

Where there is wealth

Family offices and high-net-worth individuals represent a dynamic, eclectic mix of investors who tend not to act as a flock. Here *PERE* takes a sideways look at the different ways they connect with the private equity real estate industry



Jet set: family offices and high net worths are an international bunch that are parking their capital in RE all over the world

These past few weeks, *PERE* has been spending more time talking with family offices than is usual – that usual being hardly ever.

As a set, they remain distinctly private and do not typically volunteer to reveal all their investing secrets or indeed talk about them at all. However, for this special focus we bring you a variety of stories that demonstrate the different touch-points family offices have with real estate and some have come out of the shadows.

In the first place, we bring you a profile of Kayne Anderson Real Estate Advisors (KAREA). This unusual firm from Florida has almost fifty percent of its investor base consisting of family offices and high-net-worths. Not only do we catch up with the firm in question to find out more, but we also spoke to a family office investor and an investment professional who advises some 101 families in Kayne Anderson funds. See page 42 for the full story.

Then we take a look at how family offices sometimes like to roll up their sleeves and develop their own real estate projects. The billionaire Dart family that made a fortune from insulated foam cups of all things, has found a passion

for real estate development down in the Cayman Islands. Our (lucky) intrepid reporter had the arduous task of checking out the progress and the results can be seen on page 50.

But let us be honest. What we are dying to know is just how much wealth there is in family offices and ultra high net worth individuals generally and are they putting much of it to work in real estate overall, and where? Well, Megan Walters, head of research within the Asia Pacific Capital Markets team at Jones Lang LaSalle has the answers. In her commentary later in the section, you can discover the mind boggling-figures involved, broken down by geography.

Finally, at *PERE*'s Global Investor Forum in Los Angeles in late April, three professionals from the world of family offices took to the stage for a revealing hour of discussion. They explained how they think about real estate investing and offered insight into the dos and don'ts if you are a firm looking to introduce a deal.

All in all, it is a fascinating package. But if you take away nothing else, the central lesson never to forget when confronting this impressive investor set is "be prepared". □

A sunshine state of mind

Kayne Anderson is an unusual firm - based in Boca Raton in Florida, heavily backed by family offices, targeting niche real estate and has just raised \$1 billion-plus for its largest fund to date. Robin Marriott meets the group behind the success story





Photography by Chris Fay



Rabil: everybody is special

Boca Raton in Florida may not be the typical place to find a successful private equity real estate firm, but then again, Kayne Anderson Real Estate Advisors is not your ordinary firm.

Targeting niche property sectors in the US and with family offices and high net worth investors in its DNA as an investor base, it stands out amid many other firms for an entrepreneurial streak made more distinct by an unconventional relocation from New York to Florida two years ago.

Kayne Anderson Real Estate Advisors is a topical selection for this month's Blueprint not only because it has been in the news recently for raising more than \$1 billion for its latest fund – indeed its largest to date – but also because this issue of *PERE* has family offices as a theme. As previously mentioned, this firm's roots are firmly in family offices and its future continues to be closely tied to this particular kind of limited partner.

It was in April that *PERE* boarded a flight from New York to West Palm Beach airport to meet the team behind this success story that operates from an office surrounded by palm trees and not too far from the beach and hotels that line the coast of Boca. Over the course of an evening meal with 17 of the 42 staff and the next day one hour in the company of managing

partner and chief executive officer, Al Rabil, it became clear that this is a collegiate outfit that has stuck together through a major relocation while at the same time managing to grow in terms of staff and fund size.

Speaking to *PERE* from his corner office where various curious objects can be found including an executive toy putting green, Rabil explained the origins of Kayne Anderson Real Estate Advisors and also what he thinks of the firm.

“We were 6 people when we started out and now we are 42,” he says from a couch. “But we are not 42,000. If you are not the best or close to the best at what you do there is no room for you here. Good is not good enough. Everybody understands that, but everybody at the table is special and there is a bond that doesn't exist at many firms,” he says. Rabil has many Al'isms – sayings that reflect the kind of manager he is, but to understand the firm, one has to understand its origin and structure. Kayne Anderson Real Estate Advisors is actually the real estate division of Los Angeles-based alternatives investment firm, Kayne Anderson Capital Advisors, which has offices outside of LA in Houston, New York, Chicago, Denver, Atlanta and Dallas. Kayne Anderson Capital Advisors was started in 1984 by Ric Kayne and John Anderson and manages approximately \$28

billion of assets and employs roughly 275 professionals and focuses on niche investment areas such as upstream oil and gas companies, energy infrastructure, middle market credit, growth private equity and distressed municipal opportunities. Its founder and chairman, Ric Kayne, began his career in the mid-1960s as an analyst at Loeb, Rhodes & Co in New York and later became a principal at Cantor Fitzgerald. He is also a former chairman of the investment committee at the University of California.

