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San Francisco Pension Fund Places \$25MM with Bristol Group

Submitted July 19, 2010, 7:58 PM

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The San Francisco City and County Employees Retirement System has approved a \$25 million allocation to a commingled real estate fund managed by The Bristol Group, a San Francisco company with a history of success in real estate turnarounds.

The pension fund board also has allocated \$25 million to Chicago-based Harrison Street Real Estate Capital.



Both commitments are to invest in non-core properties. The allocations are part of the pension fund's \$350 million non-core private real estate investments proposed in its real estate plan for the 2010-2011 fiscal year. The pension board approved the real estate plan at its May 11 board meeting.

The San Francisco commitment to the Bristol Group was for its Bristol Value II commingled fund. Bristol, who as of mid July signed contracts for \$60 million, hopes to raise \$250 million for the fund, including the manager's co-investment, according to a board report from the pension fund staff. Nine other investors, including four public pension funds, one corporate pension fund and three high-net-worth families, are in various stages of review. They represented another \$195 million in potential commitments.

The pension board expects to achieve a net internal rate of return of 14 percent to 18 percent for its investment with Bristol. The fund is anticipated to close in September. Bristol Group will make a co-investment to the fund of 1 percent of total capital commitments. The co-investment is to come primarily from the company's managing partners, James Curtis and Jeffrey Kott.

The strategy for Bristol II is to invest across the country in all main property types except industrial buildings. The approach is to include identifying distressed property owners with time-sensitive selling

horizons as well as development, redevelopment, repositioning and recapitalization of properties themselves.

Neither Bristol nor Harrison Street responded to request for comment.

Bristol has a 30-year track record of successfully investing in real estate in need of new direction. Curtis was cited in Dec. 2008 by The Counselors of Real Estate, a professional organization, for his success in that vein. %Curtis has turned blighted neighborhoods into safe, robust communities and has confronted head on the problems of sprawl, pollution and eroding infrastructure that threaten the country,+the organization said in a news release announcing Curtis's recognition for his professionalism and community service.

Previous Bristol Group investors include the Ohio Public Employees Retirement System, Wisconsin State Investment Board and the Honeywell International Master Pension Trust.

The San Francisco pension fund staff believes that its history in the turnaround arena should help The Bristol Group source deals for the new fund. In the memorandum prepared for the board, pension fund staff members said they expected Bristol to find plenty of opportunity in today's distressed real estate and capital market environments.

The Harrison Street Real Estate Partners III commingled fund will focus on student housing at public universities, private-pay senior housing that serves independent and assisted living populations and medical offices near a hospital campus or large patient populations. Most of the deals are expected to involve buying existing assets nationally.

The investment staff at San Francisco City and County believes tenant demand for the fund's properties will be strong given national demographics. It also believes the strategy is defensive in that demand will be less sensitive to economic slowdowns.

Harrison would like to close the fund next month. As of mid-July it had \$163.5 million in signed contracts from seven investors including the manager's co-investment, according to pension fund staff.

Approximately 35 other investors representing more than \$600 million of commitments are in various stages of review. They include six public pension funds, corporate pension funds, endowments, foundations and insurance companies.

The total anticipated capital raise for the fund is between \$500 million and \$600 million. Harrison Street Capital will be making a \$17 million co-investment, or 2.8 percent to 3.4 percent of the fund's current target size. Investors in the fund are expected to achieve an 18 percent net IRR and a 2.0 times return of invested capital.

The pension fund was assisted in its decisions by The Townsend Group, its Cleveland-based real estate consultant. Principal Micolyn Yolanis in Townsend's San Francisco office manages the San Francisco City and County account.

The pension fund has 52,119 members and total benefits paid out of \$732 million through the end of June.

