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Johnson Adds to Investments in Hotel Sector With Third Private-Equity Fund

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Washington entrepreneur [Robert L. Johnson](#) yesterday announced he has raised \$1.2 billion for his third private-equity fund that invests in the hotel industry.

The new fund, known as RLJ Real Estate Fund III, will focus primarily on lodging. But Johnson said he will expand it to include acquisition and development deals in the ailing commercial real estate sector.

"Over the next year a lot of good deals are going to come on the table," Johnson said yesterday, referring to the office, residential and retail real estate sector. "And if you are sitting on cash, you are in the catbird's seat. We are very well positioned to be sitting on \$1.2 billion in equity."

By borrowing against the \$1.2 billion in equity, the fund will be able to buy or develop \$4 billion in properties, Johnson said.

The new fund and its two predecessors are part of RLJ Development, a privately held real estate investment company founded by Johnson and Thomas J. Baltimore Jr. The company owns 135 hotels valued at more than \$3 billion.

Although the hotel market is still fairly hot, buoyed for years by an expanding economy and a limited number of rooms, the sector is starting to slow.

"The fundamentals in real estate and lodging are still attractive, although the growth is decelerating," said [Baltimore](#), president of RLJ Development.

Under the private-equity business model, assets are bought and either improved and sold, held until they increase in value and sold, or broken up and sold in pieces. The proceeds are distributed to investors after a pre-set period, usually several years.

Baltimore said the new fund intends to hold its assets for five to seven years before liquidating. Liquidation must occur within eight to 10 years.

The investors include [General Electric](#) Pension Trust and General Electric Real Estate Equities, as well as three of the five largest public pension funds in the United States, Baltimore said.

Fred Malek, co-chairman of Thayer Lodging, a private-equity fund that buys and manages hotels, said now is a good time for hotel deals.

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"This should be an excellent time to acquire hotels because values are coming down somewhat, some owners do not have the financial capability to upgrade their hotels to meet consumer demands and brand standards, and thus, they will be forced to consider sale," he said.

RLJ, based in [Bethesda](#), has two other funds, one with \$315 million and the other with \$743 million. The 22 assets in its first fund are under contract to be sold en masse in the next few weeks, Baltimore said.

The vast majority of the second fund is deployed; it owns 106 hotels. Johnson and Baltimore said they project returns "north of 20 percent" for that fund.

Nearly all of the investors in the first two funds have invested in the third, Johnson said.

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