Juniper Square

Technology helps managers and investors efficiently navigate market dislocation

Chase McWhorter, Institutional Real Estate, Inc.'s managing director, real estate and infrastructure, recently spoke with **Brandon Sedloff,** managing director and senior vice president for Juniper Square. Following is an excerpt of that conversation.

What can managers do now to prepare for any opportunities that come from market dislocation?

In the current market, transaction volumes are at an all-time low. Transaction volumes started dropping significantly late last year – by our estimate, transaction volume across all property types has declined 44 percent since 2020. While this can be seen as a challenge for groups that think of their secret sauce as doing deals, this period of "wait and see" creates an opportunity because it provides time and space for these managers to focus on ensuring they have the right infrastructure and foundation to take advantage of whatever comes next.

We see that manifesting itself in a variety of ways in our clients' firms, including companies looking to find more operational efficiency. A number of firms have started to outsource services, including fund administration. By working with a third-party administrator, managers can reduce risk; ensure accurate, timely and transparent reporting; and streamline next year's tax and audit season. It also gives their internal teams the time to focus on more high-touch investor interactions and tasks.

A final example is technology. All sorts of technology can help drive efficiency – investor portals, CRMs [customer relationship management] and reporting tools all help streamline an investment manager's day. One of the benefits of technology is that it is not people-intensive, so it allows a business to scale up when the markets necessitate it, and it also allows a business to quickly scale down as the markets change. With all the information stored in a centralized system, every employee has access to the same data at any time, ensuring no institutional knowledge is lost. Technology builds flexibility into the operating model of a business, and this is particularly important because of the increased focus being placed on the operations and the value of the enterprise, and not just the returns of the fund or the returns of the deal.

What kinds of information are investors expecting right now? How can investment managers keep the lines of communication open and clear?

Investors want to know what is going on in their investments, and a lot of people don't realize investors often lack the level of detail and transparency one would expect them to have because every manager or GP uses a different system and might only send a few quarterly reports. That's not enough when things are fluctuating daily. Investors want to know what is working and what is not working, and why. Often, to talk about what is working and what is not working, you need to be able to take the investor down to the asset level, especially if you are in a closed-end fund. Reporting can sometimes still feel like a black box, which is not helpful when open and transparent communication with investors is critical. The ability to roll up asset-level performance to fund-level performance is essential. Also, because of the current market dislocation, certain sectors and markets are being disproportionately impacted, both to the upside and the downside. It would be very helpful for an investor to know what their exposure to suburban office is, for example, versus urban office, or for them to know what their exposure is to oil and gas companies versus financial-services companies.

No matter what your investor requirements are, one thing they share in common is the need to be able to have more granular information, which will only persist, going forward. In times of uncertainty, that need increases dramatically, and it leaves some managers kind of spinning. If you don't have the systems to be able to produce that kind of information, you are undercutting your investor experience.

Real estate has finally embraced digitization. What benefit is it bringing to real estate investment managers?

Digitization enables managers and their investors to unlock the power of their data to make better investment decisions. From a technology-specific perspective, there are two buckets: operational efficiency and accessibility. Operational-efficiency is about automating routine tasks that happen on a regular cadence without a ton of variation. Examples of this include creating and sending financial statements, such as capital-call notices, distribution notices and quarterly Pcap statements, along with the dissemination of K-1s during tax season. Using technology, you create more leverage for your team. Digitization has also set a new norm for accessibility where we see a convergence in the institutional and consumer worlds. Think about your brokerage account at a place such as Fidelity or Charles Schwab. Similar to how you can access your brokerage account details anytime or anywhere, investors expect to be able to access and contextualize the relationship with their manager. The expectation now is that managers provide not just documents but asset-level details, fund-performance information and transactional details. One of the things we are most excited about is the transformation that technology is enabling in fund administration. We call this "modern administration," which marries the operational benefits of technology with the benefits of an outsourced model for investment managers.

