Ascentris

Sustaining progress during the pandemic

A Q&A with Gabe Finke, Rob Toomey and Pat Kendall

Gabe Finke
Chief Executive Officer

Gabe Finke co-founded Ascentris in 2010 as a registered investment adviser to serve its institutional clients. From 2003–2015, Finke was the CEO of Amstar Group. During his tenure, the firm became a leading global real estate investor with respected pension plans, insurance companies, private banks, fund-of-funds and family offices as clients. Prior to Amstar, Finke was a principal at The Carlyle Group and head of European development at Prologis.

Rob Toomey
President

Rob Toomey co-founded Ascentris in 2010 as a registered investment adviser to serve its institutional clients. From 1999–2015, Toomey served in many roles at Amstar Group, where he was responsible for sourcing, underwriting, due diligence, transactional and joint-venture structuring, asset management, and dispositions of a portion of the company's office, industrial and multifamily investments across the United States.

Pat Kendall
Managing Director

Pat Kendall is responsible for the company's marketing efforts. Prior to joining Ascentris, Kendall was managing director at Barings, a global financial services firm with more than $306 billion of assets under management. While at Barings, he was responsible for business development and client relations in the western United States for all the company's real estate offerings. Kendall joined Cornerstone Real Estate Advisers in March 2003 as vice president, marketing. Cornerstone merged with Barings in 2016.

You and your partners formed Ascentris in 2010.

Gabe Finke: Yes, this year we celebrate our 10th anniversary as a registered investment adviser and our fifth anniversary as a management-owned firm. We are a value-add investment firm focused exclusively in the United States on office, industrial, multifamily, and retail acquisitions and development. We have over $2 billion in assets under management concentrated with a few clients who value collaboration and loyalty, as well as our emphasis on critical thinking.

Can you give us a quick update on how the firm is doing?

Pat Kendall: The culture of the firm is stronger than ever, in spite of COVID-19. Our team of 23 professionals are all in Denver, and while a handful are still working remotely on occasion, most of the firm is back in the office. We are just concluding a robust summer internship program that requires our full and present participation.

You've been a management-owned firm for five years. What do you think the next five years will look like for the firm?

Finke: Other than measured growth, we do not see any major changes to Ascentris over the next five years. Prior to the downturn, our investment thesis moved down the risk curve, in terms of vacancy and leverage, and up the quality curve, in terms of building age and location and the strength of our local partners. While it is still early, the portfolio appears to be resilient and thriving. We are still looking at opportunities through a lower-risk lens until we have a clearer view on where the leasing markets will settle. These lower risk and higher quality properties are still in high demand without much dislocation in pricing, but we are fine being patient until pricing meets our underwriting criteria.

COVID-19 has impacted all facets of the real estate private equity industry. Can you tell us how you have adapted?

Rob Toomey: In addition to all the usual CDC-recommended protocols and air-filtration upgrades to our properties, we have also used the slowdown to institute several technology initiatives across the portfolio: Bractlet, RESET, and WiredScore, to name just a few. What has also proven incredibly powerful has been the sharing of best practices and creative ideas from our local property managers and operators all over the country, so that we can apply those practices throughout our portfolios to deal with this pandemic as effectively as possible.

Do you believe there will be any internal practices, changes or improvements Ascentris may keep in place post-COVID-19, that came about as a result of this new working environment?

Toomey: If anything, the current environment has forced more collaboration, rather than less. We are in constant contact with our team, clients, lenders and partners. The slowdown has enabled us to incorporate more redundancy and communication into our processes and systems. We have always organized around a cradle-to-grave structure, and that has not changed. Similar to previous recessions, our teams have pivoted toward asset management, while the investment markets have slowed down. We have not had any layoffs and do not foresee any. The stability of the team and their morale is just too important to our success.

Finke: Internally, we ensure collaboration and creativity with a mixture of virtual and in-person meetings, as well as open sharing of all notes and ideas. That sounds overwhelming, but it is built into our systems. It really is a powerful way to manage teams and real estate. COVID-19 has provided this opportunity to revisit how to best communicate and conduct meetings while improving productivity. We have upped our game with lender and client communication, and we plan on continuing that post-pandemic. We would like to get back to meeting in person with our local partners — that has been set back a bit by some travel restrictions.

