

Starwood holds largest-ever first close – Exclusive

The Greenwich, Connecticut-based private alternative investment firm is targeting up to \$6bn for its latest global opportunistic real estate fund.

Starwood Capital Group has closed on its initial round of fundraising for its latest global opportunistic real estate fund, Starwood Opportunity Fund XI Global, collecting \$2.7 billion of capital, PERE has learned.

PERE understands that Starwood is expected to hold interim closes for the fund by year-end, with the final close for the fund slated for early 2017. Starwood declined to comment.

The Greenwich, Connecticut-based private investment firm launched the fund earlier this year, with a target of between \$5 billion and \$6 billion. Fund XI's initial closing is the firm's largest to date, significantly surpassing the \$2.1 billion and \$1.2 billion first closes for Funds X and IX, respectively. Starwood, led by chairman and chief executive Barry Sternlicht (pictured), amassed a total of \$5.6 billion for Fund X in March 2015 and \$4.2 billion for Fund IX in April 2013.

One of the earliest investors to back Fund XI was the Illinois Municipal Retirement Fund, which committed \$75 million to the vehicle in May. Other limited partners in the fund included Public Employees Retirement Association (PERA) of New Mexico, which designated \$75 million in June; the Teachers' Retirement System of the State of Illinois, which agreed to invest \$300 million in August; and the Teacher Retirement System of Texas, which pledged \$200 million in September. Aside from US pension plans, Asian and Middle Eastern sovereign funds are also understood to be part of Fund XI's investor base.

With Fund XI, Starwood intends to invest in approximately 50 to 60 transactions, primarily in North America and Europe, with a gross target of 17 percent to 20 percent and a net internal rate of return target of 14 percent to 16 percent, according to minutes from PERA's June 30 investment committee meeting. At the time, the firm was in the processing of making its final investments for Fund X, and had closed on 41 assets that were generating a 22 percent

IRR for the vehicle. Meanwhile, Fund IX had 56 investments and was on track to generate a 32 percent asset-level return, the minutes said.

Similar to Fund X, Fund XI is said to have a 50-50 target allocation split between the US and Europe. Fund X, however, currently has an actual allocation that is 70 percent in the US and 30 percent in Europe, according to market sources. As of June 30, Starwood had not made a European commitment in seven months, which was attributed to Brexit, according to the PERA minutes.

The fund series typically target a mix of distressed and cash-flowing assets; Fund X's investments, for example, are understood to be two-thirds income-producing and one-third distressed. The distribution yield target for Fund XI is understood to be between 7 percent and 10 percent. The cash-on-cash return for Fund X is currently 12 percent, while the original capital for Fund IX is almost fully distributed, sources said.

2016 has been an eventful year thus far for Starwood, which currently has \$51 billion of assets under management. In January, the firm closed on its acquisition of a 23,262 apartment portfolio from Equity Residential for nearly \$5.4 billion, the largest non-hotel purchase in its history, on behalf of Fund X, and also completed the merger of its single family rental business, Starwood Waypoint Residential Trust, with Colony American Homes to create Colony Starwood Homes.

In March, also through Fund X, Starwood formed a joint venture with hotel investment and asset management firm HI Partners to approximately €500 million in the Spanish hotel sector over the next three years. Last month, the firm announced that it had sold a minority stake to private equity firm Dyal Capital Partners. Earlier this month, Starwood revealed that it had formed a partnership on a US hotel portfolio with China Life Insurance for around \$2 billion.