

## INTERVIEW



LEFT: FRANCESCO OSTUNI,  
MANAGING PARTNER AND  
CIO EUROPEAN EQUITY AT  
BENTALLGREENOAK  
RIGHT: TOBY PHELPS, MANAGING  
PARTNER AND HEAD OF  
EUROPEAN EQUITY



# From little acorns

From a start-up in 2010 to one of the most successful global private equity real estate firms, BentallGreenOak is standing the test of time

BY **ROBIN MARRIOTT** PHOTOS: **PIERS ALLARDYCE**

In the year 2010, John Carrafiell, the ex-global co-head of Morgan Stanley Real Estate, was in set-up mode at a serviced office at 3 St James's Square in London's Mayfair.

The start-up he and a handful of mainly other former Morgan Stanley Real Estate alumni were creating was 'GreenOak Real Estate'.

In London, there was a team of just five. Over in New York, Sonny Kalsi was also setting up, while Fred Schmidt was doing likewise in Tokyo.

They were about to embark on a journey that counts today as a comeback story in global private equity real estate.

Licking their wounds after the Global Financial Crisis of 2008, they were determined to rebound. But it would not be easy. Some investors that had been in certain Morgan Stanley funds were upset by the way things had turned out. The question for some was whether senior people involved in the management such as Kalsi and Carrafiell could retain their reputations enough to launch a successful new venture. As GreenOak launched, many were sceptical.

## RELATIONSHIPS AND TRUST

But things are not always black and white. What some people failed to understand was that important investors such as General Motors would indeed back GreenOak. Personal relationships and trust would trump paper losses from a global Morgan Stanley fund, and little by little GreenOak formed. As the firm retained the trust and backing of some other key investors, and made astute team hires and some very good investment decisions, the company was able to take lasting shape. (Meanwhile, under new leadership, Morgan Stanley Real Estate was able to do the same.)

Just over 10 years since those early days, there is significant proof that this is a successful comeback story. In Europe, such evidence came in April this year, when the company – now rebranded BentallGreenOak after merg-

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ing with Canada's Bentall Kennedy in 2019 – announced it had raised €1.9 bn for its third European value-added fund series – comfortably its largest offering in the region. The raise included €450 mln in co-investments in Italy and the Nordics and was significantly above a €1 bn overall target. It is a sure measure of how far the company has come and the trust placed within it. Of BentallGreenOak's investments in Europe, 70-80% is currently in logistics.

However, this is not the end of the story, as its leadership team in Europe explains during an interview with PropertyEU. Toby Phelps, managing partner and head of European equity, and Francesco Ostuni, managing partner and European equity CIO, say the firm is just getting going, and they are certainly not getting giddy.

Ostuni explains: 'I'd say it has been a wonderful journey, and we are just getting started.'

'We launched on a very exciting path towards achieving that latest value add fund and doing that in a very thoughtful and focussed way as it relates to strategy and where to invest, but also how we grow the team and business, which I think is equally essential in our development.'

Says Phelps: 'It's been a good run, yes. We have tended to retain the approach of keeping our heads down and just getting on with it, to be honest. I really want to emphasise what Francesco said. I think in our industry you can be successful in many different ways. "Culture" and "ap-

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proach” is a really important component. What I think we have done well here is have this very broad team with a culture that is very open, and that is the bedrock of our success.’

### ROAD TO SUCCESS

The two professionals explain how GreenOak ‘took it in steps’ to get where it is today.

The key target was raising capital, and to achieve that, the firm’s strategy was to identify interesting investment opportunities that would lead to the creation of a presentable track record.

In Europe, the opportunities, unsurprisingly, cropped up in London where the GreenOak team was based. They executed four or five deals in the London office and residential market that ‘sort of put us on the map’, says Phelps.

It was 2011, and Phelps was in Australia at the time, while Ostuni was to join the company in 2013.

Successful London deals presented the company with a platform off which it could raise capital for its first Europe value added fund. That maiden fund of €250 mln

in equity was multi-asset class but with a particular focus on industrial assets in Spain and Italy. ‘We really felt at the time that the combination of Spain and Italy, which were in recovery post GFC, particularly with logistics but not exclusively with logistics, was a really interesting combination that gave us a difference,’ says Phelps.

