Northwood strikes largest deal

Published: 15 December 2014
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The New York-based private equity real estate firm also has made its first platform investment with the $1 billion acquisition of a UK fund manager and its assets.

Northwood Investors has closed on the purchase of Highcross Strategic Advisers, a UK-based fund manager, for an undisclosed amount. The transaction represents the first entity-level investment for the New York-based real estate investment firm and its largest-ever deal.

In a related transaction, Northwood bought more than 7.1 million square feet of office and industrial portfolios located in the regional markets of the UK for £635 million (€801.04 million; $997.78 million). The properties previously were held in Highcross’ first and third real estate funds, Highcross Regional UK Partners I and III. The assets in the portfolio included Highcross’ 50 percent stake in the UK Land Estates industrial portfolio; Broad Gate, a 300,000-square-foot Class A office building in Leeds; and Lakeside North Harbour, a 101-acre business campus in Portsmouth.

“We continue to see rapidly improving regional UK fundamentals, supported by rising rental rates, declining tenant incentives and decreasing vacancy which combine to create a compelling entry point,” said John Kukral, Northwood’s president and chief executive officer, in a statement.

“The Highcross portfolio provides us critical mass in the regional UK markets with a difficult to replicate countrywide presence and a platform that we can scale with additional acquisitions over time,” added Khaled Kudsi, senior managing director at Northwood.

With the close of the deal, Northwood’s European team has tripled to 60 professionals focusing on the United Kingdom and Europe. Northwood will retain Highcross’ offices in Newbury, Birmingham, Manchester, Newcastle and Glasgow. Former Highcross directors Mike Megan, Helen Wright and Keith Woods, will lead Northwood’s regional UK activities along with Northwood managing director Jerome Anselme.

In a complicated restructuring exercise aimed at bringing Highcross’ funds to be more in line with the open-ended nature of Northwood's, all of the limited partners in Highcross’ Funds I and III were given the
opportunity to re-invest up to 50 percent of their capital in the funds into a new co-investment vehicle that would invest alongside Northwood’s evergreen fund. The lead LP in both funds is said to be Yale University’s endowment.

San Francisco-based advisory firm Accord Capital Partners represented Highcross in the deal, while Northwood was represented internally. Accord Capital Partners, whose co-founders Jack Berquist and Desi Co had raised all three of Highcross’ funds with their prior firm Presidio Partners, had initially been hired by Highcross to raise its fourth fund. However, by mid-May of this year, the assignment had changed to an auction of Highcross’ fund assets and potentially its management company.

A portion of Fund I’s and all of Fund II’s assets separately were sold in a process known as Project Hollywood. By August, Northwood had been identified as the likely buyer of the remaining Highcross properties and the management company, in a recapitalization process known as Project Warwick.

Northwood Investors was founded in 2006 by Kukral, formerly the president and CEO of Blackstone Real Estate Advisors. Northwood began investing in Europe in 2011, with its purchase of a stake in Défense Plaza in Paris, and earlier this year made its debut deal in Spain, buying the Diagonal Mar shopping center in Barcelona. The firm currently has approximately $4.1 billion of assets under management in the office, retail, hospitality, residential and industrial sectors in the US and Europe.