Argosy Real Estate Partners

Finding niche investment opportunities in the underserved lower middle market

CONTRIBUTORS

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Who is Argosy Real Estate Partners?

Argosy Real Estate Partners (Argosy) specializes in opportunistic, value-add and core-plus investments in the lower middle market. Argosy invests in multifamily, office, retail, lodging, industrial, and for-sale residential land opportunities throughout the United States. We partner with experienced operating partners to create value through the acquisition, repositioning and/or development of real estate assets. Argosy currently manages more than $1.3 billion in gross value of real estate assets and uncommitted equity capital. Argosy is currently investing its sixth commingled, fully discretionary real estate fund and manages capital on behalf of institutional investors, family offices and high-net-worth individuals. The Argosy team consists of 23 employees across three offices in Philadelphia, San Francisco and Denver.

What is the lower middle market, and why does Argosy believe it is an underserved segment?

Argosy generally defines the lower middle market as transactions requiring equity investments in the range between $5 million and $25 million. Argosy believes there is significantly less competition in the marketplace for investments of this size. Argosy believes investments greater than $5 million are typically too large for individual investors and syndications. These investments, especially those with distressed, heavy value-add or development components, generally require an institutional level of expertise that individuals generally do not possess. Argosy believes that investments below $25 million are typically not pursued by larger real estate fund managers, which are generally focused on larger transactions and are less likely to devote their resources to execute on smaller transactions.

Much of the discretionary capital is being allocated to the mega-funds (funds with $1 billion or more in capital). These funds are generally not focused on our targeted $5 million to $25 million equity investment size. It has become increasingly difficult for smaller funds to raise capital. As a result, we believe we have a distinct competitive advantage given our historical ability to raise capital for our funds and to source attractive investment opportunities in this more fragmented landscape. Given the relative lack of capital raised targeting lower middle market transactions, we believe this segment has the greatest opportunity to achieve outsized returns.

It is our understanding that many limited partners currently do not have sufficient allocation to the lower middle market, which is a less efficient space relative to other market segments. However, if you have an experienced team, a disciplined investment process and substantial back-office infrastructure, you can successfully deploy capital in this market segment, as we have done over the long term through multiple market cycles.

What is your investment philosophy?

Our investment philosophy focuses on value creation at the asset level. We believe that the repositioning and redevelopment of obsolete and/or underperforming assets, as well as the selective development of assets in areas with attractive supply/demand characteristics, are investment strategies that provide the potential to generate strong risk-adjusted returns. Because the success of this investment strategy is largely dependent upon local market expertise and the ability to execute value-add business plans, we invest in joint venture partnerships alongside experienced real estate operators.

Our investment philosophy is based on five basic principles that form the foundation of our investment approach. These principles provide a framework for an investment strategy that we believe is less dependent upon market timing and leverage and, therefore, capable of providing attractive risk-adjusted returns through the inevitable cycles of the real estate market. These principles include acquiring assets at competitive cost bases, focusing on downside protection, creating value at the asset level, providing for multiple exit strategies, and partnering with experienced operating partners.

How do you source investments?

Our operating partner relationships provide us with proprietary, off-market transaction flow. Our operating partners are

Canvas at Castle Rock — Denver (Single-family Build-for-Rent)

AC Hotel — Tampa

deeply ingrained in their markets and maintain the ability to identify unique situations where assets are underperforming and/or mispriced. In addition, our investment team has deep knowledge of their targeted markets and extensive industry contacts. Few fund managers of our size have three offices nationwide staffed with professionals with deep operating experience within the targeted asset classes. This allows us to react quickly to investment opportunities and to have more extensive local knowledge than firms of our size that typically try to cover the entire country from a single office.

Why use a diversified allocator fund model? What are the benefits?

For investors interested in accessing lower middle market investment opportunities, it is our view that a diversified allocator fund model is the most efficient method to achieve desired levels of diversification. We believe that a diversified-allocator fund can provide smaller to moderately-sized institutional limited partners with greater diversification than what they would be able to achieve by investing solely in operator funds. This is particularly true when trying to access the lower middle market, a segment with greater inefficiency and fewer allocator fund options available. We utilize a diversified investment approach so that our investment options are not limited when a particular asset class or geography becomes overpriced. We do not want to be caught deploying capital into a single asset class or targeted geography when the fundamentals do not make sense, just because that strategy is the stated target of the fund. As a manager of diversified funds, we have the ability to adjust our strategies to target niche asset classes and specific geographies that we feel are most attractively priced, or have greater prospects for future growth, at any point in time.

Your firm targets niche strategies within major asset classes. What are some examples? Where are you finding the best investment opportunities in today's market?

Argosy is always seeking to identify niche strategies within major asset classes. For example, we believe Argosy was one of the first firms to focus on the single-family build-for-rent sector, which has recently attracted a great deal of institutional interest. Argosy was also at what we think was the forefront of the trend to convert hotels to multifamily assets. We have also made investments in the life science sector. In addition, Argosy focuses on the conversion of assets to their "highest and best use," i.e., the re-entitlement of industrial property/land to multifamily or single-family uses or the conversion of retail assets to alternative uses. In the current market, given our firm's expertise in the lodging asset class, we are actively seeking the purchase and recapitalization of distressed lodging assets, given that they were one of the most heavily pandemic-impacted asset classes. Retail was also severely disrupted by COVID-19, and with our firm's retail expertise, we are actively seeking to acquire distressed retail assets to reposition or selectively convert to alternative uses.

We focus on selected primary and emerging secondary markets that we believe are poised for growth. We have been early to identify and invest in markets prior to those markets getting on the institutional radar. For example, we were early investors in Nashville, Austin, Minneapolis, Salt Lake City and Charleston. By investing in markets such as these prior to the arrival of larger institutional investors, we believe we can typically achieve pricing advantages.

What is the value proposition you provide to your investors?

Argosy is an entrepreneurial firm with a proven investment track record over more than 30 years. We are large enough to have a professionally run, institutional fund management process, but small enough to be entrepreneurial and focused on generating strong investment returns, rather than on adding assets under management and increasing management fees. We have a deep infrastructure that we believe is unique to a fund platform of our size. We are able to maintain an extensive back-office infrastructure due to our ability to share resources with the other groups in the Argosy Capital platform, which include corporate private equity, credit and secondary strategies. Our investment team members all have extensive operating experience and work closely with our operating partners on each investment. Our team also has extensive experience working for larger institutional fund managers, which has allowed us to put into place many of the best practices of these previous organizations, while also maintaining an entrepreneurial culture.

We believe our relationships and long-term reputation in this market allow us to stand apart from other real estate investment platforms. Our sourcing capabilities offer another area of differentiation. We believe that our team's extensive operating partner relationships allow us to source transactions efficiently and typically outside of competitive auction processes. In addition, Argosy is a significant (generally 10 percent or more) investor in each of our funds, therefore providing a significant alignment of interest.

COMPANY OVERVIEW

Argosy Real Estate Partners specializes in opportunistic, value-add, core-plus and Opportunity Zone strategies in the lower middle market. Through joint venture structures, Argosy Real Estate Partners invests with operating partners who possess substantial market knowledge and a demonstrated track record to create a portfolio diversified by asset class and geography. With offices in San Francisco, Denver and Philadelphia, the firm currently has $1.3 billion in real estate assets under management. Argosy currently manages six fully discretionary, commingled closed-end funds and has an investor base of institutional investors, family offices and high-net-worth individuals.

CONTACT

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