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Real Estate Finance & Investment

BROOKLYN BOOM DRIVING DEVELOPERS TO JERSEY CITY

BY ELIZABETH BLOSFIELD

Competition is getting stronger for the remaining available land in New York's Brooklyn submarket, which is driving developers across the bay to Jersey City. Both locations are seeing development booms with large-scale projects in the works, but higher construction costs and dwindling land in Brooklyn are taking their toll, according to Eugene Paolino, a partner at Genova Burns. "[Commercial real estate developers] see the gold in the New Jersey hills and are beginning to make the trek across the Hudson River," he said.

Demand for new development was initially most prominent along the New Jersey waterfront and is now moving further inland. "The initial explosion of New Jersey development activity over the last two decades has taken place on the waterfront," he explained. "The few opportunities left today are being quickly snatched up, so now developers are moving further west to places like Jersey City. It is cheaper for residents to live and for businesses to operate than in

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Jersey City is seeing more development as available land becomes scarce in Brooklyn

CEO SPOTLIGHT EPR BANKS ON BUILDING BETTER U.S. EDUCATION SYSTEM

BY ELIZABETH BLOSFIELD

The U.S. education system is changing through earlier and more diversified learning programs ranging from pre-school to high school that include more structured academic schedules and language immersion experiences – a shift that is presenting increased opportunity for commercial real estate investors in this space, according to Greg Silvers, president and CEO of EPR Properties, a Missouri-based specialty REIT that invests in entertainment, recreation and education facilities.

"Education has traditionally not been a well-known real estate area," Silvers said. "But by investing in educational assets today, you're not just acquiring a building; you're contributing to the success of a community and taking care of its kids."

Education investments provide a unique opportunity to acquire properties that will grow with a community and provide long-term returns, Silvers explained. "Education is

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Certes buys Upper West Side development site

Certes Partners has purchased 214-218 West 95th Street, a potential development site on New York's Upper West Side, and is planning to develop the property and an adjacent building that it already owns into a mixed-use complex. The New York-city based real estate development and investment firm purchased the property in an off-market transaction for \$26.5m from a long-time private family owner.

The company is looking at either for-sale residential or rental units at the site, which will include a garage. "There is a lot of flexibility with this site and we are still trying to find the right mix of these food groups," Sunder Jambunathan, principal, told *REFI*. The property was formerly a Hertz garage and Certes will keep that structure, which includes elevators and curb cuts.

The site could be developed to more than 85,000 square feet and 18 stories. "We found it very rare to find a site that is unlocked for that square foot potential," Elan Hakimian, principal, said. "Usually there are constraints like being in a historic district, dealing with zoning laws or the building is of older quality. So, we saw this as a real gem to develop an iconic structure."

Certes also owns 206 West 95th Street, the neighboring building, and Jambunathan noted that this was a key driver to acquire the newest property. "Since we were able to acquire the asset in an off-market transaction directly with the owner, we feel that our price for the standalone site is attractive relative to the market," he said. "However, it is also accretive to our neighboring building, as the combined assemblage unlocks significant development and operating efficien-



Upper West Side, Manhattan: Certes hopes to tap into residential demand in the submarket

cies, while enabling us to build an 18-story tower, which a smaller site would not permit."

It is within blocks of the 1, 2 and 3 trains,

"WHAT WE FOUND APPEALING ABOUT THIS SUBMARKET IS THE DEMAND AMONG LOCAL FAMILIES WHO WANT TO REMAIN IN THIS AREA; THIS AREA HAS ALL OF THE AMENITIES FAMILIES COULD WANT"

ELAN HAKIMIAN

a Whole Foods, an Equinox Gym and Central Park. Both Jambunathan and Hakimian touted the growing appeal of the Upper West Side, but

also the fact that it is underserved as two key reasons the firm decided to invest. "What we found appealing about this submarket is the demand among local families who want to remain in this area; this area has all of the amenities families could want," Hakimian said.

Within New York City overall, the two agreed they are seeing an uptick in retail developments and expect this will continue. As residential developments have soared, retail strips are trying to catch up in areas that are growing in popularity, such as Long Island City. "Retailers want to see demand before making their move," Jambunathan said. "So, we want to place our bets where we know that demand is coming."

