

EXCLUSIVE: Encore raises \$475m for multifamily strategy

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The Boca Raton, Florida-based real estate investment firm's latest vehicle is a departure from its first two opportunistic residential funds.

Encore Capital Management has completed fundraising for its third real estate offering, Rescore, attracting a total of \$475 million in commitments. The fund is structured as a hybrid of a traditional limited partnership and a private real estate investment trust, with approximately \$200 million raised for the fund and the remainder collected through joint ventures and co-investments.

The firm launched Rescore last year, with an original target of \$500 million, and held two closes in April and September 2014 before holding the final close on July 31. The fund's investor base was 75 percent composed of repeat investors, while new limited partners included a university endowment and a Fortune 100 corporate pension fund. Eighty-percent of Rescore's capital was from domestic investors.

Rescore is a departure from Encore's previous two opportunistic funds, Encore Housing Opportunity Fund I and II. While the prior two funds focused broadly on distressed opportunities in the residential sector, investing in for-sale single family housing and apartment rentals in both urban and suburban environments, Rescore was focused exclusively on developing stabilized multifamily properties in urban infill locations in the US.

Oscar Vasquez, Encore's chief operating officer, explained that the firm's previous two funds also had allocations to multifamily investments but were capped at 20 percent. The firm already had reached its multifamily allocation limit for Encore Housing Opportunity Fund II, which was one of the main reasons for a dedicated fund to the strategy.

"You couldn't buy stabilized multifamily rental property at an affordable basis, but people were less inclined to develop," said Vasquez. "So we decided to adopt to a build-to-core strategy." Because of the focus on building a stabilized portfolio, rather than the buy it, fix it, and flip strategy of a traditional private equity fund, Encore decided to structure the Rescore offering as a private REIT. Once the firm has developed an entire stabilized portfolio, it intends to exit either through an initial public offering of the platform or a portfolio sale to a large public REIT, he said.

With Rescore, Encore will be targeting opportunities in the same markets that it had with its first two funds, including the San Francisco Bay Area, Los Angeles, Miami/Fort Lauderdale, Dallas, as well as the outer boroughs of New York City. To date, the firm has closed on seven investments representing \$250 million of equity. Development projects include an eight-story, 116-unit apartment property in San Francisco, a seven-story, 360-unit multifamily asset in Hollywood, California, and a 20-story, 366-unit building in Fort Lauderdale.

Encore does not anticipate launching another opportunity fund until the next housing correction, which Vasquez does not expect to occur earlier than 2017 or 2018. In the meantime, “investing the rest of Fund II and Rescore will keep us very busy over the next three years at least,” he said.