

ADVERTISEMENT

Fundraising

Long Harbour debuts Willis Towers Watson-backed fund – Exclusive

The UK insurer has committed €400m to the London-based firm's first pan-European vehicle, which will target ground lease investments.

By **Lisa Fu** - 2 December 2019

[Share](#)A⁻A⁺

100%

UK-based investment manager Long Harbour has launched an open-ended European ground lease fund, *PERE* has learned.

The firm has raised €400 million in committed equity in the first close for the Long Harbour Euro Secured Income I Fund. The capital will be invested in ground leases for residential and commercial real estate assets across Europe.

The €400 million commitment was provided by **Willis Towers Watson** through its fund of funds, the **Euro Secure Income Fund**. This seed commitment will give Long Harbour an initial €30 million to deploy and a further €370 million over the next three to five years, according to executive director Richard Silva. This capital will be drawn on a stage-by-stage basis each year.

Willis Towers Watson has entered into an exclusivity agreement with the fund under which the firm can accept capital commitments from other investors once the yearly capital from Willis Towers Watson is deployed. According to Silva, the anchor investor has agreed to help market the fund by giving existing clients the option to commit capital through the ESIF feeder fund or to commit capital directly into the Long Harbour Euro Secured Income I Fund.

Silva explained that Long Harbour, which did not coinvest in the fund, will not be charging any promote or performance fees, but will earn a management fee based on the net asset value of the fund.

He said the open-ended fund would target investors with long-term liabilities, such as pensions and insurance companies, because the ground lease strategy is designed to have long hold periods. The firm is not looking to flip investments in seven-to-ten years; rather, the ground leases are intended to be assets held for up to 100 years.

Long Harbour will essentially acquire a “super senior interest” in the real estate assets by acquiring the land beneath buildings, according to Silva. The acquisition price of the land will be capped at 30-40 percent of the combined value of the land and buildings, he said.

He added that the firm would initially focus on land acquisitions in Germany, the Netherlands and Ireland; that the key to the investment strategy would be location; and that the firm would target purchases of land with real estate assets in the office, leisure and residential sectors.

If a property owner sells its land to Long Harbour, the seller will effectively free up capital that can be used for renovations or acquisitions, much like in a sale-and-leaseback transaction. The fund strategy also guarantees that the seller-tenant will make rent payments to Long Harbour ahead of any other financial obligations, given the firm’s super senior interest in the real estate assets.

“[Long Harbour’s open-ended fund product] is essentially an asset-backed bond,” Silva said.

The low-yielding strategy will bring in income from day one and is an inflation-correlated, core investment product. It will target a 2.5 percent minimum distribution yield and an internal rate of return in the mid-single digits.

Silva explained that the strategy would appeal to investors with long liabilities, given Europe’s current low interest rate environment, which has reduced treasury bond returns. He added that the fund will act as an alternative to bonds and will likely continue to become more popular as European pension

funds and insurance companies face legislative restrictions that will require them to hold different forms of capital against liabilities. ●

Long Harbour Euro Secured Income I Fund is the firm's debut pan-European vehicle and its first to focus on commercial ground leases along with residential ground leases. The firm also pursues the ground lease strategy in the UK-focused Long Harbour Residential Freehold Fund. It has also been making ground lease investments across Europe in non-fund structures since 2016.

ADVERTISEMENT