At the end of the day, our customers need to be our priority during times of stress. We think of our customers as our tenants, clients, employees, lenders and partners. This requires us to really understand what is keeping them up at night and how their businesses are changing. Being able and willing to adapt in how we manage each relationship requires caring, transparency, and recognizing that we cannot just do things the same way as in the past.

How has COVID-19 impacted your marketing efforts?

Kendall: We launched Ascentris Value Add Fund III (AVA III) in the first quarter of 2019. AVA III is a domestic, diversified, value-add fund targeting $300 million of equity. AVA III is the same strategy we have successfully executed in our separate accounts. The reason we launched AVA III is to allow investors to participate who embrace the Ascentris platform and investment strategy, yet either are not in a position to establish a separate account due to the overall size of their plan, or their real estate allocation is at the upper end of their target range. When we launched AVA III in 2019, most investors and consultants we met with preferred sector- or geographic-specific funds, ideally with a minimum of 50 percent seed properties. Despite those headwinds, we were successful in having a first closing in July 2019 with $106 million from institutional and high-net-worth investors. As 2019 progressed, our momentum increased, and our sourcing team was successful in identifying two properties we acquired: one in December 2019 and one in March 2020. At that time, we were focused on a final close in July 2020. Then COVID arrived. Within 30 days, the feedback we received from investors and consultants changed 180 degrees; both were looking for diversified, "blind pool" funds. We considered several options and, ultimately, with the consent of our existing investors, we decided to exclude the two properties from AVA III. Thanks to the support of our existing investors, AVA III continues to be a blind-pool domestic, diversified, value-add fund with a target of $300 million in equity.

Has COVID-19 reinforced, negated, or adapted any of the investment beliefs or strategies Ascentris has historically held (i.e., geographies, property types, trends, how to find value, how to define risk, etc.)?

Finke: COVID-19 has probably reinforced our beliefs and strategies. We have been contrarian on suburban vs. urban strategies, rotating capital into the suburbs for the last several years. The pandemic has also reinforced our belief in the growth markets as opposed to the primary gateway markets. But it is too early to say these are secular shifts or long-term winning strategies. I do not see us going back to the primary urban environments unless pricing really changes significantly. We have been watching the impact a recovery in single-family housing, which has reached escape velocity, may ultimately have on multifamily demand. We need to watch this closely.

There is a lot of talk about how managers go about communicating with their existing and prospective investors. How are you approaching this during the coronavirus outbreak?

Kendall: We are trying to be aware of the pressures on staff right now and to avoid inundating them with data and opinions that are not helpful. We still consider our foremost job to be an extension of staff and to make their lives easier, not harder. With that in mind, our goal is to assimilate data and provide data-driven analytics that allow our clients to make better decisions with the appropriate amount of information.

Tell us more about how you build and maintain culture during these times.

Toomey: We have had a unique opportunity to build the Ascentris organization and its culture from the ground up. We are very fortunate to be located in Denver and benefit from the abundance of smart professionals that want to live here and take advantage of what the city has to offer and the type of lifestyle it affords their families. Maintaining the culture is about adhering to the values we all have accepted as core, and revisiting them in hiring decisions, as well as in reviews and frequent check-ins.

Finke: We have built a culture of respect inside and outside the firm. This applies to everyone with whom we do business. We think our emphasis on building and maintaining relationships with a long-term perspective attracts individuals, partners and clients that value that approach. Moreover, we have a non-bureaucratic culture that encourages responsiveness and efficiency.

Can you tell us more about your current views of the U.S. property markets and what you find attractive today?

Finke: We still like industrial development as long as the site plans meet all of the needs for today's users. We like office that is efficient, modern and proximate to amenities. We like multifamily that has great demand drivers and is the right product for the location. Meanwhile, we are still evaluating the suburban vs. urban trends and staying in contact with the lending community to understand when the debt markets will begin to thaw. In addition, we are watching single-family housing, construction costs and the investment sales markets to see early trends. But the bottom line is, patience and discipline are still the name of the game.

CORPORATE OVERVIEW

Ascentris is a real estate private equity firm based in Denver. With over $2.1 billion in assets under management, Ascentris manages a series of discretionary institutional vehicles targeting both transitional and generational value-added investments across the major property types and geographic regions within the United States. Since 2003, Ascentris' management team has relied on an investment philosophy and organizational structure that results in its investors getting to opportunities ahead of the market, while receiving an unmatched level of service, transparency and accountability. Ascentris is a privately held and management-owned SEC registered investment adviser that maintains an unwavering commitment to put its investors' needs first.

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