Major Acquisitions

Nearing its third phase, Arkansas-based CapRocq Core Real Estate Fund invests across the South and Midwest, but the investments directly benefit its home state.

BY ROB MORITZ // PHOTOGRAPHY COURTESY OF COLLIERS INTERNATIONAL ARKANSAS

With the December acquisition of a 10-story office tower in Kansas, managers of Arkansas-based CapRocq Core Real Estate Fund say their second investment fund, currently valued at about $100 million, is about to close and investors are being sought for a third fund, which could be ready later this year.

And while the private investor partnership has provided 25 to 30 investors — most of them Arkansas-based individuals and institutions — with strong investment opportunities at a time when interest rates are at an all-time low, two of CapRocq’s founders, Franklin McLarty and Kevin Hutchins, say they are optimistic about the fund and that investment strategies will change as the economy does. They also say their investment fund benefits the entire state, not just investors.

“Real estate investors and real estate investment firms are going to invest in Arkansas, and in Columbia, Omaha and Kansas City, so it’s good that the group [doing the investing] is based in Arkansas and headquartered in Arkansas,” said McLarty, a former Arkansas Economic Development commissioner.

CapRocq, which has five managing partners, focuses on investing in real estate — primarily office, industrial and retail — across the Midwest and South, a region McLarty and Hutchins refer to as “the Heartland.”

CapRocq to Continue

CapRocq Core 1 was launched in December 2012 by McLarty, CEO of RLJ McLarty Landers Automotive Holdings, which owns auto dealership franchises across the country and in Arkansas, and Hutchins, president and CEO of Colliers International Arkansas, a commercial and residential real estate services firm.

Core 1, which started with more than $56 million, purchased about $165 million worth of properties totaling more than 2 million square feet before it closed in August 2014. Some of those properties include Conway Town Centre in Conway, the Alliance Steel building in Oklahoma City, the 1001 Technology building across from the Promenade at Chenal and the Faber Center in Charleston, South Carolina.

CapRocq Core 2, which raised $50 million in equity, is expected to reach its $150 million investment limit later this year. Along with the Mission Towers in Mission, Kansas, some of the other properties acquired by Core 2 so far include the Village on the Creeks in Rogers, a three-story office/warehouse in Columbus, Ohio and the Triad Center office building in Greensboro, North Carolina.

Hutchinson said CapRocq investments “have really moved a bit more expeditiously than we originally thought.” In some cases, “we’ve made some opportunistic purchases where we’ve got in and been able to stabilize an asset, or improve the asset quicker than we thought we would. And, that has allowed us to exit early and that brought a very favorable return for our investors.”

While the list of investors is confidential, Hutchinson said the vast majority are from Arkansas and “our largest percent of investments is still in Arkansas, either central or northwest.”

CapRocq investors, McLarty said, are typically those who invested in municipal bonds but began looking for alternative investments when interest rates dropped.

“We really felt there was an opportunity to appeal to some of those investors and say we could provide very good risk-adjusted returns by buying stabilized real estate that ... maybe have a little upside, could be improved but are very solid already,” he said.

When investors see good returns on their investments, CapRocq’s reputation across the Heartland grows and that is good for state’s business reputation, McLarty said, “It puts us on the radar in a different way than maybe we always have been in the past.” CapRocq also gives young professionals the opportunity to stay in the state, rather than having to leave to
work for a large investment fund, he said.

McLarty and Hutchinson said they realize the current low interest rates will not last forever.

“We’ll have multiple strategies we’ll try to execute as we go forward, some of them will have higher returns … move up the risk factor a little bit,” Hutchinson said.

**Investment Strategies**

Markets, said McLarty, “change and none of us has a crystal ball, but, we want to go to a market with very specific strategies that we can lay out crisply to sellers, investors and executive leadership.”

Factors that will undoubtedly dictate their investing strategies include “the investor’s appetite” and the ability of CapRoq’s leadership investment team to spot good investments, Hutchinson said.

“What we found … and why CapRoq 3 is likely going to happen sometime [this] year is there’s still opportunity within the strategy that we have created and that is looking at second and third tier markets and being able to be in there and find product where there is not a lot of people chasing that return,” he said.

Some of the markets include Charleston and Columbia in South Carolina; Omaha, Nebraska; and, Savannah, Georgia.

**SOUTHERN PROPERTIES**

300 W. Lime St. in Lakeland, Florida, (top) and Regency Executive Center in Charlotte, North Carolina, are two of CapRoq’s real estate investments.
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— Kevin Hutchingson, co-founder, CapRocq Core Real Estate Fund

“You have to find these opportunities in these markets,” Hutchingson said, adding CapRocq has relationships with business people throughout the South and Midwest and they are looking for investment opportunities.

McLarty said, “There is a lot of money from all over the world coming into those markets and [our] ability to underwrite those markets, value real estate, understand the credit worthiness of tenants, many of them not rated by the debt rating agencies … well, international investors don’t have that.”

So far, Hutchingson said, “we’ve been fortunate to have a very good alignment with our investors and the core strategies and thus far those strategies have worked out equally or better than we had hoped.” McLarty added that CapRocq is always looking for investors — “We believe that as we go forward with CapRocq and beyond, we will naturally evolve on the investor side as well.”

All investment opportunities and decisions are considered by an investment leadership team of about 10 people, which includes Hutchingson and McLarty, as well as Dewitt Smith, founder of Devereux Management Company, which is involved in commercial projects in six states, and Mark Saviers, a partner with Sage Partners, a commercial real estate firm in Arkansas and managing partner of Myers, Crow & Saviers, a commercial real estate firm in Houston. Also on the investment are team are Stephen and Jason LaFrance, whose family owned USA Drug Stores before selling the chain in 2012 for nearly $450 million to Walgreens Co.

“All of us really bring different kinds of experience to the table,” said Saviers of Little Rock.

Smith, who lives in Bella Vista, said everyone on the team “focuses on different elements and so the partnership actually works like partnerships are supposed to with different people pulling different strings.”

The investment team meets weekly and only proposals that are supported unanimously move forward, Hutchingson said.

“We’re pretty accessible guys and that’s pretty unique and frankly [our] investors kind of like that,” McLarty said. AMP