

Alpha Hunters

By Jean Gruss | Editor/Lee-Collier - Friday, December 28, 2012



Stephen Hagenbuckle and his colleagues at TerraCap Partners are in a hurry.

The Bonita Springs-based private equity firm has already seen the residential market rebound and opportunities disappear. Now, the firm is scooping up commercial real estate, from hotels to offices and apartment sites.

“I anticipate that there’s going to be only two more years of these types of deals, maybe less,” says Hagenbuckle.

So far this year, TerraCap’s second fund has acquired two hotels in Fort Myers Beach and Bonita Springs, office buildings in north Fort Myers and Bonita Springs, a 196-unit apartment building in Cape Coral and 280 acres that would allow for 1.5 million square feet of development.

“With our joint-venture partners, we have acquired about \$32 million worth of assets in nine transactions and those transactions were either note acquisitions or bank properties,” Hagenbuckle says.

Together with the first fund, which focused on residential real estate, TerraCap now manages total real estate assets of about \$150 million on the Gulf Coast. “Four years ago, it was just a vision,” says Hagenbuckle.

Hagenbuckle formed TerraCap Partners in 2008 with partners Robert Gray and Michael Davis. Notably, Gray spent 24 years on Wall Street raising money for real estate funds at Morgan Stanley. Hagenbuckle built and later sold several technology firms and began investing in real estate in 1997.

Despite the fact that TerraCap invests in tertiary markets such as Fort Myers, the firm has attracted institutional investors hungry for returns — alpha, in private-equity speak.

“What they’re realizing is that the primary markets don’t offer the spread opportunities,” Hagenbuckle says. Big markets such as New York or Chicago have seen commercial real estate prices surge, a trend that hasn’t reached other parts of the country yet. “Big institutional investors are starving for yield and alpha,” says Hagenbuckle, noting the first fund is hitting 25% rates of return.

So far, TerraCap has not had to goose returns with leverage, borrowing just 6% of assets on the second fund that focuses on commercial real estate, even with lending rates as low as they are today. “In my opinion, a low basis replaces the need for leverage,” Hagenbuckle says. “We have the ability to go higher, but we’re not into it.”

Hagenbuckle says he’s been surprised by how quickly the office buildings TerraCap has acquired have filled up with new tenants. “Once they find out who the new owner is and they’re comfortable, then all of a sudden they come flying forward,” Hagenbuckle says. “We didn’t expect them to be there. You can’t put that in your business plan, but that’s happening.”

When the properties are run down, TerraCap spends money to renovate and reposition them. For example, it spent \$1.5 million to renovate a Bonita Springs AmericInn hotel that it reflagged as a La Quinta Inn.

TerraCap has also been acquiring land, including one parcel on Jones Loop Road in Punta Gorda near Interstate 75 that the Wilder Group of Boston acquired for \$45 million and planned to develop into a large outlet mall. “We paid \$11.7 million,” Hagenbuckle says.

TerraCap invests where there’s opportunity, even if some property types such as raw land take longer to hold to achieve a positive return. “We don’t get pigeonholed in one space,” Hagenbuckle says.

Ultimately, Hagenbuckle says the goal is to raise a total of \$200 million by the end of 2013 before starting a third fund. That fund might focus on agriculture land, for example. “The plan is to do a series of funds,” he says. “What will change is the strategy.”