



Artemis Real Estate Partners

Recently, **Geoffrey Dobrmann**, publisher and editor-in-chief of The Institutional Real Estate Letter – Americas, spoke with **Deborah Harmon** and **Alex Gilbert** of Artemis Real Estate Partners, LLC. The following is an excerpt of that conversation.

When and why was your company founded? And what is your strategy?

Deborah Harmon: Penny Pritzker and I co-founded Artemis in 2009. Our objective is to capitalize on the attractive investment opportunities that emerge at the bottom of economic and real estate cycles. Historically, the best-performing vintage funds have coincided with the weakest GDP periods, and 2007 to 2009 was the worst recession since the Great Depression. Artemis invests in multifamily, office, industrial, retail and senior housing across value-add/opportunistic and enhanced-core strategies. We invest through Artemis Fund I, which is a U.S.-focused \$436 million discretionary value-add/opportunistic fund, and a \$300 million core-plus separate account with the New York State Common Retirement Fund. We invest with best-in-class niche operating partners, both established and emerging, with whom we can develop programmatic joint venture relationships and invest for the long term.

Alex Gilbert: Our goal is to be the capital provider of choice across both the core-plus and the value-add/opportunistic spectrum. We are focused on current cash flow because in today's environment we think it is a hedge against slower growth, and achieving rent growth, of course, becomes additional upside. Our value-add/opportunistic fund is focused on pursuing situational distress and creating value on the buy. Over 50 percent of our current fund portfolio reflects the strategy of buying from a court-appointed receiver, a special servicer, a bank or other unintended holders of real estate that are looking for liquidity. In our core-plus separate account, we are focused on finding lower risk assets that are more stabilized, and acquiring them with less leverage. This program allows us to team up with new or emerging operating partners that have a compelling track record in a specific product type or region but have not yet raised institutional commingled fund capital.

Is there anything that distinguishes your approach from the vast majority of managers?

Harmon: It has been our experience over decades that there is often less competition for smaller transactions. While we seek to capitalize on this size "sweet spot," sourcing transactions that are "below the radar screen" of the larger funds, we bring to these transactions the institutional infrastructure and mindset typically associated with larger discretionary funds. Consultants have commented that in their experience fund investment performance can be inversely correlated with fund size. We are structurally different in that we deliberately target a smaller fund size and deploy a significant amount of our own personal capital, alongside that of our investors, to maximize alignment of interest. This alignment, where we are among the largest investors in our own fund, ensures that we are always considering the balance between risk and return. We are also strategically different from other similar-sized managers, which tend to be product or regionally focused. Artemis has an established network of strong



Deborah Harmon is co-founder of Artemis Real Estate Partners, LLC. As CEO and a member of the investment committee, she is responsible for establishing, implementing and overseeing the company's strategic direction, and is involved in all aspects of Artemis' business. She has more

than 25 years' experience in the real estate industry. Prior to co-founding Artemis, from 1991 to 2007, Ms. Harmon was president and CIO of the J.E. Robert Cos. (JER). Prior to JER, Ms. Harmon was a managing director at Bankers Trust Co. in New York City.



Alex Gilbert is the President of Artemis and a member of the investment committee. Mr. Gilbert is responsible for developing and implementing the acquisition and asset management activities of Artemis. Prior to joining Artemis in February 2011, Mr. Gilbert spent 17 years in real estate principal

investing, investment banking and the real estate service business. His recent experience includes AllianceBernstein and the J.E. Robert Cos. (JER). At JER, Mr. Gilbert was a managing director, and in 2008, he was selected to head the U.S. fund business.

operating partner relationships across all regions of the United States, and we have deep experience investing across all of our targeted product types. This means we can quickly and nimbly create a cash-flowing portfolio to generate more attractive risk-adjusted returns diversified across both geography and product type. Our goal is to create programmatic joint ventures, doing multiple deals with selected operating partners. In Fund I thus far, close to half the fund's invested capital has been deployed with joint venture partners who have done multiple deals with Artemis. We fully expect this number to increase. We distinguish ourselves as the capital provider of choice, a "one-stop shop" for best-in-class operating partners.

Gilbert: We are also looking for more situational distress than some of the regional operators. So while we might see a regional fund operator bidding on an office building in Tampa or even Washington, D.C., we may not see that operator bidding on a note secured by a similar type office building from Bank of America. We have acquired debt to control positions and debt to own positions. We have bought from almost every special servicer across all product types. Of the 22 investments made so far, 13 represent what we call "situational distress." Nine of those 13 investments we acquired from a bank or a special servicer, while the eight remaining investments represent assets purchased at significantly below replacement cost. We are pursuing \$5 million to \$30 million equity transactions and our average Fund I equity investment has been about \$11 million — below the radar screen of other distress investors.

What is your philosophy with respect to risk mitigation in today's environment?