Certes Partners is a developer and operator of residential, office and retail assets along the East Coast with a focus on New York City. The firm has over \$1.5bn in acquisitions and works closely with foreign and domestic institutional investors to secure off-market transactions.

06

URSTADT BIDDLE SELLS CONNECTICUT MALL

Urstadt Biddle Properties has sold Townline Square Shopping Center, a roughly 300,000-square-foot shopping center in Meriden, Conn., for about \$44.5m, according to a broker familiar with the transaction. HFF arranged the sale of the property for the Greenwich-based real estate investment trust. TLS Group, which is managed by Hampton Properties in Montreal, was the buyer.

The center is anchored by grocer Big Y Foods and the entire property is about 98% occupied. The center is located in the Southwest portion of Connecticut at the halfway point between Hartford and New York.



Hartford, Conn.'s Central Business District

"Investors who are priced out of major markets like Boston and New York are looking at the baby sisters of these cities, if you will," according to the broker. "Connecticut is the baby sister of Boston and New York. You can get the same quality property and same tenant with a slightly better price. These investors are looking to secondary markets to achieve increased yield." Indeed, the property was sold at a cap rate of about 7%, compared to about 5% for a similar property in Boston, he added.

Representatives for Urstadt Biddle were not immediately available for additional comment.

Rubenstein Partners sells revamped Atlanta office

Rubenstein Partners has sold Sterling Pointe, a suburban office complex in Atlanta's Central Perimeter submarket to a joint venture between Harbert Management Corporation and The Simpson Organization. A team from CBRE brokered the transaction. Pricing on the deal could not be immediately determined.

The 351,345-square-foot property, which consists of two adjacent buildings—Sterling Pointe I and Sterling Pointe II—was originally acquired by Rubenstein in 2007. Equity Office Properties Trust sold the buildings to the Philadelphia-based fund as part of a \$550m portfolio comprised of three million square feet of Class A office space in the Central Perimeter. It was Rubenstein's largest transaction in Atlanta.

"We have valued the property ever since we purchased it, and we felt that this particular asset had real potential," said David Canaday, senior vice president of Rubenstein Partners and regional director for Atlanta.

The acquisition of Sterling Pointe was part of Rubenstein's deep value-add office investment strategy. The investor undertook extensive renovations to stabilize occupancy and reposition the buildings from a suburban-style campus to a mixed-use, amenity-rich site, which better fits the Central Perimeter's evolving urban vibe.

"We carried out our strategy by selling the building's surface parking land to a developer, who replaced it with a parking deck and is in the process of developing a hotel, retail and restaurant space on the site," Canaday explained.

The developer, Atlanta-based Hotel Development Partners, has already broken ground on its development and plans to deliver



Sterling Pointe, Atlanta: Rubenstein Partners' deep value-add investment strategy has paid off

the project next year, according to published reports. "[The hotel] should help to attract tenants who have a lot of visitors with hotel stays because of the convenience. It will create additional activity and add amenities like more meeting rooms and a pool to the existing office building amenities," Canaday noted.

He added that access to food, services, common areas, meeting centers and amenities like fitness and health centers help to make a suburban atmosphere feel more walkable and urban, which is important for suburban buildings given the urbanization trends among today's workforce. This is a key feature of Rubenstein's overall office strategy.

"Higher density office use is definitely a trend today. Offices typically have more people per 1,000 square feet than they have historically," Canaday observed. "With this in mind, we're

focused on enhancing and renovating common areas, restrooms and corridors and improving the mechanical systems in buildings to accommodate the potential for a higher density use."

Sterling Pointe is currently 80% leased to tenants including Amerigroup and Intec. Most recently, Mercedes-Benz USA chose Sterling Pointe II as the site of its temporary corporate headquarters, signing a three-year lease for 89,910-square feet with the potential for further expansion. The company began the process of relocating to Atlanta from Montvale, New Jersey, this summer in a move that is expected to bring 800 to 1,000 jobs to the area.

Brokers at CBRE and representatives at The Simpson Organization could not be reached by press time. Representatives from Harbert Management Corporation did not respond to calls by press time.

