

Purpose Driven

An Interview with Deborah Harmon,
Co-Founder and Chief Executive Officer, Artemis Real Estate Partners

EDITORS' NOTE Deborah Harmon is an industry leader and entrepreneur with more than 30 years of experience in real estate. Harmon, along with Penny Pritzker, co-founded Artemis Real Estate Partners in 2009. Prior to Artemis, Harmon spent 17 years establishing and leading the principal investing business at JE Robert Companies. She serves as Chairperson of the Pension Real Estate Association Foundation, is a board member of the Pension Real Estate Association, a key leader and former trustee of the Urban Land Institute, and a member of the Advisory Board of Jasper Ridge Charitable Fund and the Advisory Board of the Black Ivy Group. Harmon also serves on the Board and Executive Committee for Women for Women International and is a member of the Council on Foreign Relations. President Barack Obama appointed Harmon to serve as a Commissioner for the White House Fellows program and she previously served on the boards of directors for Forest City Enterprises and Avis Group Holdings, the board of advisors for the School of Advanced International Studies at The Johns Hopkins University, and on the boards of Sidwell Friends School, Beauvoir, the National Cathedral Elementary School, and of the National Children's Research Center. Harmon earned a B.A. from The Johns Hopkins University and an M.B.A. from The Wharton School of the University of Pennsylvania.



Deborah Harmon

COMPANY BRIEF Artemis Real Estate Partners' (artemisrep.com) mission is creating a successful and sustainable real estate investment management firm built on a foundation of performance, alignment of interest and transparency. Since 2011, Artemis has raised approximately \$4.5 billion of committed equity capital in three primary business lines: roughly \$2 billion in value-add discretionary commingled funds, \$2 billion in vehicles focused on core/core-plus investments with emerging managers, and \$476 million in a healthcare specific core-plus fund. Artemis invests in real estate across all product types in the United States.

Will you discuss your vision for creating Artemis Real Estate Partners?

I co-founded Artemis 10 years ago in the depths of the Great Recession. There were

unique opportunities because of what was going on in the financial markets. For me, it was "then" or never to start my own business.

I made one crucial decision, which was not going it alone. I had extraordinary partners, including Penny Pritzker, my co-founder; Artemis' President, Alex Gilbert; and a senior leadership team with decades of experience working together. From a blank sheet of paper, we set out to build an organization that was both performance-driven and diverse.

We wanted to raise a \$300 million Artemis Fund I in 2010. Earlier in my career, I managed two \$400+ million funds with a similar strategy. What was unique with Artemis is that we bet on ourselves – we committed \$50 million of GP capital and were prepared to be the largest investor in our own fund. As Penny used to say, the only thing we were emerging at was being emerging. Still, it took two years and 225 meetings to secure 11 brave limited

partners who proved to be stakeholders in our success. Eventually, we raised \$436 million. It was among the most challenging professional experiences of my career.

Our success over the last decade offers some proof of our vision. We work to find alignment with investors, to invest capital across the risk spectrum, to have a strong and intentional diversity strategy, and we try to back these principles up with experienced partners. Together, these are the cornerstones of a robust organization striving to deliver risk-adjusted outperformance.

What have been the keys to the strength of the firm's returns?

I have always described Artemis' culture as performance driven. Performance and discipline are essential to succeeding in real estate investment. We work to maximize our alignment with the interests of our investors and sustained performance.

One key to our performance was identifying the opportunity in providing capital across the risk spectrum. Before 2008, I watched people opportunistically invest themselves over the proverbial cliff. We wanted to do things differently and for Artemis to be the strategic capital provider of choice across the risk spectrum. We knew this could benefit our stakeholders: providing capital to best-in-class, emerging and established joint venture operating partners, diversified across product type and geography, with the ability to invest up and down the capital stack with the intent to deliver the best risk-adjusted returns.

Being a force multiplier for profit and purpose was vital to our team. We wanted to succeed as a firm that not only outperformed, but that also did good. We seek to widen the circle of opportunity through capital access and talent training programs for those typically underrepresented in the real estate industry. This helps us build a more diverse team and attract top talent to our organization.

This is the key to our performance: It's the combination of our business strategy, our operating partners, our approach to talent and our mission. Our investors agree – Fund I outperformed its return target, and we had a 100 percent re-up rate for Fund II in 2014 from our institutional investors. In 2019, we broke a glass ceiling of sorts and raised more than \$1 billion in our value-add Fund III. We have a nearly 95 percent re-up rate of the firm's investors across nine vehicles.

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Will you discuss your focus on building a diverse workforce?

Anyone founding a company faces a unique set of challenges. For us, diversity was a core challenge. It took building Artemis for me to fully appreciate the barriers to entry and barriers to success diverse talent faces in the real estate industry. We set out early on to learn from other women-owned firms willing to share their lessons-learned. We found none.

