5.0 billion in its 15 years of operations. We selected Renaissance to be our development partner after a comprehensive due diligence process during the formation of Amstar Global Property Fund I. Since that time, through the completion of three shopping centre developments in Fund I and working towards the completion of three additional projects in Fund II, Renaissance has proven to be an extremely competent partner, capable of executing the investment strategy and de-risking our projects by utilizing its vertically integrated retail development and construction platform.

*How does Amstar Global align the interests of the joint venture partnership with your investors?*

**Lucas:** Both Amstar and Renaissance are aligned with our investors by having significant equity invested in each project. Amstar and Renaissance are additionally incentivised to maximise investor returns and avoid risks by linking our compensation to the success of the projects. Internally,

Amstar's professionals receive a large portion of their compensation based on project returns; compensation that is tied to the entire life of the investment and paid only after we have realized returns for our investors, after their pref, of course.

*On the topic of risk management, how do you think the current Euro crisis impacts your investments in Turkey?*

**Morgan** The overriding feature of the Turkish retail market is a tremendous undersupply of modern retail facilities relative to the urban populations. By focusing on developing infill sites in undersupplied Turkish cities with high barriers to entry, we expect that our investments will outperform the overall economy. Furthermore, our shopping centres sell a high proportion of necessity goods that will bring in shoppers regardless of the overall economy. Of course, the country remains vulnerable to external shocks because of its current account deficit. However, in the long run, Turkey has a diverse export economy and strong domestic demand that make it less vulnerable than many countries to external economic shocks. If the Turkish economy does slip into recession, the resulting recovery should be relatively quick, similar to the economic rebound that Turkey experienced in 2009 after the global economic crisis.

*What are Amstar Global's growth plans for the next five years?*

**Lucas:** I should start by saying that we are not interested in growing for growth's sake. The culture and track record of excellence at Amstar has and always will stress the quality rather than quantity of investments we make. That said, our objective would be to raise two to three more commingled real estate funds over the next three to five years. In addition, we may invest in a stand-alone co-investment project when we uncover an extraordinary opportunity outside of our fundraising cycle.

**Morgan** While we are currently attracted to the risk-reward profile of investing in Turkey due to its economic growth and emerging middle class, we are monitoring the market for opportunities elsewhere. The platform that we have created in Turkey is an advantage for Amstar and is something that we intend to replicate elsewhere, tailoring it to other markets in order to achieve outsized risk-adjusted returns for our investors.

*What advice do you have for investors who are seeking exposure to emerging markets real estate?*

**Lucas:** It's important to remember that in today's market, the window of opportunity to gain outsized returns within a particular asset class of a given market can be fairly short. For that reason, investing in international real estate markets, particularly emerging ones, is a very fluid process and requires a flexible investment approach. Aligning one's interests with a proven manager who can successfully de-risk projects and create value in undersupplied markets is critical. This is precisely the opportunity that Amstar Global has uncovered within its Turkish retail platform and plans to continue offering to investors of its commingled funds and separate accounts in Turkey and other high-growth markets. ♦