07

KBS REIT ACQUIRES RENOVATED CALIFORNIA OFFICE

KBS Growth & Income REIT has acquired Von Karman Tech Center, a two-story office property in Irvine, Calif., marking the first acquisition for the non-traded real estate investment trust. The company paid \$21.5m, or about \$213 per square foot, according to a local broker familiar with the transaction. The seller was HighBrook Investment Management, which was represented in the sale by a team from CBRE, according to published reports.

The property consists of 101,161 rentable square feet and was acquired below replacement cost. The REIT was drawn to the property because of its location in the center of the Irvine business district and the building's creative tenant focus.

HighBrook originally acquired the building, formerly known as Von Karman Business Park, in January 2013 for less than \$100

per square foot. Later that year, Stream Realty Partners was brought on to oversee a roughly \$2m renovation as part of a re-branding strategy to create a unique and energetic work environment, better cater to the property's tech tenants and attract stable-credit creative office users to provide tenant stability over the long term. "HighBrook re-positioned [the building] as a creative office project and quickly leased it up, because Orange County's market was going in the right direction, and they saw this as a great opportunity for a value-added deal," the broker said.

Renovations included the construction of creative-office spec suites, upgraded lobbies and common areas and a new façade. The property was approximately 68% leased when HighBrook acquired it. Following the re-branding and renovation, it is now 100% leased and anchored by Hosting, a cloud

computing and database services company.

Additionally, the building's location is attractive to similar technology and creative tenants, featuring neighborhood retail amenities and residential developments that help to attract and retain top talent by contributing to the area's 24/7 environment. "The location is surrounded by world-class retail and amenities and is perfectly situated in the Von Karman corridor," said Colby Annet, co-managing partner of Stream Realty Partners and the leasing agent for the property.

The building itself includes many of the creative office design features millennials today seek, such as exposed ceilings, concrete and wooden floors, outdoor spaces and dining options.

HighBrook Investment Management did not return calls by press time. KBS and CBRE officials declined to comment.

PEOPLE MOVES

KBS APPOINTS COPULOS IN ASSET MANAGEMENT POST

KBS Realty Advisors has promoted **Clint Copulos** to vice-president of in which he will be responsible for the management, acquisition and disposition of KBS properties in Portland, Ore., and Sacramento, Calif., the company announced. In this new role, Copulos will oversee a portfolio of approximately 1m square feet of office space. Previously, he was an investment analyst and investment associate for the asset management department at KBS, where he worked to maximize the value of assets throughout the Western U.S.

AUCTION.COM BRINGS ON CHIN

Auction.com has appointed former **eBay** executive **Kristine Chin** as VP of customer engagement, reporting to CEO **Tim Morse**. Chin will be responsible for spearheading a cohesive and

comprehensive, company-wide effort to gain a deeper understanding of its customers and raise awareness of their needs.

MASCIA AT COZEN O'CONNOR

Cozen O'Connor has expanded its New York real estate group, hiring **Joseph Mascia**. Mascia joins from **Duane Morris**, where he served as special counsel. Mascia brings almost two decades of experience to his new role.

COLLIERS PROMOTES TRIO OF NEW YORK BROKERS

Colliers International has promoted **Sheena Gohil** and **Robert Kennedy** to managing directors and **David Ervolina** to director, the company announced. The trio will assist with training and managing the firm's next generation of commercial real estate brokers in addition to daily responsibilities in their new roles.

"Sheena, Robert, and David are highly-skilled professionals who have outstanding knowledge of the market and have demonstrated dedication and leadership throughout their years at Colliers," said Kim Brennan, coo for Colliers International's Tri-State Region.

CBRE INVESTORS ANNOUNCES SENIOR LEADERS

CBRE Global Investors has named **Daniel Queenan** as its chief operating officer, the company announced. Queenan has relocated back to the U.S. after serving as CEO of the Asia-Pacific region for two years and will have a broad charter to help drive the strategy and operations for CBRE Global Investors. Meanwhile, **Steven Swerdlow** will assume new responsibilities as CEO of the Asia Pacific region. Swerdlow, a 25-year veteran of the company, will oversee all operations in APAC

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South Florida office listed by USAA

USAA Real Estate has listed The Alhambra, an office building in Coral Gables, Fla., for sale. Pricing estimates for the 326,000 square foot building could not immediately be determined. HFF is handling the sale.