Says Ostuni: ‘There is always an element of luck, but I have to say when we started identifying logistics as a theme, it was not a call that was as straightforward back then as it is now. We had conviction in the thesis, and we remained very focussed in executing that, and I think that’s the hallmark of our business today.’

The success of the firm’s first European fund gave it the possibility to raise a larger, second fund. And with a larger fund, came the capacity to expand the geographical footprint towards additional markets such as France and the Netherlands.

### EUROPEAN LOGISTICS

Having been early private equity entrants into European logistics, for Fund 2 GreenOak assembled a very sizeable pan-European industrial portfolio. Proof of concept was achieved in December 2019 when it managed to exit the fund’s portfolio of 42 assets in France, Spain and the Netherlands for around €1.2 bn to Germany’s Patrizia, which acquired it on behalf of its Logistik-Invest Europa II fund as well as Danish and Korean pension funds. The assets comprised 1.4 million ft<sup>2</sup> of logistics space.

Returning equity from that sale helped GreenOak raise an even bigger successor fund. That third fund closed at the end of April this year on €1.9 bn – its largest to date.

So successful had the firm been with logistics, that it also raised a separate vehicle dedicated to the asset class, which closed on €695 mln this year as well.

## Return of JC stateside

After more than two decades in Europe, John Carrafiell finally moves back to the US, from where he will continue to oversee BGO’s European business



JOHN CARRAFIELL

John Carrafiell has spent the past 23 years as a real estate professional in Europe. After such a long run, no one could begrudge him a return to his native US. Having worked in London as co-founder of GreenOak (and previous for many years at Morgan Stanley), the Bentall-GreenOak senior managing partner

has moved back to the States with a new role and title as co-CEO and board director, while continuing to oversee the firm’s European business from across the pond.

Steve Preacher, chairman of the board at BentallGreenOak, said: ‘John’s appointment to co-CEO is a natural progression and important

step forward for the firm.’ Sonny Kalsi, co-CEO, added: ‘Since joining forces as co-founders of GreenOak Real Estate 11 years ago, John has led our European team, who have been consistently ahead of the curve in building a pan-Europe debt business and bringing an early sharp focus on the logistics sector.’



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Summing up, Phelps says: ‘We invested Fund 1 really well, and that gave us a platform for Fund 2. The sale of our Fund 2 portfolio to Patrizia was an important stepping stone, proving out the logistics thesis. But I don’t think that was fundamental, it was just a natural part of the strategy.’

### LONDON OFFICES

Other things happened too.

The company launched and grew a successful debt fund strategy led in Europe by former European head of Lehman Brothers Global Real Estate Group, Jim Blakemore. Back on the equity side, in 2016 the company found a strategic way to move into London offices. GreenOak acquired Grafton Advisors from Quintain Limited owned by the US private equity firm, Lone Star. Grafton Advisors is the property adviser to the West End of London Property Unit Trust (Welput).

The acquisition by GreenOak was made a month following the UK referendum on Brexit. Market disruption followed. This created an ‘interesting opportunity’, says Phelps, who views the logistics theme and Welput play as being under the same banner of ‘core-plus – lower risk, lower return investing’ yet still driven by ‘finding value in the market’.

Ostuni says: ‘The reality is we built this business through very dedicated, day-to-day work of finding opportunities, building a team, proving out the thesis, and maintaining discipline. These are the steps we implement every day.’ Adds Phelps: ‘We have learned lessons from what we have been, what we have done, and put it all into the mix, being very clear about strategy, and resources we needed to be successful.’

‘If I go back to those 2013/2014 days, very much led by Francesco and Jasie Leekha (an MD at GreenOak and ex-Lehman Brothers professional, ed.), we did identify logistics as an asset class in which we felt there were

structural reasons for it to perform. I think in our industry you need to be able to understand the structural drivers – which means you need to be flexible to go in and out – and also be geared up to tackle such opportunities.’

‘We were a lot smaller back in those days – 12 or 13 people versus 60+ today in Europe. But we have managed to maintain that flat open culture all the way through. Everyone always asks what has been the ingredients for success? There is no single one that has been the key.’

Both Ostuni and Phelps worked at Morgan Stanley Real Estate under the global leadership of Carrafiell and Kalsi. Carrafiell first joined Morgan Stanley in 1987 and in 1994 the London-based American executive was named by Morgan Stanley as European head of real estate, aged just 29. Ostuni says he enjoyed a ‘phenomenal, rewarding, learning curve’ investing capital within the MSREF programme.

