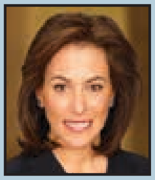
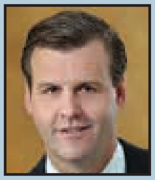
Artemis Real Estate Partners

The light and the hunt — Seeking opportunity and providing capital across the risk spectrum

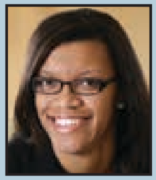
Contributors:



Deborah Harmon
Co-founder & CEO



Alex Gilbert
President



Gina Baker-Chambers
Principal & Portfolio Manager

Jonathan A. Schein, senior vice president and managing director of global business development for Institutional Real Estate, Inc., recently spoke with **Deborah Harmon,** co-founder and CEO; **Alex Gilbert,** president; and **Gina Baker-Chambers,** principal and portfolio manager, at Artemis Real Estate Partners. An excerpt of their conversation follows.

What was your mission when you started Artemis Real Estate Partners?

Harmon: Our primary mission was to build a sustainable investment management business that could deliver superior risk-adjusted returns across cycles, on behalf of our investors. In 2009, we saw an opportunity to generate outsized returns investing at the bottom of the economic and real estate cycles — and the opportunity to become the strategic capital provider of choice to best-in-class established and emerging joint venture operating partners across the risk spectrum. We believed if we could provide operating partners with opportunistic, value-add, core-plus and core capital for their middle-market equity transactions — and then do larger deals with co-invest dollars — we would fill a need for investors and operating partners alike. Our experience over decades investing in the middle market had taught us there was generally less competition and greater potential to consistently generate higher risk-adjusted returns.

Starting Artemis in the depths of the recession was daunting, but I felt if we were successful with our Fund I, we could open the door to capital access for other emerging managers. Today we partner with nearly 60 of the best-in-class local operating partners, both established and emerging, in multifamily, office, industrial, hospitality, self-storage, senior housing and retail. As a firm, we are passionate about doing well and doing good, and our performance has made it possible to do both.

When exactly did you launch the firm?

Harmon: The firm was founded in September 2009, and we made our first investment in June 2011. Today, we have approximately $4 billion of equity under management in two primary business lines: a commingled fund series (core-plus, value-add and opportunistic) and a series of separate accounts focused on emerging managers. Next year, as we reach our 10th anniversary, we expect to have $5 billion of institutional capital under management.

How did you come up with the name Artemis?

Harmon: Artemis was the goddess of light and hunt, and I felt those were two critical qualities you needed to start a business from a blank sheet of paper in the depths of the 2008 Great Recession. You needed light to be able to "see" opportunity through the fear and anxiety permeating the credit, financial and real estate markets. You also needed the passion and relentlessness to hunt for acquisitions or capital.

How do you differentiate Artemis' strategy?

Gilbert: We focus on the middle market, $10 million to $30 million of equity — generally greater than the syndicator or high-net-worth investor and under the radar of most institutions. We believe strongly in diversification and have an obsession for downside protection and risk mitigation. Then, our priority is to focus on value creation, creating cash flow at the property level to counteract interest rate increases, cap rate increases and market movements. We focus on renovate, reposition and re-lease to improve cash flow.

How have you built the firm's culture into your mission and values?

Harmon: First and foremost, we are **performance driven.** Our culture is **entrepreneurial, collaborative** and **diverse.** Our drive to deliver superior risk-adjusted returns is our cornerstone, but I have always believed our diversity is also a competitive advantage. Diverse teams are less prone to "group think," and they are better at anticipating risks and identifying long-term growth opportunities. If you create a team that has breadth and depth of talent, with different perspectives and different views, that is when optimal decisions are made. Our talent base today is about 55 percent minority and women.

Did you find being a woman-owned company was the greater challenge? Or was it being an emerging manager?

Harmon: Penny Pritzker, Artemis co-founder, and I used to say, the only thing we were "emerging" at was being emerging. I would have said early on that our challenge was being a first-time firm and a first-time fund, and I believe building a business from scratch is a hard task for anyone.

Today, I recognize there were other forces at work in the industry that made our job especially difficult. Of the nearly 900 real estate asset management firms that Harvard Business School looked at in May 2017, only 0.7 percent were women-owned. Many of the challenges we faced in 2009 in building a majority women-owned firm still exist for those typically underrepresented in the real estate industry. We have been building what we anticipate next year will likely be a $2 billion business investing with emerging managers and are proud to be an active part of the solution to expand capital access and opportunity for other emerging and diverse firms.

Baker-Chambers: The experience raising the first fund was the impetus for our emerging manager program with New York Common. We sought a mechanism where our operating partners could develop a track record with institutional capital that they could leverage into a fund or separate account vehicle. In partnership with

New York Common in 2011, we created our core-plus programmatic joint venture program for emerging operating partners, which opened the door to a universe of 29 very qualified partners, diverse and emerging managers, who historically did not have access to institutional capital.