The Alhambra office building is divided into two towers—Alhambra Plaza, a 14-story section, and Alhambra West, a 7-story section—which are connected to the Hyatt Regency Hotel. The hotel is not part of the sale. Both the hotel and office share a four-story parking garage. One investor familiar with the listing said that potential buyers would have questions about how shared systems between The Alhambra and the Hyatt are structured into the sale.

He also described the property as a “Class A building with value-add potential” on the leasing side. The Alhambra is about 85% leased. USAA and its leasing broker CBRE have done considerable work on the leasing side of the property, bringing the occupancy rate up from 52% two years ago. Recently, an affiliate of Franklin Templeton Investments signed a lease for 12,500 square feet while Pipeline Workspaces, which hosts co-working spaces, signed up for 14,000 square feet.

The investor source said tenants are starting to look at Coral Gables, which is located just six miles southwest of Miami, as an alternative to paying higher rents in Miami’s CBD. “The rental rate spread between Coral Gables and the CBD are as wide as ever. That’s because there is so many new developments in downtown Miami,” he said. Average Class A rents in Miami’s CBD are just over \$44 per square foot—about \$3.50 per foot higher than Coral Gables, according to Q2 research from Cushman & Wakefield.

“Higher rents will eventually make their way to Coral Gables,” he added, noting that most of Coral Gables’ office buildings, while high-end, are older so there is a natural limit to how high they can go relative to newer building stock.



Coral Gables: Rents are attractive compared to nearby Miami

The Alhambra is an example of Coral Gables’ standard office building stock. Built in 1987, the pink stucco building has a Mediterranean appearance, unlike Miami’s newer office buildings.

Calls to officials at USAA and HFF were not returned by press time.

09

REFI STRATEGIES

New York advisory pairs HNW investors with middle-market debt opportunities

SRF Ventures, a New York-based real estate investment advisory and management company, is doing more work with high-net-worth investors who want to invest in middle market commercial real estate deals. The strategy is an expansion of SRF’s initial focus on acquisition analysis, capital raising and project management for its clients, said Steven Fischler, founder and president. “I ran with those business lines for a few years and then I started to notice that it was getting harder to find sources of capital for transactions needing \$2m to \$10m,” he said. “The major investment companies wanted to write bigger checks.”

Fischler took his observations to a handful of high-net-worth investors he’s done business with in the past. “I said, ‘Why don’t we make a couple of loans in smaller amounts and take advantage of the opportunity?’ We started doing that late last year,” he explained, noting that the economics of these transactions are very favorable. The direct placement of these transactions, which runs counter to the trend toward crowdfunding,

“THE WORLD HAS RECOVERED
AND STAYED STRONG, WHICH
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STEVEN FISCHLER

has allowed the firm to close three loans in the past month. It has two more loans that are close to closing, with more in the pipeline.

Fischler, who set up the company in 2012 after leaving Lehman Brothers, hopes to offer clients the full breadth of his experience. Prior to Lehman’s bankruptcy, he was in the firm’s asset management group, where he oversaw Lehman’s real estate investments. Post-bankruptcy, he was on the work-out side. The initial genesis of the firm was to fill a gap in a market where staff had thinned out and

infrastructure was reduced. “I told clients, ‘Pay me a monthly retainer and success fee and I’ll provide acquisition and diligence services. As the world gets better, you can bring this in-house but there are no fixed costs today,’” he said.

The goal right now is to push all four legs of the firm’s business, with Fischler anticipating that the lending business will gain more traction. “The world has recovered and stayed strong, which means that I think the asset management part of the business will slow down for a while,” he added. Fischler typically invests his own money alongside his clients.

He is working on a potential acquisition of a hotel property on the West Coast. “We modeled it, we spoke to lenders about it and we got feedback about the level of proceeds and purchase price. We also found out where taxes will be re-assessed and did analysis on the current insurance numbers and if they’re reasonable. You can’t just look at the historical operation of the property because it’s not going to be the same going forward,” Fischler said.