In 2010, Ostuni left the bank to take up a position with the Qatar Investment Authority (QIA) for around three years, where he developed as a ‘more well-rounded investor with more of a global perspective’.

For him, it was a chance to view life on the ‘other side’ and appreciate the complexities of investing capital for an investor that not only executed direct deals but invested across the panorama of investment classes.

### RISK AWARENESS

Given the trouble some firms ran into such as Morgan Stanley in the aftermath of the GFC, it is unsurprising that the BentallGreenOak team is so acutely aware of risk. Several risks have reared up since the firm began in 2010 but none really came to a significant long-term crisis.

But now Covid-19 is here, what does the firm make of that? Phelps explains that in March and April 2020, the company had to be very focused on the potential impact of the pandemic. However, the shape of the business was not giving massive cause for concern. For Fund 1, it had already returned significant amounts of capital by selling a majority of the assets.

Likewise, Fund 2 has closed on the large logistics portfolio sale to Patrizia, which materially de-risked that fund.

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The remaining investments had been conservatively managed. No high leverage, of course. ‘But let’s be clear – there has been significant disruption. We don’t own retail assets, and that was a conscious decision many years ago. We do own office assets, but I do not think the impact upon office markets has been as severe, and we have done a good job of stabilising these assets. The one sector we are exposed to in theory we have not been all that impacted; logistics, if anything, it has been a beneficiary.’

### WHAT NEXT?

With no one out of the woods yet when it comes to the pandemic, Phelps and Ostuni say it will be ‘more of the same’ at the firm for the next 18 months to two years.

‘We will continue to invest our investors’ capital as we have been doing,’ says Phelps. ‘We continue to see opportunities, in industrial but other sectors as well, whether it be data centres, life sciences, and selectively, office markets. There is no great desire to move off the path of being focused and disciplined.’

He says recent investments have actually ranked as being ‘as good as we have done’ for many years. For example, in December 2020 the firm committed €140 mln to Bulk Infrastructure to support the Norwegian data centre company’s expansion in the Nordics.

‘You have also seen us do a lot in the UK, for example forming a JV with Equation Properties to acquire a 60-acre asset, Orwell Logistics Park, close to the Port of Felixstowe for a new, one million ft<sup>2</sup> development at a moment in time where there is a supply issue. The return potential from such investments is very exciting.’

In June, the firm closed on the acquisition of two retail



warehouses in Oxford in the UK, to be redeveloped into life science use in conjunction with new JV partner, Mission Street. It expects to grow a ground-up platform with Mission by acquiring and repurposing assets for laboratory space.

Meanwhile, the company continues to build out the team. In July, it announced the hiring of Paris-based Julien Bernheim as principal, who has joined from Invesco. At the same time, the company said it would keep investing in France, revealing the acquisition of a site in the Angers region for a 25,000 m<sup>2</sup> logistics development. ‘There are other investments we have made in Italy, Spain and Germany we may not have talked about in the press that might have as good, if not better, prospects than the other deals we have mentioned,’ says Phelps. He adds: ‘Building the team to be fully integrated has been an important part of success. I am a golf fan and I like Gary Player’s saying: “The harder I practice, the luckier I get.” That summarises it for us. We roll our sleeves up, work hard to execute the strategy, and good things come from it.’ ■

## At a glance

**NAME** BentallGreenOak

**PARENT** SLC Management, the alternatives asset investment arm of US financial institutional, Sun Life

**GLOBAL INSTITUTIONAL CLIENTS** 750

**HISTORY** GreenOak Real Estate was formed in 2010. In December 2018, Toronto-based Bentall Kennedy announced an agreement to merge with GreenOak to form BentallGreenOak. In July 2019, Sun Life Financial completed the acquisition of a majority stake in BentallGreenOak.

**LEADERSHIP** Sonny Kalsi (Co-CEO); John

Carrafiell (Co-CEO); Amy Price (President)

**EUROPE EQUITY FUNDS** Value Add Fund 1: €250 mln final close 2015; Value Add Fund II: €656 mln final close April 2018; Value Add Fund III: €1.9 bn including co-investments closed April 2021; European Core+ Logistics fund: €695 mln closed in March 2021