Lowe Enterprises Investors

Recently, ***Geoffrey Dohrmann,*** *publisher and editor-in-chief of* The Institutional Real Estate Letter – Americas, *spoke with* ***Brad Howe*** *and* ***Bleecker Seaman*** *of Lowe Enterprises Investors (LEI). The following is an excerpt of that conversation.*

It has been a few years since our last interview. What is new with Lowe Enterprises Investors?

Brad Howe: The most exciting thing is that we have invested a great deal of time, capital and effort into building out our investment team at LEI. We have added several new senior members since we last talked, and now boast a very skilled and experienced team of over 30 professionals. When we last spoke, LEI had under 20 people. We continue to leverage our operating capabilities with our affiliation with Lowe Enterprises and its team of over 200 senior professionals and pursue investment strategies in our established areas of hospitality, high yield debt and office, and we have expanded our investment activity in multifamily properties.

Bleecker Seaman: We also were selected to take over a significant portfolio from an existing pension fund client, and with that portfolio we picked up a team of people and opened an office in Philadelphia.

When we last spoke, you had just closed a joint venture with Allstate to acquire hotels. How has that evolved?

Howe: That joint venture is really a three way program where Allstate Investments and Guardian Life Insurance both put in capital alongside us to invest in hotels. In addition to that hospitality program, we now have a second program with the same group pursuing value-added office, and are in current discussions with a few other investment partners to pursue similar investment programs targeting our value-added investment strategies.

How does the Guardian investment benefit new investors in the programs?

Howe: We have found that capital partners are increasingly interested in significant co-investment capital from their investment partners. Obviously, our strategic alignment with Guardian increases our capacity to make meaningful investments alongside our clients. In addition, the Guardian investment has afforded us the opportunity to invest in our business ahead of our growth by hiring key individuals as I mentioned earlier.

You also mentioned you were getting more active in the debt business. Did you continue in that direction?

Seaman: We have continued to actively invest in debt. We think it is an attractive area. We have always been tactical in investing in debt when we feel like there are attractive risk adjusted spreads. While there has been compression in spreads, we are still seeing good opportunities and have invested or committed approximately $175 million over the past 18 months.

Bradford W. Howe and **Bleecker P. Seaman** are Co-CEOs of Lowe Enterprises Investors with shared responsibility for oversight and management of the firm's investment management business. Previously, Howe served as Senior Vice President of Lowe Enterprises managing the Capital Group, which was responsible for the firm's capital-raising efforts, and as CFO for Lowe Hospitality Group. Prior to his current position, Seaman served as COO for LEI and has held positions as CFO and as an acquisition officer in Lowe's hospitality subsidiary.

What is your current view of the markets?

Seaman: Generally, we are positive on the U.S. real estate investment market. The economy is improving, and real estate is trending in that direction. There is a tremendous amount of capital pursuing real estate, much of which is seeking core investments. There is less capital in the value-add space today, so our operator skills and bottom-up investment strategies have given us the opportunity to pursue value-add investments we find more compelling than core today. In making those investments, we are trying to effectively create core assets, targeting properties that need repositioning but are of a quality and in markets where a stabilized core asset will be attractive. Then our investors can either hold those lower risk assets once they have been stabilized, or we can sell into the core market where we see very aggressive pricing.

You guys sound pretty bullish on the U.S. markets. Do you have any concerns?

Howe: Our primary concern is the fragile economic recovery. We are seeing growth, but that growth is very spotty. As the recovery strengthens, we expect interest rates will continue to increase from the historic lows we have seen over the past 18 months. While real estate yields are low relative to historical norms, they have been significantly higher than the yields offered by other asset classes, leading investors to shift capital to real estate in search of yield. If yields pick up significantly, the risk is that some capital flowing to real estate today will shift back to other asset classes, leading to a reduction in the amount of capital available for real estate with a potential impact on values.

What strategies are you pursuing right now?