It is little secret that he remains a driving force of the company today, and one of the striking aspects of the firm is how it has grown its business off the back of trust and partnerships with family offices. Kayne Anderson itself operates like the principal family office in the funds it manages, but there are many other family offices that are also limited partners in its funds. Just one example is Roger Engemann, a successful businessman who ran his own Los Angeles County-based company, Engemann Asset Management with billions under management until he sold it in 1997 for a fortune. Engemann told *PERE* how he had known Ric Kayne for 40 years having first come across him selling insurance stocks. When Kayne Anderson decided to go into real estate in 2007 as the latest niche sector, it was investors such as Engemann that met Rabil and his team and eventually invested in the funds they now manage. Says Engemann: “I wanted a highly-diversified portfolio because it is the best way to grow and minimize risk. Real estate fits beautifully into that. I also like the yield you can get from real estate, that’s the security.”

No thanks, yes please

Rabil paints an interesting picture of how he first came to be part of Kayne Anderson. The former Bankers Trust Company real estate financier and UBS Real Estate Banking Group head of Americas and Europe had left investment banking well behind to become an entrepreneur in his own right.

Having left UBS in early 2002, he founded two companies; RAMZ and Rabil Properties, and specialized in developing and acquiring off-campus student housing properties. As he recalls, the “six degrees of separation” law brought him into contact with Kayne Anderson’s head of new business opportunities, Terry Quinn. Kayne Anderson was as usual scouting scalable, niche businesses capable of making attractive total

returns. This was late 2006, and it had decided that a real estate business would tick the boxes. As Rabil puts it, “This is what Ric has done in 30 years at Kayne Anderson. He takes a large, scalable sector and looks for niche strategies within that sector where out-sized knowledge and capital has a good chance to outperform. He tries to bring in very capable people and teams with a very specific focus within a scalable sector.”

When Rabil first received an approach, he said he was content running his own shop and had little interest in joining a larger outfit. Kayne Anderson had heard about him via a former Bankers Trust colleague who had met Quinn. In March 2007, in the lobby of the Four Seasons hotel in New York, Rabil and Quinn met. Rabil says: “Terry tells a story that I was wearing a T-shirt! It was a golf shirt, actually. Literally 45 minutes into the conversation, Terry said, ‘You need to head our real estate private equity platform.’ I just said that was very flattering, but I am not interested.”

Quinn suggested Rabil at least meet Ric Kayne, however, which proved a pivotal point. Rabil met Kayne at his New York apartment. “I had a successful business and wasn’t looking for a partner or partners, but what swayed me was what Ric and Kayne Anderson brought to the table. The company was able to give tremendous support not only in terms of capital but also in infrastructure as well as in terms of growing the business in a way I could not do on my own. The infrastructure required to run a small business becomes mind-numbing to the point that unless you have a tremendous amount of capital and can employ your own accountants on your staff and a bevy of people on the operational side it becomes quite difficult to scale yourself. Coming into Kayne Anderson, you have more than 25 accountants on staff, and from day one you can go from spending 60 percent of your time externally and 40 percent internally to 95 percent of your time externally and 5 percent internally.”

Rabil continues: “We met for four hours in his apartment and I don’t think in that first conversation we spoke about what I could bring to the table – ever. He said, ‘Tell me about your parents, grandparents, family, what you like what you don’t like, what gets you excited.’ And the conversation went in that direction. It was not, ‘Tell me what you have done in your investment banking career and convince me how much money we can make together.’ At that point, we were six people and



Rabil: was content at his firm



Quinn: got turned down by Rabil to join Kayne Anderson, but suggested he speak to Ric Kayne



Ric Kayne: proved to be a persuasive figure

we had done about \$300 million of off-campus student housing in generally smaller deals of \$3 million to \$15 million. Ric said, 'I will help you as much as you want or leave you alone as much as you want. We don't try to bring in great businesses and micro manage them. We try to bring them in and give them every tool to succeed.' When I became convinced that this actually was the case, it was a very easy decision."

