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Insight

2

PERE America For many investors, liquidity is 'outside of our control'

Investors GPIF chooses Brookfield for second investment **4**

Fundraising Starwood targets data centers with latest fund **6**

Fundraising A flying start for TPG's first real estate debt fund **8**

Investors The denominator issue is wearing off, says Hodes Weill **10**

Managers Ares plans to further grow its debt strategy **12**

Investors MN lowers US targets to protect European portfolio **14**

People Former Partners Group exec makes Asia move **16**

Cover story

28

"You're running into a burning building and trying to find something to save"

How to invest like a contrarian

For seven private real estate managers, breaking away from the crowd is equal parts risk and reward

Democratization of private real estate

44

Democratization trend gains speed **46**

The history of REITs **50**

Creating bite-size buildings **51**

Satisfying conflicting demands **54**

Investing in education **56**

Navigating the digital frontier **58**

Fast five Key happenings in private real estate last month **17**

Exits Western investors rebalance Asian office exposure **18**

Climate change Governments will not make portfolios resilient **19**

Appointments The latest hires and promotions **20**

EDITOR'S LETTER **21**

Analysis

22

Big interview How Marc Zahr took a leap of faith with net lease

Roundtable Managers proceed with caution in Asia-Pacific **36**

Trend watch Net-zero targets **60**

Capital watch 2023 fundraising **62**

If these walls could talk **64**

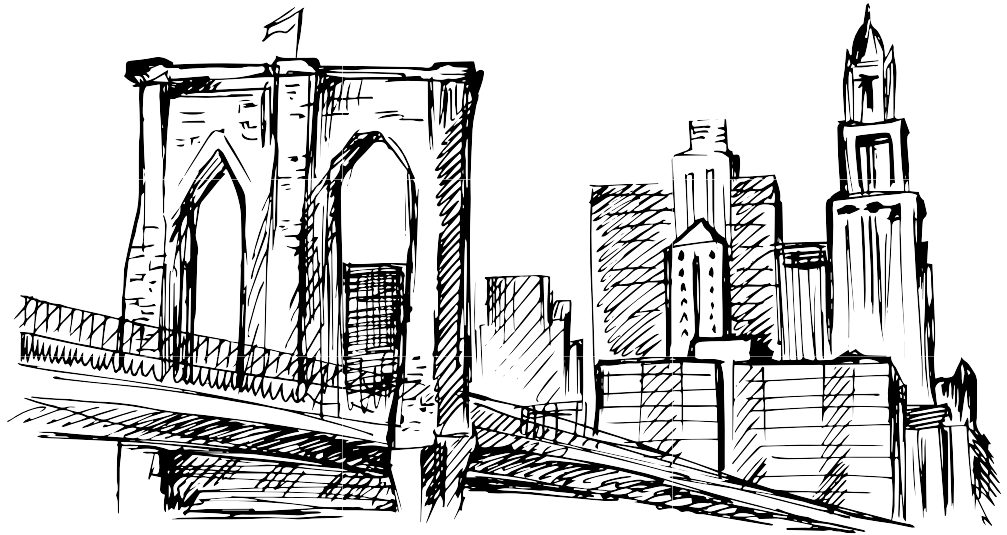
Insight

Market pulse

For many real estate investors, liquidity is 'outside of our control'

Investors face an unusual predicament today. At the PERE Network America Forum in New York in mid-November, speakers said investors wanted to see more realizations in their real estate portfolios while having few viable exit options, **reports Evelyn Lee.**

"Never before have I heard what I'm hearing today from investors, which is: 'I need some realizations. I need to harvest in order to bring down the overall allocation. But I'm also a little bit nervous to see those harvests because I'm worried about the mark-to-market that I'm going to see in the rest of my portfolio,'" said Jeffrey Fine, Goldman Sachs Asset Management's global head of real estate client solutions and capital markets, moderating a panel session on institutional investors' capital allocations on day one of the conference.



Sajith Ranasinghe, managing director of global real estate at The Church Pension Fund, the pension fund for The Episcopal Church, said his organization does not invest through separately managed accounts and therefore was not in the driver's seat regarding when property investments in its portfolio were realized.

"We'd like to always get more distributions, but that's obviously outside of our control. We're very grateful for some of our partners that just hit the bid in Q4 2021. And there's one group in particular that literally sold 2 percent of the NAV they had. But a distribution we get today is just worth more than the ones we got in Q4 2021, because

the opportunity to reinvest that capital is just higher today. So our partners will ultimately decide to go for a return and determine whether to hit the bid on an exit or not."

By comparison, Oregon State Treasury, whose real estate portfolio is two-thirds invested in separate accounts, has more control over exit timing. Nonetheless, investment officer Chris Ebersole acknowledged the pension plan has assets, primarily in office, that are not likely to result in any liquidity for the investor. Still, "we would just as soon get those off the books," he said. "And so we're pushing the managers to do what they can on those. We've lost one to the bank in the spring, and there's probably a couple more to go."



From left at the PERE Network America Forum: Jeffrey Fine, Goldman Sachs Asset Management; Sajith Ranasinghe, The Church Pension Fund; Chris Ebersole, Oregon State Treasury; Ed Lerum, Norges Bank Investment Management

On a more positive note, Oregon State Treasury has also benefited from a number of opportunistic sales, primarily in industrial, where managers have been approached by buyers with attractive offers. “We’re saying, ‘sell,’” said Ebersole, whose organization expects to put out about one-third of its typical commitment volume in recent years. “It’s not because we have a better place to put the capital right now, but it helps us with our overall liquidity picture.”

In contrast to Oregon State Treasury, which is overallocated to real estate, Norges Bank Investment Management has plenty of capital to put out in the asset class. NBIM, which manages the investments of the world’s largest sovereign wealth fund, Government Pension Fund Global, now has nearly \$30 billion of additional equity to deploy into the market after increasing its real estate allocation target from 5 to 7 percent in December 2022.

However, like the US public pension, NBIM also has office investments it would like to sell. “Unfortunately for us, a lot of our office investments are larger office

investments, and there’s very limited liquidity in the US office market right now, in general, and there’s not large parts of the office market [where] you want to sell something that’s of significant scale,” explained Ed Lerum, head of global logistics real estate at NBIM. “So, we would if we could, but that’s not really an option at the moment.”

Planning for the future

Meanwhile, “this environment is making us think a lot harder about liquidity in the future,” added Lerum. “With our current holdings in our current ventures, we’re certainly spending a lot of time thinking about positioning those situations for better liquidity in the future. So there’s a lot of work going into that. And for anything new we do, before we enter into that, we’ll spend a

great deal of time on those situations also thinking about liquidity in the future.”

In November, NBIM announced its first real estate acquisition of 2023, with an agreement to purchase a 45 percent interest in two life sciences development properties located in Kendall Square in Cambridge, Massachusetts, at a gross valuation of approximately \$1.66 billion.

When it came to deploying new capital, all three panelists believed the industry was in the early stages of a market correction.

“I don’t think that means that there’s not good buying opportunities right now, but just for how everything’s going to unfold, there’s this whole loan issue that is just super early,” Lerum said. “There’s uncertainty overall.”

Meanwhile, Ebersole offered what he called “the Portland analogy,” where people are lined up around the block for the latest donut shop that has opened in town. “That’s what it feels like, everybody’s got the capital, everybody’s waiting,” he said. “Nobody really knows what they’re buying, but they think it’s going to be good.” ■

\$30bn

Additional equity NBIM has to deploy after raising its real estate allocation to 7% last December

Investors GPIF chooses Brookfield for second fund investment

The world's largest pension has announced \$1 billion of commitments across two private real estate funds within the past year. The second such commitment went to Brookfield's latest flagship opportunistic vehicle, **Christie Ou reports**.

Japan's Government Pension Investment Fund committed \$500 million to Brookfield Strategic Real Estate Partners V, according to an update from the investor. GPIF did not give further details on the commitment.

Launched in February, BSREP V is targeting \$15 billion, making it the largest real estate fund currently in market, according to PERE data. In the firm's Q3 2023 letter to shareholders, it expected to finalize the first close for the fund in Q4.

Having begun investing directly in real estate funds within the past year, GPIF has now committed \$500 million each to the top two private real estate managers in the PERE 100 ranking. The commitment to Brookfield follows the pension's first direct real estate fund mandate to Blackstone's flagship real estate fund, Blackstone Real Estate Partners X, earlier this year. BREP X was closed on \$30.4 billion in April.

Prior to this, GPIF had invested in the asset class via a "multi-manager strategy" since 2017. Under the strategy, the pension invested in three fund of funds managers for real estate: Mitsubishi UFJ Trust Bank, CBRE Investment Management and LaSalle Investment Management. ■



"There are forced sales, and there will be more of them that will also lead to interesting buying opportunities"

Margaret McKnight, partner and head of real estate portfolio solutions at StepStone Group, tells Bloomberg TV that opportunities to invest via recapitalizations are already prevalent



"Capital market malaise is crushing everybody"

*A slowdown in the capital markets is hindering transaction levels broadly, says **Michael Levy**, chief executive of Crow Holdings, in The Wall Street Journal*



The big numbers

Pressure on US borrowers, a boost for European residential and the growth of Singaporean investors made headlines over the past month

-5%

Forecast change in US real estate investment volumes in 2024 per CBRE, lowered from +15% following a rise in the 10-year Treasury yield

2.1

Average interest coverage ratio for US private real estate in 2023, a five-year low, per Green Street's Debt Insights report

€1.5bn

Size of the refinancing package secured by Blackstone for its Spanish residential platform, Testa

77%

Proportion of respondents to the ULI Europe and PwC's survey *Emerging Trends in Real Estate: Europe 2024* that do not believe current valuations accurately reflect the challenges and opportunities affecting real estate

67

Number of award categories in the PERE Global Awards 2023, for which voting opens December 4

£400m

Latest commitment from Brookfield and the Qatar Investment Authority to Canary Wharf Group to help transform the London business district into a life sciences hub

€23bn

Amount earmarked for investment in Europe's residential sectors over the next five years, per an investor survey by Knight Frank

\$8.5bn

Amount invested in Asia-Pacific real estate year-to-date by investors in Singapore, which becomes the primary source of APAC capital for the first time, according to research by Knight Frank



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Fundraising Starwood sets debut data center allocation target for latest fund

Starwood Capital Group is back in the market with its 13th real estate opportunistic fund. But this time, and for the first time in the fund series' history, the private investment firm will target a sizable allocation to data centers, *Evelyn Lee reports*.

The Miami Beach-based private investment firm officially launched Starwood Distressed Opportunity Fund XIII in October and has set a \$10 billion target for the vehicle, the same size as its predecessor, Fund XII, which closed on \$10 billion in 2021. *PERE* understands the fund does not have a hard-cap.

The firm is offering fund management fee breaks for investors participating in the first close, which is targeted for H1 2024, according to a source familiar with the matter. First-close investors are eligible for a six-month fee waiver, and fee breaks are also available for investors making large-size commitments starting at \$150 million.

Starwood is understood to

be targeting the same types of institutional investors that committed to its prior real estate funds. Existing limited partners include Teachers' Retirement System of the State of Illinois, Teacher Retirement System of Texas and Texas County and District Retirement System, according to *PERE* data.

Similar to the prior funds in the firm's opportunistic series, Fund XIII will have a global strategy, with an expected geographic allocation of 45-55 percent to the US, 35-45 percent to Europe and 5-15 percent to Asia-Pacific, according to the source.

Starwood declined to comment, but *PERE* understands distressed opportunities are expected to be a major focus, making up 30-50 percent of the fund.

Potential investments will include acquiring undercapitalized assets, buying portfolios of performing and non-performing loans, originating structured positions to generate upside, providing rescue capital with joint ventures to borrowers facing

liquidity issues, making investments into public companies and making limited securities investments.

Data centers get starring role

Although Starwood has invested in data centers through Funds XI and XII, the firm will target a sizable sector allocation to data centers and digital infrastructure for the first time with Fund XIII, representing 20-30 percent of the fund's capital.

The other target sector allocations will be 40 percent to residential - including multifamily, affordable housing, single-family rentals, student housing and residential land - 15-25 percent to industrial, 10-20 percent to hospitality and up to 20 percent to life sciences and traditional office. The manager expects to source distressed opportunities in all of the above sectors, with the exception of data centers.

By contrast, target allocations by sector for Fund XII were 20-30 percent to multifamily and affordable housing, 20-30 percent to hospitality, 20-30 percent to office, 15-20 percent to industrial and up to 10 percent to other investments, which included land and niche sectors such as student housing or senior housing.

Similar to prior funds in the series, Starwood is targeting 18-20 percent gross returns and 14-16 percent net IRRs for Fund XIII. The firm expects to finish investing the remaining capital in Fund XII in the coming months and then begin deploying equity from Fund XIII.

Fund XIII is now the third-largest real estate fund in market, after Brookfield Asset Management's Brookfield Strategic Real Estate Partners V, with a \$15 billion target, and Blackstone's Blackstone Real Estate Partners Europe VII, which has an equity goal of \$10.59 billion, according to *PERE* data. ■

With its latest fund, Starwood has added a target allocation to data centers for the first time

Target sector	Fund XIII (allocation, %)	Fund XII (allocation, %)
Residential	40	20-30
Industrial	15-25	15-20
Hospitality	10-20	20-30
Office	0-20	20-30
Data centers	20-30	0
Other	0	0-10

Source: PERE



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- Private walled garden, on-site management office
- Planning permission granted and implemented which increases residential apartment NIA of all apartments to 41,173 sq ft
- Guide price £125m

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Amid the retrenchment of traditional lenders in US commercial real estate, the return prospects from real estate debt investments continue to attract managers to the strategy – and investors are responding. Fort Worth-based manager TPG has raised initial capital for its new real estate credit strategy during what chief executive Jon Winkelried considers an opportune time to be active in the space, *writes Aisha Kapoor.*

“The combination of downward pressure on real estate values, reduced lending appetite and elevated borrowing cost has created what we believe to be one of the most interesting investing environments we’ve seen in at least two decades,” he said during the firm’s Q3 2023 earnings call in November.

For TPG Real Estate Credit Opportunities (TRECO), the firm has received commitments of more than \$750 million to date, said Jack Weingart, the firm’s chief financial officer. TPG registered the fund with the SEC in September.

Commenting on the build-out of the firm’s real estate credit platform, Winkelried said TPG already originates loans through its public REIT, TPG Real Estate Finance Trust, but added: “TRECO is really broader in terms of the types of opportunities we will pursue, so over time, we’ll continue to add to our origination capabilities.

“We feel like we’re well connected to the sources of flow, if you look across the banks in particular that are systemically under pressure looking to shed assets in certain cases. That’s a clear opportunity for us in this market. If you look at financing solutions that certain real estate players have in the market right now, it’s a very disruptive market.”

According to Winkelried, the

Fundraising For TPG’s Jon Winkelried, real estate financing is ‘a pretty broken market’



platform will benefit from the firm’s deep relationships across the real estate market, both from building out TPG Real Estate Partners (TREP), its opportunistic real estate equity investment platform, as well as from the real estate franchise of Angelo Gordon – the New York-based credit- and real estate-focused investment firm that TPG acquired in November – in a number of different markets.

“Real estate financing overall right now is a pretty broken market,” he said. “Our expectation is that we will be able to flex between public markets and private markets as a result of having a pool of capital. The team at Angelo Gordon on the structured credit side is also seeing those types of opportunities. So, I

“If you look at financing solutions that certain real estate players have in the market right now, it’s a very disruptive market”

Jon Winkelried
TPG

think we’ll scale the business in a way that’s consistent with what we see the opportunity to be both in terms of resources and footprint.”

Back to business

At the end of September, the firm had invested \$1.36 billion of its latest opportunistic real estate vehicle, the \$6.8 billion, 2022-vintage TREP IV. Winkelried said the firm had “intentionally moderated its investment pace in anticipation of more attractive opportunities” that are beginning to be seen. TREP deals completed during the quarter included a \$1.5 billion transaction in partnership with Digital Realty Trust to capitalize a portfolio of high-quality data centers in Northern Virginia.

Other fund investments included a \$1.5 billion tender offer to acquire Intervest, a Benelux-based logistics REIT. Winkelried said the firm is working on another industrial deal that it hopes to sign very soon in North America. “We think these are great risk-reward opportunities now as a result of pricing and the general dislocation,” he added.

Following its acquisition of Angelo Gordon, TPG has a combined real estate platform totaling \$36 billion in AUM as of September 30, 2023. ■



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Investors The denominator issue is wearing off

For the third consecutive year, the percentage of institutional investors overallocated to real estate has continued to grow, according to Hodes Weill's 2023 *Real Estate Allocations Monitor*. Nearly 40 percent of institutions were overallocated to real estate by an average of 200 basis points in 2023, compared with 32 percent in 2022, the report showed. However, overallocation is expected to become less of an issue going forward as institutional real estate portfolios begin to rebalance, *writes Evelyn Lee*.

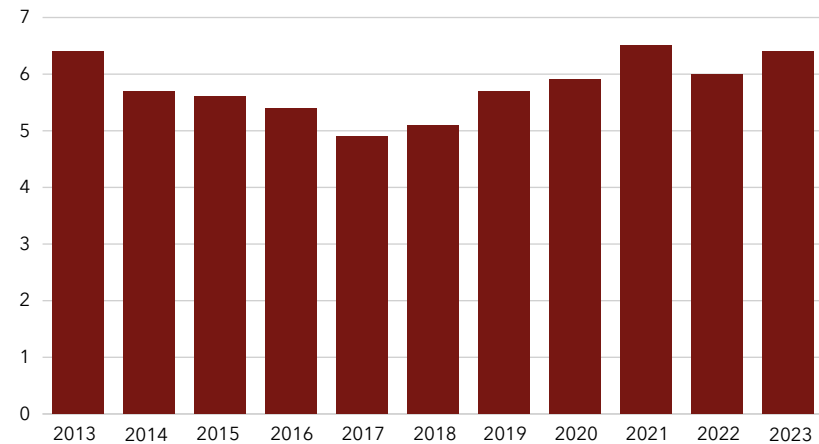
"The denominator issue is abating," Doug Weill, founder and co-managing partner at the New York-based capital advisory firm, tells *PERE*. "It was really the beginning of the fourth quarter [of 2022] when you started to see write-downs. At the same time, public equity started to bounce back. And so that's what's bringing us back to balance."

Weill expects the abatement of the denominator effect to continue for the foreseeable future, assuming public equities and other allocations remain flat and write-downs in private real estate are ongoing. "Some have said it's a couple of quarters of additional write-downs," he notes. "Even if you tread water with where public equities are, if we continue to see write-downs, that's going to have a meaningful effect on actual allocations."

Back on the radar

Another driver of allocation and capital flows is market sentiment. "Even if investors had capital today, I think they're still very cautious about what's going to happen over the next few quarters and concerned about putting money into the market too quickly, when the market is

This year's conviction rating* of 6.4 points marked the second-highest level of conviction reported since 2013



*On a scale of one to 10, with one being the least favorable
Source: Hodes Weill, 2023 Allocations Monitor

“If we continue to see write-downs, that’s going to have a meaningful effect on actual allocations”

Doug Weill, Hodes Weill

continuing to reset,” Weill says.

That said, investor conviction is on the rise. Indeed, on a scale of one to 10, with one being the least favorable, survey respondents rated their view of the investment opportunity in real estate at an average of 6.4 points, marking the second-highest level of conviction reported since 2013. “This increase in conviction suggests that investors are increasingly optimistic about returning to the market and deploying capital, after sitting on the sidelines for much of the past 18 months,” the report stated.

Despite the sluggish fundraising

environment, over 80 percent of institutions are now actively considering investments in closed-end funds, reversing a three-year fall and up from 74 percent in 2022.

“We’re seeing a lot more engagement with institutions and consultants, and that’s a signal that they’re starting to consider investments again,” Weill says. “But no one’s in a particular rush to put capital out.”

Dry powder in the market also remains quite high, he adds: “We’ve heard from a number of institutions and consultants that if you look at this year, they’re continuing to get capital calls, and they’re not getting a lot of distributions.”

The fundraising environment therefore will be correlated with transaction volumes, because as managers start selling assets and returning capital, new investor commitments will start to rise.

“I think we expect a meaningful pick-up in ‘24,” Weill predicts. “But I don’t think we would say it’s going to be off to the races.” ■

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Ares Management's leadership has been vocal about the investment opportunities emerging in commercial real estate debt and opportunistic equity due to the consolidation in the regional US banking sector. Having raised fresh capital for its real estate debt business in Q3, the firm now has more than \$11 billion in assets under management for the strategy, **writes Aisha Kapoor.**

"Within real assets, we raised more than \$500 million in a European real estate debt mandate, which now totals over \$1 billion, and we anticipate that this strategy will continue to grow," chief executive Michael Arougheti said during the Los Angeles-based firm's third-quarter earnings call. "Our real estate debt business now exceeds \$11 billion, and we believe the team is well positioned for further growth due to investor demand and the current acute need for capital in the industry."

As of September 30, Ares' total real assets under management totaled \$63.9 billion, of which its US real estate equity strategy represented \$29 billion, or 45 percent. Real estate debt's share was the second largest, accounting for 17 percent of real assets, followed by European real estate equity and infrastructure strategies. Within the US real estate equity strategy, the firm is currently in the market raising capital for Ares Real Estate Opportunity Fund IV, which was launched in October 2022 with a \$3 billion fundraising target. Arougheti said during the call that the firm expects to hold an additional closing for the vehicle by year-end.

