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'Fundraising is Easy': Real Estate Rolls On

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Real estate fund managers have seen capital keep flowing in this year both through institutional investors and increasingly through expanding sales to advisors and their high-net-worth clients. And some firms are planning new investments in technology to further boost their prospects in retail markets, said panelists at an IMN conference in New York last week.

Despite a now-ingrained, market-wide consensus that the real estate cycle has run long, a topic discussed on many panels at IMN's real estate CFO and COO forum, fundraising appears to not have taken a corresponding pause, panelists said.

"Fundraising is easy right now," said David Blatt, CEO at CapStack Partners, an investment bank and marketing firm. "Historically, it's been institutions that have flooded the market with capital, and certainly hundreds of billions have come domestically and abroad to do that."

Even smaller managers have had recent success. Pantzer Properties, for example, has expanded from a friends-and-family capital raising model in its two earlier funds to target institutions with a third party marketer for its third vehicle that, at \$300 million, doubled its previous fund size, said panelist Robert Weiner, CFO at the firm. The manager, which invests in multi-family properties in the Mid-Atlantic states, landed several institutions as clients, including a large endowment, he said.

"It is a full effort," to market to institutions, but the firm succeeded, Weiner said.

Institutional investors, if anything, are tightening relationships with real estate managers through separate account or co-investing arrangements, in some cases around themes that can later lead to broader funds, said panelist Sujana Patel, co-head of U.S. investment management at Colony NorthStar, a \$56 billion real estate fund manager.

"Sometimes we'll go to key relationships and kind of give them early access into a large portfolio or into a new strategy and then raise third party capital around that later," he said, noting the firm used that recipe for a recent industrial real estate strategy that is now an open end fund for Colony NorthStar. "We're seeing good demand for that fund."

Institutional dollars also continue to flow in from overseas investors, said panelist George Dabney, CFO in the hotel properties group at Brookfield Asset Management. More of that capital now goes into co-investment arrangements for investors on large-scale deals in the multi-billion dollar range, he said.

“We’ll call up the folks that are overseas and offer them a lower asset management [fee], perhaps a lower carried interest, and allow them to come in and double down into some of the attractive deals that we’re sourcing,” he said. “And we’re doing this more often than not on some of the larger transactions.”

Perhaps the busiest corner of the market is in the high-net-worth investor category, where more firms appear to be seeking ways to establish relationships with advisors and create “institutional” structures to pursue fundraising more widely for private real estate, Blatt said.

“From what we’re seeing, there’s an evolution in the fundraising process,” he said. “[G]roups that have platforms, that have pipeline, that have portfolio are looking to move more institutional... [to] a platform that will make it more conducive to raise capital from all types of investors – especially individuals – as the interest in alternatives... continues to grow.”

apstack has pursued such options, including a clearing firm relationship that allows it to create private real estate vehicles that can be sold at the wirehouse brokerages, he said.

“It’s just this increased capacity, appetite for the real estate asset class that is making it very easy,” Blatt said. “The institutions have always been there. Where we’ve been focusing more of our attention and our efforts is figuring out the best way to access a lot more of the retail investor capital, because there’s a lot of it, and it’s just a matter of how to structure to best attract that capital.”

Using better systems and structures is important, because even the retail market has shaped a more refined approach toward investing in real estate funds, Blatt said.

“Investors are getting sophisticated,” he said. “They work with advisors that are sophisticated. And it’s causing a lot of firms to conform their structures to things that look like vehicles in which those investor types have invested outside the real estate space.”

More private real estate fund managers aiming at the retail marketplace also are embracing technology to manage sales and client relationships, said panelist Darren Powderly, co-founder at CrowdStreet. The firm, which runs a platform and customizable software systems that manage private fund capital raising and investor transactions for managers, has seen interest in such technology expand, in part because of success that Blackstone Group has had with a \$5 billion real estate investment trust (REIT) it launched last year.

“[Blackstone] is killing it right now,” he said. “[T]hey’re doing it in a very tech-savvy way. They’re mopping it up – they’re owning the industry, and others are taking note of it.”

That trend will only grow, Powderly said.

“Looking out to ’18, that’s what we see,” he said. “[W]e want to follow in the footsteps of a Blackstone, [which] has made a huge investment in technology... We think that’s going to continue no matter where the market winds shift.”

Colony NorthStar also has plans to continue pursuing retail market fundraising for its real estate business, bolstering its presence in a channel where it has raised more than \$4 billion, Patel said. But it may adjust strategy as the REIT and registered alts fund markets have gone through significant regulatory and sales model changes in the past two years.

“That industry is going through shifts,” he said. “And we’re evolving the structure of our products to be in synch with where that business is headed.”