Kayne Anderson Real Estate Advisors launched its first fund in December 2007. The first \$27 million was contributed by Kayne Anderson affiliates, and the fund closed in March 2009 with \$136 million of total capital commitments. That

first fund was almost exclusively comprised of family offices and high net worth individuals. Rabil says the "pitch" was different than that of many others in private equity because it was Kayne Anderson putting its money in, and then saying to other family offices, "if you would like to join us as an investor, we would welcome your capital." Rabil adds: "It changes the dynamic. We were saying, 'We are doing this, we believe in this, and there's a significant amount of our capital in it.'"

Audrey Kinsman, a partner at Kayne Anderson Capital Advisors and a senior managing director in the client development group primarily responsible for family office

The 100+ club

Kayne Anderson Real Estate Advisors majors on family offices and high-net-worths for its investor base. Here *PERE* meets a man responsible for advising more than 100 of them via the Milwaukee-based firm, Crescent Grove Advisors

PERE: What does your role entail?

David Keevins: I am responsible for putting an investment platform together for our clients. I get to see all sorts of investment opportunities from currencies to energy pipelines

PERE: What is it that you look for in alternatives?

DK: In the alternatives space, what we are always looking for is to lessen clients' exposure or correlation to the S&P 500 and the Barclays Capital Aggregate Bond Index because the less we have to worry about market risk or what's happening in Greece or the Fed, the better. I am trying to get client exposure to areas where despite what is going on, we can smooth out returns.

PERE: How come private real estate?

DK: I am less of a fan of publicly traded REITs because they possess correlations to publicly traded equities. I am a bigger fan of the private markets.

PERE: How did you come into contact with KAREA?

DK: We did a tremendous amount of business with Kayne Anderson because of its pipeline and energy expertise so when it brought Al Rabil in to head up a

private real estate component we sat, we listened, and we liked what we heard.

PERE: What type of private real estate investments would you be wary of?

DK: We stay away from investments where big houses are writing checks for \$400 million or \$500 million. That is not really having your managers finding alpha in their areas of expertise



Keevins: looking for non correlation

PERE: How hard was it to get clients to re-up with KAREA's Fund III and IV?

DK: With AI and based upon the success early in Fund II, it wasn't hard to get interest from our clients in Fund III, but with this one, there was going to be a little bit of a different flavor - not only off campus student housing but commercial medical real estate,

and senior living. When we did our due diligence, we really liked the partnerships they formed with strategic partners.

PERE: How do you treat real estate in the portfolio?

DK: We are really going into real estate to generate long term cash-on-cash stable returns. The investments have performed more like equities where we have had some tremendous appreciation.



Piedmont West Medical Office Park, Atlanta, Georgia: medical offices are part of the niche strategy

relationships underlines that Kayne Anderson is a principal investor at heart. “In many ways we operate like our own family office. Our approach to investing is very much to identify opportunities that provide us with an exceptional return on investment and our commitment to family offices has really been part of the DNA of Kayne Anderson since our founding.”

She explains the real estate strategy has a very high percentage of family offices as investors partly due to the nature of real estate but also due to its commitment to family offices and the firm’s alignment of interest with families that choose to invest in niche real estate. “The founders and other partners are the largest investors. We don’t launch a fund or enter into a strategy because the market determines that is what is appealing today; instead, we embark on a strategy or fund because we believe it is the best way to deploy our own capital with those who share our view of the world and invest alongside us.”

Kinsman says that family offices frequently approach investing “from a different lens than other large institutional investors.” She explains, “Family offices have the power to say ‘No’. They don’t necessarily need to deploy capital to meet a pre-determined allocation. That isn’t to say they don’t have a high quality, institutional approach to assessing managers and due diligence. It is just that the end game is looking to preserve capital, purchasing power and wealth for themselves and future generations. In doing so, they are looking at the duration of investments, return on investment, real risk of loss, how they can enhance an investment and create a portfolio often to complement an existing or legacy family business.