Harmon: We thought, if it was this difficult for us to raise capital for our first fund, how is it going to be for someone who doesn't have a realized track record and the significant seed equity required to build out their team and invest the meaningful GP capital commitment expected?

How do you measure the success of the platform?

Baker-Chambers: Performance is the first measure of success. The second measure is whether we are creating more opportunity for operating partners. For example, two of our debt operating partners have successfully raised inaugural fund vehicles, levering their strong performance within the emerging manager program.

Harmon: Since 2011, we have invested over $5 billion in 190 investments across eight vehicles. Our emerging manager program has purchased $2 billion in core-plus and core real estate assets with 29 emerging manager and diverse operating partners across product type and geography. We created what we believe was the first program of its kind, intended to take less risk on the asset and focus on developing emerging managers.

Is there still demand for the emerging manager platform?

Baker-Chambers: Absolutely. We started with a $300 million separate account with New York Common, and they reaffirmed their commitment with an additional, expanded commitment of $500 million in 2014. We were then able to attract New York City Retirement Systems as a co-investor in 2015, as well as an additional separate account with a large Midwestern pension fund in 2016, to provide core, in addition to core-plus, capital to our emerging and diverse operating partners. We will continue our core-plus investing with emerging managers in a successor vehicle.

What does your portfolio look like today, and how are you thinking about portfolio construction at this point in the cycle?

Gilbert: As Debbie mentioned, our strategy at both the firm and the asset level at any time in the cycle is to be the capital provider of choice across the risk spectrum to best-in-class, emerging and established joint venture operating partners. Being late in the cycle means we are seeking to adapt in each of the different property types and seeking to leverage our experience with a goal of producing superior risk-adjusted returns. We are focused today on being overweight in industrial. Across the risk spectrum, we have 11 million square feet of industrial investments. We think industrial, along with affordable multifamily, offers the benefits of demand tailwinds. We would rather get our retail exposure through the industrial space — so instead of having a furniture store in a retail center, we would rather be a landlord to Wayfair, for example. Because of our operating partner relationships, we also seek out programmatic opportunities — so we will do two, three or four transactions with the same partner.

Are you looking in specific markets?

Gilbert: We have been very active in Southern California, and Sunbelt cities including Dallas, Atlanta and Nashville, among others.

What about the other property types?

Gilbert: In office, we are focused on the basics — renovating, repositioning and re-leasing the asset, improving the cash flow. In multifamily, we have two strategies. First, is affordable housing — apartments in the middle market. The second strategy is our program that provides preferred equity and mezzanine financing to developers from 55 percent to 80 percent in the capital stack. In the hotel space we are equal weight, and our focus is on select service in major markets with limited food and beverage — brands such as Courtyard, Hilton Garden Inn. We have been underweight in retail and have tended to avoid malls and entertainment retail, focusing instead on necessity-based grocery-anchored centers. Self-storage has been an area of success for us, and our strategy there has been to aggregate smaller transactions, generally with some level of renovate, reposition or re-lease, or some level of distress, and then sell into the institutional or REIT market. Healthcare, we define as private-pay assisted living, independent living and memory care. Similar to industrial, we believe it has demographic and demand tailwinds. In that area, our value-add fund is focused on finding distressed opportunities.

What is the future of our industry, and what role is Artemis playing?

Harmon: I am a big believer that talent is evenly distributed, but it is not evenly developed. I feel all real estate leaders have a responsibility to widen the circle of opportunity for those typically underrepresented in our industry, and that we must hold ourselves accountable for investing in diverse talent.

Six years ago, Artemis started our Summer Enrichment Program to train undergraduates and expose them to opportunities in real estate. We eventually partnered with an organization called SEO, or Seizing Every Opportunity, which exclusively serves students of color across multiple industries.

When the Pension Real Estate Association formed the PREA Foundation in 2017, it did so with a mission to advance diversity and inclusion in the real estate industry. The PREA Foundation and SEO partnered to create a first-of-its-kind, industry-wide training program for diverse undergraduate talent. The PREA Foundation has raised more than $11 million for the PREA/SEO Real Estate Track. This past summer — the program's first — SEO had nearly 50 intern placements in the industry with more than 30 real estate partners. This success was in large part due to institutional LP/CIO leadership, whose advocacy confirmed just how important diversity is to the future of our industry, as well as to an outpouring of support from an initial group of 75 donors.

Truly, this entry-level talent is the future. We believe more firms will partner with PREA and SEO to recruit diverse talent. We are in the early stages of changing the face of real estate; however, I know from Artemis' experience that we will all benefit from a stronger, more resilient workforce that can better serve the needs of our investors and communities.

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