In response to a question on what the firm is doing to capture the market opportunity in real estate debt and opportunistic equity, Arougheti said Ares already has a well-developed team in the US

Managers Ares eyes further growth for its real estate debt strategy



“You have a lot of investors that are playing defense within their existing exposures. Until they get their heads around what it is that they currently own, I think it’s going to be a little hard for them to get on offense”

Michael Arougheti
Ares Management

\$11bn

Ares Management's real estate debt assets under management

and Europe, and is also building its capabilities in Asia-Pacific.

"When you think about what is going on in the world of commercial real estate and the change in basis, most of the exciting stuff is going to be happening in the top to middle part of the balance sheet of these entities, and that's going to be a combination of real estate lending solutions, real estate secondaries and structured equity through our opportunistic real estate business. And obviously, we have large teams against all three of those," he said.

Despite the scale of the opportunity in commercial real estate, investor behavior is an issue. "You have a lot of investors that are also playing defense within their existing exposures," Arougheti said. "Until they get their heads around what it is that they currently own, I think it's going to be a little hard for them to get on offense. So, I think for me, it's really going to be all on the capital side, not the capability side."

Speaking about the real estate platform's overall performance during Q3, Jarrod Phillips, the firm's chief financial officer, said higher cap rates are "offsetting the relatively strong rent growth that the firm is seeing in its portfolio, which is heavily weighted towards more resilient industrial and multifamily sectors.

"This is leading to muted returns for the third quarter, yet due to our significant overweighting in these strongest-performing sectors of industrial and multifamily, which account for more than 75 percent of our real estate gross value, our US and European real estate strategies have performed well relative to the respective public real estate markets over the past two years." ■

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Dutch investor MN returned to investing in US real estate funds on behalf of its two pension clients last year after a long absence, but the denominator effect forced it to reduce the size of its planned US commitments in 2023. While the investor waits to see if the issue remains a consideration for the pensions in 2024, it has stopped making commitments in Europe, **writes Charlotte D'Souza.**

MN, which invests on behalf of Dutch pension schemes Pensioenfond Metaal & Techniek and PME pensioenfond, reduced its target commitment amount to US real estate through 2025 from \$3.2 billion to \$2.7 billion.

The investor, based in The Hague, invests in real estate both directly and indirectly. Previously, MN was mandated to invest in value-add and opportunistic real estate in the US on behalf of the two pensions. However, no new investments had been made under this mandate since 2008 for PMT and 2012 for PME, and only legacy positions remain in that portfolio. In 2021, the investor was awarded a new mandate to invest in US real estate, but this time with a core risk profile. The commitments it has made to US real estate funds since 2022 are the first in 15 years on behalf of PMT and 10 years on behalf of PME.

Investors MN reins in US commitments to preserve European portfolio

Under this core mandate, MN last year committed \$410 million to an undisclosed manager, followed in August this year by a \$450 million commitment to Nuveen's open-end US Cities Multifamily Fund.

To achieve the targeted real estate sector weights of PMT and PME, MN is currently in conversation with another US manager around a commitment of \$290 million to a residential-focused fund, as well as a \$290 million commitment to another multi-sector fund to a separate manager. MN says it is also in the process of selecting its fifth and sixth managers for the US strategy.

According to Jeroen Reijnoudt, senior portfolio manager for international real estate, MN decided to lower the US target early in 2023 to avoid the necessity of joining redemption queues at open-end funds for its larger Europe portfolio. "That was something we tried to avoid, and we succeeded in that," he says.

"It's still the same amount of activity within the portfolio, because we still need to invest in the same

number of funds, but the stakes are a little lower. But if commitments go up again, that's where we will look first, at building up again in the US."

2024 plans incoming

Whether the denominator effect will impact the investor's plans for 2024 is not yet clear. "The new plans are being discussed this month by our clients," says Joep Barten, MN's real estate portfolio manager. "That's something we're waiting for. The target real estate allocation hovers around 10-12.5 percent, so that gives us flexibility in the portfolio to tweak things a bit, since we are currently between 8 and 10 percent allocated to the asset class."

Barten adds the investor is "not in commitment mode" in Europe, however.

In Europe, PMT's target allocation was €3.2 billion through 2025, and this remains unchanged. But for PME in Europe, the target was lowered from €2 billion to €1.7 billion. Both PMT and PME are fully committed in Europe, so with upcoming capital calls and revaluations taken into account, MN expects these targets to be met in 2025.

"We have to get the capital invested, but we're not in a hurry," says Barten. "In Europe the focus these days is to get up to speed on the CRREM pathways, and we are talking with our managers about how to improve standards around sustainability and other ESG matters.

"We're also talking with them about the market, where it is heading, have we reached the bottom yet and are they able to pick up the best deals yet." ■



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People Former Partners Group European real estate head returns to Asia with Salter Brothers

For Rahul Ghai, who once led Partners Group's private real estate business in Asia before switching to Europe two years ago, Singapore is calling once again. The executive has been hired as managing director, Asia, at Australian alternative investment group Salter Brothers, and will lead the firm's expansion in the region, *reports Christie Ou.*

Ghai joined the firm's newly established Singapore office in November from Swiss manager Partners Group, where he was most recently managing director and regional head for private real estate Europe. Before he relocated to London in 2021 to lead the group's European real estate business, he was managing director and regional head for private real estate Asia at the firm since 2017, based in Singapore. Prior to that, he spent six years at Deutsche Bank in Singapore as managing director and head of investments for Asia-Pacific.

Expanding across Asia

In his new role, Ghai will lead Salter Brothers' growth outside of Australia, where he will start by identifying investment opportunities with the firm's capital partners and institutional clients. It is understood the firm is looking at both bespoke mandates for its institutional investors and an Asia-focused value-add fund to be launched next year.

"Australia is our home market and we have done well on behalf of our clients," Ghai says. "We are increasingly seeing the maturity and institutionalizing of the broader hospitality sector across Asia, so it

feels like a natural extension for us to go outside of Australia. We are also responding to what our clients are seeking, as we grow outside Australia."

In terms of sector, the firm is planning to grow its boutique luxury hotel strategy across Japan and Southeast Asia. It will also look to acquire or organically build



“We are increasingly seeing the maturity and institutionalizing of the broader hospitality sector across Asia”

Rahul Ghai
Salter Brothers

platforms focusing on hospitality and the broader living sector, including serviced apartments, co-living and build to rent, according to Ghai. He adds that Salter Brothers' skill set and experience in managing hospitality assets is "complimentary and transferrable" to the extended living sector.

Next stop Tokyo

Having opened its first Asian office outside of Australia in Singapore in August, the firm is understood to be in the process of opening an office in Tokyo next. Currently, it has a team of seven investment professionals across Singapore and Japan. Under the leadership of Ghai, some of the more senior hires in the new team include former KSL Capital Partners vice-president Ethan Quek and former IHG Japan director of finance Gene Osborne. In addition, the firm has an existing hospitality operations team based in Vietnam.

"We are excited about the caliber of the team that we have assembled to launch our Asian expansion, with teams now based in Singapore and Japan," says Paul Salter, managing director of Salter Brothers. "We are committed to the region with in-country teams that can leverage our existing scale in Asia-Pacific. In Rahul, we have an experienced leader who we believe is the right person to grow our franchise throughout Asia."

With capital coming from both private wealth clients and institutional investors, Melbourne-headquartered Salter Brothers invests in specialist property, private equity and credit. The group currently has assets under management of more than A\$3 billion (\$1.95 billion; €1.8 billion). Since Salter Brothers' hotel platform was formed in December 2015, it has built a portfolio of more than 5,000 rooms across 37 hotels. ■

1 WeWork opens Chapter 11

WeWork has filed for bankruptcy in the US, beginning a “comprehensive reorganization” under which it will restructure its existing debt in an attempt to survive. As of the end of June, the troubled provider of flexible office space had \$2.9 billion in long-term debt, and \$13.2 billion in long-term lease obligations. The company said it would be “requesting the ability to reject the leases of certain locations,” but claimed its operations outside of the US and Canada will be unaffected. Among the creditors listed in the filing with the largest unsecured claims against WeWork, several private real estate managers feature, including Kennedy Wilson, Beacon Capital Partners, Brookfield, Nuveen and CIM Group.

2 Apollo goes back for seconds

Apollo Global Management has announced its second €1 billion investment in German residential real estate investment trust Vonovia. The New York-based manager is set to purchase a Vonovia-controlled entity that holds a portfolio of 31,000 units in Northern Germany. Back in April, Apollo acquired a minority stake in a 21,000-unit housing portfolio in Southwest Germany for the same price. Vonovia set a sales target of €2 billion for 2023 to reduce its debt obligations, but has already announced sales of around €3.7 billion this year.

3 Stonelake hits hard-cap for logistics fund

Stonelake Capital Partners, the logistics-focused manager operating primarily in the Sun Belt markets of the US, has raised its biggest opportunity fund to date. The Texas-based manager attracted \$746 million for its Stonelake Opportunity Partners VII fund, hitting

the vehicle’s hard-cap. The original fundraising target was \$700 million. The fund attracted investment from approximately 50 institutional investors. The successful raising saw the firm corral almost \$200 million more than it managed for its predecessor vehicle Stonelake VI, which attracted \$555 million by its final closing in 2021.

4 NPS buys stake in Stockbridge

South Korea’s National Pension Service has extended its relationship with US manager Stockbridge by purchasing a minority stake in the company. While details of the acquisition have not been disclosed, NPS bought the shares through a separate account investment program overseen by New York-based manager Blue Owl. Concurrent with the transaction, Stockbridge has reorganized its Core and Value Advisors and platform businesses under “common ownership and alignment structures.” The firm will also

introduce new equity and incentive programs for its senior leadership. Prior to the deal, NPS had partnered with Stockbridge for several logistics investments in the US, including a \$2 billion co-investment in 2020.

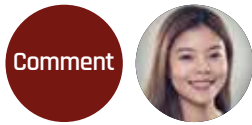
5 UBS makes UK housing bet

London-based manager Matter Real Estate has established a core residential fund, Matter UK Residential Income Fund (MUKRIF), with an initial commitment of £105 million (\$129 million; €121 million) from anchor investor UBS Asset Management’s real estate arm. The entire commitment from UBS’s Real Estate & Private Markets Multi-Managers business has already been deployed in Matter portfolio company Placefirst, which develops, owns and operates single-family rental housing across the UK. The transaction, which was completed in October, constituted the transfer of ownership of a stabilized portfolio of 560 homes developed by Placefirst, which will continue to manage the assets, into MUKRIF. ■



Fast five Key developments in the private real estate market last month

Exits Western investors are rebalancing Asian office exposure



Expert analysis by **Christie Ou**

The relatively strong performance of the office sector in many Asian markets has not prevented Western private real estate investors and managers from reducing their exposure to the sector in the region.

PERE reported in November that manager Invesco Real Estate is planning to reduce the office exposure in its Asia core fund by 15-20 percent over the next 12 months. As part of the plan, the firm offloaded Majestar City Tower B – the only Korean office asset in its Asia core fund – for \$385 million to a REIT managed by Korean real estate company Koramco in October.

Invesco is not alone. Other Western organizations selling offices in Asia include mega-manager Blackstone and investor PIMCO Prime Real Estate. Blackstone is reportedly in talks to sell a prime office building, Arc Place, in Seoul to Koramco, while PIMCO is in the middle of selling Waverock, a 2.4 million-square-foot office

in Hyderabad, to Singaporean sovereign wealth fund GIC for about \$258 million.

Yet, in contrast to the crisis facing offices in US and European markets, some Asian office markets are among the top-performing real estate sectors in the region. One factor that this can be attributed to is the region's higher return-to-office rates. Around 34 percent of employers in Asia-Pacific expect their employees to fully work from the office, compared with less than 7 percent in the US and Europe, according to a CBRE report in June.

In particular, employees in Northern Asia are expected to spend more time working from the office. Majestar was sold for double its purchase price in 2017 in a prime example of this trend.

The region's transaction volumes also reflect a more resilient office market. While investment in offices in the US and Europe dropped 25 percent and 30 percent respectively during 2019-22, the volume in Asia-

Pacific only slid 3.8 percent below the pre-pandemic level in 2019, according to CBRE.

Asian investors continue to express confidence in their local markets by participating in some of the largest office transactions in the region. Besides Koramco, another notable recent example is Korea's KB Asset Management investing \$630 million in Samsung SDS Tower in early November.

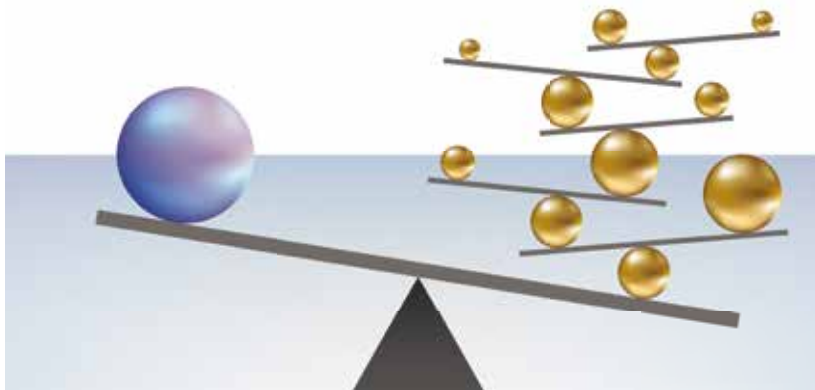
Strategic rebalancing

However, these factors have not deterred Western investors from reducing their exposures in these markets. In the case of Invesco, the firm is instead trying to capitalize on strong sales to shift its investments toward preferred sectors like multifamily and logistics.

Data from industry association ANREV supports this pattern. Despite remaining a strong component of Western managers' portfolios, Asia core funds' average allocation to offices fell from 47 percent in 2016 to 41 percent in 2023, while the allocation to logistics climbed from 13 to 38 percent.

In the case of PIMCO, it was a "natural call" to exit and take profits in a market where there is demand and then to redeploy that capital, PIMCO Prime Real Estate's head of Asia-Pacific Scott Kim says. The firm's sale of Waverock was reported to be at a price 19 percent more than its original purchase, in local currency.

While the office sector is suffering in Western markets, the wholesale offloading by global firms threatens to include well-performing office assets in the process, including in Asia. What is thus seen as surplus to requirements by international operators viewing the market through a pan-regional lens, will be regarded an opportunity to buy for those with a greater appreciation for local performance. ■





Climate change **Do not wait** for governments to make portfolios resilient



Guest comment by **Jess Pilz**, head of sustainable investing, private markets, at Fiera Capital

As the institutional real estate industry set up to cope with the changes a 2.6-degree climate scenario could bring? Against the backdrop of escalating temperatures, it is more important than ever to examine it - before we are quite literally burnt.

For a long time, institutional real estate has focused on climate mitigation: the drive to reduce and avoid carbon emissions. This is still, rightly, a key priority.

But as we make the complicated transition to net zero globally, it is imperative we develop strategies to adapt to changes we are already seeing due to climate change. Seemingly extraordinary events are becoming a more frequent reality, carrying with them a genuine risk that assets once safe could now be relegated to financial write-offs.

As beneficiaries become more expectant of an asset's green credentials, there may be more

'white elephants' created than we might think. Yes, the shiny, 'green' exemplar buildings in London and other central business districts around the world are likely to be more resilient to these changes. These buildings are typically funded by large institutional investors with strong ESG commitments. But, what of the rest of the market? What of the long tail of older, browner buildings which make up a large proportion of the sector's stock?

There is a huge variety of poorly adaptable assets, ranging from large industrial manufacturing sites on long leases, where net-zero carbon audits reveal the millions it will cost to remove fossil fuels from on-site activities, to buildings with deficient lifespans such as retrograde retail and business parks. They also include assets that were 'prime' only a few years ago. Vacant, old offices would not have been a candidate for the sin bin in our pre-covid world.

What we do not know, however, is exactly how many. We are also in the dark on who decides what is redundant.

Surely, then, our efforts should be placed on making data more available and - by extension - correcting public policymakers' failure to regulate data disclosure, which is holding the industry back? Despite being a huge advocate of investment-grade ESG data and its importance to robust reporting processes, this argument is tired.

The need for balance

The reality is governments will fall in and out of love with sustainability issues - even those at the frontier of green policy. After all, there are difficult political decisions that stem from both mitigation and adaptation. It is also going to cost an enormous and unprecedented amount of capital. We would be naive to think long-termism across short political cycles will win out.

It is the private sector that is going to have to take more accountability and leadership when it comes to the transition. We cannot wait for national parliaments to provide us with the tools and incentives needed to support this shift, as appreciated as that would be.

So, as the heat turns up, who is going to address - and importantly fund - the resiliency needed across the sector? In a market where it is hugely challenging to raise capital, and where financial return is still king, it is going to be an uphill battle to ensure that the real estate sector thinks long term about the protection of its value at an asset level.

I would challenge those holding the purse strings to think more carefully about finding a balance - after all, will it be worth paying high pensions in a world that is no longer worth enjoying? ■

Appointments The latest hires and promotions in the private real estate market

■ BGO

Ajay Sharma has been promoted to head of global capital raising and investor relations at New York-based manager BGO, following the departure of managing director Richard Price in the summer. Sharma was previously head of capital raising and investor relations for the firm's Europe division, a role he had held since 2020 when he joined from Heitman. Samuel Walser has been promoted into Sharma's former role, having joined BGO in 2021 as principal, overseeing investor relations and capital-raising activities in selected European markets. Both Sharma and Walser will be based in London and Sharma will report to Julie Wong, the firm's managing partner, chief client and product development officer.

■ Patrizia

Jan-Christoph Klein has been hired as head of global client solutions for MENA at Augsburg-based manager Patrizia, establishing its first office in the UAE. Previously, Klein spent four years focusing on advising venture capital and technology businesses, and was a managing director at real estate capital advisory firm PJT Park Hill. Meanwhile, Michael Pryer has been made head of international fund management and chairman of Patrizia's TransEuropean value-add fund series, while Christie Baird has been named the series' fund manager. They succeed Paul Hampton and Charles-Nicolas Tarriere.

■ Ivanhoé Cambridge

Michael Caracciolo will take on the newly created role of head of the New York office and vice-president

CBRE

Leo van den Thillart joins CBRE as global head of investment banking, following the broker's acquisition of investment advisory firm Sera Global in October. Based in Toronto, Van den Thillart was previously chief executive and managing partner at Sera Global.

As part of the acquisition, the investment banking team from Sera Global has joined CBRE. Established by Brookfield, Sera Global was formerly known as BFIN before rebranding in 2021. The team is experienced in investment banking services including M&A, capital raising, liquidity solutions and infrastructure advisory.

Chris Ludeman, global president of capital markets for CBRE, says the acquisition was a "major step forward" in developing its global investment banking business, and the team will "complement and enhance" its capabilities.



of US asset management at Ivanhoé Cambridge. He will become the "key representative" of the Canadian investor in the market, working closely with operating partners and the team in Montréal to optimize Ivanhoé's asset management activities in the US. Prior to this, he spent 18 years at Tishman Speyer where he was most recently head of asset management for the firm's flexible office platform Studio.

■ Bouwinvest Real Estate Investors

Gijs Plantinga has been named director of strategic business development at the Dutch investor, where he will lead new investment opportunities and build new partnerships with domestic and international investors. Plantinga served for nearly 15 years as director of North American investments at Bouwinvest, a role into which Robert Wagenaar has now been appointed. Wagenaar was previously head of portfolio operations and transactions for Bouwinvest's international real estate investment arm.

■ Knight Frank

Galven Tan will join Knight Frank as chief executive officer of the broker's Singapore business from February 2024. The position has been left vacant since the departure of group managing director Wendy Tang in September 2022. Tan has served as deputy managing director for investment sales and capital markets at Savills since 2019, and prior to that had spent more than 15 years with CBRE, most recently as executive director in the firm's Singapore office. ■

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Editor's letter

Time to pay attention to non-conformists



Evelyn Lee

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In late 2022, CBRE researchers Henry Chin, Greg Hyland and Gus McConnell identified a range of strategies for real estate investors to consider as they prepared to navigate “what are expected to be increasingly choppy waters, at least in the short term.” These strategies fell into three main categories: conformist, contrarian and vintage.

CBRE defined contrarian investment strategies as those that “generally go against mainstream opinion and while involving potentially greater risk, can also provide attractive returns for investors.” The researchers cited examples such as the early disposal of logistics and multifamily investments to lock in profits; the purchase of hotels, which are poised to benefit from a rebound in international tourism; and the acquisition of retail properties, for which rents have largely bottomed out.

“ In a risk-off environment, contrarians are comfortably risk-on ”

One year later, a growing number of investors have taken the contrarian approach. In this month’s cover story, we highlight seven managers going against the grain by betting on out-of-favor markets, sectors and strategies or, conversely, by staying away from the most popular investment areas.

While it is true contrarians operate in any part of the market cycle, non-conformist investors command more attention during a correction, when the stakes are higher – but so are the potential returns. In fact, we would expand upon CBRE’s definition of contrarian investing in two ways: first, in a risk-off environment, contrarians are comfortably risk-on; and second, when most other investors are still waiting on the sidelines, contrarians are executing deals.

By helping to set a floor for pricing, these investors could also motivate others to get back into buying and selling assets. If we see that transaction activity has picked up significantly in a year’s time, we largely will have contrarians to thank.