So there are a lot of different forces at play providing valuable investment solutions to what I think of as being some of the greatest entrepreneurial families in the world.”

Raising in the dead

2008 was a tricky year to be raising a fund after Lehman Brothers collapsed, but the idea of niche real estate was nevertheless resonating with family offices. Though the fundraising climate in general was horrible, it was a good time to buy assets even if 2009 did not become the distressed asset blood bath many had predicted.

In a way it did not matter that the world was struggling, because one of the reasons investors like niche asset classes such as off-campus student housing is because of the low correlation to what else is happening in the world, including US stocks. Student housing is recognized as recession resistant and in 2008 it suffered far fewer defaults both in number and percent compared to other asset classes. As Rabil recalls: “There was no bevy of distressed deals for us to pick over and most of the ones that did exist were not our cup of tea.”

Instead, Kayne Anderson Real Estate Advisors looked for stressed sponsors who needed liquidity. In that first fund, the firm did two distressed deals - both in conventional housing. One was an acquisition from iStar Financial of a 350-unit property in Scottsdale, Arizona, which the firm bought at \$75 per square foot or \$90,000 per bed. That deal closed in March 2009 and was sold two years later at a net 30 percent return.

Kayne Anderson Real Estate Advisors (KAREA)

HQ: Boca Raton, Florida

Founded: 2007

Strategy: Niche US assets – student housing, medical offices, senior housing

Model: Vertically integrated developer and asset manager. Operating partner model for non-student housing investment deals

Key professionals: Al Rabil, managing partner and chief executive officer; Frank Duemmler, chief operating officer; David Selznick, chief investment officer

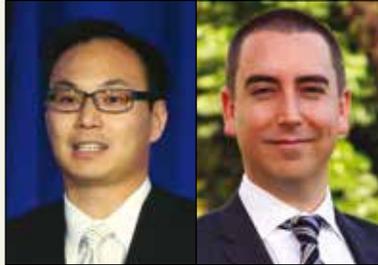
AUM: \$2.6 billion

Staff: 42

Funds: Kayne Anderson Real Estate Partners I (\$136 million, March 2009), Fund II (\$575 million, October 2011), Fund III (\$750 million, May 2013), Fund IV (\$1 billion-plus, May 2015)

The young and the bold

Kayne Anderson Real Estate Advisors might be led by experienced former bankers and investment managers Al Rabil, chief operating officer and chief financial officer Frank Duemmler and chief investment officer David Selznick, but their backgrounds in finance do not necessarily lend themselves to being up on the latest trends among occupiers of its properties, particularly students. Knowing this, the firm has recruited talent to tap into trends that can be translated into initiatives at the properties the firm manages, all aimed ultimately of course at increasing values. Two recruits would be Fabian Sy and Alexander Candia, both directors of business strategies who focus on identifying new ways to create value via promo partnerships, data management and analytics. Sy, a former commodities broker, joined in 2011 as a member of the asset management team and now applies his operations experience to the strategies



Sy, Candia: creating value via promos

unit, looking to drive efficiencies and identify opportunities for innovation. Sharing this mandate, Candia for his part is a former account manager at advertising giant Saatchi & Saatchi. Says Rabil: “We recognized that with student housing, you are really looking at 18 – 25 year olds. With technology, we recognize that things are in constant motion and changing dramatically. So we decided we needed a group to focus on innovative and creative ways to create a fun, living experience with great amenities and proximity to universities. We need young, creative people to figure out exciting things.”

So far, this has led to a number of initiatives such as partnerships with record label Interscope to promote up and coming acts at Kayne Anderson properties, Zagster, a bike-sharing scheme for colleges and businesses, and an alliance with not-for-profit advocacy group, Young Invincibles.

The other early deal was for a half-developed condominium project in Carlsbad, California that Kayne Anderson completed as a multi-family property and subsequently sold for a similar return to the Scottsdale asset.

By late 2009 there was virtually no distress at all and any multifamily asset that came to market had literally 50 bidders swarming around it. As a result, that first Kayne Anderson Real Estate Advisors fund remained primarily, though not exclusively, student accommodation-biased. Indeed, student housing was the primary focus for Fund I and II, however Fund III shifted in focus. The firm still acquired a lot of student housing but the majority of investments were made in medical offices and senior housing.

