

Friday Letter: Beating the odds

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By:

Despite a particularly challenging environment for first-time funds, Artemis Real Estate Partners has completed a successful close of its debut vehicle, raising capital above its original target.

It's a bleak fundraising world out there, and the numbers look especially discouraging for new fund sponsors. According to industry research, 308 emerging managers – those that are raising their first, second or third funds and targeting capital raises between \$100 million and \$500 million – have been in the market over the past 14 months. Of that number, about 12 percent have raised some capital for their funds – a success rate that is generally consistent with the broader US real estate fund market. However, less than a third of those managers have reached their targets.

In the face of this grim reality, two-year-old Artemis Real Estate Partners stands out with the final closing of its debut fund earlier this month. When the Chevy Chase, Maryland-based real estate investment manager launched Artemis Real Estate Partners Fund I in February 2010, it targeted a fund size of \$350 million, with a hard cap of \$500 million. The firm ultimately exceeded its goal, collecting a total of \$436 million in equity commitments for the fund, which will focus on opportunistic debt and equity investments across multiple property types. Investors included public and private pension funds, foundations, family offices and high-net-worth individuals.

Artemis, of course, has an advantage over many of its competitors, thanks to the two industry heavyweights – Penny Pritzker and Deborah Harmon – that lead the company. Pritzker, the firm's chairman, is a member of the famed Pritzker family that built the Hyatt hotel chain and serves as chairman and CEO of Pritzker Realty Group, which oversees the non-hotel real estate investments owned by her family's business interests.

Harmon, CEO of Artemis, was president and chief investment officer of real estate investment firm JER Partners from 1991 to 2007. At JER, she led the acquisition of \$27 billion in assets, including investments of more than \$4.5 billion in equity across eight funds.

Artemis clearly has benefited from Harmon's ties to JER, having so far recruited five other ex-JER employees as top managers. They include president Alex Gilbert, who headed JER's US fund business, chief financial officer Richard Banjo and Jim Smith, who will be in charge of managing Artemis' \$300 million separate account with the New York State Common Retirement Fund.

With its first fundraise in the bag, Artemis is now looking to invest the fund's capital over the next two to three years. While it's too early to tell how well Artemis' first fund will perform, the overall industry expectation is high, given investors' perception of emerging managers as having a greater vested interest to pursue better deals and offering more favorable long-term compensation and incentive fees, as well as the appeal of creating a bench of small fund managers that eventually may join the big leagues. If Artemis plays its cards right, it could one day be part of that graduating class.