Evelyn Lee

Evelyn Lee



The net lease specialist going big

On the verge of closing Blue Owl's first real estate mega-fund, Marc Zahr's next challenge is deploying the capital into the still-maturing sector. By Peter Benson

PHOTOGRAPHY: KEITH BARRACLOUGH

Marc Zahr arrives at parent company Blue Owl's offices at 1301 Avenue of the Americas in New York straight from the airport, having flown in from his hometown of Chicago. While unfailingly gracious, the executive is slightly reserved at the start of his interview with *PERE*. But one topic of conversation causes him to immediately liven up: net lease.

In forming Chicago-based net lease specialist manager Oak Street in the final quarter of 2009, Zahr says he took a leap of faith by focusing on what was then a relatively unknown strategy.

"We were coming out of the global financial crisis," he recalls. "At the time, I didn't know it was the best time to start a real estate firm where there were no other private equity or large asset managers doing single-tenant triple net lease funds."

The scale to which Oak Street has grown would not have been easy to predict. The firm – rebranded as Blue Owl's real estate platform as of July this year – now has more than \$25.9

billion of assets under management. The platform is nearing the final close of its first mega-fund, having raised \$4.6 billion at press time and expecting to hit the \$5 billion hard-cap on Oak Street Real Estate Capital Fund VI, the sixth offering in its closed-end value-add fund series, by the end of the year.

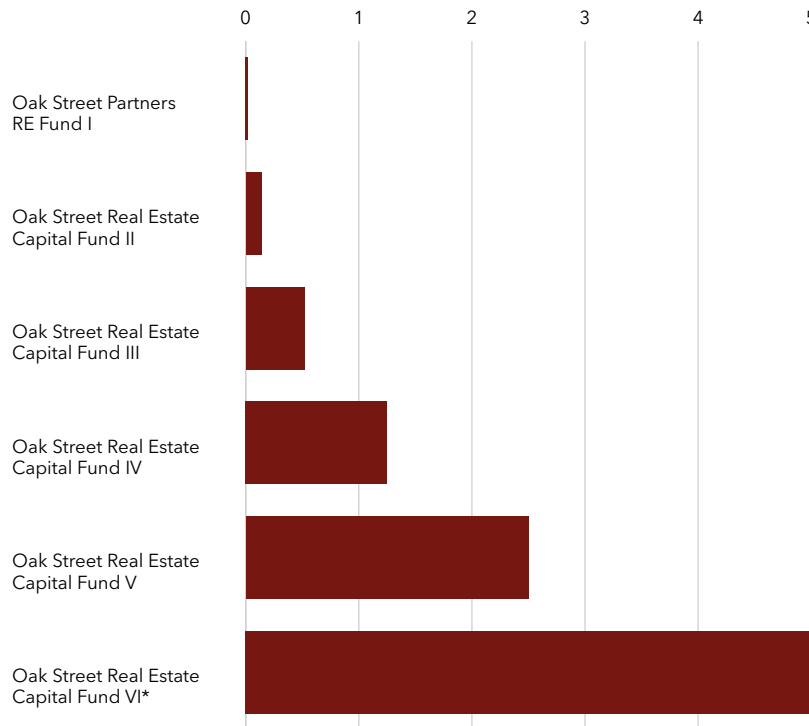
Blue Owl will be one of only 20 managers to ever have raised a real estate mega-fund, according to *PERE* data. But it is the only firm on the list to have done so for a non-traditional real estate equity strategy.

The firm's real estate platform has come a long way since raising its first fund, the \$20.4 million Oak Street Partners RE Fund I, in 2011. Its first institutional fund, Oak Street Real Estate Capital Fund II, closed above target on \$136.4 million in 2012, backed by investors including the Municipal Employee Retirement System of Michigan, according to Zahr.

After raising two successively larger funds that both exceeded their original hard-caps, the firm entered the \$1 billion club with the \$1.25 billion Fund IV in 2017. The vehicle had an original

Analysis

Blue Owl is slated to become a real estate mega-fund manager with the sixth offering in its value-add series (\$bn)



*Anticipated size by year-end
Source: PERE

target of \$750 million and a hard-cap of \$1 billion. Then Oak Street went on to double that equity haul with the successor, Fund V, closing on \$2.5 billion in March 2020, per *PERE* data.

Oak Street also launched an open-end institutional vehicle, Blue Owl Real Estate Net Lease Property Fund, in 2019 and has since raised \$4 billion for that strategy.

Zahr chalks up Blue Owl's fundraising success simply to track record. Against a net return target of 12-14 percent, the first three funds, now fully realized, have delivered a net IRR on a weighted average basis of 25 percent, he says.

Multiple areas of expansion

Despite the exponential growth of the firm's flagship fund series, Zahr had his eye on further expansion for Oak Street. More specifically, he was seeking to grow through a merger and acquisition deal, and hired investment

bank Berkshire Global Advisors to manage the process. "We had gotten to a size and scale where there were a number of other things that we wanted to grow into," Zahr says. "Having the right partner and the right infrastructure would have allowed us to do it substantially faster."

In December 2020, Oak Street sold a 15 percent stake to Petershill Partners, a publicly listed unit of Goldman Sachs Asset Management making minority investments in alternative asset managers. Shortly after the sale, Blue Owl was established with the combination of minority stakes from private equity firm Dyal Capital and direct lending firm Owl Rock. Zahr spent the next year meeting with the newly formed Blue Owl team.

A year after Oak Street's minority stake deal with Petershill was completed, Blue Owl bought Petershill out of the minority stake and merged with Oak Street.

Post-merger, one key area where Zahr is seeking to scale the real estate business is raising capital through Blue Owl's private wealth channel. The real estate platform first ventured into the private wealth capital space in September 2022, launching its non-traded private real estate investment trust, Blue Owl Real Estate Net Lease Trust. *PERE* understands the vehicle has raised \$2 billion in subscriptions to date.

That vehicle has allowed the firm to expand in other ways, too. Using capital from the REIT, Blue Owl made its first European real estate investments in the UK and Germany this year, buying industrial properties in those countries. The REIT is the only vehicle through which Blue Owl can currently invest in real estate outside of the US, but the firm is in early discussions to raise dedicated institutional capital for real estate investments in Europe.

Blue Owl's real estate business has also invested in Asia-Pacific on a club deal basis. The APAC region is a key growth area for the firm in terms of geographical expansion, Zahr says.

Pressure to deploy

In raising its first mega-fund, however, Blue Owl's real estate platform will also face considerable pressure to deploy. The net lease market has become increasingly competitive, with large, diversified firms like Ares Management and KKR having bolstered their capabilities in the space. Peers like Angelo Gordon and ElmTree Funds – the latter of which is targeting \$1.25 billion for a fund launched this year – have had a sizable presence in the sector for many years.

"With a \$5 billion fund that has buying power at least twice that figure, Blue Owl will have its work cut out," says Scott Merkle, managing partner of SLB Capital Advisors, a data firm focused on the net lease space. Noting the average size of a sale-leaseback transaction last year was \$7 million, he adds: "An investor needs a lot of

“Will we do an office building? Yes, if the credit quality is fantastic, if we believe it’s mission critical and we believe that people need to be in the asset”

MARC ZAHR

smallish deals, or a handful of chunky transactions, to really move the needle.”

Deployment is further challenged by the fact transaction volume fell off a cliff after a very active 2021 and 2022. Q2 2023 sale-leaseback activity rose 8.3 percent in the US to \$5.1 billion from the previous quarter, but investment volume was less than half of the \$10.4 billion recorded in Q2 2022, according to data from SLB Advisors.

“From a demand standpoint, net lease investors are hungry to deploy capital but exceedingly cautious in this current risk-off environment,” Merkle says. “On the supply side, many existing owners of net lease properties are slow to transact as they want yesterday’s cap rates, which broadly impacts availability of net lease investment opportunities.”

He adds that the decline in transaction activity is also partly due to a corresponding decline in corporate events, like a merger or acquisition, where sale-leaseback deals typically follow. However, Merkle notes that sale-leaseback is “among a menu of capital-raising alternatives” for corporate owners.

Nonetheless, several net lease firms have proven their ability to put out capital even during challenging market conditions. Some of the larger net



An evolving strategy

Blue Owl's real estate strategy has always been direct sale-leasebacks, which involve buying properties off a company's balance sheet and then leasing them back to the company

Blue Owl's leases are structured as triple net leases, meaning the tenant pays all the taxes, insurance and maintenance costs of the property. They are also longer in duration, usually signed for over 12 years.

Typically, triple net leases can be found on industrial, retail and office properties. Around 80 percent of the firm's current portfolio is in industrial properties or essential retail, Zahr says. Essential retail includes grocery-anchored strip centers as well as tenants like pharmacies and auto part retailers. Zahr says Blue Owl will also look at medical office.

"Will we do an office building? Yes, if the credit quality is fantastic, if we believe it's mission critical and we believe that people need to be in the asset," Zahr says. Blue Owl's sale-leaseback strategy will evolve slightly with Fund VI. The firm will partner with developers early in a project for build-to-suit properties on which Blue Owl will then execute a triple net lease with the tenant. Such a deal provides the developer with capital, while a tenant in place reduces the risk for Blue Owl. The firm does not develop itself, choosing to help capitalize development projects as opposed to taking development risk, Zahr notes.

Fund VI's strategy will also differ from that of its predecessors in terms of the types of tenants targeted. Until now, the firm has focused exclusively on investment-grade tenants. But because of dislocation in the credit market, more opportunities are emerging with non-investment-grade tenants, Zahr says, noting the risk-adjusted return on such investments has begun to look favorable.

In fact, Blue Owl and GIC's \$15 billion take-private of Store Capital involved non-investment-grade tenants, Merkle points out. He thinks it makes sense for Blue Owl to be expanding into that part of the net lease market for a very simple reason: the non-investment-grade market is substantially larger than the investment-grade one.

"There are thousands and thousands of businesses out there and a large percentage of them happen to own the properties they're operating out of," Merkle says.

lease REITs, such as Agree Realty, Realty Income, Vici and WP Carey, all deployed north of \$1 billion in 2022, according to Merkle. In November, San Diego-based Realty Income, the largest net lease REIT, announced its plan to acquire Dallas-based rival Spirit Realty in a \$9.3 billion transaction.

As for Zahr, he does not expect to see more transactions of the same scale as the firm's \$15 billion take-private of listed net lease REIT Store Capital

with Singaporean sovereign wealth fund GIC, given the rarity of such an opportunity. "If there were other single-tenant, multibillion-dollar investment-grade-rated REITs in the marketplace that we could buy at a seven-plus cap rate, I'd be backing up the truck right now," he says. "They just don't exist."

However, he predicts large-scale opportunities could still come from companies seeking to capitalize on

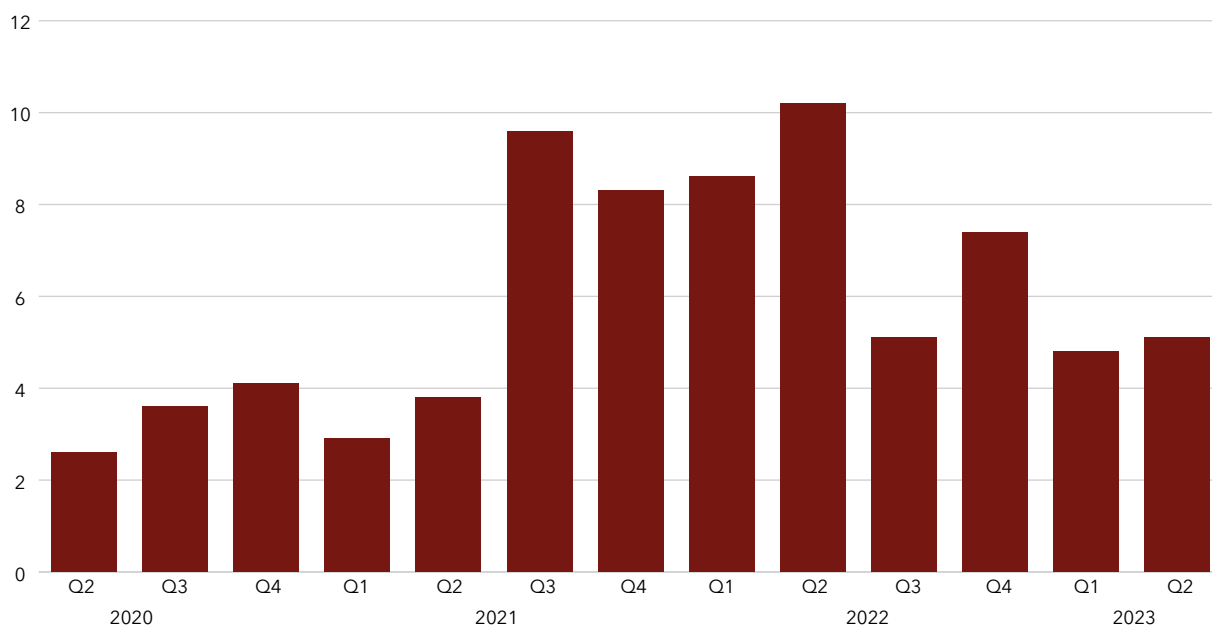
large real estate portfolios on their balance sheets. Fund VI's significant size will allow for transactions of up to \$3 billion with a single company – which most firms with sale-leaseback and net lease strategies would not be capable of executing.

"When you think about going to a company sourcing a \$1 billion, \$2 billion-plus-type sale-leaseback transaction, the pool of competitors shrinks dramatically," Zahr says.

"Am I comfortable with the fund size increase? No. Have I been proven wrong over time? Absolutely"

US PENSION FUND INVESTOR

Q2 2023 US sale-leaseback investment volume fell to less than half of the \$10.4bn recorded in Q2 2022 (\$bn)



Source: SLB Capital Advisors

Harsh Hemnani, an analyst of net lease and ground lease at research firm Green Street, also points to shrinking competition in the sector. “Through most of 2021, cheap debt costs enabled highly levered private buyers to enter the net lease market and lock in double-digit cash-on-cash returns,” Hemnani says. However, many of those private buyers have since exited the market because high debt costs have compressed levered returns, he notes.

Continuing education

As the fundraising landscape has evolved, so has the education of the industry in net lease.

For one longtime US pension fund investor that asked not to be named, the first time the organization invested in the sector was when it committed to Blue Owl’s third real estate fund.

The investor’s head of real estate says getting approval for the initial investment required multiple brown bag lunch sessions with the investment committee to explain why the investment belonged in the pension fund’s portfolio.

What ultimately convinced

colleagues was that a net lease investment had the characteristics of a bond, but was backed by a physical asset.

“Instead of investing in a FedEx corporate bond with a tenure duration, what if you can buy a logistics asset leased to FedEx at a meaningful spread to the corporate bond?” they mused. “If you’re telling me there are 400 basis points of spread between the corporate bond and the cap rate on the same risk profile asset, but it’s an asset instead of a bond, then I would say that makes a whole lot of sense.”

That pension fund has been a first-close investor in all of Blue Owl’s subsequent real estate funds. What the investor now wants to see, however, is how the firm will deploy such a massive amount of capital into the net lease space.

“Am I comfortable with the fund size increase? No,” the investor says. “Have I been proven wrong over time? Absolutely.”

For Zahr, the education of investors continues. However, his focus has shifted from an explanation of the lease structure, which most investors now understand, to debunking some of the

misconceptions about net lease. That net lease does not perform well in an inflationary environment is one such example. Zahr contends that net leases mitigate the risks posed by rising costs by passing them onto the tenant.

Another misconception about net lease in an inflationary environment is that rent growth cannot be captured with lease turnover because the leases are long term.

However, escalators in contracts have grown as well, Zahr explains. Before the Federal Reserve hiked rates last year, Zahr says most deals would pencil to 12-year leases with 1-2 percent escalators. Now, the firm is seeing deals with 15- to 25-year lease terms with 2-3 percent escalators.

These risk mitigants enable a net lease strategy to weather today’s market challenges. “The ability to finance a longer-duration lease becomes a lot easier, even in difficult environments,” Zahr says. “If you’ve got 15-20 years of contractual rent, while the expenses are covered you can ride out a lot of market volatility in that time period while you’re taking that income stream and putting it in your pocket.” ■

In private real estate, the herd mentality prevails: no one ever gets fired for investing in the most in-demand sectors, strategies and managers. But the herd mentality has no place in contrarian investing.

“It’s lonely to be a contrarian,” says Saul Goldstein, chief executive and chief investment officer of pan-European manager ActivumSG.

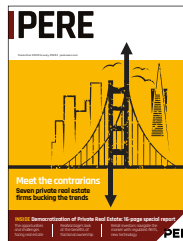
“Opportunistic investing at its core is contrarian... the guys who do opportunistic, they have an individualistic streak. They don’t really care what anyone else thinks about what they’re doing.”

Although contrarians can invest during any part of the market cycle, “in this kind of market, the contrarian bet is that you’re calling the bottom before other people are willing to call the bottom,” he says.

The downside to contrarian investing is it invariably involves greater risk than following the crowd. “You’re running into a burning building and you’re trying to find something to save, and you’re trying to not get burned along the way,” says Goldstein. At the same time, “you have to be really disciplined, and you have to also be willing to admit when you’ve made a mistake.”

Goldstein is one of seven contrarian investors featured in this month’s cover story. They fall into two main camps: those betting on out-of-favor geographies and sectors, and those eschewing popular investment themes. For every Bain Capital going all-in on China, a JST is hitting pause on the US, the world’s largest property market, or a PIMCO is looking to cash out of an emerging investment destination like India when other global organizations are stampeding in. For every Gaw Capital buying up San Francisco office properties or AEW on the hunt for discretionary retail assets, an ActivumSG is staying out of the in-demand logistics sector.

The *PERE* team spoke with each of these investors about their contrarian plays and how they thrive on bucking the consensus view.



Cover story

How to invest like a contrarian

For seven private real estate managers, breaking away from the crowd is equal parts risk and reward. By PERE staff



Betting on San Francisco office

San Francisco is the poster child of the US office sector's fall from grace, with grim statistics to match

San Francisco's office vacancy level climbed 210 basis points to a record high of 30.4 percent during the third quarter, according to broker JLL.

That is enough for Gaw Capital Partners to make a contrarian bet. The Hong Kong-based manager has agreed to buy North Park, an office complex near the city's Embarcadero waterfront, for a cut price of \$85 million from mega-manager Blackstone. Gaw is familiar with the 300,000-square-foot, two-story workspace, having sold it to Blackstone for \$245 million in 2018.

Critical to Gaw's thesis is time, founder Goodwin Gaw tells *PERE*. He will not discuss deal specifics, but he believes that although occupancy will continue to suffer short-term, the fast-growing artificial intelligence and life sciences sectors will help to turn the city's office market around. "The amount of capital going into those two sectors should create a catalyst for the rebound of San Francisco."

Because the timing of a turnaround

Cover story

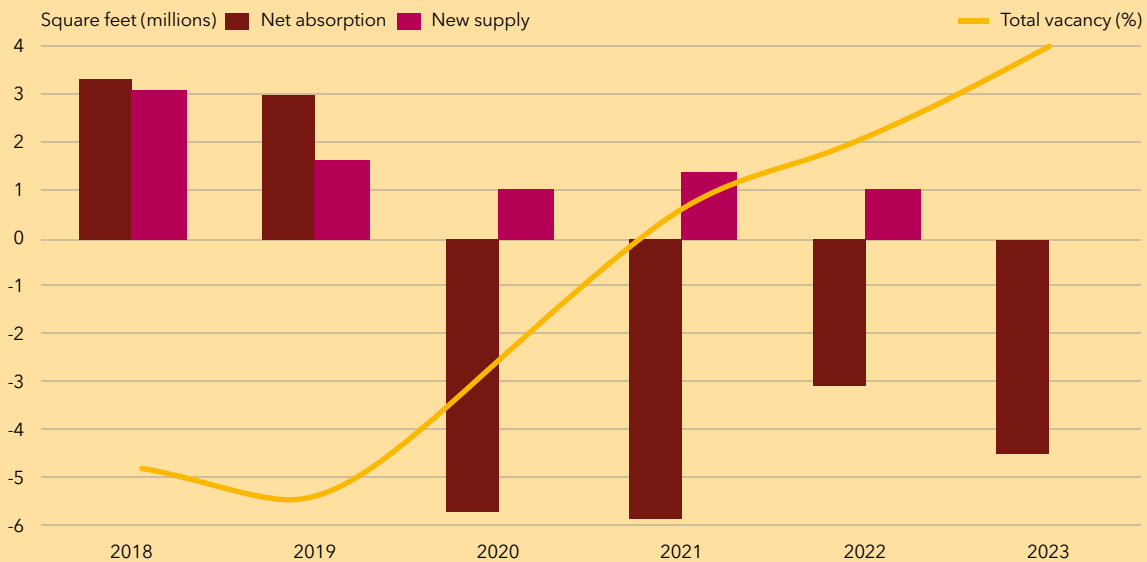
is difficult to predict, selecting both the right type of vehicle and leverage for such an investment are critical, Gaw says. “Contrarian plays are very difficult to figure out on timing,” he explains. “Ultimately, this strategy should yield the right result. But I don’t want to be restricted by the timing of a fund so we’re doing this on a separate account basis.”

Gaw is leading the investment in North Park using its balance sheet, *PERE* understands, incorporating other investors in a bespoke vehicle. It is believed the deal represents a 9 percent-plus entry yield, meaning the capital outlay is covered by cashflow from the property’s leases. Debt can be injected when the investment becomes accretive to an IRR-driven strategy. At that stage, the asset can be sold or transferred to one of Gaw’s funds.

