Time Equities readies Fund IV in quick return to market – Exclusive

The New York-based firm, which solicits non-institutional capital for its funds, had just wrapped up its third capital raise with about $100m of equity in November.

By Meghan Morris - 5 hours ago

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Time Equities is heading to market with its latest vehicle two months after closing its third fund, *PERE* has learned.

The New York-based firm wrapped up fundraising for TEI Diversified Income & Opportunity Fund III in November, corralling $100 million from family offices and high-net-worth investors and $30 million of equity from independent broker-dealer networks. Time Equities is targeting a similar equity raise for Fund IV, which it plans to launch in about a month. The firm co-invests at the property level, typically putting up about 25 percent of the deal's equity.

David Becker, the managing director for the firm's equity division, declined to comment on the upcoming fundraise.

He said Fund III counted about 800 investors from across the US, the majority of which re-upped from Fund II, a $60 million fund that closed in November 2015. Through the fund series, Time Equities invests in opportunistic properties across North America and western Europe, focusing on retail, industrial, residential and office assets that offer both a source of current income as well as upside from repositioning. Both Fund III, which is nearly fully invested, and Fund IV will invest in 15-20 properties.

Becker said the firm planned to market new funds every 18 months or so, and would time fundraising and size vehicles according to market opportunities.

"We want to make sure we offer a very boutique opportunistic product to make sure we can deploy capital well," he said. "We've been very careful to make sure we're not sitting on excessive cash that we'd have trouble investing."

The managing director noted that the funds have a longer horizon than typical private equity real estate vehicles, with the goal of returning all invested capital in seven years, refinancing the property and then holding it as a source of income for the long term. The firm, founded in 1966, began working with independent broker-dealer channels in 2010 as it sought to expand its capital base beyond a friends-and-family network.

"In some ways, we're providing a real estate annuity," Becker said. "That's one of the reasons we favor the independent broker-dealer channel, because high-net-worth investors don't have a clock ticking [compared with institutional investors]. They're looking for good strategies that appeal to multiple generations."

Time Equities targets a mid-teens return, though Becker noted that because the funds focus on long-term holds, distribution rates are a better performance measure than net internal rate of return. The firm targets a 6-7 percent annual return, with a bonus distribution at the end of the year. Fund I, which closed in 2013, has distributed 10-12 percent, while Fund II has distributed 6-8 percent.

Fund III's most recent deal was a Milwaukee, Wisconsin acquisition earlier this month. The firm bought The Blue, a 578,000 square foot downtown office building with 35 percent occupancy for $19.5 million.

"That speaks to who we are: we're buying what we'd call vintage real estate in a downtown market that has seen some resurgence in the last 10 years," Becker said. "This is a lot of real estate that we're buying for a significant fraction of replacement cost with upside in the lease-up while earning cash at the occupancy level… When we get it to a stabilized leasing standpoint, we'll look to refinance and take the equity out. We'd hope to return the equity in 36 months and still own the asset with positive cashflow."

Time Equities also has separate accounts with an unnamed state public pension plan and a real estate investment manager for development deals. Becker said those groups can take more development risk than its other investors can on projects such as 50 West, a recently-completed luxury condominium near New York's Wall Street. Overall, the firm manages a $5 billion portfolio with about 30 million square feet of assets.