Harmon: With respect to risk management in general, we are obsessive about the downside. Our portfolio construction is no accident. We are deliberate and thoughtful about building a balanced portfolio instead of executing a series of similar transactions. This is the result of carefully assessing the risk, negotiating the structure and aggressively managing exposure to the key drivers of fund performance. The fund mitigates risk by diversifying across the major geographic markets, product types, lease roll, disposition date, current cash versus residual and the smaller transaction size — just to name a few! Among the most important risk mitigators is the smaller transaction size, which means there is no single deal that will materially negatively impact the performance of the fund.

Gilbert: With respect to risk management and leverage, we look at the unleveraged return because we don't think leverage should drive the decision to make an investment. We have a leverage cap across our fund at 65 percent loan-to-cost. We focus on the real estate and the cash flows, and then we determine the appropriate leverage for the investment. All too often people ask, "How much leverage can we put on a deal to maximize the return?" We start and end with the real estate.

What types of vehicle do you offer your clients?

Harmon: Right now, we have a fund and a separate account, and we expect a first close of Artemis Fund II this year. The fund and separate account programs are complementary for a few key reasons. First, by providing capital across the transaction spectrum — core-plus, value-add, opportunistic investments — we deepen our relationships with operating partners and become their preferred strategic partner. An additional benefit to investing across the risk spectrum is the ability we have to match investment strategy to the market cycle. For example, when it is not the right time to invest opportunistically, as in 2006–2007, as a firm you must have the discipline to "turn off the spigot." With multiple sources of capital to invest across the yield and risk spectrum, you ensure the ability to match capital, risk and return for your investors and partners.

How did you overcome the challenge of raising a first-time fund as a first-time firm during one of the most difficult fundraising periods post-2008?

Harmon: I believe our investors found the firm's strategy and the team's experience compelling. We assembled a group of principals who have on average over 22 years of experience. We also have a core team that has previously worked together and executed the same distress strategy that we were proposing to execute for Artemis Fund I. Equally important was the structure. Alignment of interests starts at the top. Before we founded Artemis, we went on a "listening tour" of investors, consultants, hedge funds and other managers. They shared with us their concerns about first-time funds, fund size, fee structure, exit controls, governance and leverage. We incorporated this investor feedback into our firm and fund structure, focusing on transparency and on governance. One of the repeated concerns was the "operating risk" typically associated with first-time funds. To address this, we fully built out the platform, infrastructure and team prior to investing a dime of capital. Investors also wanted to see substantial skin in the game. The cofounders and principals made a very substantial

financial commitment to Artemis; we've committed more than \$100 million in GP capital and seed capital across Funds I and II, both of which are capped at \$500 million. We felt we could comfortably deploy that amount in 24 months, which is exactly what has happened. We have already had multiple realizations where we doubled the fund's equity investment on transactions; we view this as an early validation of our strategy.

That is a sizable amount of co-investment capital.

Harmon: The amount of equity that our principals and cofounders are putting up alongside our investors is a defining characteristic of the Artemis approach. We are a team of motivated principals whose compensation is aligned with fund performance and investor success. As with Fund I, in Fund II we will be a \$50 million GP investor, which will be fully committed at the first close, regardless of the ultimate fund size. We believe this reflects the courage of our team's convictions.

Everyone thinks you put your shingle out as an emerging manager and the money flows in. In some ways, you almost have twice as much to overcome.

Harmon: Sad but true! The performance bar for emerging managers is extremely high. In fact, the difficulty emerging managers face accessing institutional capital inspired our approach for the New York Common Separate Account. We saw substantial opportunity to bridge the gap between top-shelf operating partners and institutional capital by creating a vehicle that invests directly in real estate via programmatic joint ventures. As previously mentioned we believe the \$5 million to \$30 million equity size tends to be overlooked by the larger fund investors, and this is particularly true in the core-plus space. Interestingly, when we were raising Artemis Fund I, there was only one \$15 million investor who participated through an emerging manager program. Nearly half of our fund investors had invested previously with me, Penny or Alex. This underscores that if investors have a positive experience with you, then they can be very loyal. How do you raise a first-time fund as a first-time firm? Passion, patience and an unwavering commitment to succeed, combined with a time-tested investment strategy. Ours is one of defensive opportunism. It is a deliberate approach designed to achieve a balance between downside protection and growth, and generate stable, attractive risk-adjusted returns. ❖

COMPANY OVERVIEW

Artemis Real Estate Partners, LLC is a private equity real estate investment manager. Artemis was co-founded by Ms. Deborah Harmon and Ms. Penny Pritzker and is headquartered in the Washington D.C. metropolitan area. Artemis seeks to deliver attractive risk-adjusted returns to investors and manage institutional third party capital in a variety of real estate strategies, with its co-founders and principals investing significantly alongside its investors.

CORPORATE CONTACT

Alison Hawkins
+1 323-843-8352
alison.hawkins@artemisrep.com
www.artemisrep.com