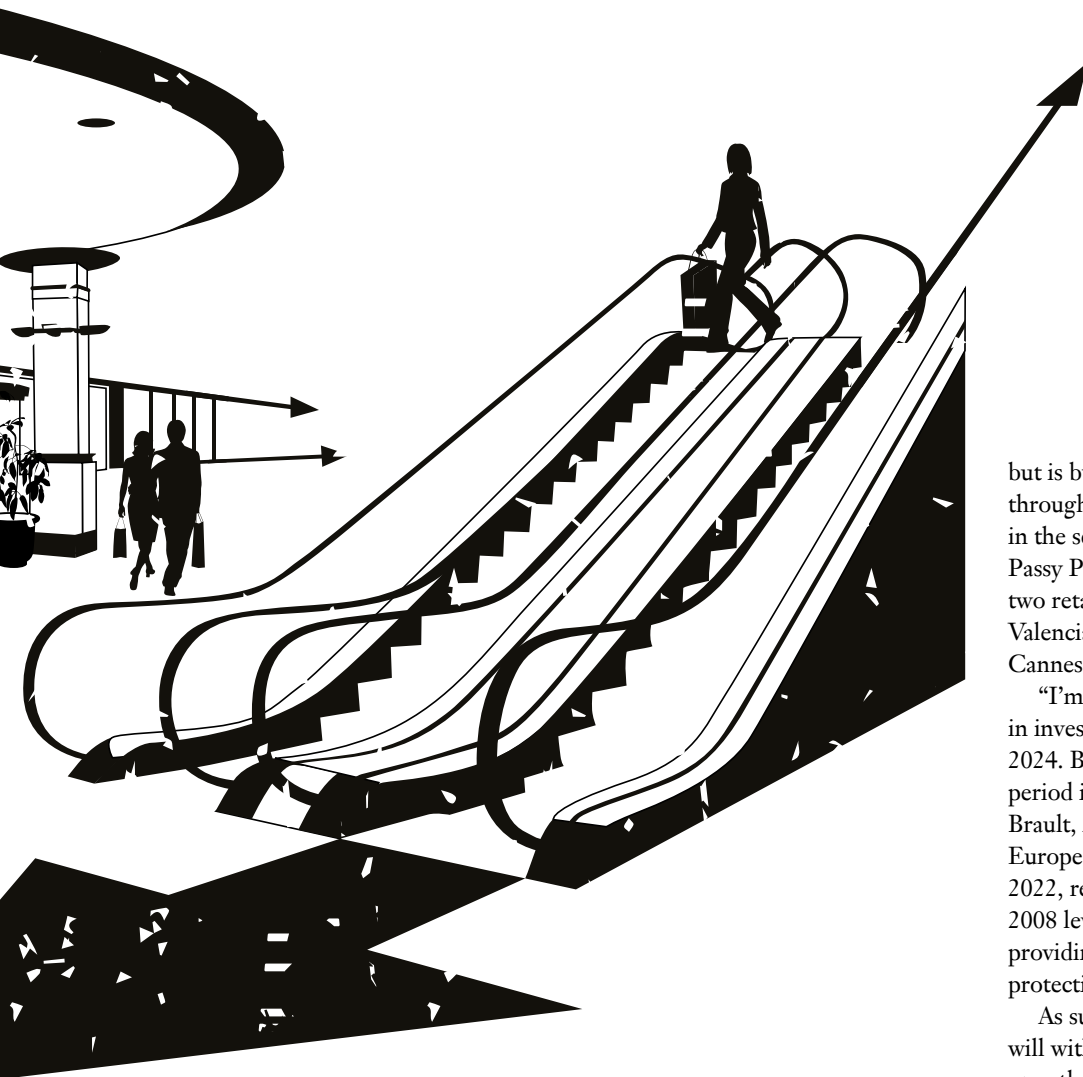
The asset, which is currently 45 percent vacant, is expected to be upgraded to make it a desirable future workspace, without the timing pressures ordinarily associated with a private real estate fund.



San Francisco’s office vacancy rate hit a new high of 30.4% in 2023



Source: JLL



Shopping for discretionary retail

The retail sector has faced one headwind after another in recent years, including the rise of e-commerce, pandemic lockdowns and rising interest rates

With a potential recession on the horizon for many economies, discretionary, non-grocery-anchored retail is not on every manager's shopping list.

Having largely repriced prior to the rate hikes of the past 18 months, however, the sector has kept out of the spotlight as of late.

Manager AEW sees the current price correction as a favorable market entry point. The Boston-based firm has taken a cautious approach to the sector over the past five to seven years,

but is building its retail books again throughout Europe. Acquisitions in the sector this year include the Passy Plaza shopping center in Paris, two retail parks outside Madrid and Valencia, and a prime retail asset in Cannes city center.

"I'm not expecting a huge increase in investor interest in the sector in 2024. But hopefully the retail-bashing period is now behind us," says Raphael Brault, AEW's chief investment officer Europe and head of France. As of 2022, rental values had returned to 2008 levels across Europe, he says, providing investors with downside protection.

As such, he is confident the sector will withstand limited economic growth over the next two years – or a recession, were one to occur. "Consumer savings have been strong, which should sustain retail sales altogether," he adds.

Brault also believes the impact of online shopping on physical retail has been "somewhat overplayed," saying consumers increasingly value a blend of physical and online shopping. He adds the pricing edge of online shopping should diminish over time as more online retailers charge for product returns. Coupled with limited new construction for prime shopping centers and high street units, this creates an attractive proposition for acquiring existing assets.

In today's quiet deals market, the lack of competition for retail assets is also an advantage, says Brault, "because the bargaining power is much more on the buyer side."

Saying no to logistics

Industrial is one of the favored sectors in private real estate, but not all investors are following the trend

Industrial accounted for 37 percent of the total raised for sector-specific funds in Q1-Q3 2023, according to PERE data. ActivumSG, however, has stayed away from investing in logistics for the past few years. According to chief executive Saul Goldstein, logistics is not compatible with the firm’s opportunistic real estate strategy. “I don’t think we’ve ever gotten paid for taking on a beta strategy,” he says. “You need to use a lot of leverage to get a higher return.”

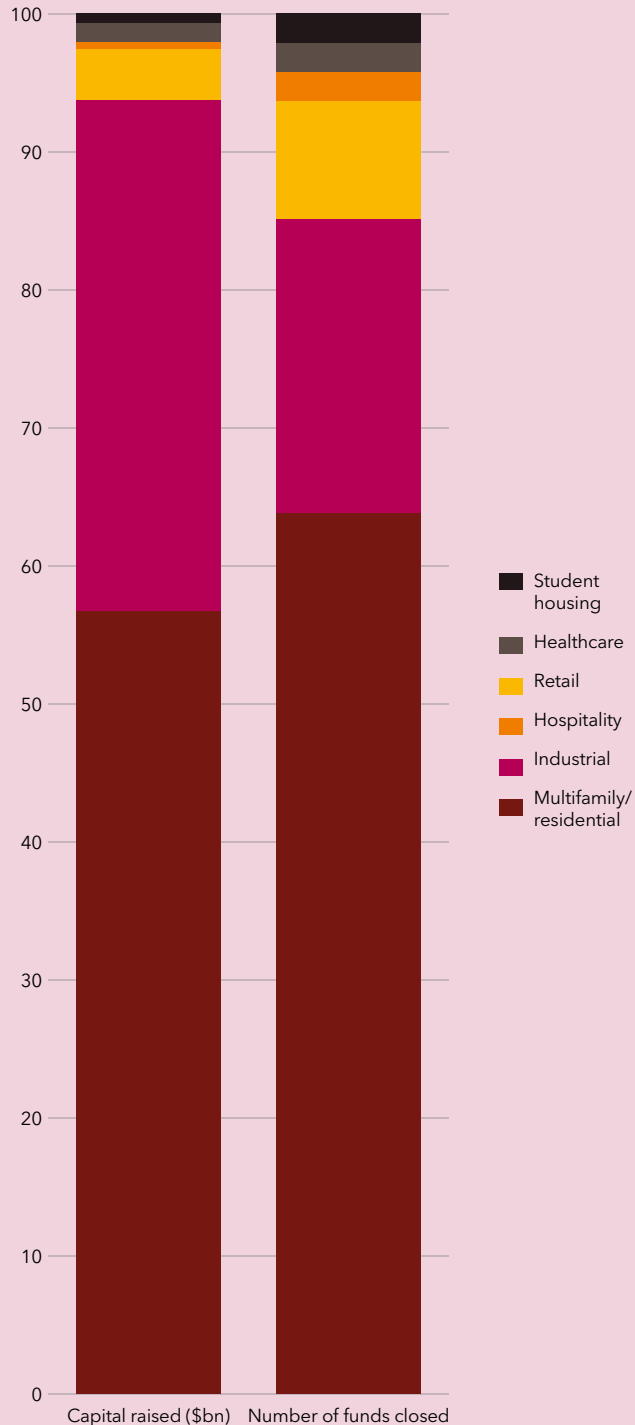
The change in pricing has put a greater emphasis on rental growth. “Logistics assets traditionally were typically priced at a 7-8 percent yield and were a sleepy asset class for many years,” Goldstein explains. “These days they price at a much, much lower yield – around 4 percent – which means high rental growth is needed.”

Prior to the pandemic, ActivumSG had acquired logistics sites in Spain but saw “construction costs and asset pricing get pretty crazy relative to potential rents,” Goldstein recalls. The firm ended up selling the sites as data centers “worth multiples more of what they would be as logistics properties.”

The logistics space has become crowded with competitors partly because of the lack of barriers to entry. “It is not a hard-to-supply product,” he explains. “Warehouses have a simple design: a solid concrete pad, four walls and a roof.”

The low barriers to entry in turn lead to another challenge, which is the accelerated pace of obsolescence, Goldstein adds: “You get a product that becomes obsolete pretty quickly, because it’s pretty easy to put something new up.”

Industrial accounted for nearly 40% of sector-specific capital raised in Q1-Q3 2023 (%)



Source: PERE

Staying out of the US

The US remains the most attractive overseas real estate market for Japanese investors, but the high interest rates are a deterrent to some

Almost half (49 percent) of Japanese investors consider the US as their top destination for outbound investment, according to CBRE's *Asia-Pacific Investor Intentions Survey 2023*. However, The Japan University Fund, the country's biggest university endowment fund managed by the Japan Science and Technology Agency, has grown cautious about investing in the US property market because of its high interest rates.

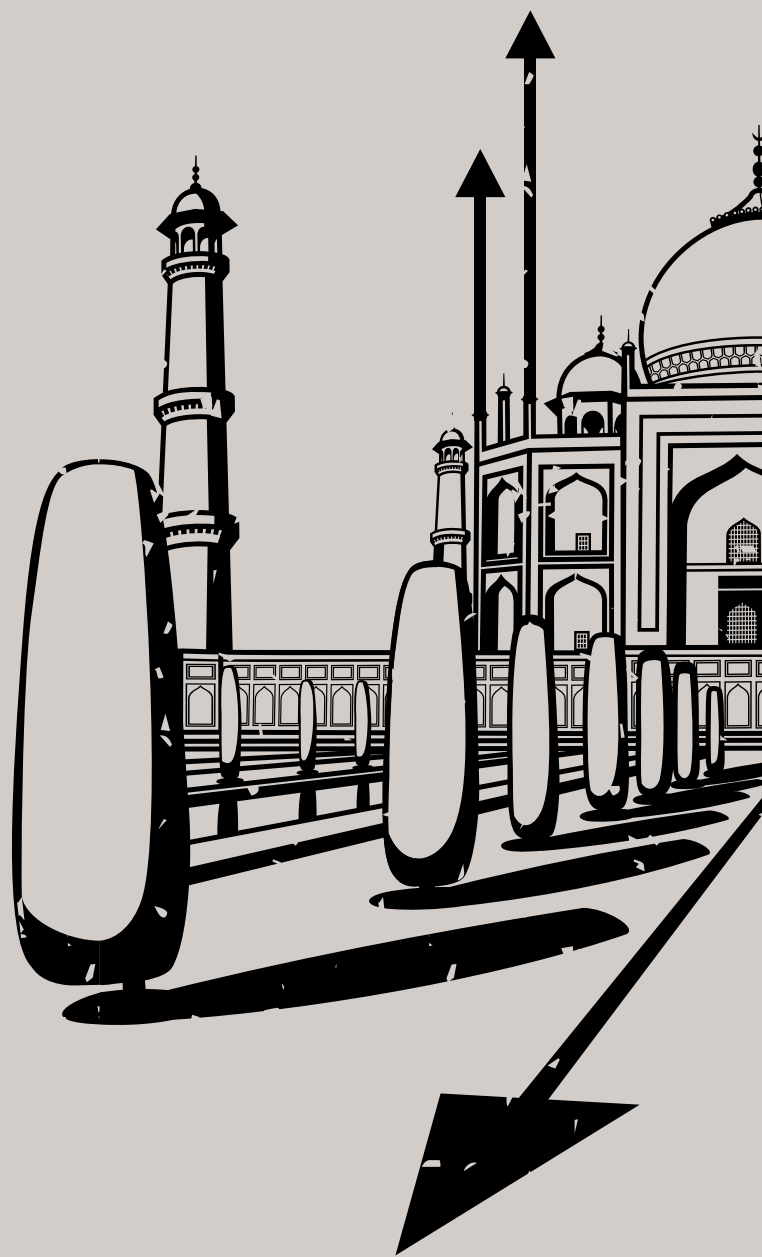
"[The] interest rate is something that we look at very closely. We are trying to hear the views from various managers," Ayaka Takimoto, executive director and head of real estate and infrastructure investments at JST, said at the PERE Network Tokyo Forum in September.

But JST is not alone. A growing number of Japanese investors have expressed concerns about US interest rates, according to Yukihiro Ito, managing partner at Japanese capital advisory firm Asterisk Realty & Placement Agency.

"Many Japanese investors hedge the currency risk when they invest in the US," he explains. "The sharp climb in US interest rates represents more volatility in their investments and has become a growing risk factor for them."

Another source of worry for Japanese investors is the negative impact of the work-from-home trend on the US office market, Ito adds. This is because office has traditionally been the favored sector among Japanese investors deploying capital overseas. The sector attracted \$2.48 billion of the total \$3.39 billion of Japanese outbound real estate investment in 2022, according to a CBRE report.

As for JST, the investor has opted to build its core portfolio in Europe and Australia, with a particular focus on the logistics and residential sectors, in lieu of investing in the US, Takimoto says.

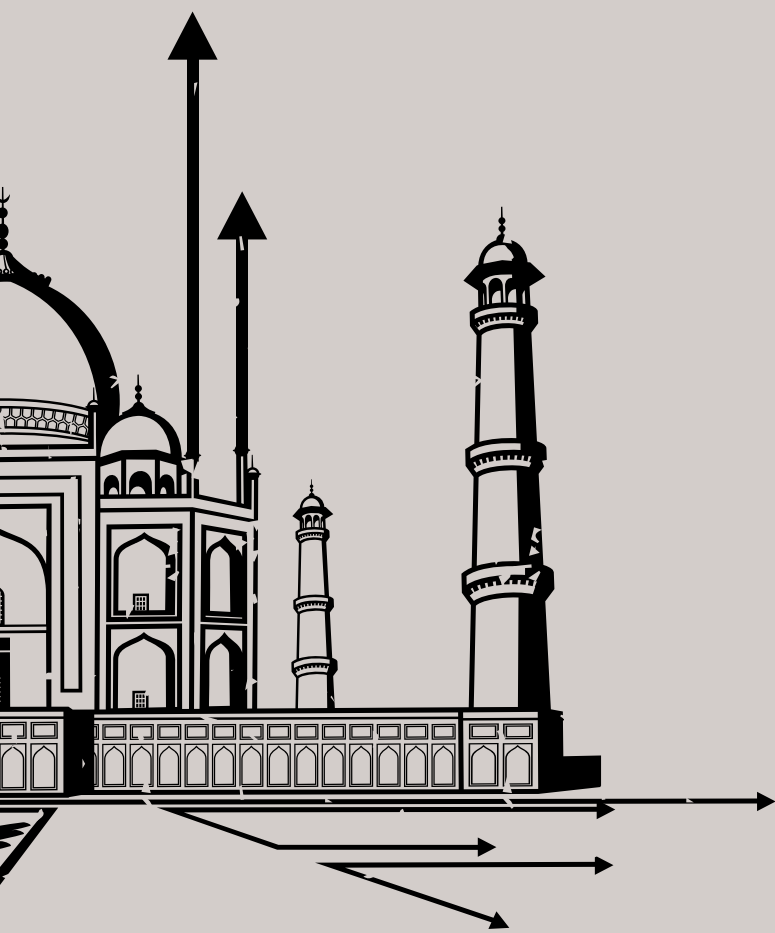


Passage from India

Among Asia's emerging private real estate markets, India has stolen the limelight in 2023

As other markets have seen declines in transaction volumes, institutional-level investment in India totaled \$4.6 billion from January through September, up 27 percent year-on-year, according to research from broker Colliers. Furthermore, institutional capital inflows for the nine-month period had already reached 93 percent of the total inflows recorded in 2022.

Taking a contrarian position on India, however,



is Munich-headquartered PIMCO Prime Real Estate. The asset management behemoth views the surge in investment appetite for India as an opportunity to reduce its exposure to the country. In October, PIMCO agreed to sell Waverock, a 2.4 million-square-foot office property in Hyderabad, to Singaporean sovereign wealth fund GIC in a deal valued at approximately \$258 million.

The asset, which counts Apple, Accenture, DBS and Tata among its tenants, will be sold from a joint venture between PIMCO and local real estate firm Sharpooji Pallonji Group after four years of joint ownership. The transaction is awaiting government approval to complete.

PIMCO's head of Asia-Pacific real estate Scott Kim tells *PERE*: "This is a great opportunity to take profits and reduce our exposure to a market where we have enough." Indeed, a sale is expected to produce a small profit for the firm when currency is considered, with GIC understood to be paying about 19 percent more than PIMCO's original purchase price in rupee terms.

PIMCO's assets under management in Asia amounted to approximately \$12 billion as of June, representing about 10 percent of PIMCO's overall real estate exposure. Of the firm's Asia holdings, India accounted for about \$900 million. The conclusion of this deal will reduce the manager's Indian assets even further.

Why not China?

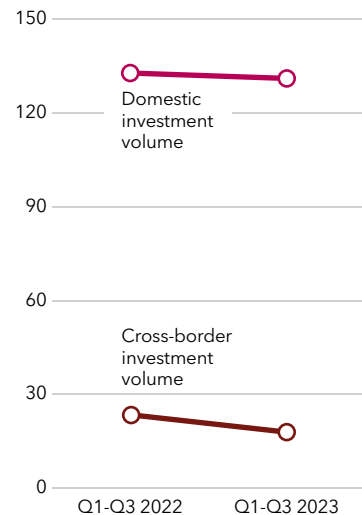
Many US and European institutions have pulled back on investing in Chinese real estate due to ongoing geopolitical issues and the debt crisis in the country's property sector

Cross-border investments represented 12 percent of China's total transaction volume in Q3 2023, down from 15 percent in Q3 2022, according to broker CBRE. This represented a significantly smaller amount compared with the annual average of 20 percent from 2020 to 2022.

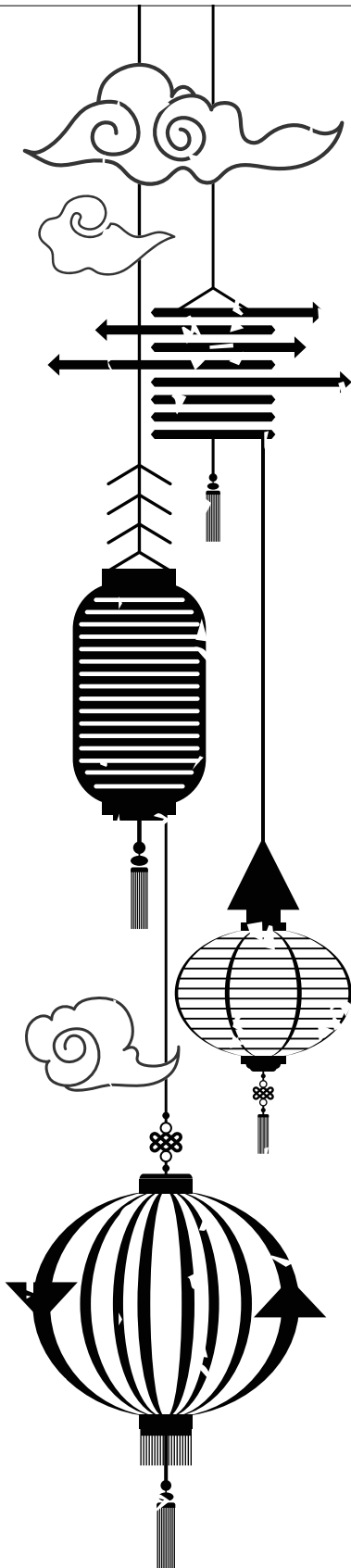
But while many of its peers are shying away, US private equity firm Bain Capital continues to see China as a "core" market in the region, according to Kei Chua, partner, special situations in the firm's Hong Kong office.

"We've exited a lot of things in China over the last few years, so we've realized profits and returned capital,

While investment volume in China declined by only 5% from the same period last year, transactions were mainly driven by domestic corporations and developers (bn yuan)



Source: CBRE



Core values

Core real estate has fallen out of favor with many investors, as it becomes more challenging to achieve attractive returns in a higher interest rate environment

Only 1 percent of capital raised for private real estate funds in Q1-Q3 2023 went to core strategies, per *PERE* data. Against that backdrop, it is no surprise that only three open-end core real estate funds have launched globally in 2023, and only one of these has a focus on North America.

