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Adventure in real estate

New fund mixes elements of venture capital with real estate investment

By Jeff Bounds / DBJ SENIOR WRITER

An Addison firm is launching a new and unusual money fund that aims to bring elements of venture capital to the business of creating real estate properties.

Silver Tree Partners Inc. says its new fund, projected to raise \$25 million, will provide institutions and wealthy individuals with the opportunity to get the upside of direct real estate development while providing broader diversification than other investment options in that field, such as putting money into real estate investment trusts, or REITS.

In general, developers must round up outside investors for each development that requires outside funding.

Investing in REITs, meanwhile, is often viewed as a good way of playing the industry, but limits the potentially larger upside of direct investment in real estate. REITs own and generally operate income-producing properties, and in some cases finance real estate. By law, REITs must pay 90% of their taxable income as dividends to shareholders each year.

The Silver Tree Realty Fund 2003 will operate closer to a venture fund, securing about \$2.5 million from its investors initially and then putting out what are known as "capital calls" over two years for more money as new development opportunities arise. The partners of Silver Tree, Paul Gardner — who is also president



PLAYERS: Silver Tree Partners founders Paul Gardner, left, and Alan Moore plan to co-invest in every one of the investment fund's deals.

COURTESY PHOTO

of the firm — and Alan Moore will co-invest in all deals.

That should mean the fund will be able to assemble financing faster and with less hassle. Silver Tree Partners officials have just begun seeking investors. They hope to close on the fund by the end of this year.

Launched about seven years ago, Silver Tree Partners has done about a dozen developments, all in the Metroplex and all but one of which were self-funded. Among its better-known work is the Coit Center mixed-use development in Plano, a finalist for the Dallas Business Journal's Best Real Estate Deals competition of 2000. Silver Tree Partners says it has generated an internal rate of return of a weighted average of 34.5% on its previous work and is aiming for 25% on the new fund.

"We have built a small but effective infrastructure and team," says Moore. "Every investor only has so much in capital resources. It makes sense to leverage on our previous success, our existing infrastructure and management and our growing

reputation."

Cooper Stuart, who leads the capital markets desk — essentially the real-estate practice — at Ernst & Young's Dallas office, says the idea for the fund is somewhat unusual in the current climate.

Many wealthy individuals are turning to real estate in the downturn. "Real estate use to be a hedge against inflation," Stuart said. "Now it's a hedge against disaster. You won't lose your money. In a worst-case scenario, instead of a 9% yield, you get a 6% (yield)," he says.

Silver Tree Partners Inc.

Business: Real estate investments and development

Address: 15303 Dallas Pkwy., Suite 350 Addison, TX 75001

Top executive: Paul Gardner, president

Revenue: N/A

Employees: N/A

Other locations:

None

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