

Encore completes capital raise for second fund

The San Francisco-based private equity real estate firm has gathered \$460 million in equity to invest in distressed opportunities in the US housing sector, following a year-long fundraising period.

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Encore Housing Opportunity Fund has held a final close for its second property fund, Encore Housing Opportunity Fund II, raising \$460 million in capital and falling within its targeted equity range of \$400 million to \$500 million. Limited partners included institutional investors, insurance companies, family offices and high-net-worth individuals in the US, Europe, Middle East and Latin America. In addition, the manager's general partners – Art Falcone, Bill Powers and Tony Avila – jointly made a \$29 million co-investment in the vehicle.

Encore **launched** its second fund in July 2012 and collected \$56 million in commitments that same month. By last November, the firm had **raised** \$200 million in commitments, with an expectation to hold a final close by early 2013.

The vehicle will focus on opportunistic acquisitions of distressed and undervalued residential real estate assets in locations with a limited supply of new homes or developed lots. Exit strategies for the fund will include selling raw land, selling developed lots and developing and selling single-family residences and multifamily properties. Approximately 80 percent of the fund's capital will be allocated to the development of single-family homes and 20 percent to apartment development.

The firm will be pursuing larger investments with Fund II than it did with the predecessor fund. Fund II transactions are expected to average around \$20 million, whereas Fund I deals were \$7 million to \$10 million in size. In addition, Encore plans to be more focused on buying raw land, as opposed to partially completed projects as it had done with its first fund.

To date, Encore has committed to invest about half of the fund's capital, with 14 properties purchased or under contract. Among the acquisitions are Orion, a proposed condominium development in Fort Lauderdale, Florida, and more than 3,000 acres of entitled residential land in Florida, California, Arizona and Texas. Additionally, the firm has a pipeline of more than \$200 million of investment opportunities. The firm is targeting net returns in the low 20 percent range for the vehicle.

"Encore's breadth of capabilities, including sourcing, workouts, development, construction, marketing and sales, allows us to be flexible in response to any opportunity we see in the residential sector," said Powers, managing principal at Encore, in a statement. "Given the recent bottoming of the housing market, distressed and opportunistic acquisitions of residential real estate currently stand out as offering excellent value relative to stocks and bonds."

In an interview with *PERE*, Oscar Vasquez, chief operating officer at Encore, said that improving market conditions would not affect the firm's ability to source opportunistic deals in the housing sector, since many housing submarkets in the US currently are undersupplied. "It's going to take a long time for that supply to get built up again because municipalities are not staffed to entitle and approve land in projects," he said.

Vasquez also added that, while there were fewer opportunities for value-add and opportunistic investments in housing, distressed and more complex transactions require firms with more specialized skill sets. "There's a smaller group of funds that can go after those types of deals," he said.

Encore previously closed on \$160 million in equity for its debut property fund, Encore Housing Opportunity Fund I, in April 2011. That fund's capital is now fully committed to residential and mixed-use properties in Florida, California and Texas.

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