The vehicle is the US Cities Diversified Fund, which caps off New York-based manager Nuveen's sector-specific US Cities open-end core series that began with the US Cities Retail Fund in 2018. Multifamily, industrial and workplace iterations followed in subsequent, consecutive years.

According to Shawn Lese, Nuveen's chief investment officer and head of funds management for the Americas, the firm developed the Diversified Fund in response to demand from both new capital sources with emerging real assets allocations, such as defined contribution pension plans, and overseas investors with no or limited exposure to the US.

"Some of these investors are less familiar with US investment dynamics and consequently feel less comfortable making allocation decisions themselves, or they might be smaller investors that don't have extensive investment teams and want to leave that responsibility to us," he says. "I think the US market still presents the best risk-adjusted return on a global spectrum, especially with the recent repricing."

Despite low fundraising numbers and the redemption queues across NCREIF ODCE funds, Lese is "very optimistic" for the strategy in the medium term, emphasizing that current sentiment is no different from how it typically is at this point in every market cycle.

"I think in the future we will look back on 2024 and realize it was the beginning of a terrific vintage for core real estate," he says.

which is why our investors trust us to keep making investments in China," Chua says. The exits include its shares in Chinese logistics company CNLP and all its non-performing loans in the country. The firm declined to disclose specific return figures, but its Asia flagship fund Bain Capital Special Situations Asia II generated an 18.03 percent IRR as of June 2023, according to *PERE* data.

Meanwhile, Bain Capital is focusing on more "bespoke" and "defensible" sectors in the country, including data centers, industrial parks, modern manufacturing facilities and warehouses.

In October, the firm announced

a \$250 million joint venture with Warburg Pincus-backed Chinese new economy infrastructure and property firm DNE to develop and operate manufacturing parks in China. The firm is also in the process of privatizing Chinese data center company Chindata, according to an announcement in August.

"Nobody could predict what would have happened to the Chinese real estate market three, four years ago," Chua says. "But maybe there's an opportunity for us to come in and take off some of the assets from companies with liquidity issues. And that could create a whole lot of opportunity for us to invest in China again." ■

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Managers proceed with caution in Asia-Pacific

Fundraising and deployment stalled in a difficult year, but stabilizing interest rates are gradually reassuring investors in the region. By [Mark Cooper](#)

The Asia-Pacific real estate market has had a rocky 2023, a year in which both raising and deploying capital has been challenging. However, managers taking part in PERE's Asia roundtable say they are encouraged by a stable interest rate outlook and expect to be more active in 2024.

The heterogeneous nature of the Asia-Pacific region means the prospects and performance of its markets differ substantially. For example, while the fallout from interest rate rises has been the most significant factor affecting real estate performance and activity in Europe and North America this year, Asia-Pacific's two largest markets – China and Japan – have seen headline rates unchanged or falling.

Another area where dynamics differ in Asia is the office sector. In Europe and North America, many CBDs are

struggling to maintain office occupancy as workers favor homeworking as part of hybrid-working strategies. However, workers are back in the office across Asia's cities. Research from *The Economist* this year found Japanese and South Korean workers spent the least time working from home.

These differentiating factors are part of Asia's attraction, says Claire Tang, co-chief investment officer for Asia-Pacific and head of Greater China at Chicago-based manager LaSalle Investment Management. "Asia remains an attractive region for us and it is one of our biggest bets globally. The region still has the strongest growth outlook globally with relative lower inflation risk. The two largest economies here have interest rates which are steady or declining.

"Even in the office sector, where fundamentals have been impacted the most globally, we're still seeing some

bright spots in certain markets in Asia, particularly in Korea, as well as Japan."

Nonetheless, Asia-Pacific has not escaped a correction in real estate values. Interest rates have risen sharply in Australia, South Korea, Singapore and Hong Kong. China has a different range of problems: it has shown signs of slipping into deflation following a weaker-than-expected recovery from the pandemic and the travails of its housing sector, best illustrated by developer Evergrande – the world's most indebted real estate company with \$325 billion of debt outstanding – which faces a winding-up hearing in December.

James Kemp, head of real estate, Asia-Pacific at Sydney-based manager Macquarie Asset Management, says: "Generally across Asia-Pacific we have seen pricing move around 5-10 percent lower since recent peaks, outside of the Japanese market. Cap rates have



Patrick Boocock

CEO, private equity alternative assets
CapitaLand Investment

Boocock is responsible for growing alternative assets such as digital infrastructure, renewable energy, transition and sustainability investments and private credit. CLI had S\$134 billion (\$99 billion; €92 billion) of AUM as at June 30, 2023. He joined CLI in 2021 from Brookfield Asset Management.



James Kemp

Head of real estate, Asia-Pacific
Macquarie Asset Management

Kemp joined MAM in 2007 and leads the business across Asia-Pacific, where the firm has an opportunistic strategy with a focus on investing in and partnering with specialist operators. As at September 30, 2023, MAM had A\$892 billion of AUM with A\$33 billion of real estate AUM.



Galen Lee

Chief executive officer, real estate and
data center funds
Keppel

Keppel has \$10 billion of AUM in its real estate and data center private equity funds. Lee's previous senior roles include stints with City Developments Ltd, UBS Investment Bank and DBS Bank.



Claire Tang

Co-chief investment officer for Asia-Pacific, head of Greater China
LaSalle Investment Management

Tang joined the firm in 2007 and is an executive officer of the LaSalle Asia Opportunity Fund series as well as the LaSalle China Logistics Venture. As of Q1 2023, LaSalle had AUM of \$78 billion globally, of which \$14.2 billion is in Asia-Pacific.

moved out by 50-150 basis points in some markets, with rental growth supporting pricing in sectors such as logistics and living.

“What we are seeing across our business in the US and Europe is obviously much more severe, where aggregate pricing has fallen 20 percent from early 2022 levels, though there is considerable variation by sector and location.”

Galen Lee, chief executive officer of real estate and data center funds at Singapore-based manager Keppel, adds: “We haven’t seen a lot of price movement in Japan because the financing environment has been stable, whereas in China there’s a lot of talk about distressed assets coming to market – although we find these tend to be assets with fundamental problems.

“We are seeing bids for well-located core assets [in China] at comparatively small discounts, whereas opportunistic bids for troubled assets are coming in around where the debt level is, so maybe at around 50-60 percent of book value. Those two markets bookend the region, with the rest somewhere in between.”

The variation in pricing changes has not just been across countries, but also across sectors within countries, says Patrick Boocock, CEO of private equity alternative assets at Singapore-based manager CapitaLand Investment. “If you look at a market like Australia, the office sector has been most impacted, while logistics hasn’t come off nearly as much. New economy assets, such as data centers and life sciences, have remained virtually unchanged.”

Easier borrowing

The cost and availability of debt is one of the key factors driving real estate investment and, in this regard, Asia has two markets offering something unavailable in most places worldwide.

“The only two markets with positive yield spreads are Japan and China,” says Tang. “Japan has consistently

offered healthy spreads of 200-plus bps over the past years. In China, we have seen the borrowing cost for sectors with strong policy support – multifamily and logistics – fall by 200-250bps, resulting in positive spread for stabilized assets.”

She notes Japan has adjusted interest rates – while keeping policy rates unchanged – in order to deal with imported inflation. “We have already seen moderate interest rate movement for fixed loans in Japan in response to changes in Japanese government bonds. However, we have not seen any direct impact on cap rates as capital flow into Japan continues to be strong.”

The panel also feels the environment for real estate borrowers is somewhat easier in Asia-Pacific, as banks in

most jurisdictions are still happy to lend to the sector. A focus on relationship banking also means banks are more inclined to cooperate with borrowers.

“Across most markets, debt is still available for the refinancing of stabilized and performing portfolios,” says Kemp. However, he notes the cost and availability of construction financing varies from country to country.

Lee says that, while finance is available, it is harder to obtain in markets where rates have risen quickly, such as South Korea, Singapore and Australia. Available loan-to-value ratios for core assets have fallen to 45-50 percent, from 60 percent.

“This is because for many of the key markets which have experienced large

“Investors have tended in the last 12 months to be more domestically focused, but now they are curious about what’s happening in Asia”

PATRICK BOOCOCK
CapitaLand Investment

“Generally across Asia-Pacific we have seen pricing move around 5-10 percent lower since recent peaks, outside of the Japanese market”

JAMES KEMP
Macquarie Asset Management

Investors turn to real estate debt

Debt strategies are attracting interest from investors that see a gap in the market and seek downside protection

Private debt makes up close to 40 percent of all commercial real estate lending in the US, and approximately 10 percent in Europe. Similar data is not available for Asia-Pacific as the market is small at present, but it is expected to grow as a number of managers move into the space.

CapitaLand Investment’s Patrick Boocock says: “The commercial banks have healthy balance sheets but, for assets and borrowers which are just off the fairway, they are starting to back off a little. This is especially the case in Australia and so we are seeing a lot of interest from private credit platforms. We think there’s huge opportunity for private credit in APAC real estate.”

Even in favored real estate sectors, there is more demand for private credit, says Keppel’s Galen Lee: “A lot of data center and logistics operators cannot raise equity as easily today, so a lot of them are starting to turn to private credit as an alternative for expanding their business.”

interest rate hikes, the key limiting metric is now the debt service coverage ratio, which now implicitly caps leverage at these lower levels. And lenders want to see a credible asset management plan and an exit plan,” he says.

While banks are still lending to real estate, the panel believes there is room for non-bank lenders in the region to take a growing share of the market, as commercial banks prefer to support mainstream assets and strategies. The private credit market in Asia-Pacific is much smaller relative to other regions and is expected to grow.

Investor allocations subdued

Capital-raising for Asia-Pacific real estate funds has been as difficult as anywhere this year. *PERE* data shows

Analysis

only \$4.8 billion was raised for private real estate funds focused on the region in the first half of this year, compared with \$19.8 billion in the same period in 2022. Funds are also taking much longer to close, at an average of 13 months in H1 2023, up from nine months last year.

Boocock says: “Investors have tended in the last 12 months to be more domestically focused, but now they are curious about what’s happening in Asia and we are getting a lot more inquiries. I would say that while China remains a red line for some investors, there’s still interest from Asia-Pacific and Middle Eastern investors.”

The views of investors based in North America and Europe are influenced by the performance of those markets, says Kemp. “We have an investor set which sees the value of the fundamentals in Asia, but it is still a hard discussion to release capital for anything, let alone something in Asia, where global investors haven’t seen the same price correction as other markets.

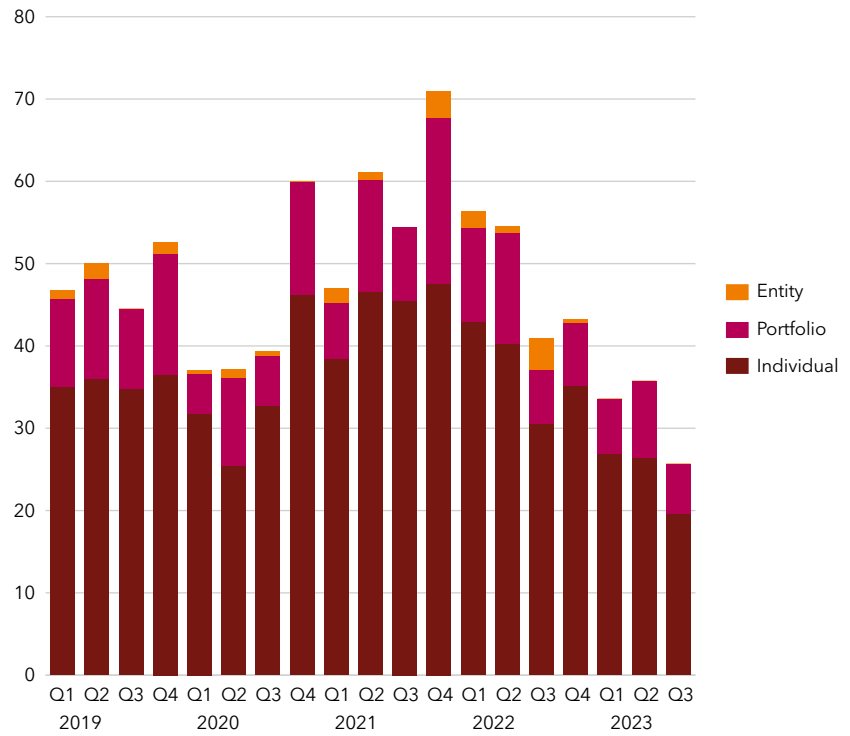
“That will take a little bit of time to work through. We don’t think there’s some fundamental price correction to come – we’re seeing deals now that we can underwrite on a long-term view of real estate pricing – but it is going to take a little bit longer this cycle before global allocations return, including to Asia.”

The China question

Investment in China has fallen away dramatically in recent months, partly due to ongoing political concerns and now also due to the faltering economy. A number of investment managers have reported investors asking for ex-China exposure in regional funds. Earlier this year, *PERE* reported that Hong Kong-based manager Gaw Capital planned to create a separate sleeve in its pan-Asia fund for North American investors that do not wish to have exposure to China.

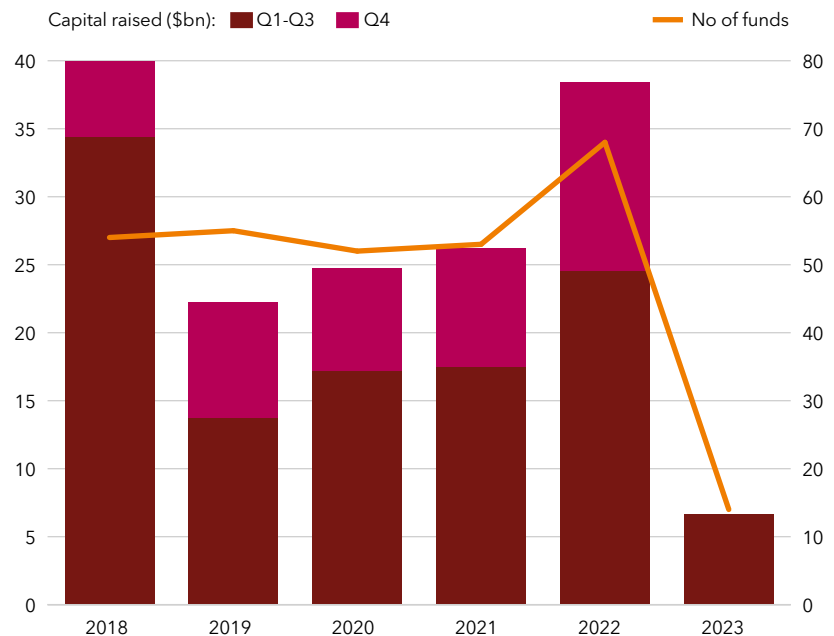
However, panel members remain

Asia-Pacific real estate transaction volume fell 37% year-on-year in the first nine months of 2023 (\$bn)



Source: MSCI Real Assets

Capital raising for Asia-Pacific-focused real estate funds has slumped this year



Source: PERE

“Like a lot of managers, we are focusing more these days on the ‘China for China’ strategy, raising onshore RMB capital to do deals in China”

GALEN LEE
Keppel

keen on China as an investment destination for the long term and also as a place to tap domestic capital. “From a long-term perspective, we see China as definitely a place to continue to invest, and a place where I think that, in time, the global investment community will also return to,” says Boocock.

Keppel’s Lee says: “There are APAC investors with a longer-term investment horizon looking at China now, because foreign investors currently have access to assets of a caliber which was previously unavailable. However, like a lot of managers, we are focusing more these days on the ‘China for China’ strategy, raising onshore RMB capital to do deals in China.”

With foreign capital largely on the sidelines, liquidity in the Chinese market is coming primarily from large domestic insurers, provincial companies acquiring buildings for their own use in Shanghai or Beijing, and Southeast Asian family businesses where the family has a Chinese ethnic background and that have operating businesses in China.

Kemp points out the importance of domestic capital is not new. “Most medium-term liquidity in China comes from domestic capital, but that’s much the same as it was pre-covid. RMB investors have tended historically to have the cheapest cost of capital for stabilized assets in sectors where we have invested,” he says.

One of the post-pandemic economic themes has been the redrawing of the global supply chain map, with manufacturers moving away from siting production entirely in China. Some have adopted a ‘China plus one’ strategy, diversifying to Asian markets such as Vietnam or India. Others have chosen ‘nearshoring’ closer to home, which has benefited Mexico in particular, or ‘reshoring’ by bringing manufacturing back to domestic markets.

“Capital which had been looking at China is definitely looking at markets like India and Vietnam because that’s

“Even in the office sector, where fundamentals have been impacted the most globally, we’re still seeing some bright spots in certain markets in Asia”

CLAIRE TANG
LaSalle Investment Management

where the supply chains are moving to,” says Boocock.

Lee seconds this, adding: “However, I would caution that Vietnam is a much smaller market, much less liquid than China.”

Indeed, the size of ‘China alternative’ markets is a significant barrier for real estate investors, says LaSalle’s Tang. “We monitor Southeast Asia, but scale is a concern as the aggregate GDP of the five or six key markets is still a fraction of China’s.”

Rebalancing exposures

The type of vehicles and sectors investors favor for their Asia-Pacific exposure represents another shift in sentiment this year.

Boocock says: “Although I’m a big proponent of raising regional, if not global, funds to get scale, I think investors are now looking at more thematic and niche strategies. An investor said to me recently, ‘I’m not looking at macro strategies, I’m only looking bottom up. Those strategies could be regional or could be country specific.’”

Investors are looking specifically for industrial and residential strategies, especially the former. *PERE* data shows 95 percent of capital raised for Asia-Pacific-focused sector-specific private real estate funds in the first half of this year was for industrial funds, the remainder for multifamily.

This reflects the changing nature of institutional portfolios, says Tang: “Opportunistic and high-return funds are trying to produce assets for the core portfolios of the future and those portfolios are reallocating from office and retail into sectors such as multifamily and logistics.”

Macquarie’s Kemp suggests the various living sectors – multifamily, co-living, student accommodation and retirement housing – could be a focus for international capital in the future.

“It will be interesting to see how the living sectors play out across the region, when global capital returns.

There are different dynamics from logistics, the other big regional play. Living is very country specific in terms of the asset type and target tenants. However, the fundamentals support the sector and the question will be how to scale in or across markets,” he says.

There is also a lot of investor interest in niche sectors such as life sciences and data centers for which, as noted, pricing has held steady even in markets with rising interest rates.

Data centers are often seen as a natural step for industrial and logistics developers, but investors are looking for a complete solution, says Lee, “which means having the megawatts capacity to cater to the customers’ expansion needs, plus efficient cooling capabilities and green energy capabilities to supply the assets.”

While industrial and logistics, private credit and multifamily residential were the preferred strategies among the panel, there is still interest in the office sector. Tang says: “As a contrarian bet, we still like selective office opportunities. We still like the repositioning strategy in markets with stronger fundamentals, especially in Japan and Korea.

“There is also a tremendous opportunity to build or reposition to greener, better office space as tenants look to reduce their carbon footprint.”

Slim pickings for deals

Investor uncertainty, rising interest rates and a significant bid-ask spread in a number of markets mean 2023 has been a tough year to deploy capital in Asia-Pacific.

This is reflected in MSCI Real Assets’ transaction data for the first three quarters of the year. The \$25.7 billion of deals recorded in the third quarter was the region’s lowest tally since 2010, and 28 percent lower than volumes in the second quarter. The first nine months of 2023 saw \$95 billion of deals in the region, down 37 percent from the same period in 2022.

Opportunities in ESG

Sustainability remains one of the major themes in real estate investing and there are significant opportunities for ESG-boosting strategies in the region

The opportunity set for ESG real estate investment in Asia-Pacific is “enormous,” says CapitaLand Investment’s Patrick Boocock. Potential strategies include “brown-to-green repositioning, distributed power generation associated with buildings, or investing in companies which are trying to decarbonize the built environment,” he adds.

LaSalle Investment Management is investing in repositioning offices to provide greener space, says Claire Tang. “You would be surprised how limited the options are for multinational companies seeking suitable space to meet their decarbonization goals.”

JLL research released in October suggests low-carbon office space is substantially undersupplied in Asia-Pacific cities. Major CBDs around the region are 43-84 percent undersupplied with low-carbon office space compared with demand to 2027.

The opportunity is region wide. Galen Lee of Keppel says: “We are also looking to invest in China with a decarbonization strategy, repositioning buildings to make them futureproof.

“The green economy is a very big topic in China, for which we see a lot of government support and attention.”

PERE roundtable participants are asked to name the most significant deals of the year, which proves a struggle for 2023 – itself indicative of a difficult market for deployment.

One notable deal mentioned was Singaporean sovereign wealth fund GIC’s October sale of a 49 percent stake in Chatswood Chase, a suburban mall in Sydney, to Vicinity Centers for A\$307 million (\$198 million; €183 million).

The sale price was a 45 percent discount to the A\$562.3 million price at which GIC acquired the stake in 2017. A major investor prepared to exit at a loss suggests the potential for a more liquid market going forward, and a dissipation of bid-ask spreads as investors become more realistic about the prospects for their investments and more inclined to free up capital to invest elsewhere.

Looking to 2024, the panel suggests a gradual easing of market congestion,

motivated in part by a more stable interest rate environment. Kemp says: “There is a feeling that interest rates across Asia-Pacific are close to peaking. That’s not to say that we expect interest rates here to be reduced in the short term, but we do think interest rate policy is doing the job of moving inflation back toward target levels.”