Second, technology and digitization are broadening access to private markets. There is no reason a high-net-worth investor shouldn't have the same information about and access to a private real estate investment, whether that is a fund or a deal, as they would to a public REIT or any public company they can invest in. Technology is allowing for the digitization of the relationship between the manager and the investor and creating an immutable system of record around how investors communicate, how they report and how they find each other. There is a tremendous amount of benefit there that will accrue to the manager over time, such as reducing the cost of managing or onboarding a new investor through digital or online subscriptions or creating new products for existing investors to make private markets more efficient and more accessible.

What should managers consider when outsourcing?

As a whole, real estate has been an industry that from its inception has outsourced. Managers realized early on they should focus on what they are good at, and the industry is driving change in what the present-day investment manager looks like. It is not uncommon, for example, to outsource property management or asset management, landscaping, valuation work, environmental studies, leasing or brokerage. Where we are seeing the most change is in fund accounting. Investors are realizing it is prudent to create some separation between the team that is responsible for producing investment returns and the teams responsible for verifying and calculating said returns. Investors are driving this shift, asking for additional oversight, for additional scrutiny and additional independence, so we are seeing a significant increase in demand for third-party fund administration.

When selecting a third-party fund administrator, it's critical to assess not just the quality of the team you meet during the courtship process, but also that firm's ability to recruit and retain the best teams going forward. Technology plays a major role here since the best people want to be supported with the best technology that will enable them to be more efficient, reduce the time spent on mundane tasks, and that will allow them to focus on things they want to focus on, such as accounting and reporting. The other major consideration a manager should consider is how easy it is to have ready access to their data. At the end of the day, a manager needs to have access to their own fund-performance data so they can quickly respond to investor requests and use that data to make better investment decisions. This means your fund administrator should use modern technology that enables internal teams, third-party providers and your investors to be able to access the information that is necessary, when it is needed. Juniper Square is the first, and perhaps the only, third-party fund administrator that is technology first. By bringing technology and services together, we are creating the new paradigm for "modern administration."

Does anyone think transparency will infringe on an information advantage they had when the market was more opaque?

When managers talk about the benefits of opacity, they are most often referring to this at the deal level. Their ability to find off-market deals doesn't change when we talk about more transparent markets. We are referring to the sharing of information between a manager and an investor. From the perspective of Juniper Square, our role is to provide the infrastructure, and it is up to each individual manager and their investors to determine what to report, when to report and how to report. We want to make that process easier once an agreement has been reached. We believe that, over time, more investors, both institutional and noninstitutional, will want to increase their allocation to private real estate. Those managers who have both the best returns and the ability to easily articulate those returns will benefit from the increased market participation. This is what makes an efficient market. The manager stands to win most when access is broadened.

Juniper Square just launched Market Pulse. Did anything in that data surprise you?

We released our inaugural *CRE Market Pulse* report. Juniper Square is a universal store of partnership information for more than 1,800 managers. Because of that, we have unparalleled ability to get a true, under-the-hood look at private commercial real estate market data. *Pulse* enables us to use that data in an aggregated and anonymous format, and to share key insights into transaction volumes, allocation by property type, and more. One trend we noted in this inaugural report is that the pandemic created divergences by property type. Private commercial real estate transaction volume, measured in gross purchase costs and assets acquired, had steadily increased from the decade before the pandemic, but between 2020 and 2022, we saw a wide divergence in transaction volume by property type. Excluding office and hotel, transaction volumes have actually grown by 4 percent, but if you add in office and hotel, transaction volumes declined by 44 percent. Multifamily transaction volume increased by 14 percent, but the percentage drop of office transactions was 87 percent. And 2022 was the second-highest year on record for the industrial sector transaction volume. The market often talks about commercial real estate with broad brush strokes, but really it is a story of sector by sector, with office being the laggard, and multifamily and industrial excelling, relative to other property sectors.

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ABOUT JUNIPER SQUARE

Juniper Square is the leader in partnership enablement for the private funds industry, offering a universal system for managers and their investors to seamlessly connect and communicate across every stage of their partnerships. Juniper Square empowers investment managers to accelerate fundraising, scale operations efficiently, and improve investor satisfaction. More than 1,800 managers rely on Juniper Square to manage more than 32,000 investment entities that span more than 500,000 investors and $700 billion in investor equity. Learn more at **JuniperSquare.com**

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