Legacy Partners

In August, Geoffrey Dohrmann, publisher and editor-in-chief of The Institutional Real Estate Letter, *met with* ***Barry DiRaimondo****, president of* ***Legacy Partners Commercial****. The following is an excerpt from that conversation.*

BARRY DIRAIMONDO

Barry DiRaimondo, president of Legacy Partners Commercial, has been with Legacy Partners for more than 20 years and is the managing general partner in the various Legacy Partners–owned real estate partnerships. He oversees the Commercial Company and is responsible for establishing its strategic initiatives. DiRaimondo also oversees the investment management services activities of the Commercial Company, as well as all development and acquisition activities throughout all of Legacy Partners Commercial Inc.'s markets.

Dohrmann: *How did Legacy get started?*

DiRaimondo: The roots of the company go back nearly 40 years to the late 1960s, when Preston Butcher moved from Texas to the San Francisco Bay Area to develop apartments on behalf of Lincoln Property Co. in partnership with Mack Pogue and Trammell Crow. The commercial group, which encompasses office, R&D and warehouse, came into being about four years later. At that time we were your prototypical developer. We developed assets and, for the most part, hung onto them in joint ventures with life companies or syndicates. It was a build-to-hold program. Today, we don't emphasize the fact that we're developers because, candidly, we have morphed away from that — at least in the commercial company. The commercial company is now an investment manager rather than a developer.

Dohrmann: *Why did you transition away from development?*

DiRaimondo: You can really only prudently develop through 15 percent to 20 percent of the cycle. So if we wanted to be in business across the continuum of the cycle, we had to figure out something else to do for the other 85 percent to 90 percent of the time. That led us into buying real estate and playing strategies based upon where we are in the real estate cycle.

Dohrmann: *Why did you go into investment management?*

DiRaimondo: As we came into this cycle around 2002, we came to the realization that we wanted to control our own destiny. Historically, we'd find a piece of real estate and then find the money. In the past few years, we realized that we did not want to be reliant on other investment managers and advisers to capitalize our real estate needs. We've been in business a long time, and we knew we had the infrastructure and reporting platforms to deal directly with the investors, and it's worked out well.

Dohrmann: *Do you still do any developing?*

DiRaimondo: We do some, but it makes up less than 10 percent of our investment equity. When we do a development deal, for example, we'll invest 25 percent of the equity from our fund and we'll go out and find a joint venture partner to put up the rest, and then we'll generate a promote structure off that, which flows through to the fund. This, in effect, provides a reverse engineering of the dreaded double promote structure back to our investors.

Dohrmann: *Where are you focused geographically?*

DiRaimondo: Up through the early '90s, we were in all the western region markets. About 15 years ago, we consolidated into four primary markets: Seattle, Northern California, Southern California and Denver. So the focus has become more concentrated as opposed to expanded.

Dohrmann: *Why did you decide to concentrate?*

DiRaimondo: Because we're operators. If you're an operator, where you're doing all the heavy lifting in between the buying and the selling, you're in the value game. We're paid to grow NOIs and create value, which means that we're actually doing something at the real estate level — whether it's rehabbing the buildings, building the buildings, leasing the buildings and the like — and we found that trying to be everything to everyone everywhere was really dilutive to the operator model. Concentrating our efforts into areas where we could build significant locally based teams to do the work at the real estate level was a much more efficient model. And the model has worked for us. We see no reason to expand outside of these four markets.

Dohrmann: *Why did you choose those markets?*

DiRaimondo: First of all, we concentrated in markets where we wanted to live, which is important. But also, we looked for markets with the most volatility. We're in the value-add game, and value is usually added when the markets are transitioning from good to bad or bad to good, as the case may be. So we concentrated in the markets that were big enough to house self-sustaining industries, as well as those where you saw the most volatility, such as technology-based areas. That's usually where the lion's share of the growth and contraction happens.

Dohrmann: *When you say value-added, what specifically do you mean?*

DiRaimondo: In my mind, value-added is all about growing NOI. It's about taking broken cash flows and fixing them. It might involve leasing; it might involve repositioning the building by modernizing it; it might involve putting in all new common areas — but ultimately it's about growing NOI. You find opportunities where you think you can grow the NOI because you've got undermanaged assets, undermarketed assets, mispositioned assets and the like. We fix the assets and grow the NOI.