Managers are still proceeding with care, however. Boocock says: “We are being very cautious in our underwriting. It’s market by market, it’s deal by deal. We see a lot of bid-ask spreads but we are hopeful this will improve in 2024.”

Tang says LaSalle will remain “patient and disciplined” with capital, based on learnings from recent cycles, but is optimistic about the near term. “We do think that, as repricing continues, for those of us that have dry powder and seasoned teams, the next 12 to 18 months should be a great time to deploy capital.” ■

SPECIAL REPORT

Democratization of Private Real Estate



Welcoming in a new crowd of investors



Justin Sumner

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The democratization of private real estate is a trend that is opening the industry to a wider swathe of participants, which in turn is providing a larger source of capital for managers willing to work with this new class of investors.

There are several ways that is happening. The oldest is the use of real estate investment trusts, which since the 1960s have allowed stock investors in the US to put money into an asset class that has often beaten stock-market returns while hedging against economic headwinds and allowing for portfolio diversification.

More recently, the market is embracing fractional ownership and crowdfunding platforms, which allow investors to pool their resources with other investors from around the world to purchase a commercial real estate building or portfolio of properties. This often allows participants more control over the property.

These investors do not have to worry about the burdens associated with managing properties but can receive a portion of the profits from rents collected and proceeds when the asset sells. New technology around blockchain and distributed ledgers has furthered the democratization of real estate, ushering a new class of investor into the market.

A host of new start-ups are providing retail investors with fresh avenues for property investment, as well as a wealth of new information and deal transparency needed to make informed decisions about investing in real estate.

The myriad benefits of these new capital sources for managers and the real estate industry as a whole are well documented, and democratizing the world of real estate investing is the way more deals will get done.

Justin Sumner

Contents

Democratization trend gains speed Opportunities abound as retail investors increase exposure in the real estate market	46
The history of REITs Real estate investment trusts have been opening the market to investors for 60 years	50
Creating bite-size buildings RealVantage's Keith Ong discusses fractional ownership for a wider audience	51
Satisfying conflicting demands REITs balance returns and various regulatory issues around the world	54
Investing in education Democratization is showcasing the need for reliable market information	56
Navigating the digital frontier Technological advances are changing the future of real estate investing today	58

Private real estate opens the gates to new investors

Volatility is strengthening the case for retail investors to increase real estate exposure. Aisha Kapoor explores the opportunities and challenges of this trend

The private real estate industry is opening its doors wide to retail investors – individual or nonprofessional investors who typically buy or sell securities through a brokerage firm or retirement account.

In recent years, there has been a proliferation of innovative fund structures across the world to tap the vast and under-penetrated private wealth channel, buoyed by evolving regulations. Investor demand for commercial real estate has grown in tandem, partly a result of the challenges arising from sticking to a traditional 60-40 liquid portfolio, especially in a higher inflationary environment, and partly due to increased access to and understanding of private real estate investing. The appeal of the asset class is also being driven by its inflation hedging capabilities, stable income, upside appreciation and diversification benefits.

“We believe the market for private real estate strategies in the channel is more advanced than it is for other private markets categories, such as private equity,” says Bernie McNamara, head of client solutions for CBRE Investment Management. “In fact, the

breadth and depth of offerings in private real estate demonstrate to us that the market is past the introduction phase and well along into its growth phase.”

Courting retail investors

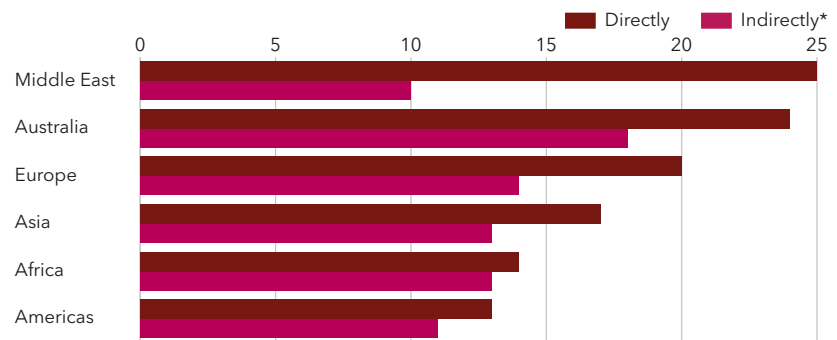
Private investors were the most active buyers in commercial real estate in 2022, investing \$455 billion – higher than the institutional investors’ share at \$440 billion – according to data provider Real Capital Analytics’ analysis published in property consultancy Knight Frank’s outlook report for 2023. A survey of 500 high-net-worth investors conducted by Knight Frank earlier

this year revealed that a third of the respondents want to increase their residential holdings, while 28 percent want to invest more in commercial property.

In response, an ever-increasing number of managers have enhanced their footprint across the private wealth channel and launched a range of perpetual life vehicles. In the US, Blackstone, BentallGreenOak, Starwood Capital, KKR and Brookfield Asset Management, among several others, operate non-traded REITs.

Meanwhile, London-based private equity investment firm Schroders Capital launched the Global Real Estate Total Return fund in Europe this year,

Ultra-high-net-worth individuals are planning to invest globally in real estate (% of respondents)



*Indirect investment through debt funding or real estate investment trusts
Source: Knight Frank’s The Wealth Report Attitudes Survey, 2023



its first dedicated commingled private fund for the asset class. The vehicle is also structured as a semi-liquid fund, targeting real estate investments across private equity, public equity, private debt and public debt.

Kieran Farrelly, head of Schrodgers' global solutions real estate business, says private wealth portfolios are significantly underallocated to private assets compared with their institutional equivalents.

"Estimates vary," says Farrelly, "but while institutional investors have steadily increased their allocations to as much as 20-30 percent, the allocation of individual investors is estimated to be less than 5 percent. In our view, this reflects a historical lack of appropriate access points rather than a fundamental difference in appetite."

Farrelly also notes that the

"combination of evolving regulation, technological innovation and more funds that specifically address access in a way that meets the liquidity needs of such investors will help adjust this imbalance over time."

This so-called democratization of private markets – which, simply put, means opening up the industry to new investors and smaller entities and not just large, established institutional LPs – has been decades in the making.

Brendan McCurdy, managing director and co-head of the financial adviser solutions team at global alternative investment manager Ares Management, says: "Real estate was really the first private market asset class to democratize broadly for everyday investors.

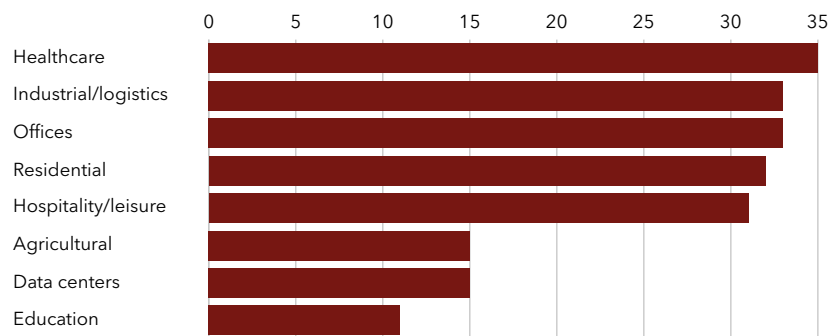
"We saw the first 'NAV REIT' launched in the market more than a decade ago in 2012. Although that

structure is non-traded, it has created an attractive entry point for individual investors looking to gain access to alternatives given a number of benefits, including the ability for continuous purchases and dollar-cost-averaging, enhanced liquidity options, transparency and reduced fee layers to streamline costs.

"Each of these elements of the product have improved over time and have made non-traded REITs much more accessible to individual investors. In addition, because NAV REITs regularly strike a new NAV, financial advisers have become more comfortable with their clients holding NAV REIT investments within brokerage accounts and fee-based accounts."

The momentum in the space has grown over time due to regulatory changes, as well as the development of

Well-heeled investors are targeting the healthcare, industrial and office sectors (%)



Note: Respondents could select multiple sectors
Source: Knight Frank's The Wealth Report Attitudes Survey, 2023

"Real estate was really the first private market asset class to democratize broadly for everyday investors"

BRENDAN MCCURDY
Ares Management

Democratization of Private Real Estate

new crowdfunding platforms and registered investment advisers (RIA) to serve this investor pool.

Matt Weibring, director of investor relations at Velocis, a Dallas-based real estate fund manager, says about half of the firm's investor base now comes from the high-net-worth and resident investment advisers' channel. Weibring says more and more RIAs are building out platforms to provide clients with access to private investments.

"One reason for the accelerated growth is because local and regional RIAs can outsource their private investment sourcing and due diligence to firms like iCapital and CAIS," he says. "These firms bring an institutional approach to finding quality managers across all private strategies and provide access to RIAs that otherwise would not have the resources. The number of firms that are providing RIAs access to the alternative investments continues to grow every year, which speaks to the demand from the HNW investor."

Having these intermediaries also helps retail investors increase their understanding of the risk and reward dynamics of any real estate investment.

"There are a lot more channels available to retail investors to have an additional layer of review on top of their own analyses," says Nitin Chexal, chief executive of Palladius Capital Management, a real estate investment management group headquartered in Texas. "The access to information that can facilitate a retail investor's ability to be thoughtful about where and how they make investment has made the real estate investing world far more transparent today."

Favored strategies and sectors

The private wealth segment encompasses a number of different groups, including HNW and ultra-HNW investors, the mass affluent and emerging affluent, as well as DC or 401(k) pensions and mom-and-pops. Their approach to real estate investing has differed, depending on their size and

investing experience. HNW investors that are new to the private investment space and have assets in the \$3 million to \$5 million range typically favor strategies that provide recurring distributions. Meanwhile, investors with more experience in alternatives and with over \$10 million of assets tend to have a larger appetite for higher-risk strategies that generate higher returns and multiples.

When it comes to preferred sectors and strategies, *PERE* heard a range of opinions. Ares Management's McCurdy says the most demand is coming from "growth and income investors" who are looking for yield with the opportunity for upside capital appreciation. Think of core, core-plus and value-add strategies with lower-to-moderate risk.

"One of the largest portions of the demand is currently for diversified funds, which can pivot to in-favor sectors as those change over time. Today, for example, that looks like industrial and logistics properties, multifamily housing, data centers and student housing, across all levels of the capital stack."

CBRE Investment Management's McNamara says: "We're also seeing an evolution of investment strategies from investing just in stabilized properties – ie, buildings 90 percent or more occupied – to ones that include both stabilized properties and ground-up development projects."

From a geographical perspective, Schroders' Farrelly believes investors are also showing some interest in markets beyond the US. "This is due to the less synchronized cycles and trends playing out in Asia-Pacific, Europe and other regions that provide both further diversification benefits and a broader opportunity set."

Liquidity concerns during market volatility

Despite the growing opportunities and investor demand, the current environment has also put the spotlight on the challenges of investing in private real

"The access to information that can facilitate a retail investor's ability to be thoughtful about [investments] has made the real estate investing world far more transparent today"

NITIN CHEXAL
Palladius Capital Management



“The market for private real estate strategies in the channel is more advanced than it is for other private markets categories”

BERNIE MCNAMARA
CBRE Investment Management

estate. Liquidity is a key issue. There are natural constraints that come with investing in structures with underlying assets that are illiquid, including fund redemption limits, which protect managers from having to sell assets at potentially suboptimal valuations, especially during market dislocation. At the end of 2022, for example, some non-traded REITs had to gate redemption requests following an increase in investor withdrawals.

“The concern for us as a real assets manager is to be sure private wealth investors understand the products in which they’re invested,” says McNamara. “In today’s market, the focus is on understanding the risks of capital depreciation and limited liquidity.”

Balancing the risk/reward ratio

Ultimately, the question is whether semi-liquid investment vehicles offer sufficient liquidity protection for retail investors. Do the returns outweigh the inherent risk of investing in such structures? And if so, how do managers provide investors with liquidity while also protecting the fund’s performance?

Ares’ McCurdy says perpetual private market vehicles do offer sufficient liquidity for individual investors to use them as a meaningful part of their portfolios. “Even still, most investors will want to retain some portion in fully liquid securities. However, when the market turns, investors often find that even securities that seemed fully liquid on the way up are in fact only liquid at large discounts on the way down.

“By not being forced to sell into the teeth of a downturn, managers of semi-liquid private market vehicles can dispose of assets responsibly in a way that best protects remaining shareholders.”

In Farrelly’s view, what matters more is how liquidity is structured in these funds. Schroders Capital’s semi-liquid range of funds have a uniform three-month redemption notice period and capped quarterly redemptions, which helps strike a balance between

enhancing liquidity and reducing the arbitrage opportunity associated with shorter notice periods seen in some funds. “The spotlight shone on the format in the past 12-18 months reflects a first test for such structures, but in our view this has highlighted exactly how the mechanism is designed to work – liquidity management tools preserving value by preventing disorderly exits during a period of market turbulence.”

Most industry observers who spoke to *PERE* believe that some of these challenges will get resolved over time, as investors gain more familiarity and understanding about investing in private market funds. They also recommend that individual investors should make their first forays into the asset class through a financial adviser or other intermediaries to help them appropriately evaluate each investment.

“Investors are being compensated for the illiquidity premium,” says Khoo Kian-Jin, head of private wealth, Asia Pacific, at real estate services firm JLL. “It is about education, and understanding why there are lockups or illiquidity. Having said that, private wealth investors are also considering the duration premium, or how long the lockup is and trade-offs in terms of deployment.”

As the industry moves further in the direction of democratization and market headwinds subside, individual investors will become more comfortable with understanding the trade-offs that come with investing in a risky, yet resilient, asset class.

“There are ways to create liquidity, maybe with new technology in the future, but liquidity is genuinely more a feature for the public markets,” says Martijn van Eldik, head of corporate finance, Asia Pacific, at JLL. “Private markets come with specific features, which will always be part and parcel of the private industry. So, it doesn’t necessarily make it more challenging because there is a legacy – and private markets have a fairly decent share in investors’ portfolios now, and it will remain so.” ■

Charting the REIT side of history

Real estate investment trusts have long been used to open the world of real estate investment to retail investors and individuals

Top 20 US-based public REITs

Rank	Name	Sector	Market cap (\$bn)
1	Prologis	Industrial	10.54
2	American Tower Corp	Specialty	8.92
3	Equinix	Specialty	6.18
4	Crown Castle International	Specialty	5.36
5	Public Storage	Industrial	4.96
6	Realty Income Corp	Retail	3.91
7	Simon Property Group	Retail	3.35
8	Welltower	Healthcare Facilities	3.23
9	VICI Properties	Diversified	3.02
10	Digital Realty Trust	Office	2.72
11	SBA Communications Corp	Specialty	2.67
12	AvalonBay Communities	Residential	2.16
13	Equity Residential	Residential	2.10
14	Weyerhaeuser Co	Specialty	2.07
15	Extra Space Storage	Industrial	2.01
16	Alexandria Real Estate Equities	Office	2.01
17	Duke Realty Corp	Industrial	1.86
18	Invitation Homes	Residential	1.75
19	Ventas	Healthcare Facilities	1.67
20	Mid-America Apartment Communities	Residential	1.63

Note: This list does not include mortgage REITs
Source: Stock Market MBA Inc, 2022

1950s

Individual investors begin to realize real estate's potential as a relatively reliable investment vehicle, thanks in part to economic growth in the US creating more opportunities for investors

1960s

President Eisenhower signs the Real Estate Investment Trust Act in 1960, and with the establishment of the first REITs soon after - including three that are still in existence today - everyday stock traders are given a way to invest in commercial real estate. The first European REIT legislation is passed in 1969

1970s

The number of REITs operating in the US climbs quickly to more than 300 by 1975. The increase leads to a rise in commercial real estate transactions, fueling a real estate boom in the late 1970s due to the influx of capital and availability of credit. Australia sees the creation of its first REIT in 1971

1990s

President Clinton signs the Omnibus Budget Reconciliation Act of 1993 that includes a rule making it easier for pension plans to invest in REITs. Three years later, the IRS enacts the first in a series of rulings allowing REITs to provide services to tenants with the aim of generating rental income

2000s

The early 2000s see the proliferation of crowdfunding and online real estate investing, allowing individual investors to enter the real estate market by pooling together resources with other investors. REITs begin spreading across Asia with the launch of a Japanese REIT in 2001

2010s

Real estate crowdfunding sees a boost with President Obama's signing of the Jumpstart Our Business Startups (JOBS) Act in 2012, which regulates equity crowdfunding for non-accredited investors. The growth of online real estate platforms increases transparency and makes managing investments more efficient

2020s

Fractional real estate investing and tokenization are growing in popularity as investors seek to diversify portfolios without taking on the costs of property ownership or management, allowing novice and retail investors to enter a lucrative private real estate market that once was only available to ultra-wealthy investors

KEYNOTE INTERVIEW

Creating bite-sized real estate investments



Fractional real estate investments can open up the sector to a wider audience and boost managers too, says RealVantage's Keith Ong

Commercial real estate is one of the biggest asset classes but could become much bigger if investments were open to a broader range of capital, allowing private investors to gain access to larger lot sizes and more opportunistic deals. Fractional real estate investment managers offer smaller ticket sizes to retail investors, enabling them to take part in development, investment and lending deals at a much larger scale than they could achieve individually.

Singapore-headquartered investment manager RealVantage is creating a global real estate investment ecosystem to connect individual investors and institutional real estate partners. Keith Ong, co-founder and chief executive officer, explains how fractional

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investment can open up the sector to a wider range of investors and become a valuable capital source for private real estate managers.

Q What is fractional real estate investment?

The concept is no different from a traditional private real estate fund. However, we break each investment down into smaller pieces compared with an institutional real estate fund, which will require several million dollars as a minimum investment.

There are different ways of

structuring these investments, but fundamentally, the difference is that the minimum investment is lower. Investors also invest in individual deals rather than providing blind pools of capital, but there is no reason why such investments cannot be aggregated into a fund rather than a single transaction.

Q How does this make real estate more democratic? Who are the target investors?

In theory, such investments can be open to investors prepared to commit to as little as \$50-\$100. However, RealVantage targets experienced investors with a minimum ticket size of \$25,000. Our records show that family offices are investing more than

Democratization of Private Real Estate

\$500,000 per deal, while non-family offices average more than \$100,000. We target investors from the 'mass affluent' to high-net-worth levels – people who are prosperous and have a certain level of knowledge about real estate and investing, but who cannot reach the minimum ticket size required by a typical private equity fund.

Investors benefit through direct access to quality deals, with full transparency and traceability in legal ownership in every project. We handle all the heavy lifting on the sourcing, due diligence, structuring, tax optimization, monitoring, cash management and more.

Q How do these investments compare with real estate investment trusts or private equity funds?

REITs are a fantastic instrument for investors but their performance is affected by the wider capital markets, not just the underlying real estate. Additionally, they only invest in core real estate with a fairly narrow return range.

As well as the minimum ticket size barrier with REITs, private equity fund investors also typically invest in blind pools rather than particular projects. We give investors full discretion to invest in individual projects, which allows them to make their own choices for their real estate portfolio.

Of course, it is also possible that an aggregation of fractional real estate investments could be invested into a real estate private equity fund, with a manager such as RealVantage acting as the LP on behalf of its investors.

Q What sort of deals can be undertaken through fractional real estate investment?

Many types of investment are possible. We divide our deals into income and equity. For income deals, we tend to provide senior or mezzanine loans to a developer or fund manager.

For example, we recently provided a mezzanine facility to a fund managed by



Q Will the use of blockchain and tokenization be significant in this sector?

With a lack of demand for liquidity, I don't see a significant demand for tokenization. We are not an exchange and do not offer tokens, nor do we intend to.

There are benefits to the blockchain technology: the immutability of blockchain means you cannot erase records and your tokens can be easily transferred to another party. I see potential benefits for real estate more widely, not just investments. However, I still believe there are key things which need to be ironed out, first of which is the question of ownership.

We use simple LP/GP structures where investors come in as shareholders of a company which owns the property, so you can trace your legal ownership all the way down to the asset. However, with regards to tokenization, the question is what do you really own? And, of course, you need liquid exchanges for liquidity, a theoretically liquid token is not enough.

However, I also believe that it is not the technology which is important, but the real estate and the real estate investment. We spend time curating the deals, working on due diligence, underwriting numbers, negotiating contracts to make sure managers do not short-change the investors. For investors, it is much more important to have good investments and good managers than the latest technology.

a London-based firm, backed by a portfolio of UK retail warehouses. This will provide income for two to two-and-a-half years until the loan is repaid.

On the equity side, for example, we have entered into a joint venture with Greystar to build 247 rental apartments in Phoenix, Arizona, with a build, lease and sell strategy. With all these deals,

we work with a local manager or operating partner. Our focus is in the US, UK, Australia, Singapore and Hong Kong, but such deals can work in any market.

Q How difficult is it to manage thousands of investors?

“Real estate is not like equities; value takes time to be created”

“There is a huge amount of capital which wants to get into institutional-grade commercial real estate but cannot do so”

If you have a robust platform and the right technology, it is not as hard as you might think. We have 4,000 investors and growing, but that does not mean we have queries from these guys every day.

We have automated a lot of our processes, so the onboarding and know-your-client processes are all automated.

We also provide investors with plenty of information on a regular basis, so they do not need to deal with us in person. So, while we do organize investor events, I have not met three-quarters of our investors.

The cycle of investor onboarding and the growth of the investor pool is very different to private equity real estate fundraising. We are constantly adding new investors and investments so are continually building, rather than having periodical capital raising cycles for closed-ended funds.

Q Can fractional real estate investors trade their stakes? Are there ways to add liquidity?

