

# Real estate

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Adapting  
strategies

Private market  
opportunities

Investment  
trends

## Exploring non-fund investments in private real estate



# Adapting to uncertainty

Heightened market volatility and macro uncertainty present both risks and opportunities. Adverse economic cycles, market dynamics, and geopolitical shifts weigh down property values and rental income. When these risks and liquidity constraint persist, market dislocations often lead to compelling opportunities.

As the world's largest real estate multi-manager, we believe non-fund investments can offer nuanced and nimble strategies for portfolio optimization.

Non-fund investments can unlock strategic optionality. They enable sophisticated investors to capitalize on market dislocations and sharpshoot high-conviction opportunities best aligned with their existing portfolios – at low fees with a strong alignment of interest and greater LP control.

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# Non-fund investment 101

NFIs in private real estate often take place in the form of co-investments, club deals, and joint ventures. These forms of private market investment approaches can be more complex than traditional fund investments, but they allow investors to reimagine their investing strategies and unlock new avenues for portfolio growth. These approaches commonly combine the capital, expertise, and networks of both Limited Partner (LP) and General Partner (GP) counterparties to jointly pursue investments and share in the potential returns. NFIs can:

- Allow sophisticated investors to select high-conviction investment opportunities and curate strong portfolios;
- Provide access to pre-specified opportunities with lower fees and potentially better alignment of interest than some traditional fund structures and;
- Allow investors to customize their structure to best fit their needs while allowing LPs to hold more control over the strategy, governance, and liquidity.

In private real estate, co-investments are ownership interest in real estate equity or debt as an LP in a single investment or portfolio run by a GP. Co-investments are typically made alongside the fund of a GP and are mostly only made available to a smaller group of investors who are either invested in the fund or have a separate relationship and/or agreement with the GP. Co-investments typically involve comprehensive due diligence on asset-level underwriting and business plans and offer lower fees compared to traditional fund investments.

Private real estate club deals and joint ventures typically relate to a direct purchase or ownership interest of a property or portfolio without any connection to a fund. Club deals refer to a group of like-minded investors (2 or more) coming together to collectively acquire an asset or portfolio. Joint ventures are partnerships formed between LPs and GPs to pursue a specific investment or a strategy in an LP directed format. Partners in club deals and joint ventures bring in expertise and have varying level of control and decision-making rights. Club deals allow LPs to act together with complementary resources, expertise, and capital while typically investing at lower fee levels relative to a fund investment. Larger investors typically lead or co-lead the transactions and drive the designs of the structure and alignment of interest for these investments. GP-led secondaries often take form in club deals and joint ventures.

Often, NFIs arise as a consequence of high-quality assets being too large for one investor (or fund) to execute alone. Additionally, GP-led secondaries or recapitalizations often occur when managers are looking for follow-on strategies for portfolios they already own that may require additional time for business plan execution. Multi-manager platforms and well-connected LPs are well positioned to help GPs fill these capital voids and gain access to deal flow that is often not widely marketed.

Underwriting NFIs can be complex and requires due diligence more akin to direct investing. Traditional fund manager due diligence is the starting basis to determine GP strategy viability, track record, capabilities, and operational set-up. However, significant property level analysis will need to be overlayed across the subject property or portfolio. This process will require underwriting each individual asset in the NFI portfolio to support pricing, cash flows, return assumptions, and business plans. Additionally, an extra layer of property level due diligence may be required for various items such as environmental, regulatory, zoning, legal, and tax analysis.

# Potential benefits of including NFIs in a portfolio

## **Sharpshoot the best opportunities for your portfolio**

NFIs provide sharpshooting execution to enhance portfolios with high-conviction opportunities in a more concentrated and active format. Leading open architecture multi-manager platforms have a bird's eye view of hundreds of funds and thousands of properties to cherry pick the most attractive investment opportunities. NFIs can serve as a strategic tool to introduce targeted portfolio and asset exposures to regions or sectors that are typically less accessible through traditional fund investments. Many attractive niche sectors are difficult to access in a fund format and may require an NFI to achieve optimal exposure.

## **Lower fees & better alignment**

NFIs often have significantly reduced fees compared to traditional fund investments allowing a more cost-effective way to access private real estate. In addition, NFI fee structures are often negotiated to allow for more LP friendly economic terms and protections. Additionally, in club formats and joint ventures, GPs may be required to make a significant investment to the program ensuring proper alignment.

## **Greater LP controls**

NFIs often provide investors with greater influence over investment decisions compared to traditional funds, particularly when it comes to the timing of asset sales and liquidity events. For club deals and joint ventures, it is often the case that LPs will set up strategy guardrails and negotiate significant decision-making rights on key operational matters, financing, and exit strategies. In co-investment structures, governance frameworks are generally aligned with the fund the LP is investing alongside, however, there may be enhancements including predefined timelines and performance-based exit triggers.

## **Pipeline curation**

By utilizing extensive GP networks and the full spectrum of private market investment approaches, LPs can evaluate opportunities from a larger pipeline than any single direct GP. Established multi-manager platforms and large LPs often have proprietary or exclusive deal flow that may not be available to the broader market. Securing deal flow via existing relationships is often critical to ensuring a strong pipeline and to avoid only seeing widely marketed opportunities.

## **Flexibility in market cycles**

Guided by research and local knowledge, sophisticated investors can adjust exposure based on market conditions rather than being locked into rigid long-term fund structures. During market downturns, co-investment and recapitalizations, and other secondaries opportunities may arise at discounted valuations and preferred terms, improving long-term expected returns.

Faster deployment of capital: Open-architecture platforms with full internal investing support may provide a wider pipeline of deals, helping sophisticated investors deploy capital more efficiently rather than waiting for GP-led fundraising cycles. This is especially beneficial for investors seeking to move quickly into the market and/or meet non-core or sector-specific allocation targets in private markets.

## **Structure customization**

While some co-investment structures are closely aligned with an adjacent fund, many NFI investments can be customized to ensure a structure that is well suited for the LP. Tailoring a joint venture and club deal may include unique liquidity features to allow LPs to minimize tax leakage and simplify realization proceeds. There may also be special tax vehicles used to properly shelter certain types of income expected from the investment. Legal and regulatory requirements from the LP can also be included in the initial structure set up. Even ESG stipulations and benefits can be extracted in certain circumstances when the property and structure are aligned.



# Final thoughts

NFIs can be essential elements for portfolios of sophisticated investors who seek strong deal access, thematic diversification, enhanced LP economics, and greater control and alignment of interests.

By utilizing access to leading GPs across a wide range of investment formats in a flexible investment framework, investors may better position portfolios to strengthen returns, mitigate risks, and optimize their exposure.





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