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Related closes on $825m for first opportunistic fund

The New York-based developer's Real Estate Recovery Fund has found itself oversubscribed. In addition, the vehicle already has invested $200 million in distressed assets and loans for failed development deals.
James Comtois

The Related Companies has closed on its first US opportunistic real estate fund, which is targeting distressed assets and loans for failed development deals.

The fund, known as the Related Real Estate Recovery Fund, closed on $825 million in commitments, or about 10 percent above its original target of $750 million. The opportunistic vehicle had a hard cap of $1.25 billion, according to filings with the Securities and Exchange Commission.

Initially launched a little over one year ago under the name Related Distressed Opportunity Fund I, the New York-based developer changed the name at the behest of its placement agent, Greenhill & Co. "Greenhill suggested we change the name to separate ourselves from some of the other funds out in the market calling themselves distressed," said Justin Metz, managing principal of Related Fund Management. "Our strategy is a little different."

Indeed, according to documents from the University of Michigan's Board of Regents, which committed $35 million to the vehicle, Related's strategy "is to gain control of real estate assets that, due to the recent downturn, were never finished" and "to complete the stalled projects by finishing construction, completing repositioning and managing lease-ups." With the fund, Related primarily will target for-sale residential, multifamily, office, retail and mixed-use projects in major US cities, including Boston, Chicago, Los Angeles, Miami, New York and San Francisco.

"We're more about targeting loans made for failed development deals as opposed to just buying overleveraged assets," Metz explained. "We're looking to enhance the assets and completing the construction instead of just working out the loans individually."

Related Companies president Jeff Blau said in a statement: "Our global real estate footprint and vertically integrated in-house suite of real estate services creates a one-stop shop for sourcing, due diligence, financing, construction, design, leasing, sales and asset management. With our decades of real estate operational expertise, diverse finance experience and a history of managing private and public funds, our fund management platform and its focus on project execution is a natural extension of Related's core competencies."

In addition to the University of Michigan endowment, investors in the Related Real Estate Recovery Fund include the Texas County & District Retirement System, which committed $30 million, and New York-based private equity manager Siguler Guff, which committed more than $100 million on behalf of its Distressed Real Estate Opportunities Fund. Related is offering its investors an annual preferred rate of return of 9 percent and is targeting gross IRRs in excess of 20 percent.

In the meantime, the fund already has committed more than $200 million to five properties, including 111 West Wacker Drive in Chicago; 511-541 West 25th Street, 225 Rector Place and One Madison Park in New York; Oasis in Fort Myers, Florida; and a fund portfolio recapitalisation.

Related's fund management platform was established in 2009 when it hired Metz, formerly of Goldman Sachs, to build a team. Since then, the firm has initiated a smaller multifamily property fund and a construction loan fund. Together with the new distressed vehicle, Related manages roughly $1.5 billion.