Greater product choice as roles for investors and fund managers blur

The non-listed real estate industry has experienced a coming of age since the global financial crisis (GFC) with many investors evolving their participation in hybrid investor/manager roles, and more professional investment managers offering a greater range of products.

Since the GFC, some investors, capitalising on their experience in the markets, have evolved to develop their own platforms, and now bring in third party capital to invest alongside them. The scale and type of this third party capital varies across investors, which has led to a blurring of the spectrum of industry participants from investors at one end to investment managers at the other.

**New investor models develop**

Figure one shows that in between the two traditional players are a number of investor-hybrid models, which include large institutional investors that have permitted small third party investors to co-invest; investors that have sought third party capital to co-invest in their proprietary funds; and others that take a strategic decision to grow and extend their geographic reach by diluting some of their existing funds with third party capital.

Despite this evolution, the balance of investors has changed little since the GFC, with a limited number of large investors continuing to play a leadership role, with others content to follow their lead. This could be a future challenge to the industry as smaller investors, which make up a large share of the market, may have different views and issues than larger investors.

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**Figure 1: The new spectrum of non-listed players**

- **Investor:** Solely invests proprietary capital or that of sole client.
- **Investor Hybrid I:** Facilitates small third parties to co-invest, with purity of capital source and objectives a pre-requisite.
- **Investor Hybrid II:** Invites third party capital to invest in selected proprietary funds for diversification benefits and/or enhance capital efficiency.
- **Investor Hybrid III:** Investment Manager with proprietary capital.
- **Investment Manager:** Manages third-party capital.

These descriptions do not represent INREV member definitions.
When it comes to different types of products, large investors have a strong preference for exercising greater control post-GFC, but there is divergence as to how this is achieved. Modes of investing vary considerably and reflect investors' internal capabilities, experiences, preferences regarding real estate investment strategies and the maturity profile of the institutional capital they are deploying. Investors that want to retain direct control over investment decision making and risk management require a large, dedicated internal platform.

Growth in range of products
The range of non-listed real estate products has also expanded and some large investors show a stronger preference for separate accounts, club deals and JVs than for commingled funds, particularly as strategies move up the risk curve.

Other types of investors such as family offices and high net worth individuals still represent a low proportion of the total volume of capital invested in non-listed real estate vehicles but have increased their activity in recent years. However, the tailoring of products for institutional investors may be limiting the choice and raising the barriers to entry for other investor types. It also presents an opportunity to create and tailor products for such alternative sources of capital.

For investment managers, those with strong professional management proved to have resilient business models during and after the GFC. This professionalism has increased with the positive impact of the Alternative Investment Fund Managers Director (AIFMD), which, in addition to providing common rules for authorisation and supervision, requires the adoption of strong governance policies and detailed reporting requirements to ensure adherence to fiduciary duty.

Emergence of investment platforms and large open end core funds
Most large investment manager platforms have grown even larger and now offer a range of co-mingled investment products by style, including open end and closed end products. The growth in size of core, open end funds within Europe has also been notable. Those in Europe are still dwarfed in comparison to the size of the US open diversified core equity (ODCE) funds, but as they continue to grow, investors consider them to offer similar attributes.

The Coming of Age paper sets out the evolution of the industry from 2004 to the present, evaluating the catalysts driving the re-birth, renewal and coming of age of the industry and the changes participants and products in non-listed real estate have experienced during this period.

The full report is available to members at inrev.org/research.