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Top Stories

Austin Shop Readies Recession-Resistant Investment Fund

Austin-based **Virtus Real Estate Capital** is getting ready to launch *Virtus Real Estate Capital Fund LP*, a \$500 million fund that will make investments in recession-resistant sectors such as student housing, self-storage, medical office and senior living properties. "The common theme in these asset classes, besides being recession-resilient, is that they tend to be very fragmented. There are a lot of local and regional operators [of these property types] that are not optimizing their net operating income," said **Jeffrey Schneider**, director of capital development. Virtus will put focus on distressed sellers that require certainty of close, he added.

The fund will focus on the Sunbelt markets but will invest nationally, pursuing an income plus growth through value-added strategy by making off-market, opportunistic acquisitions and recapitalizations, Schneider said. The fund will also take joint venture equity positions and originate mezzanine loans and preferred equity positions. It could pursue mezzanine and preferred equity positions in development projects. The fund will use 60-70% leverage and will deploy no more than 40% of leveraged equity to any asset class. Virtus plans to deploy the fund's capital over the next 24 to 36 months.

The fund is the largest that Virtus has raised and is also its first multi-strategy investment fund. Until now, Virtus' funds have concentrated on single asset classes, including self-storage and student housing. Virtus considers these sectors as well as senior housing and medical office to be resistant to economic cycles and capital markets movements, he added.

Virtus will officially launch the fund in December, and its first acquisition will likely be made in the first quarter of 2012. Final closing is projected for Dec. 31, 2013. The company is raising capital from institutional and retail investors and will shoot for 20%-plus returns for its institutional investor share class. Schneider estimated that almost half of its returns will come from current income. The fund will charge a 1.75% management fee for that class, and a 20% incentive fee after preferred return hurdles are met. There are two other share classes for retail investors, for which

Virtus charges a 2% management fee.

The company is also raising equity for *Virtus Student Housing Fund*, which is targeting \$100-150 million in equity commitments and was launched in May. In the student housing space, Virtus focuses on second-tier universities, Schneider said.

—**Graham Bippart**