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# Peer Insights
REPORT

# Q&A with Richard Leibovitch

## Real Estate Investor of Arel Capital

### Principle Series:

*Family Office Insights sits down with Richard Leibovitch, a seasoned real estate investor to discuss his latest venture Arel Capital, what markets he finds interesting to invest in today and where the future of real estate is heading.*

Family Office Insights is a voluntary, "opt-in" collaborative peer-to-peer community of single family offices, qualified investors and institutional investors.

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**FamilyOfficeInsights.com**

## Q: You have quite the storied career in finance. How did you come about launching Arel Capital?

A: I started my career at JPMorgan where I was head of derivatives trading. Iseguedinto asset management for Putnam investments in Boston and then I started my own asset management firm in the hedge fund space. During that 30-year period, I was fortunate enough to make some investments in real estate for my personal portfolio that were very successful. For what was almost a hobby, I learned how to create value investing in apartment buildings.

In 2012, I decided to retire from finance and start focusing on my personal investments. My partner and I started with our own capital, but shortly thereafter,former industry colleagues expressed interest in co-investing with us. What was meant to originally be a family office,becameinvesting with friends and family and then eventually our own clients. Today, we have over 150 clients investing with us in our various projects.

## Q: Your focus at Arel is to develop and improve multifamily properties in large, liquid population centers such as New York and Houston. Why are those large cities the most attractive to you?

A: In my 30 years of investment experience, I have found that investments get into trouble for two simple reasons, excessive leverage and inadequate liquidity. It's about having leverage you can control together with adequate liquidity,which highly correlated to the size of the city you're investing in. If you want to buy a building in Peoria, Illinois the number of buyers and sellers are much smaller than New York and Houston. There are always buyers for large cities, but in smaller towns there aren't always buyers.

I have held this philosophy of investing in large global centers with positive demographics and income trends. We are currently invested in New York, Houston, Austin and Denver because we like their diverse economieswith lots of liquidity and will continue to grow and outperform in the future.

New York is a land-constrained city, but itremains the center of business worldwide. Demand is likely to remain strong in real estate for the scarcity value. Houston, although oil prices have dipped, is still an opportunity. It has the largest medical center in the US, it has oil and strong businesses at the port of Houston, as well as many other industries and has diversified from oil throughout the decades. Austin is booming, young people are choosing to move there along with a plethora of technology companies, and the University of Texas. Austin is certainly a great growing city and we feel the same way about Denver.

## Q: Why multifamily and not retail?

A: There are really three or four sub categories of real estate: retail, office, multifamily (apartment buildings) and hotel and hospitality. The reality is that multifamily is the least risky and most diversified. If you own an apartment complex of 400 apartments, even if 10% leave, that's only 40 apartments. But as for office space, if one person/company moves, that could be devastating.

Retail leases are hard and expensive to acquire and can potentially lock youinto a below market rent. There's just more risk associated with the other markets. Considering the recent compression of yield and cap rates, everything trades around a 5% yield- office, retail, apartment building so you aren't getting paid to take the extra risk. We believe that residential offers the best risk/return profile within the real estate market, combined with great supply to invest in.

## Q: How are you working with other Real Estate investors to achieve this goal?

**A**: What makes us different is that we don't operate a fund. The drawback of funds is that investors have no control over what the manager invests in. Secondly, funds have a defined timeline and have to liquidate after a certain time. Finally, fees associated with funds can be higher. For now, we allow investors co-invest on a deal-by-deal basis. We prepare a presentation to our investors and they have the choice to invest or not. Some people prefer cash flow vs. growth, some like one region and not another. Many of our co-investors choose to invest equal amounts in every deal we do, but that's up to them. It offers a lot more flexibility. We decide to buy a property before raising the capital for it. If the other investors don't want to invest in, we still buy the property.

We bring a tremendous amount of conviction to our transactions, unlike many fund managers. We first and foremost invest our own money and give investors the opportunity to co-invest alongside. We are the backstop on every deal that we commit to. It certainly gives us greater conviction.

This is really my fourth business venture so I'm at a stage in life where quite frankly I'm not looking to make money with fees from investors, besides obviously what is required to support. It's more about having investors grow their capitalside by side with us.

## Q: In your view, what makes a specific investment opportunity attractive?

**A**: The perfect investment is one that begins with positive cash flow. We look for properties that have current fully leased up rents, generating cash on cash yield of 5-10%. We are paid to wait for appreciation, but more than that, what we look to buy are the worst buildings in the best neighborhoods. If you stick to that philosophy, good things happen. We're looking at class B buildings built between 1965-1995 as they tend to be a little more tired and require money to be brought up to today's standards. We find tenants who are willing to pay higher rents once the buildings are updated with added value.

The idea is to obtain significant return on capital from the capital invested to improve the properties.

Our process follows a number of key steps.

- Step 1: find tired buildings in good locations where you can raise rents and still be competitive with new construction;
- Step 2: reduce the gap over time with new construction and/or Class A buildings by spending money to improve the properties' common areas and the units. We get cash flow and now we've created additional value and reduced risk;
- Step 3: refinance or sell once we have increased the NOI and created true additional value to the property.