Real estate investment is a \$970 billion industry today, yet it remains among the least diverse fields in alternative investments. More than 950 real estate private equity firms operated over the last decade. Just 1.8 percent were women-owned. Only 2.2 percent were minority-owned. Women-owned firms had about 0.8 percent of assets under management, and minority firms have had 1.2 percent. The numbers are not much better for diverse talent in senior roles.

Building a diverse team is significantly harder than building a homogeneous one. It's essential, though. It protects your company from group think. You are more likely to identify opportunities and risks for your business. There's academic research that hits on this. We also see the evidence for this in our firm's performance, where we have built an intentional approach to diversity into our mission and the core of our company values.

We find people want to work in places where people with similar backgrounds and identities have achieved success. When you don't find senior women or senior minority leaders in the industry, and you are a woman or a minority, you might opt out. If firms don't address unconscious bias in hiring, promotions and talent development, the reality is that diverse talent will leave. We don't want that – we take pride in our lack of turnover. This approach doesn't mean ignoring or excluding groups that are historically well represented – it just requires an intentional approach. We want everyone to leverage the unique value different voices bring in concert with each other.

At Artemis, 50 percent of our team at every level is women and minorities. We believe in including a diverse array of perspectives. This approach is not just morally right – it can be strategically accretive. Our performance over the last decade suggests our approach to talent has a quantifiable impact for our investors and their portfolios.

What was the purpose for creating the Artemis Emerging Manager Program?

This program is really a reflection of the challenges we faced as we fundraised for our first fund. We launched the Artemis Emerging Manager Program in 2011, after the Artemis Fund I received capital from only one investor with a formal emerging manager program. Investors with emerging manager programs declined to invest in first-time funds. It was clear that other first-time firms and first-time funds would face similar challenges so we did something about it.

Partnering with New York Common, we provided joint venture capital to emerging managers, helping them build track records. We faced down a persistent, unconscious bias in real estate investment, one that suggests if you invest in women or minorities, you're taking a greater risk, and therefore you need to push them out on the risk spectrum to generate more attractive returns. What would inevitably happen is the market would turn, emerging managers wouldn't be able to meet this return target, and investors would back away.

We turned this model on its head. We built a program to incubate emerging operating partners by providing core-plus instead of opportunistic capital to invest in lower return, stabilized properties. We focused on a structure to promote the success of both our clients and our partners. We targeted a 12 percent gross return, expecting to invest 50 percent of the \$800 million of capital with women- and minority-owned firms.

To date, we have invested 80 percent of the capital with women- and minority-owned firms. We have realized more than half of the investments, which are exceeding target returns. This success with a diverse group of operating partners generated real momentum. We have been able to develop a core and core-plus business taking less risk. That business predominately focuses on emerging managers, which our institutional clients have wanted. It has been equally successful and opened the door to a number of very talented firms now accessing institutional capital directly.

This has demonstrated the importance of providing capital across the risk spectrum and now several of our managers have direct relationships with institutional investors.

How critical is it for you that Artemis is a purpose-driven firm?

Being purpose driven is a core value, but more than that it is a fundamental part of our success. In my career, I've always favored environments that pair performance with a sense of mission. So, from day one at Artemis, we knew how important this was to us.

Pairing performance with mission makes me proud and I believe this is something the next generation of talent values deeply. We have a relatively low turnover rate at Artemis, and we don't believe high turnover is inevitable. Talent needs a reason to stay, and talent needs room to grow. Purpose is a significant part of that equation.

Talent is evenly dispersed, but not evenly developed. Our team is passionate about widening the circle of opportunity for those underrepresented in real estate. Seven years ago, we started the Artemis Summer Enrichment program to train and mentor talented undergraduates. The program evolved from four students to 26 participants every summer. Women and minorities make up about 80 percent of our 110+ participants.

This program provides one month of training, followed by extended internships at Artemis and partner firms. Roughly half of our program participants went on to advanced internships or jobs in real estate or finance. In the long run, we anticipate even more will come back to real estate as their careers develop. Programs like this can change the face of real estate.

Are you able to take moments to reflect and appreciate what you have built at Artemis?

We had our ten-year anniversary this year, and that's a significant milestone for our firm. Along the way, we've been intentional about celebrating and recognizing our milestones while always keeping focused on the next challenges and opportunities. Artemis leads by example at every level. There is no team we would rather have to power us forward, and I do think it's important to reflect on how far we have come.

Our investment performance, team, and the culture we built at Artemis should deliver disciplined growth and attractive, risk-adjusted returns for our investors and their beneficiaries. In this sense, what makes me particularly proud is that our core values are vindicated by our successes. ●