The move south to Florida

While the fund investing was going well, and Rabil was certainly enjoying the infrastructure Kayne Anderson brought with it, there was about to be a big test. There was nothing from an operational standpoint keeping Kayne Anderson Real Estate Advisors in New York, and for “weather, lifestyle and tax reasons,” Rabil and the company had been examining other bases for the firm. The timing seemed set, however. With one of the founding executive’s youngest children graduating from high school in 2013, that year seemed like a natural time

to make the move.

But the question was where would the firm try to move all its staff to? It wanted to go somewhere that stood a chance of maximum staff retention but also one close to airports with flights linked directly to major US cities. In the end, it fixed on Boca Raton, Florida. Some 20 of the firm’s 21 staff decided to move with the firm. That level of commitment is one of the company’s greatest achievements. “It brought this group closer together,” says Rabil. “It was a very tight knit group to begin with but virtually nobody had family or friends down here so it was a move we took together. We embarked on this adventure together and early on in the process I said some things to the group. I said, ‘I am older than most of you. Life is short and involves risk. We are a unique organization and group of people and we will do everything we can to make this successful for everybody involved. Instead of asking, ‘Why?’ the question should be, ‘Why not?’ That turned the tide – and February wasn’t a bad time to announce the plan to move to Florida!”

The move was eventually made in August 2013 and it appears to have worked out. Indeed, in order to show the ethos of the firm, the evening before this interview with Rabil, Kayne Anderson Real Estate Advisors laid on a meal for this reporter to meet with 17 of its staff. They each have their own

stories to tell. Some moved with spouses and children, others have started families since moving to Boca Raton. “When we came down, people were saying, why didn’t we do this five years ago!?” laughs Rabil.

KO returns for FOs

Wherever the location, the strategy as far as investors are concerned seems to be paying off too. David Keevins of Milwaukee-based Crescent Grove Advisors represents more than 100 family offices and high net worth individuals and has been investing with Kayne Anderson Capital Advisors in some of its non-real estate alternative asset classes for many years prior to the real estate group launch. Keevins says he took his clients into Kayne Anderson Real Partners II (KAREP II) and that the fund had been “tremendously successful.” The advisor has since committed to Fund III and the most recent Fund IV, which closed last month.

He says: “What we are always looking for in the alternatives space is anything to lessen exposure or correlation to the S&P 500 and the Barclays Capital Aggregate Bond Index. I am trying to get client exposure to areas where despite what is going on we can smooth out returns. When they brought in Al Rabil to head up the private equity real estate component we sat, we listened and we liked what we heard.” He adds: “Clients are really happy. It has worked out exactly the way you would want it to. Just when you think things are struggling with oil being 40 to 50 percent down in the fourth quarter of 2014, Al and his team from KAREP II had a massive distribution from



Aston Gardens in Naples, Florida: a retirement community situated on a Greg Norman-designed Tiburon Golf Course



The Kayne Anderson senior team: tight knit

the fund to really help smooth out performance and returns for us which is exactly what we wanted - to have uncorrelated assets. We got a nice big check in December and January as well.”

Fund III, he says, had a different flavor to Fund I and II. It was not going to be off-campus student housing but commercial medical real estate and senior living too. “We liked the greatly expanded pipeline and opportunities to get us into different market segments - not only uncorrelated market segments but those dealing with demographics such as an aging population, so you are almost investing in a demographic shift which is in your favor.” The investor also liked the way the fund was structured into three separate investment trusts per niche asset class that could be sold off in separate silos or in one go, thus providing maximum exit flexibility.

Structure

So far so good for Kayne Anderson. Last month it announced the closure of its largest fund to date. Indeed, the biggest concern at the Boca Raton HQ seems to be that after being the only tenant in its office that was formerly leased to Tyco, another firm has opened up on the other side of the same floor, thus putting pressure on the facilities! But flippancy aside, the firm feels it is in a good spot. Rabil says: “We are in a unique situation where we have credibility and enough autonomy to do things to run our business the way we want to run it. I personally know my investors and there are very few fund managers that can say that. I think we take it very personally. We approach our business like this really means something to us beyond management fees and AUM. We would rather be known as great small investors, than be larger and known for something else. The people here believe that. People see that this is a different place.”

The smiling faces of each of the 42 staff that adorn photos on one side of the office attest to that. □