We have found the demand for liquidity to be minimal. We facilitate buyer-seller matching among platform members for any investors who wish to exit, but only a tiny fraction request this. We offer a range of deals with duration periods anywhere from one to five years, so investors can build portfolios with deals of varying duration periods.

Investors understand it is a mid- to long-term investment, and they are happy to park their money with us. We make it clear that real estate is not like equities; value takes time to be created. It takes time to build a building. The key to a well-structured portfolio is diversification and we can offer fractional, bite-sized investment quanta that are realized almost every year.

Q How important is it for a manager of fractional investments to be regulated?

While there is a lot of demand for investments in real estate, there is also a bit of a stigma attached to real estate investments or platforms like ours. In Singapore, and I am sure elsewhere, over the years there have been scams and unregulated platforms which have gone bust, and people have lost a lot of money. So I think it is vital that investors work with platforms which have the relevant licenses.

We are regulated in Singapore, which is very stringent. We have to submit monthly and quarterly reports as well as be audited every year. It is quite a bit of compliance work, and we have three full-time staff working on it, but it is an important safeguard and reassurance for investors.

Q What is the growth potential for fractional real estate investment?

There is a gap that hasn't been properly addressed. I worked as an investment manager investing on a global scale for large pension funds, but as individuals we had little chance to invest in those sorts of deals because we didn't have access or enough capital.

Most private investors who wish to invest in commercial real estate cannot swallow the lot sizes, so there is a huge amount of capital which wants to get into institutional-grade commercial real estate but cannot do so.

Managers such as Blackstone have realized this and raised substantial sums, although with a million-dollar minimum investment. There is still a huge pool of untapped capital out there.

There is also a big opportunity here for managers to work with companies such as RealVantage to raise capital for their funds. Many traditional managers are still put off by the idea of accepting this type of investment because they worry about managing hundreds of investors. However, that is what firms such as ours do, and the manager only has to deal with us.

Fractional real estate investing is really in its infancy in Asia. We have a lot of investors who want access to these deals and to diversify their capital. I don't see anybody here who is dominant in this area.

If you look elsewhere, in the US for example, there are large players which have done very well in that country, but we are targeting the entire globe. It is a sector which will continue to grow strongly. ■

A complex balancing act

*Bringing real estate to a wider audience means satisfying sometimes conflicting demands, writes **Mark Cooper***

Broadening the audience for real estate investment offers the chance to raise billions of dollars of retail capital, but brings with it significant regulatory challenges. And regulators are not minded to allow any schemes to fall through the cracks.

All real estate investment faces many of the same challenges. Investment schemes need a regulatory environment that: protects investors, offers transparency, provides liquidity, and for the regulations not to be so onerous that they prevent the market from growing.

Even the most mature vehicle for the democratization of real estate investment took time to hit its stride. Real estate investment trusts were launched in the US in 1960 but did not take off until after the legislation was amended in 1990. Today, REIT regimes around the world are going through the same process of working to find the best regulatory environment.

The broader the investor base, the more difficult this all becomes due to the lack of knowledge and experience of retail investors, or experienced investors who may not have as much experience in the real estate markets.

Luke Graham, head of research at venture capital firm Pi Labs, says: “Irrational investor behavior, particularly in groups, has been well documented for centuries, with famous examples including the Dutch tulip bulb mania and

the South Sea bubble.

“Less sophisticated retail investors are also more likely to invest in something they [wrongly] think they understand, and real estate is particularly subject to this.”

Regulations remain necessary

The recent history of retail investment in real estate is littered with failed platforms, fraud and lost investments. Even if these represent a tiny proportion of what is on offer, the effect of failed schemes is widespread.

In 2021, real estate crowdfunding firm Prodigy Network filed for bankruptcy after taking in \$640 million from retail investors for real estate investments. Meanwhile, the US Department of Justice is investigating Nightingale Properties, a Manhattan-based property company, for allegedly diverting almost \$40 million from a crowdfunding platform to its CEO’s accounts.

There have been a number of failed attempts to tokenize real estate, and tokenization’s links with cryptocurrency mean it has been in the regulatory spotlight.

“The process to tokenize a building is relatively straightforward; the harder

part is to get regulatory approval to market and sell those tokenized interests to retail investors and provide liquidity for those interests,” says Jeremy Ong, partner and head of law firm Baker McKenzie’s REITs practice in Hong Kong.

Hong Kong’s Securities & Futures Commission released new requirements for tokenized investments in November, aimed at reassuring and protecting investors. There is significant demand in the city to issue tokens for real estate. However, confidence in digital assets has waned due to the JPEX scandal, a HK\$1.56 billion (\$200 million; €186.3 million) fraud case involving an unregulated digital asset exchange platform.

The pattern in Hong Kong is not unusual, and regulators all over the world are now seeking to bring novel investment opportunities into the same regulatory environment as more established peers.

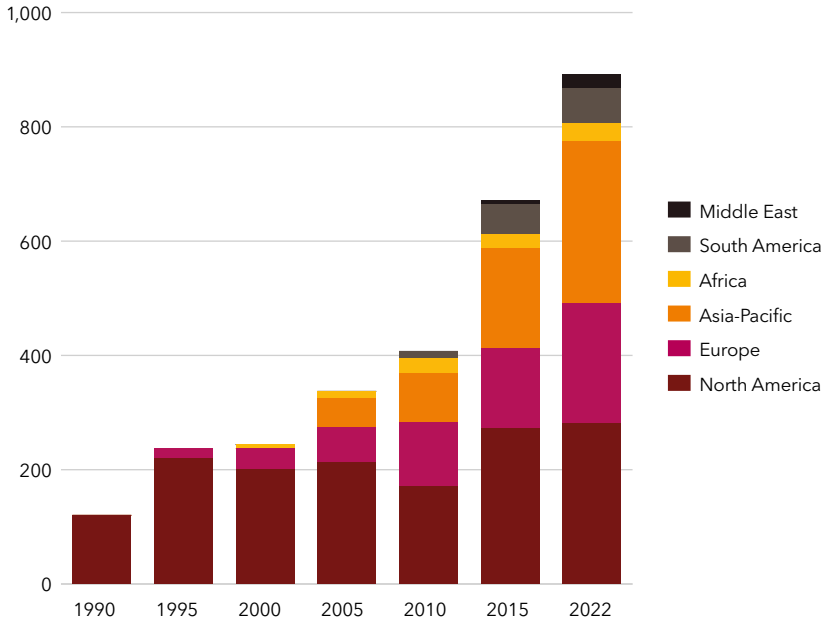
“To some extent, tokenization provides additional distribution, perhaps quicker settlement, quicker transactions, but the regulatory environment will capture those tokens like it would capture any other collective investment scheme,” explains Alan Darwin, partner in Baker McKenzie’s financial services and funds practices in Sydney.

Self-restricting

For many real estate investment managers, the best way to simplify the regulatory environment is to restrict their



The number of listed REITs globally has grown rapidly since 2010



Count includes companies listed as equity or mortgage real estate investment trusts
Source: Nareit, S&P Global

REIT regimes continue to evolve

Real estate investment trust legislation has existed for more than 60 years, but the regulatory environment continues to evolve

REITs have been launched in a number of new jurisdictions in the past 20 years and most have needed to adapt regulations in order to thrive.

“New REIT regimes often borrow from both fund and listed company regimes, making them overly complicated, despite REITs being more transparent and arguably lower risk than listed property companies, due to their borrowing and investment restrictions. Then regulation gets stripped back to something closer to listed company rules,” says Jeremy Ong, partner and head of law firm Baker McKenzie’s REITs practice in Hong Kong.

For example, Hong Kong REIT legislation was introduced in 2005 but has been significantly revised since then in order to try and boost the market. China REITs were launched in 2020 and regulators have continued to revise their rules. For example, regulation was amended just this year to allow retail property in C-REITs.

“I think the evolution of the China REIT regime will be to try to align more with international standards in order to tap more international capital, to the extent this does not conflict with how PRC listed companies are regulated,” says Ong.

Meanwhile in India, where the first REIT was floated in 2019, legislation was amended earlier this year in order to ensure sponsors retain a sufficient share of the REIT to align their interests with other unitholders.

democratic mandate. Many real estate investment schemes are restricted to accredited investors – those with sufficient wealth and income to be considered familiar with financial investments and to understand the risks. But definitions vary across jurisdictions. In the US, for example, an accredited investor must earn at least \$200,000 per year or have net worth of \$1 million, excluding their primary residence.

Some real estate managers suggest that fractional investors could form a club which might invest as a single limited partnership alongside others in a private equity real estate fund. However, Graham warns, “There will be particular regulatory sensitivity when retail investors invest alongside institutional or sophisticated investors.”

One of the challenges for any new investment structure is liquidity, as the illiquid nature of underlying real estate assets militates against this. Thus far, only REITs have managed to provide true liquidity. The liquidity of individual real estate tokens is questionable, while many fractional real estate managers offer limited or no liquidity.

The difficulty is illustrated by the impending closure of the M&G Property Portfolio, a £565 million (\$695 million; €648.8 million), open-end UK real estate fund. Manager M&G opted to close the fund because it could not satisfy the demands for redemptions, suggesting the open-ended fund was unable to square the demand for liquidity with the nature of real estate investment.

Fundamentally, those considering launching, investing in or regulating a new form of real estate investment need to consider how far their new structure ends up being away from a real estate investment.

“The illiquidity of real estate and the labor required in transacting real estate has been a powerful attribute of the asset,” says Graham. “So we need to be mindful that, when we change those factors, we change the nature of the asset as well.” ■

The democratization of real estate, by various means including crowdfunding, fractional ownership, public real estate investment trusts and tokenization, has opened an investment pathway that once was restricted to only the very wealthy. Today, it is possible to sink as little as \$10 into partial ownership in office towers, multifamily or single-family housing, shopping centers and malls, and even industrial properties.

Thanks to some regulatory changes in the US and across Europe, real estate crowdfunding continues to grow. In the US, the Jobs Act allowed non-accredited investors to participate in real estate crowdfunding, an industry expected to see continued growth. According to research company Absolute Markets Insights, the US real

estate crowdfunding market was valued at \$13.2 billion in 2018 and is expected to reach \$869 billion by 2027 with an estimated CAGR of 58.5 percent over the forecast period.

“By and large, the democratization of real estate is a desirable trend because it enables small-scale investors to access an asset class fundamental to diversification and building personal wealth,” says Piotr Trzciński, Savills Investment Management’s head of Poland.

The democratization trend is making it easier for more people to invest in real estate, but these new opportunities can present new risks for inexperienced investors. Advances in technology can give a false impression about the ease of real estate investing, leading some to invest without fully understanding the market and the associated risks, or without completing their due diligence on the properties and companies

involved, potentially exposing new investors to financial losses.

Doing due diligence

So where do potential investors who do not traditionally invest in the real estate sector go to understand how the industry operates and what the risks are? The answer is, there is no one place, so investors must pull information from various sources and often rely on their own due diligence. It helps to have access to a good real estate adviser to aid in negotiating the ups and downs of what can be a cyclical market.

Due diligence includes researching the targeted property market as well as the REIT or platform that investors will use to complete their transaction, including any regulatory or compliance and reporting issues as well as the technology behind these various platforms. This is on top of the normal concerns faced by these retail investors that traditionally trade in stocks and bonds, looking at risk, growth profiles and return projections.

Unlike traditional real estate transactions, blockchain technologies and tokenization are often more transparent and offer increased liquidity and security thanks to the public ledgers associated with these new technologies, according to Deloitte. Moreover, they can reduce transaction costs by eliminating intermediaries.

Besides owning a piece of a tangible asset, real estate can offer reliable and stable cashflow, an inflation hedge, capital growth over time and tax incentives. Diversifying an investment portfolio can benefit investors and also adds new sources of equity into what has long been an institution-only investment class.

Real estate research

With advances in technology, investing in a piece of a real estate can be simple for the do-it-yourself investor, a trend that millennials have popularized in recent years. Much of that happens online through crowdfunding platforms

Educating the masses, as more investors look to real estate

Growth in fractional real estate investing and crowdfunding is showcasing the need for reliable information, writes Jennifer Waters

that have minimum investment requirements and annual fees. As a result, real estate investors are going online to educate themselves, turning to social media and researching articles from more established media sources and the platforms themselves.

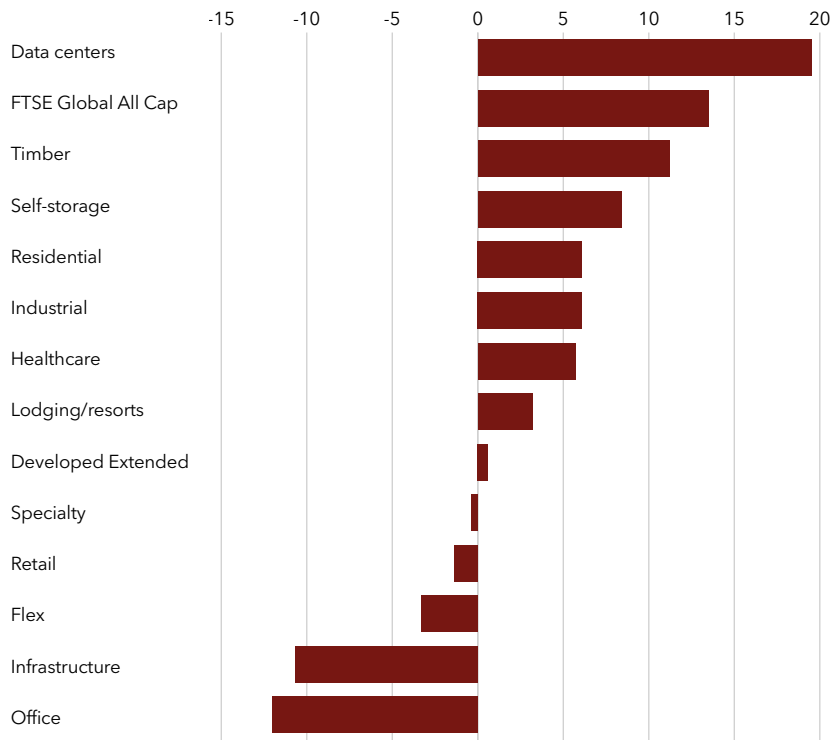
RedSwan, CrowdStreet and Yieldstreet, for example, have educational tabs on their online platforms explaining the process and addressing frequently asked questions, in addition to research articles. Crowdfunding platforms are usually required to offer investors education materials to help them understand the investments and risks, according to the US Internal Revenue Service.

“Despite fragmented ownership opportunities, real estate is still a complex asset class,” Trzciński says. “While online real estate investments are generally more liquid than physical ownership, they are not ‘one size fits all’ and have their challenges, such as the disconnect between investors and the deal sponsor.”

Plus, first-time investors need to know about the importance of location, property type, cyclical, tax structuring and the misconception that real estate has bond-like stability. On a global basis, data centers, industrial properties and self-storage facilities have been the strongest performing sectors in 2023, according to analysis by the National Association of REITs, while office and infrastructure sectors have lagged this year. As with any investment, the real estate market certainly has its risks.

Real estate is not a very attractive sector for day traders or investors looking for quick returns. However, the commercial real estate market continues to see average annual returns in long-term investing that beats many traditional stocks. Average 20-year returns in commercial real estate outperform the S&P 500 index, at about 9.5 percent, while diversified real estate investments do a bit better at 10.6 percent. REITs perform the best, with an average 20-year annual return of 11.8 percent last year,

Global real estate performance varies widely by property sector (YTD returns, %)*



*Factset data as of June 30, 2023
Source: Nareit

showing why more and more retail investors are turning to real estate.

Education is key

Trzciński warns of biases toward selling investors on a particular investment. “To make informed decisions, potential investors have to do their own due diligence, understand associated risks, their personal controlling power, or the long-term nature of real estate investing.”

There are a variety of resources online that discuss the types of platforms available for investing in commercial real estate for the casual or inexperienced retail investor, but finding a single unbiased source can prove difficult and new investors should take a deeper look into investment choices and options before making any investment decision.

Education plays a pivotal role in real estate investing, serving as the cornerstone for success in a dynamic field. A

well-informed investor is equipped to navigate the complexities of property markets, understand financial implications and make strategic decisions. Knowledge of market trends, property valuation, and legal intricacies empowers investors to identify lucrative opportunities and mitigate risks.

Education also fosters a comprehensive understanding of real estate strategies, such as rental income or long-term appreciation. Investors can leverage this knowledge to develop personalized and effective investment plans aligned with their financial goals. Additionally, staying abreast of regulatory changes and industry updates is essential for compliance and informed decision-making.

Overall, a solid education in real estate investing and the various platforms available will provide the necessary tools for investors to build wealth, capitalize on opportunities and navigate the intricacies of the market with confidence. ■

Real estate investing was brought to the masses when President Eisenhower signed legislation establishing real estate investment trusts. For the first time, individuals could invest in lucrative commercial real estate sectors like they do in stocks, without directly owning or managing the properties involved. Today, the democratization of real estate investing is being driven by technology.

Proptech and fintech advancements are making it easier than ever to invest in real estate, but new opportunities come with additional complexity and new forms of risk that inexperienced investors may not be ready to handle. The ease of online platforms and crowdfunding can give a false security about the complexity, nuance and regulations inherent in real estate investing, leading some individuals to invest without fully understanding the market, potentially exposing themselves to financial losses if they do not know how to use the new tools.

Technology has emerged as a guiding light illuminating the way toward democratized real estate investing. With the advent of innovative technologies, doors are opening for a more inclusive investor community. Online platforms and investment apps provide users with comprehensive market insights, while crowdfunding platforms allow individuals to pool resources, and blockchain technology adds an extra layer of transparency and security. In this digital era, technology is a catalyst reshaping the landscape of real estate investment by inviting new participants to partake in the wealth-building potential of this traditionally exclusive realm.

Proptech firms see funding

The fractionalization of real estate ownership is a leading force behind real estate democratization, allowing individuals to own a piece of a property or portfolio. Instead of owning shares in



Navigating the digital frontier

Technology is lighting the path toward democratized real estate investing, writes Kyle Hagerty

a REIT that owns the assets, fractional ownership allows investors to directly own a portion of the property, giving investors more direct control during decision-making. While REITs offer higher liquidity, fractional ownership – enabled by online platforms like Fractional, Arrived and RoofStock – offers the potential for higher returns and higher risk.

Serious money is getting behind the platforms. Amazon mogul Jeff Bezos's personal investment company, Bezos Expeditions, is backing Arrived, which raised \$25 million in a recent Series A round. Roofstock also raised \$240 million at a \$1.9 billion valuation. Fundrise, a fractional ownership platform

with a focus on commercial real estate investing, reports 210,000 active investors and \$2.4 billion in assets under management.

Reducing the capital requirements for real estate investing does not reduce risk, though. While individual investors may have less money in the game, the same investment principles apply no matter the capital allocation. Due diligence first starts with researching the crowdfunding platforms' track record, regulatory compliance and reporting processes. Just because processes are easier thanks to advances in technology does not mean investors should take the risks associated any less seriously.

\$240m

Amount fintech start-up Roofstock raised for its shared rental home platform, at a valuation of \$1.9bn

210,000

Number of active investors reported by fractional real estate ownership platform Fundrise, with an AUM of \$2.4bn

Some platforms, like Cadre, are working to provide users with the information they need to better understand commercial real estate investing, offering educational resources to fill in the knowledge gaps of amateur investors.

“I founded Cadre to expand access to premier real estate investments. With a tax-advantaged structure, lower investment minimums and a strategy focused on delivering yield with lower volatility, our fund is positioned to [help] more investors achieve better financial futures than ever before,” says Ryan Williams, Cadre’s founder and executive chairman.

Crowdfunding investment can still be costly. Many fractional ownership platforms have a variety of fees that can eat into profits, but success is still possible.

Fractional ownership platform Arrived is reporting total returns ranging from -18-136 percent across 329 properties. Annualized rental income is far more moderate, ranging from 2-8 percent. It is important to note that of the 329 properties on the Arrived platform, 52 depreciated since being acquired.

Big data, bigger solutions

Distributed ledger technology is furthering democratization by breaking down barriers in real estate investing.

The transparency and security provided by blockchain ensures trust and accountability in property transactions. Leveling the commercial real estate investment playing field with blockchain technology and digital currencies allows a more diverse group of investors to participate in the real estate sector.

New property management software and related platforms are streamlining tasks such as rent collection, maintenance scheduling and tenant communication, giving investors the tools they need to automate the daily operations of their portfolios. Data analytics and reporting software provide real-time insights into property performance, occupancy rates and financial data, allowing investors to make more informed decisions. Instead of relying on REITs with built out operational teams, investors can seamlessly become operators themselves by integrating this technology.

Last year, over \$4 billion was invested into AI-powered proptech, according to research by global brokerage services firm JLL. AI was ranked among the top 3 technologies expected to have the greatest impact on real estate over the next three years, JLL’s 2023 *Global*

Real Estate Technology Survey found.

“The vast quantities of data generated throughout the digital revolution can now be harnessed and analyzed by AI to produce powerful insights that shape the future of real estate,” JLL chief technology officer Yao Morin says.

Worryingly, the report found that while AI is poised to transform real estate investment, few professionals fully understand the technology. AI-powered solutions are already being implemented across real estate sectors to help sort documents and standardize data across portfolios. Complex AI algorithms are used in price modeling and prediction for rents and investment forecasting. AI can even mine so-called Internet of Things data from on-site sensors for automated facility management.