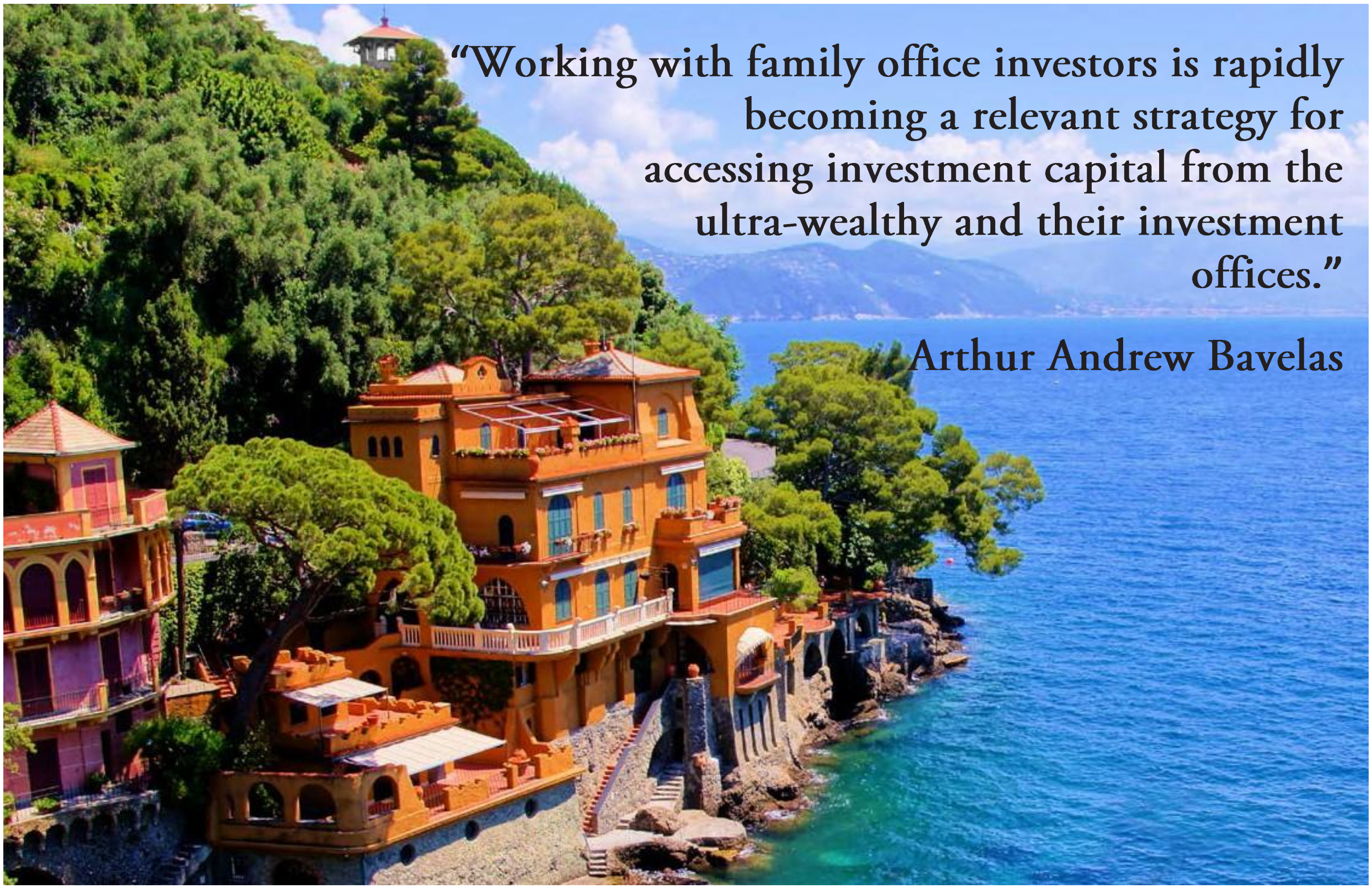
## Q: What's next for Arel Capital?

**A**: We really respond to market conditions and opportunities. What's nice is that we haven't raised a fund and we're not forced to put money to work. The mistake that fund managers make is that they raise too much money and feel obligated to put it to work.

We're quite excited about Houston right now. We hope to find a little bit of distressed sellers. We love the Denver market and hope it will appreciate. We're looking at a few new markets like Phoenix and a few in Florida. We remain opportunistic and we'll be reactive to the opportunities that the market presents.

***Richard Leibovitch***

*Richard Leibovitch is an investment professional with 29 years of experience, managing risk and identifying investment opportunities across a wide array of asset classes. In 2012, Mr. Leibovitch founded Arel Capital, a real estate investment firm focusing on developing and improving multifamily properties both in New York and Texas. Over the past two years, Arel has invested over $200 million of equity capital in individual projects. For more information please visit, http://www.arelcapital.com*


"Working with family office investors is rapidly becoming a relevant strategy for accessing investment capital from the ultra-wealthy and their investment offices."
Arthur Andrew Bavelas