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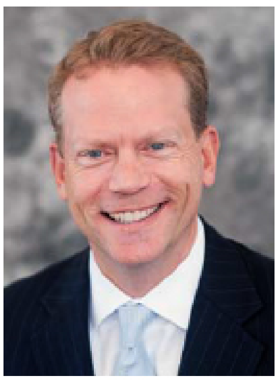
Former Cantor real estate i-banker targeting private capital at Salem Partners

By Jake Mooney

Salem Partners LLC, a boutique investment bank and wealth management firm, announced the addition of real estate veterans Jeff Barcy and Sean Lenz to its team in April. The pair hailed from Cantor Fitzgerald & Co., where Barcy ran the national real estate investment banking practice.

Barcy recently spoke with SNL about his new position and his plans to focus on raising private capital for real estate operators. What follows is an edited transcript of that conversation.



Jeff Barcy
Managing director,
Salem Partners LLC
Source: Salem Partners LLC

SNL Financial: What prompted you to move?

Barcy: Basically, the opportunity was to continue what I had been doing at Cantor Fitzgerald, which is focusing on private placements and really acting as a conduit between some of the top real estate operators in the U.S. and institutional capital. And so in coming over to Salem Partners, part of the attraction was I brought a lot of institutional capital relationships with me, and I've got a partner here in Bill Witte, who runs the wealth management group, who has a lot of deep high-net-worth and ultra-high-net-worth relationships.

So together, we cover a pretty large universe of potential investors for private real estate deals. Bill also brings a great expertise in just looking at things from a principal standpoint. He was the former chief investment officer at Caruso Affiliated and was instrumental in helping grow that organization substantially. So, a lot of times when we're looking at deals, we only focus on deals where we want to put in our own money for the most part.

Why did this happen for you now?

Part of it's a personal connection. Salem Partners has been around for 17 years, and I met the co-founder, Stephen Prough, my freshman year of Harvard on the wrestling team, and we've been best friends ever since. He was the best man at my wedding. So part of it's a personal connection, and wanting to work with guys that I really like and respect, and part of it's a business opportunity. I like working at an entrepreneurial shop, and I've done entrepreneurial things myself. I raised institutional capital myself. During the downturn, in 2009, 2010, I went out and purchased about $50 million worth of distressed subdivisions with an institutional investor.

What did you do with the subdivisions?

I sold 'em. At pretty substantial profits. The funniest thing is the one we were most nervous about, which is the one in Las Vegas, ended up doing the best, which just kind of goes to prove that it definitely makes sense to buy when there's blood in the streets.

Easy to say and hard to do, though.

No doubt. We definitely went through a lot of antacids at that time, but it paid off.

This was before you worked at Cantor?

After I had left Credit Suisse, I joined a private equity shop called Hearthstone, and Hearthstone managed several billion dollars of capital, focused on the housing industry. In basically the end of 2007, it seemed like an interesting time to leave Hearthstone and start my own business based on buying distressed real estate, because I knew that sector so well.

In a number of our subdivisions somebody had put in $40 million or $50 million and lost the development to the bank. The bank had foreclosed on it, and oftentimes was selling the asset, or was selling the loan. Or in some cases we bought assets directly from the FDIC, where the FDIC had foreclosed on the bank, which had foreclosed on the developer. So to me, it was a no-brainer to buy. It was basically like buying dollar bills for 20 cents. But that opportunity came and went pretty quickly, which is why I went back to finance and investment banking.

Are there particular types of private investors who are especially active right now, or who you're particularly connected with?

We cover all different types of investors on the institutional side, so everybody from your usual hedge funds and private equity funds to endowments to foundations to pension funds. And so a lot of who we go to really depends on the type of deal that we have. We also cover sovereign wealth funds out of the Middle East and Asia. So certain types of deals are best for U.S.-based investors, and other types of deals are better for the sovereign wealth funds.

I think the common theme that we see is, everybody still wants opportunistic returns, they still want the 20% IRR and the 2x multiple of invested equity capital. And we're still finding that, but it's getting harder and harder to find that. We're seeing more creative strategies, and other subsectors of real estate where operators are engineering those types of returns. For example, the parking sector is kind of an overlooked, highly fragmented sector, and we've been hired by one of the top parking management companies in the country to go out and raise capital for them to aggregate parking assets. In some markets, where cap rates have gotten way too low for investors to hit the returns that they want, they've found that by turning to alternative sectors like parking, they can oftentimes hit their target returns with less risk.

We're currently working on a management buyout of a homebuilder, which is exciting, where the founder is retiring and the CEO wants to raise institutional capital to buy the business. We're working with a couple spinouts of REITs, where a subset of the management team has left a public REIT and formed their own company, and so they have instant institutional credibility with investors. So we've got active assignments in the triple-net lease sector and in the apartment development sector, with teams that have spun out of public REITs. One of our clients is 4Terra Investments, for example, and it's a spinout of the Archstone REIT. Basically, when Archstone was sold, the West Coast development group left and spun out, so we're in the process of raising capital for them. They formed a company called 4Terra, led by Rick Lamprecht, who basically was the head of West Coast development for Archstone.

We try to focus on the top operators that have institutional-quality, really the cream of the crop, in terms of the different sectors of real estate, just because capital is so selective and obviously everybody wants to partner with the best operators.

It seems like there might be a tension there, between getting high-quality, safe operators while also being able to deliver the yield people want. Are there enough opportunities out there?

Yeah, I think there are plenty of opportunities out there. I think there's probably more capital than opportunities today. There seems to be a ton of capital swimming around in the marketplace, but the real estate sector's obviously a massive sector of the U.S. economy. It's highly specialized by subsector, and you have a lot of interesting operators out there that have strategies that aren't mainstream, that are strategies that work, that maybe other folks aren't pursuing or haven't seen, or for some reason have gone undetected or continue to be attractive, where there hasn't been a lot of capital focusing on it yet. I think those are the kind of opportunities we look for.