KBS REIT III acquires Pennsylvania office

KBS Real Estate Investment Trust III has acquired CrossPoint at Valley Forge, a Class A office building in Wayne, Pa., the company announced.

The 272,360-square-foot property was gut-renovated last year in an effort to deepen its tenant base and better position it for the market in the area. Tenants at the property include Teleflex, Rovi, Medecision, Lewis Brisbois and Principal Financial. The transaction was brokered by a team from NGKF.

Luxury mixed- use property sold in Austin

A partnership formed by Denver-based Amstar and Transwestern Development announced the sale The 704, a Class A mixed-use apartment property. The 378-unit multifamily property, which is located on 3401 S. Lamar, has about 20,000 square feet of retail and restaurant space.

The partnership acquired the seven-acre site in May 2012 and developed the property. The buyer and sale price were not disclosed. Transwestern declined to comment.

TIAA-CREF JV set for new European office platform

TIAA-CREF and the Swedish national pension funds AP1 and AP2 expect to close in September on their newly formed Cityhold Office Partnership, a joint venture to create a pan-European office investment platform committed to building an office portfolio of more than \$4.6bn, according to a press release. The initial platform will be valued at \$2.52bn and will target another \$2.29bn in value-added investments over the next three years in core cities such as London, Paris, Munich, Hamburg, Frankfurt and Berlin, and stabilized core investments in secondary cities including Madrid, Milan and Amsterdam. TIAA-CREF's affiliate, TH Real Estate, will manage the platform on behalf of investors and provide investment and asset management services.

Mesa West, AEW originate loans for VA hotel portfolio

Mesa West Capital and AEW Capital Management have arranged \$145m in debt on behalf of The JBG Companies to

refinance a two-hotel portfolio located in Arlington's Potomac Yard neighborhood, the companies announced. Mesa West originated the first mortgage for the transaction with a non-recourse, floating-rate interest only loan featuring an initial term of three years with extension options. AEW simultaneously provided the mezzanine debt.

Borrowers line up 11 Times Square financing



A partnership comprised of affiliates of Prudential Real Estate Investors, Norges Bank Investment Management and SJP Properties has secured a 10-year, \$507m mortgage on 11 Times Square, New York (pictured). New York Life Real Estate Investors, along with Northwestern Mutual and New York State Teacher Retirement System provided the financing. Norges acquired its 45% interest in the 40-story, 84%-leased Class A office building for \$401.9m earlier this year.

The property, completed in 2010, consists of approximately 1.05m square feet office and 50,000 square feet retail space. The 45% interest was acquired from Prudential and SJP, with Prudential responsible for asset management and SJP responsible for leasing and operations. The agreement was signed in January and the transaction closed in February. Norges and Prudential declined to comment. CBRE marketed the stake on behalf of the seller. Eastdil Secured arranged the financing on behalf of the borrower.

BELL CLOSES DEAL FOR APARTMENT COMMUNITY



Bell Partners has acquired Hawfield Farms (pictured), a 210-unit garden community in Ballantyne, an affluent suburb in south Charlotte, N.C., the company announced.

Completed in 2009 by The Hanover Companies, the community has been renamed Bell Ballantyne and will be managed by Bell Partners.

Bell Ballantyne, which was 96% occupied at the time of sale, is an upscale garden-style property with apartment homes averaging 1,582 square feet.

(CONTINUED FROM PAGE 1)

Brooklyn boom driving developers to Jersey City

Brooklyn, which is our direct competitor.”

Competition is ongoing between Brooklyn and Jersey City in terms of new development, as both locations provide a cheaper alternative to Manhattan’s pricey and crowded market, Paolino said. However, Paolino feels confident that Jersey City will be ahead of the competition going forward because of its development-friendly market. “Developers who have been active in Brooklyn are learning far more about Jersey City than they have been in the past,” he said. “By doing this, they are finding that there are lots of reasons to be located in Jersey City than in Brooklyn today.”

This is a result of lower taxes and utility costs in Jersey City, as well as strong pro-business policies that include tax incentives and grants processed through the New Jersey Economic Development Authority, he explained. Additionally, Jersey City benefits from its proximity to reliable infrastructure, including railways, ferry service and highways. “Jersey City is basically booming because of its proximity to Manhattan, its sophisticated transit elements and successful economic conditions,” Paolino stated.