Howe: Traditionally, we have been focused on office and hospitality. Value-added office is one area that we are very focused on, targeting markets where we expect to see job growth. We continue to like what is going on in hotels as the market continues to show revenue gains. Our focus is on assets where we can create value through a combination of improved management and targeted capital repositionings. We also like the long term demand prospects for multifamily, especially urban multifamily. We have recently expanded our team in multifamily and are pursuing both value-added acquisitions and development activities.

Can you provide some examples of recent investments that illustrate what has been working for you?

Seaman: We are in the process of closing on a multi-family deal on the East Coast where we are coming in upon completion of construction, so we will take some lease-up risk. We are comfortable with the market and our ability to lease the property. We were able to get this transaction on an off-market basis and in the process capture a cap rate spread of 50–75 basis points.

Howe: Also, we are in due diligence on a high-rise condominium development in the Northwest with a substantial institutional investor that would be a new client for us. It is a matter of finding value in the recovery, and we think this is an opportune time for us to step in and complete the development of a condo building in a market that hasn't seen new condo development in almost a decade.

Everyone knows it has been a world of haves and have-nots in terms of fundraising recently. How do you fit in?

Howe: Over the past 24 months we have raised capital and taken over assets in excess of $1 billion. We have seen a lot of growth in our platform, and our recent success is a product of our approach to this business. We have found that big, sophisticated investors value a relationship with an operating focused investment manager and want to have more of a say. We are absolutely able to accommodate that through joint ventures and separate accounts.

Why do you think that is?

Howe: Most big investors found themselves frustrated during the downturn by not having a direct line to resolve difficult situations that they were in. Many of those investors have elected to pursue strategies where they have more involvement in investment decisions. They don't want to make all the decisions, but they want to be at the table for major decisions, such as capitalization and annual operating plans. Also, pacing is very important for big investors. Many have gotten stuck in long queues to get their money out of funds or to get it invested. With a joint venture or separate account, they can turn the spigot on and off in a much more efficient manner.

Seaman: We have found investors are more interested in pursuing strategies with us in a joint venture or separate account format, and they like the operating capabilities that our team brings. They like a focused strategy and a governance structure that is linked through that separate account/joint venture relationship. We have a long history in that kind of a relationship through our historical separate account business and more recently through joint ventures. We are interested in investing in real estate on behalf of our investors, and we are flexible in how we do that. Others will say they only do commingled funds and so you either invest with them in a fund or not at all. That is not our approach.

What do you think has attracted investors to Lowe Enterprises?

Howe: First and foremost, we are an investor/operator. Secondly, we have been doing this a long time; our investment management track record and experience extends over 23 years. Also, as a vertically integrated manager, we offer an efficient investment structure in a market where returns are compressed. We think our model is a more cost efficient way for investors to invest.

Have you seen any changes in investor interest as an owner/operator company as opposed to an allocator?

Seaman: People know us as an operator. There has been a trend this cycle for investors to seek out operators, and so we have been a beneficiary of that. The key is being able to demonstrate consistent performance, whether you are an allocator or an operator. We have been able to demonstrate our return success.

One concern, though, is can operators really understand what it means to be a fiduciary?

Seaman: It is something we address in talking with investors because it is a natural concern. We have a 20-plus-year history in the investment management business investing on behalf of our clients through this model. The investment by Guardian into our investment management platform creates an ownership structure that takes a strong parent company, Lowe Enterprises, with its operating platform, and combines it with a mutual life insurance company that sees its investment as part of a much broader investment portfolio.

Howe: Potential conflicts exist with many types of investment programs. In the end, the real estate investment business is a people business. We invite our investors to do extensive due diligence on our firm and our people and really look at how we make decisions and how we align our interests with our investors, all the way down to the people working at the property level. We believe that alignment has contributed to our success over an extended period of time. ❖

CORPORATE OVERVIEW

Lowe Enterprises Investors (LEI) manages in excess of $2.5 billion of real estate investments on behalf of institutional and other investment clients. LEI provides investment advisory and portfolio management services to its clients. Since entering the investment advisory business in 1989 the firm has become a recognized leader in value-added commercial and hospitality investments, as well as structured finance in the single family residential, hospitality and office sectors.

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