Some say the use of AI may be working against the democratization of real estate investing in its current state. The human and technological resources needed to leverage AI are still incredibly expensive, requiring immense computing power and skilled professionals who are in high demand, making it primarily a tool for major players that can afford the costs.

Browser-based tools can help boost individual productivity, but harnessing the power of AI-based data analytics for investment management is still emerging and limited in application. Though there is great potential for transformation, further iterations of AI tools are needed to turn the technology into a force of democratization.

Innovations in fractional ownership and streamlined property management systems are giving individual investors tools to have more direct control over their investments. While blockchain technology and digital currencies are lowering traditional investment barriers, further development and accessibility of AI-powered tools are needed. Tools themselves, however efficacious, are a way to amplify investor knowledge and insight, not replace it. ■

“The vast quantities of data generated throughout the digital revolution can now be harnessed and analyzed by AI to produce powerful insights that shape the future of real estate”

YAO MORIN
JLL

Net-zero targets and asset sustainability reveal sharp regional differences



Expert analysis by **Chris Pyke**, chief innovation officer for GRESB

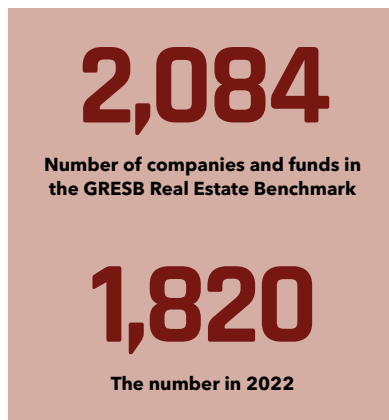
Europe and the Americas are moving at a different pace on sustainability action

Real estate is critical to achieving global climate goals. In 2023, the GRESB Real Estate Benchmark increased to 2,084 companies and funds across 15 sectors, up from 1,820 in 2022. These companies and funds own and manage more than 169,000 assets with an aggregate value of \$7.2 trillion.

The latest data from these companies and their assets reveals that while take-up of net-zero policies, commitments and targets is growing, there is significant variation between regions. The energy performance of assets considered ‘sustainable’ paints a similar picture of geographic difference.

Net-zero action growing

Recent years have seen an explosion of corporate commitments to decarbonization and net zero. GRESB data shows the real estate sector is in line with these trends. Most real estate companies have policies supporting net zero and decarbonization, often combined with explicit commitments. A smaller fraction of companies has time-bound, quantitative targets – for example, a commitment to achieve a



“Recent years have seen an explosion of corporate commitments to decarbonization and net zero”

specified level of energy efficiency by a set date.

However, the frequency of each of these elements – policies, commitments and targets – varies sharply between regions. Net-zero policies are reported by three-quarters of real estate firms in Europe; however, they are reported by less than half of property companies and funds in the Americas.

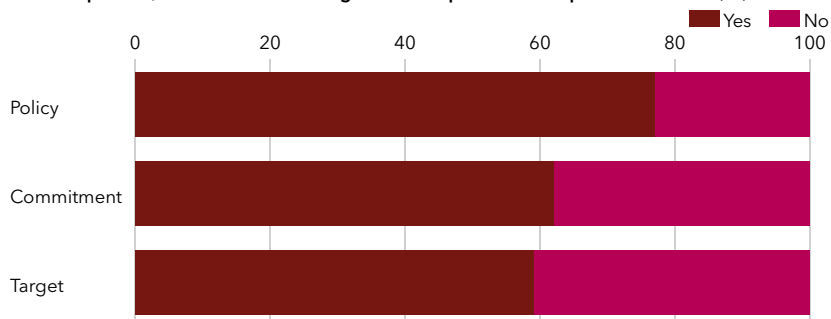
Energy performance varies

The 169,000 real estate assets in this year’s GRESB benchmark, up from 150,000 in 2022, reflect a broad increase in the amount of granular operational performance data available to owners and managers. This data provides basis for evaluating assets against new regulatory criteria, most notably thresholds in the European Union Sustainable Finance Taxonomy.

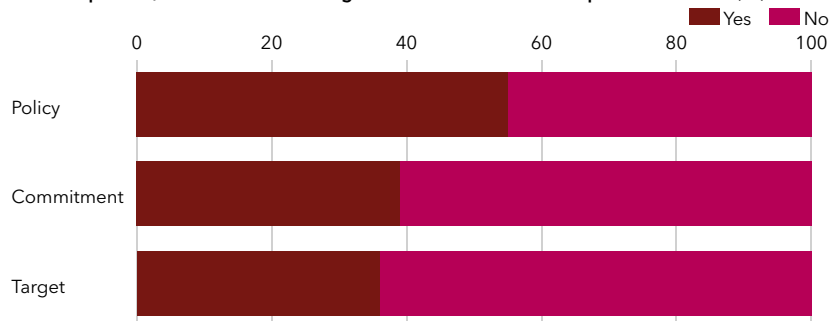
The EU regulation defines, in part, sustainable assets as those in the top 15 percent of the market (ie, those with lower energy intensity than the bottom 85 percent of the market). Until now, however, there has been no definitive dataset to establish this threshold.

GRESB’s 2023 data shows these important thresholds vary significantly across geographic regions. The top

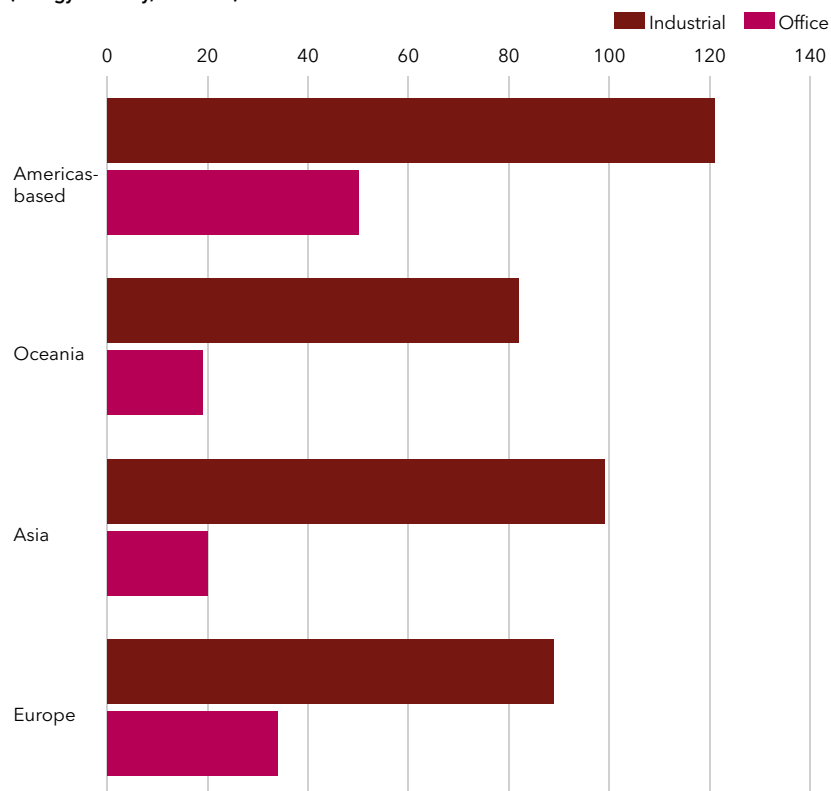
Net-zero policies, commitments and targets for Europe-based companies and funds (%)



Net-zero policies, commitments and targets for Americas-based companies and funds (%)



Variation in the energy use intensity of the top 15% of assets in each region, office vs industrial (Energy intensity, kWh/m2)



Source: GRESB

15 percent of asset performance varies across regions and between property types. Overall, the top 15 percent threshold (in kWh/m²) varies across major regions by 101 percent for industrial assets and 40 percent for office assets. The industrial category is especially diverse across all regions, and a substantial fraction is composed of low-energy-use-intensity warehouse and distribution properties.

The illustrated data shows just eight of more than 12,000 possible combinations of property type, electricity grid and climate zone across the 169,000 assets reported to GRESB. The results for these eight combinations illustrate the complexity of assessing the top 15 percent of performance across a global property portfolio. These performance levels are the product of the interaction of multiple factors, including construction standards, climate zones, service levels and utilization rates.

Balancing expectations

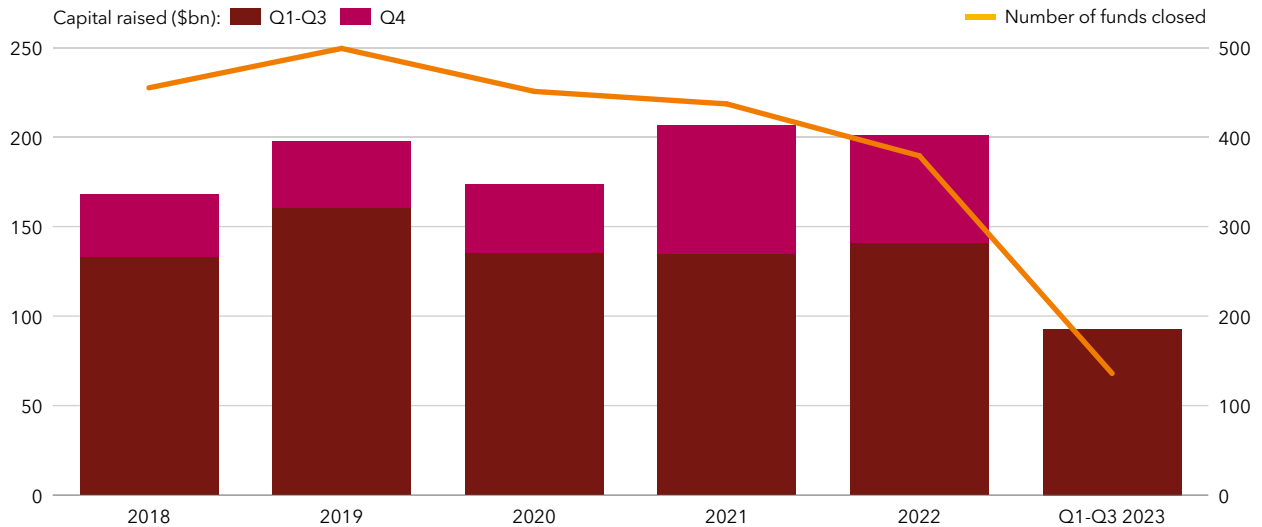
These findings can inform engagement between investors and managers on sustainability matters. Investors should be aware that many real estate companies have net-zero policies, commitments and targets, but expectations should be balanced by appreciation for variation between regions. The absence of policies, commitments and targets would be unusual in Europe. The presence of these same elements is a sign of relative leadership for Americas-based firms.

Investors should also recognize the characteristics of sustainable assets also vary. This is particularly true for new performance-based thresholds in EU regulation. Differences in building stock, climate and a myriad of factors mean that the absolute performance of energy-efficient assets varies significantly. Consequently, place-based, market-specific data will be necessary to understand asset quality and quantitatively analyze the sustainability of individual assets. ■

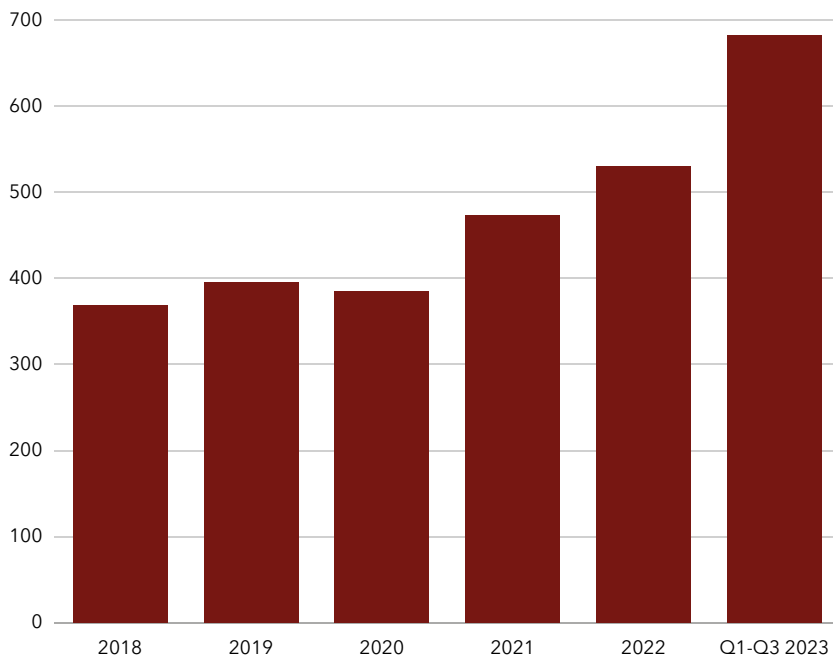
2023 set for a muted finish

With the end of the year in sight, total capital raising is yet to recover near recent annual levels, but some mega funds have been able to close amid the slowdown

At \$93bn, capital raised for closed-end private real estate funds in the first three quarters of the year is the lowest Q1-Q3 total in recent years



Conversely, with only 136 funds reaching a final close in the period, the average size of closed-end funds has climbed to \$682m (Average fund size, \$m)

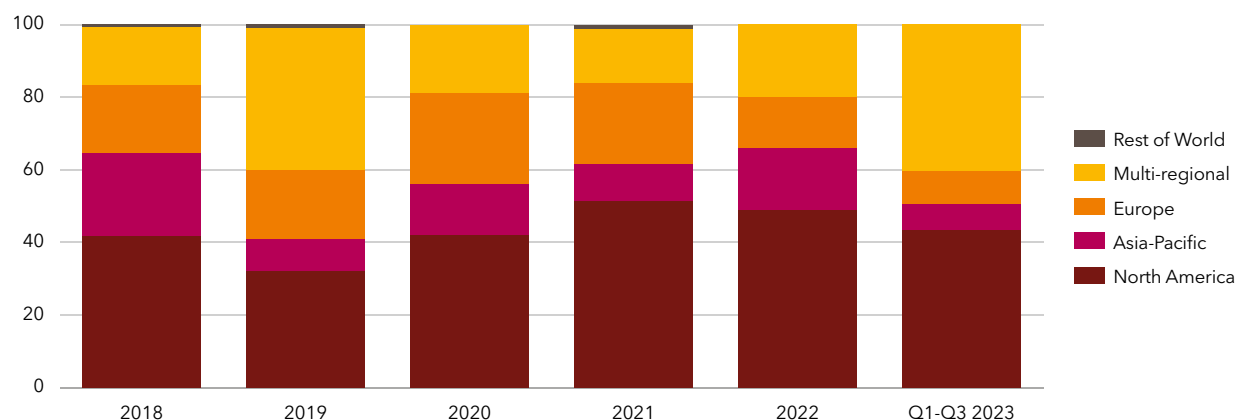


136
Total number of closed-end funds that reached a final close in Q3

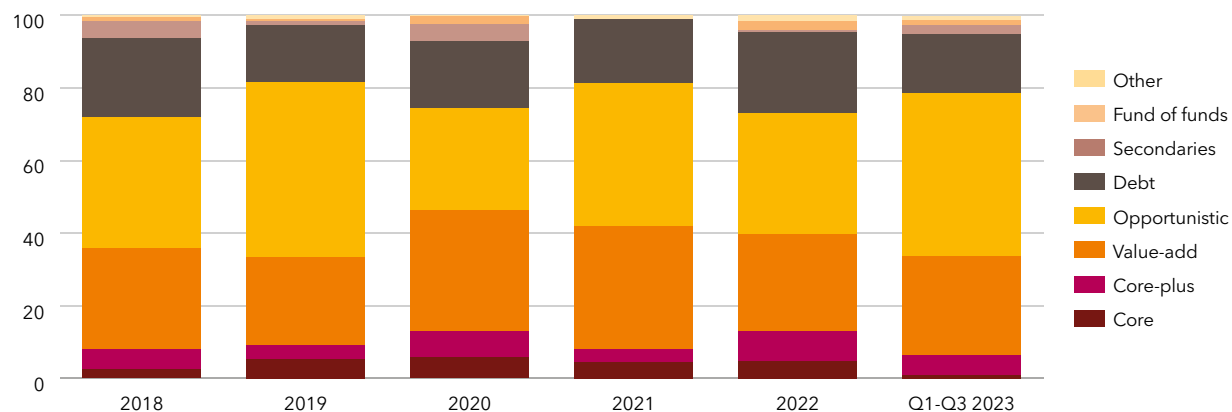
56%
Multifamily residential funds' share of capital raised for sector-specific closed-end funds through Q3

1%
Core funds' share of total capital raised for closed-end funds through Q3

Only 9% of capital raised so far this year for closed-end funds is exclusively targeting Europe, down significantly on previous years. Instead, multi-regional funds are responsible for a much larger share than usual (Capital raised by region focus, %)



The majority of capital raised by closed-end funds this year is aimed at making opportunistic investments - this is skewed by the sizable closure of Blackstone Real Estate Partners X (Capital raised by sector focus, %)



Blackstone is responsible for around a third of capital raised so far this year, through its \$30bn closure of BREP X in April (10 largest funds closed)

Fund	Manager	Target (\$bn)	Fund size (\$bn)	Region focus	Strategy	Sector focus
Blackstone Real Estate Partners X	Blackstone	25.0	30.4	Multi-regional	Opportunistic	Diversified
EQT Exeter Industrial Value Fund VI	EQT Exeter	4.0	4.9	North America	Value-add	Industrial
NREP Nordic Strategies Fund V	Nrep	3.0	4.1	Europe	Value-add	Healthcare, industrial, multifamily/residential, office
PIMCO Commercial Real Estate Debt Fund II	PIMCO	0.0	3.0	North America	Debt	Diversified
Bridge Multifamily Fund V	Bridge Investment Group	2.0	2.3	North America	Value-add	Multifamily/residential
Artemis Real Estate Partners Fund IV	Artemis Real Estate Partners	1.5	2.2	North America	Value-add	Healthcare, hospitality, industrial, multifamily/residential, office, retail
Gateway Real Estate Fund VII	Gaw Capital Partners	2.5	2.0	Asia-Pacific	Opportunistic	Diversified, healthcare, hospitality, industrial, office, retail
Invesco U.S. Real Estate Fund VI	Invesco	1.3	2.0	North America	Value-add	Industrial, multifamily/residential, office, retail, other
PAG Real Estate Partners III	PAG	2.5	1.8	Asia-Pacific	Value-add	Multifamily/residential, office
Madison International Real Estate Liquidity Fund VIII	Madison International Realty	1.5	1.7	Multi-regional	Secondaries	Diversified

Source for all data: PERE

Argyle House on Lady Lawson Street is considered a landmark building in Edinburgh's city center – but for the wrong reasons. Situated in the shadows of the historic Edinburgh Castle, which towers over the city from atop an extinct volcano, the 11-story office block has been named among the city's "ugliest buildings" by local media, an "eyesore" in a city famed for its grand and elegant architecture, **writes Charlotte D'Souza.**

PGIM Real Estate, however, has a different view of the asset. In late October, the real estate investment management business of US insurer Prudential Financial purchased the building from fellow US manager Kennedy Wilson for a reported £38 million (\$47 million; €44 million). In a statement, PGIM Real Estate said the asset has "fantastic long-term potential for redevelopment and regeneration" and praised the building's proximity to both key tourist attractions and the University of Edinburgh.

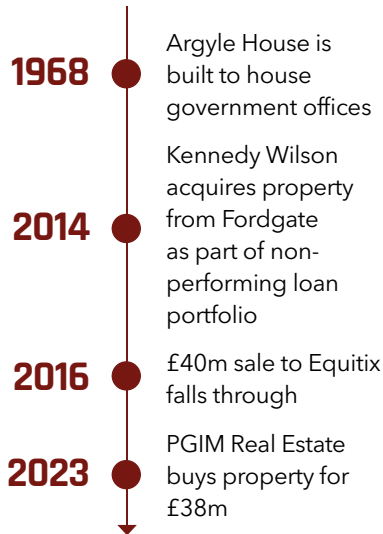
Beverly Hills-based Kennedy Wilson, which acquired Argyle House opportunistically as part of a non-performing loan portfolio from UK group Fordgate in 2014, said it had reached the end of its business plan with the asset. It is not known how much Kennedy Wilson paid for the property. Reports from the summer of 2016 – around the time the UK voted to leave the European Union – reveal the building was poised to be sold for £40 million, at a yield of around 5 percent, to UK infrastructure investor Equitix, but the deal fell through.

With 220,000 square feet of space, the office block is currently fully let to the UK government, and offers its new owner 10 years of rental income. Previous tenants have included tech incubator CodeBase and the IT department of

Argyle House A makeover for Edinburgh's 'ugliest building'



Source: FTI Consulting



the University of Edinburgh, among other businesses and local and national government offices.

Still standing

Argyle House has withstood multiple demolition and redevelopment proposals since it was built in the post-modern, brutalist style in

1968 by architects Michael Laird and Partners. According to the property brochure, it has an Energy Performance Certificate rating of D.

The building was also used in the 2021 UK television drama *Crime* – based on the novel of the same name by *Trainspotting* author Irvine Welsh – as the fictional headquarters of Edinburgh police.

While Argyle House's architectural style may not be to everybody's taste, New Jersey-based PGIM praised the "strong underlying fundamentals" and "cultural heritage" of Edinburgh's city center in its announcement of the acquisition. Its location in the city's West Port area, representing a bridge between Edinburgh's Old Town and the Financial Exchange District, is also an attraction, not to mention its proximity to the railway stations of Waverley and Haymarket.

If the walls of Argyle House could talk, they would repeat the age-old refrain in property lore: "location, location, location." ■

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