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By [Andrew Schroedter](#)

Low-profile firm aiming to raise \$250 million

(Crain's) — Two high school buddies have an ambitious plan to raise a \$250-million real estate fund in a downturning economy in which many investors are having trouble achieving the strong returns of recent years.

Chicago-based Equity Capital Management LLC has already raised about \$125 million, with plans to buy fully occupied single-tenant office, industrial and retail properties, says Shelby Pruett, 46, who co-founded the company in 2002 with St. Louis developer James Koman, 44.

The lofty fundraising goal puts a spotlight on the little-known company, which previously raised just \$86 million for its second fund.

As Equity Capital prepares to make the first acquisitions for the new fund, the onus is on Messrs. Pruett and Koman to replicate their past success for their mix of institutional and high-net-worth individual investors.

The target internal rate of return is 15% within a three- to five-year horizon, when the fund's assets will be sold off.

"It's very difficult to hit that window today," says Randy Blankstein, president of Northbrook-based Boulder Net Lease Funds LLC, which also invests in single-tenant properties. "Obviously the net lease market, like every other market, was impacted by the credit crunch."

Mr. Pruett agrees it has gotten tougher for most investors, but says, "We never paid full price."

He and Mr. Koman say they're not going to wait for an upturn in the economy to begin investing. Over the next two months, they plan to acquire about \$100 million in properties.

"We're finding tons of opportunities," Mr. Pruett said in an interview in his



Shelby Pruett, above, and James Koman



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The first of the company's three U.S.-based funds, was a \$50-million vehicle that in 2003 acquired more than 20 net lease properties where Walgreen Co. was the sole tenant. The fund, which has since been liquidated, provided a 40% return to its investors, Messrs. Pruett and Koman say. The second fund is fully invested.

In most cases, the firm deals directly with developers who've already found tenants and need an equity partner so they can finish building — or sometimes cash out altogether.

Net lease properties are a slow but steady investment vehicle, where incremental growth in rent is built into the long-term leases. One of the keys to Equity Capital's producing higher returns is "they've been smart with how they've financed their investments," says Stephen Quazzo, founder and CEO of Chicago-based Transwestern Investment Co. LLC, a significant investor in Equity Capital.

Mr. Pruett says Equity Capital can generate strong returns because of three factors: annual rent increases on the properties, buying property below market price and using 70% to 75% leverage. Including leverage, the new fund will be able to acquire up to about \$900 million in properties, Mr. Pruett says.

Of the two partners, Mr. Pruett is the money man, while Mr. Koman's specialty is development. The two men met while attending private John Burroughs School just outside St. Louis. Mr. Koman still lives in the St. Louis area, while Mr. Pruett lives in Lake Forest. They founded Equity Capital at the suggestion of a group of money managers and investors, they say.

Despite living in different cities, the pair remain close and frequently dine out when they're in town together.

"He laughs at all my jokes," Mr. Koman says. "And I used to beat him up almost every day," he jokes.

Even if that were once true, it would be unlikely to happen any more — Mr. Pruett is now a second-degree black belt in the Korean martial art of Hapkido.

Mr. Pruett has degrees from the University of Virginia and Harvard University. Previously, he was head of corporate mergers and acquisitions for Chicago-based Transwestern Commercial Services LLC. Before starting Equity Capital, he co-founded Chicago-based private-equity firm Gryffindor Capital Partners LLC. The fund Gryffindor raised is now fully invested, primarily in technology and life science companies.

Mr. Koman, a graduate of the University of North Carolina, remains president of Koman Properties Inc., a St. Louis-based real estate firm that has developed more than 4.5 million square feet of office, retail and casino properties throughout the U.S.

In addition to the new \$250-million U.S. fund, the pair has a \$250-million European fund in the works. That's what led the company last year to open an office in Switzerland, where about 50 of Mr. Pruett's relatives live — his mom was a Swiss citizen. Altogether, Equity Capital employs about 20 people, including Messrs. Pruett and Koman, in its Chicago, St. Louis, New York and European locations.

"Our strategy has been to raise enough money to be institutional, while staying small enough to remain entrepreneurial," Mr. Pruett says.