

Investors Flock to RLJ Fund

Hotel player **RLJ Development**, which tweaked the strategy for the latest vehicle in its value-added-fund series, has quickly lined up a rash of commitments.

Investors said RLJ raised \$966 million of equity in less than three months. The vehicle, RLJ Real Estate Fund 3, is expected to close by yearend with as much as \$1.2 billion of equity — or \$200 million more than the original goal.

The fund's backers include **Calpers** (\$200 million), **California State Teachers** (\$200 million), **GE Pension Trust** (\$150 million), **GE Real Estate** (\$75 million), **New Jersey State Investment** (\$75 million), **Connecticut Trust Funds** (\$50 million), **North Carolina Public Employees** (\$50 million) and **Allstate Investments** (\$40 million). RLJ's principals are contributing \$15 million. **Presidio Partners** is the placement agent.

The predecessor fund also exceeded expectations, raising \$143 million more than the \$600 million target.

While the first two vehicles invested only in hotels, Fund 3 has more latitude. Up to one-fifth of the equity can be plowed into mixed-use properties with a hotel component. And up to 10% can go into other categories, such as residential and retail properties, and garages.

As with the previous funds, up to 20% of the equity can be used for development, with the rest earmarked for the acquisition of properties that can be renovated or repositioned. Up to 10% of the equity can be invested in Canadian properties. With leverage, the fund would have \$4 billion of buying power if it

ends up with \$1.2 billion of equity.

RLJ's principals evidently wanted more investment flexibility because the bull market for hotels appears to have peaked. Investors said they liked the idea, adding they were reassured by RLJ's strong track record — a projected 30% internal rate of return for its first fund and a 20%-plus return for Fund 2.

RLJ came up with a modified name for Fund 3 to reflect the strategy change — the second time it has done that. RLJ's first vehicle, RLJ Urban Lodging Fund, raised \$315.5 million in 2005. RLJ dropped the word "urban" for the second vehicle, because the bulk of that fund's equity was used to buy 100 urban and suburban hotels from **White Lodging Services** of Merrillville, Ind., for \$1.7 billion. The latest name change reflects the fact that the fund's mandate extends beyond hotels.

Fund 3 charges a sliding annual management fee of 1.125% to 1.5%, based on the size of the commitment. After investors receive a 9% preferred return, RLJ receives 20% of additional profits until the limited partners' return reaches 11%. At that point, RLJ gets 60% of additional profits until it has captured 20% of cumulative distributions. After that, it is entitled to 20% of any additional profits.

Robert Johnson, who established **Black Entertainment Television**, co-founded RLJ in 2000 with **Thomas J. Baltimore**. Johnson sold BET to **Viacom** in 2001 for \$3 billion. Baltimore, who is president of RLJ, oversees acquisitions. Executive vice president **Ross Bierkan** assists with fund raising. ♦

