Argosy Real Estate Partners

Investing in the middle market

CONTRIBUTORS

David Butler, managing partner, is responsible for management and oversight of Argosy's investment strategy, fundraising, asset management, and operations. Butler has 23 years of real estate experience, closing more than $4 billion of transactions.

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Who is Argosy Real Estate Partners?

Argosy Real Estate Partners (Argosy) specializes in opportunistic, value-add and core-plus investments in the middle market. Argosy invests in multifamily, office, retail, lodging, industrial, and for-sale residential land opportunities throughout the United States. We partner with experienced operating partners to create value through the acquisition, repositioning and/or development of real estate assets. Argosy currently manages more than $1.2 billion in gross value of real estate assets and uncommitted equity capital. Argosy is currently investing its sixth commingled, fully discretionary real estate fund and manages capital on behalf of institutional investors, family offices and high-net-worth individuals. The Argosy team consists of 21 employees across three offices in Philadelphia, San Francisco and Denver.

What is your investment philosophy? What are the core values and beliefs that drive your investment decision making?

Our investment philosophy focuses on value creation at the asset level. We believe that the repositioning and redevelopment of obsolete and/or underperforming assets, as well as the selective development of assets in areas with attractive supply/demand characteristics, are investment strategies that provide the potential to generate strong risk-adjusted returns. Because the success of this investment strategy is greatly dependent upon local market expertise and the ability to execute value-add business plans, we invest in partnerships alongside experienced real estate operators.

Our investment philosophy is based on five basic principles that form the foundation of our investment approach. These principles provide a framework for an investment strategy that we believe is less dependent upon market timing and leverage and, therefore, capable of providing attractive risk-adjusted returns through the inevitable cycles of the real estate market. These principles include acquiring assets at competitive cost bases, focusing on downside protection, creating value at the asset level, providing for multiple exit strategies, and partnering with experienced operating partners.

How do you source investments, and what is your competitive advantage in investment sourcing?

Our operating partner relationships provide us with proprietary, off-market transaction flow. Our operating partners are deeply ingrained in their markets and have the ability to identify unique situations where assets are underperforming and/or mispriced. In addition, our investment team has deep knowledge of their targeted markets and extensive industry contacts. Few fund managers of our size have three offices nationwide staffed with professionals with deep operating experience within the targeted asset classes. This allows us to react quickly to investment opportunities and to have more extensive local knowledge than firms of our size that typically try to cover the entire country from a single office.

Why use a diversified allocator fund model, and what are the benefits?

For investors interested in accessing middle market investment opportunities, it is our view that a diversified allocator fund model is the most efficient method to achieve desired levels of diversification. We believe that a diversified allocator fund can provide smaller to moderately-sized institutional limited partners with greater diversification than what they would be able to achieve by investing solely in operator funds. This is particularly true when trying to access the middle market, a segment with greater inefficiency and fewer allocator fund options available. We utilize a diversified investment approach so that our investment options are not limited when a particular asset class or geography becomes overpriced. We do not want to be caught deploying capital into a single asset class or targeted geography when the fundamentals do not make sense, just

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because that strategy is the stated target of the fund. As a manager of diversified funds, we have the ability to adjust our strategies to target the asset classes and geographies that we feel are most attractively priced, or have greater prospects for future growth, at any point in time.

What do you think is particularly unique about your strategy and your approach to investing? How is it different from the strategies and approaches advocated by other real estate funds?

Much of the discretionary capital is being allocated to the mega-funds (funds with $1 billion or more in capital). These funds are generally not focused on our targeted $5 million to $25 million equity investment size. It has become increasingly difficult for smaller funds to raise capital. As a result, we believe we have a distinct competitive advantage given our historical ability to raise capital for our funds. Given the relative lack of capital raised targeting middle market transactions, we believe this segment has the greatest opportunity to achieve outsized returns.

It is our understanding that many limited partners currently do not have sufficient allocation to the middle market, which is a less efficient space relative to other market segments. However, if you have an experienced team, a disciplined investment process and a substantial back office infrastructure, you can successfully deploy capital in this market segment, as we have done over the long term through multiple market cycles.

What is the value proposition you provide to your fund investors?

Argosy is an entrepreneurial firm with a proven investment track record over nearly 30 years. We are large enough to have a professionally run, institutional fund management process, but small enough to be entrepreneurial and focused on returns rather than management fees. We have a deep infrastructure that we believe is unique to a fund platform of our size. We are able to maintain such an extensive back office due to our ability to share resources with the other groups in the Argosy Capital platform, which also contains corporate private equity, credit and secondary strategies. Our investment team members all have extensive operating experience and work closely with our operating partners on each investment. Our team also has extensive experience working for larger institutional fund managers; we have put into place many of the best practices of their previous organizations, while also maintaining an entrepreneurial culture.

We believe our relationships and long-term reputation in this market allow us to stand apart from other real estate investment platforms. Our sourcing capabilities offer another area of differentiation. We believe that our team's extensive operating partner relationships allow us to source transactions efficiently and typically outside of competitive auction processes. In addition, we are unique in that Argosy is a significant (generally 10 percent or more) investor in each of our funds, therefore providing a significant alignment of interest.

Where are you finding the best investment opportunities at this point in the cycle?

There is currently a great deal of competition among investors on the national level, forcing us to look beyond the standard opportunities pursued by larger fund managers. Argosy believes that attractive investment opportunities still exist in transitional assets and smaller-sized investments. There are certain markets and asset classes that are trading at or above previous peak pricing levels. However, in other selected markets and asset classes, we still see pricing below their previous peaks. We focus on selected primary and secondary markets that we believe are poised for growth.

Currently, we are targeting multifamily development projects in high barrier-to-entry markets with favorable supply/demand profiles, the acquisition of internet-resistant retail centers that we believe have been mispriced due to many investors' general concern of the retail sector, as well as the repositioning of traditional office to "creative" office buildings. We also recently invested in the development of our first single-family "build-for-rent" project, an emerging asset class that is beginning to attract institutional interest.

We also continue to locate unique off-market opportunities through recapitalizations of assets. For example, there may be a fundamentally sound asset that is suffering from an inadequate and/or complicated capitalization structure. We recently provided new equity (on a last-in, first-out preferred basis) to fund the capital improvements associated with a rebranding of a hotel in a prime location that fits this criteria.

COMPANY OVERVIEW

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