Dohrmann: *Over the next 12 to 36 months, where do you see the opportunities in the markets in which you're operating?*

DiRaimondo: I think you're going to see significant rent growth over the next 24 to 36 months in all these markets. If you look at new supply relative to cycles past, the new supply is very marginal relative to what you've seen historically. From what we're seeing now, lack of new supply is starting to force rents in many markets up to and beyond historical highs. And I think you're going to continue to see that rent growth. The demand metrics are very good, and the supply metrics are also very good — as in, lack thereof. Now, as you're aware, what usually blows up real estate cycles is oversupply. Generally 70 percent or 80 percent of the problem is oversupply; 20 percent to 30 percent of the problem is that your demand metrics move away from you.

Dohrmann: *Is there some vulnerability to demand contraction that would slow down your projections for rent growth over the next three to five years?*

DiRaimondo: There's always that risk. But what we see right now is that the demand metrics are very good, and even if it does slow down there's not enough new supply being built such that your vacancy rates are going to go up. I think vacancy rates are going to continue to contract, even with slower net absorption.

Dohrmann: *What are some of the competitive advantages that you bring to investors?*

DiRaimondo: Number one, we're local. All of our acquisitions people live in the communities that they're playing in, which means we know the sellers, the buyers, the brokers and the tenants. We've been operating in these markets for 30 or 40 years, and the fact is, this is a relationship business, as everyone knows. Secondly, we are a small enough group where our processes are fairly streamlined. We can move very quickly, and speed is probably more important than anything in the transactions market today. Thirdly, and maybe most importantly, we are an operator. We understand the business, not just from the standpoint of buying and selling, but how to fix real estate. And finally, a lot of our current investors have invested through us because we've been through good times and bad as a team. It's hard to find a team that's been intact for 30 or 40 years. People that invest with us understand that it's a cyclic environment. You've got good times and you've got bad times. Anyone can make money in good times. What tests your mettle is how you do in bad times, and we've been through enough bad times as a team to know what to do when the market turns — which it will at some time.

Dohrmann: *How have you managed to stay together for so long?*

DiRaimondo: The people who work at Legacy love what they do. How we do things and the pace that we run at internally is not for everyone. We look for individuals who are willing to work hard, and willing to run fast, and who thrive in an environment of change. We start people at the bottom and move them around as they learn. Most of the senior people in our organization came up through the property management side, which I think is the core to understanding how real estate works. People know right away if there is a good fit. If there is, they tend to stay for many years.

Dohrmann: *Now you're operating at a fiduciary capacity, and what does that mean to you?*

DiRaimondo: We've viewed ourselves as a fiduciary long before we became investment managers. Our joint partnership relationships run 20 years deep. When you develop these long-term partnership relationships, you are acting as a fiduciary. Being a fiduciary simply means thinking like an owner and doing what is right for your investors as opposed to doing what is right for us. When you step back and think about what the right thing is, it's usually a pretty simple answer. We make sure that all our people are thinking about what is the right thing to do on behalf of our investors.

Dohrmann: *What is the future of Legacy Partners?*

DiRaimondo: We're thinking about the long term and not about the next fund. We've structured the firm as an evergreen company, and we're actively growing the business. ❖

CORPORATE OVERVIEW

Legacy Partners has been a leader in commercial and residential real estate since 1968, managing a portfolio currently valued at more than $6.5 billion. The firm's experience spans property acquisition, development and management. With an entrepreneurial spirit and real estate acumen honed by working in an often volatile marketplace, Legacy's investment professionals understand how decisions today affect the value of investments tomorrow.

Consistently ranked as one of the top managers and developers of commercial real estate in its markets, Legacy Partners provides enhanced returns on invested capital for its investors and partners.

Headquartered in Foster City, Calif., Legacy Partners maintains regional offices in San Francisco, San Jose, Los Angeles, Long Beach, Irvine, San Diego, Denver and Seattle.

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