

Forum marks decade of global

■ Firm has \$6bn of assets under management and £2.5bn invested in property companies

BY JAMES WHITMORE

Forum Partners was 10 years old in May but, in keeping with its low profile, the three founding partners did not celebrate.

Andrew Walker, who co-founded the firm with two other former directors of Security Capital, Russell Platt and Caroline McBride, blames the non-celebration on the fact that the three were in different parts of the world at the time.

Even if they had all been in the same place, a Prince Harry, Las Vegas-style party would not have been in their plans.

The three have very quietly gone about their business, building up a global real estate investment management business with a difference.

They don't buy property, they invest in companies, buy shares and manage debt through more than 60 people in offices in London, the US (Santa Fe and Greenwich), Hong Kong, Beijing, Singapore and Sydney, and a network of offices in Seoul, Tokyo and Mumbai.

"Diversity of revenue streams is helpful as long as they are coherently put together," says Platt, Forum's CEO.

Half of Forum's \$6bn of assets under management consists of European real estate loan portfolios for a "major investment bank". *Property Week* has revealed that the bank was Credit Suisse, which sold a 51% stake in its loans in two deals, to Lone Star in 2009 and Apollo Global Management in 2010.

A year ago, Forum won the mandate to manage the loans and hired Credit Suisse real estate finance directors Rob Weinberg and Ryan Pappas and vice-president Rogier Hetterschijnt to run that side of the business.

At the other end of the scale is the

smallest part of Forum's business: property securities. In June 2009, the firm hired a team from Citi Alternative Investments to launch a global real estate securities business. The team, led by Dan Pine, has \$500m of securities under management.

The third strand to the business is the \$2.5bn invested in property companies. Forum has raised six funds – three in Europe and three in Asia – to make private equity or venture capital-style investments.

The first fund in Europe, which invested mainly in France, and the first in Asia, have now been liquidated.

They delivered respective net internal rates of return of 10.15% a year since launch in 2003 and 11.75% since launch in 2004.

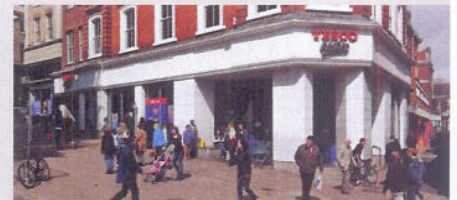
The second funds in the two continents are now being liquidated – the European one invested mainly in Germany. The only two UK deals of note in the two earlier European funds were one that provided mezzanine debt and took warrants in Peter Kershaw's HQ Executive Offices, and another that bought shares and loan stock in David Lockhart's Halladale. The investments were sold in 2005 and 2007, respectively.

The third European fund, the 10-year Forum European Realty Income III, has committed all the €443m of equity it raised in early 2009, and the third Asian fund, Forum Asian Realty Income III, has committed \$225m of the \$400m of equity it raised in April this year.

Strategic partnership

In early 2009, Forum hired JP Morgan Cazenove's Richard Cotton, UK property's best-known investment banker, to help invest its new €443m European fund.

"At that time we thought we would be doing recapitalisations



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investment with a difference

of listed companies," says Platt, envisaging a raft of convertible debt and preference share issues.

In fact, listed companies recapitalised by carrying out rights issues and Forum ended up investing its money in start-up companies.

"We went for companies that had no legacy problems and had good management," says Platt. "We found companies with cash, who had sold out in the boom and were keen to partner."

The aim was to establish a series of "platforms" in different sectors. Consequently, in the UK it has entered the distribution sector through David Keir's Roxhill, secondary retail through David and Allan Lockhart's NewRiver Retail, London residential through Michael Sherley-Dale's JMS Estates and London serviced offices with Giles and Niki Fuchs' Office Space in Town.

In continental Europe, Forum has invested in Duet Group's European Real

Estate Debt Fund, Berlin residential company Kompass, Züblin Immobilière France, DIC in Germany and loan servicing company Crown Group.

Platt says Forum becomes the "super CIO" of the companies it backs.

"We are partner-sponsors, not owner-operators," he adds. "We provide enough capital for the companies to get critical mass. Most importantly, we want to control the pace at which capital is invested."

Forum is, naturally, careful about the companies in which it invests.

"The golden rule is there need to be five people to whom we can make phone calls to find out what they are like," says Platt.

Typically, Forum receives a coupon from its investment – which can be preferred equity or convertible debt – ranging from 6% to 15%, plus a share of profits. Unusually for a property investor, Forum's funds have all been

unleveraged – a blessing, given the problems that have afflicted leveraged investors over the last five years.

Platt admits that he tried to raise debt for the earlier funds, but the banks found the convertible share business model too complex.

"We were lucky, that's what has saved us," he adds.

Forum's 2010 purchase of mortgage servicer Crown Group brought it around 145 employees in Ipswich and Germany, who manage around £3.8bn of commercial and residential property loans.

Its biggest mandate is servicing the Diversity Funding CMBS (commercial mortgage-backed security), which was the result of the securitisation of Northern Rock's commercial property loan portfolio, purchased by Lehman Brothers in May 2007 for £1.6bn.

Having Crown has enabled Forum to bid for the large property loan portfolios that have been put on the market by Lloyds Banking Group and Allied Irish Bank (AIB), among others. It has yet to be successful in landing one of them. Most recently, Forum bid for AIB's £383m Project Pivot UK loan book, but did not make the shortlist of bidders.

The third European fund is fully invested, but the third Asian fund still has nearly half its money left to invest.

"We have the same strategy in Asia as in Europe: backing companies," says Platt. "There is still growth in Asia in rents and there's inflation."

Diving in down under

In Europe, Forum has limited its investment to companies that operate in the mature markets of the UK, France and Germany "because selling will be important and we need liquidity", says Platt.

But with the Asian fund, Forum has invested in more countries, including, most recently, Australia.

"We avoided Australia in the second fund because the market was too sophisticated, but now the market is in disarray," says Platt.

In May, Forum bought Sydney-based fund manager Denison Group, following Blackstone's acquisition of Valad Property Group, LaSalle Investment Management's \$10m purchase of Brisbane-based Trinity Property Group and Morgan Stanley's purchase of Orchard's funds management business.

The purchase of Denison came with the concurrent acquisition of the management of Viento Property.

Forum is not your typical real estate investment management firm.

"We think of our business as having three axes," says Platt. "We are a global firm that invests in 30 countries and we have aspirations to extend our European and Asia private equity model to the Americas."

"We invest up and down the capital stack with equity, mezzanine, convertibles and exchangeables. And we have a public- and private-market businesses, so we have capabilities on both sides of the fence."

Although the third European fund has been fully invested, there are no plans as yet for a fourth fund.

However, Platt is aiming to launch next year a global fund that would buy existing debt in both private and public companies. This could include corporate bonds, CMBS and debt securities.

By then, Platt, Walker and McBride may have finally got together to celebrate the firm's first decade.

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On Forum: firm has invested in Office Space in Town, NewRiver Retail and Roxhill in the UK (opposite, clockwise from far left); Züblin Immobilière, Crown Group and DIC in Europe (clockwise from above); and bought Australian Denison Group in May (right)