Indeed, two skyscraper residential buildings, One Journal Square and Journal Squared, are both set to complete the first phase of their development next year and are slated to include

“JERSEY CITY IS BASICALLY BOOMING BECAUSE OF ITS PROXIMITY TO MANHATTAN, ITS SOPHISTICATED TRANSIT ELEMENTS AND SUCCESSFUL ECONOMIC CONDITIONS”

EUGENE PAOLINO

two of the tallest buildings in the state of New Jersey when complete. Despite developments like this becoming more frequent and larger in scale, Paolino is not worried about overbuilding.

“There’s no risk of over-development,” he said. “We have very savvy developers who do

the necessary comparisons between various markets and have consistently found that Jersey City is a good place to develop. What I am more concerned about is real estate developers who don’t know that Jersey City exists and think that Brooklyn is the only alternative.”

Competition is fierce in Brooklyn as well, however, with CityRealty’s Brooklyn new development report for 2015 anticipating that approximately 22,000 new apartment units in large-scale buildings are on pace for development over the next four years, a move that, if completed, will likely alter Brooklyn’s skyline. That said, Jersey City’s skyline is set for a transformation as well, Paolino said.

“In Jersey City, buildings benefit from a view of the Manhattan skyline. In Manhattan, the view from many buildings is the New Jersey skyline, which is very different,” he said. “However, that view is going through a metamorphosis, and it is beginning to look more like Manhattan with skyscrapers and taller buildings being constructed. Mayor Steven Fulop said that he is trying to make Jersey City the best mid-sized city in the nation, and I think that we’re on the right path.”

(CONTINUED FROM PAGE 1)

CEO SPOTLIGHT

EPR BANKS ON BUILDING BETTER U.S. EDUCATION SYSTEM

a platform that is a huge part of the social infrastructure driving the success of a community,” he said. “There is so much emphasis placed on physical infrastructure, like transportation and energy facilities, but education is equally important.”

Opportunity is ripe for charter school investment in particular as the space has seen massive growth recently, Silvers said. Approximately 500 new charter schools have been added throughout the U.S. each year over the past five years, and there are still about one million students on waiting lists, according to data from the National Alliance of Public Charter Schools. “We are most bullish on our charter school platform, as there is abundant opportunity for growth in this space,” Silvers said. The firm owns 64 public charter schools, making up the largest portion of its education portfolio.

For charter school investments, EPR typically joins forces with a regulatory body to develop a strategy for schools that start off in challenging situations. “Some schools will start in the basement of a church, for example, and

then one day we’ll get a call saying that the school has demonstrated an ability to sustain itself and is ready for a physical building,” he explained.

EPR will then work with the school to evaluate its academic goals and build an asset that is purposeful for its portfolio and serves the school’s needs. “We work inside the gates of a property. We don’t search through the listings; we deal with the participants directly to develop a strategy that benefits everyone, and we are very selective in our investment approach,” he said.

As the learning environment, including lighting, HVAC systems and building condition, plays a critical role in the long-term performance outlook of a school, EPR has an education expert on each investment team to research and assess elements such as how many square feet are needed per student, what type of dining facilities and outdoor spaces are best suited for the building and the physical aspects that will improve student academic performance.

“The operators of these schools are not in the real estate business and want a good long-

term solution for their building, but they don’t understand the elements that are needed to make the best decision,” he said. “That’s where we come in.”

Most recently, EPR hired an expert from Teach For America to join in its education investment team to further its strategy, Silvers said. “[Our education partners are] not real estate people themselves, but we pair them with real estate people to assess acquisition opportunities and help underwrite deals, and it’s the best of both worlds,” he stated. “This approach allows us to not only be well-educated in the real estate space but to have experts in the education systems as well.”

Through this strategy, EPR seeks long-term investments with 15-to-20 year horizons and carefully underwrites to ensure that its acquisitions will be viable down the road. Its spending targets range from \$500m to \$550m. “We look for properties that will be successful across all three of its investment categories for years to come,” he said. “We’re not just buying cash-flowing assets; we want to understand what makes schools successful.”