Privcap/Report

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Privcap Game Change:

REAL ESTATE 2016

A recap of Privcap's second-annual real estate conference

Privcap/Report

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About Privcap
Privcap is a digital media company that produces events and thought-leadership content for the global private capital markets. Privcap offers communications services to market participants.

www.privcap.com

Matt Malone
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We're All Winners

Did you hear what happened in Chicago on November 2? That's right—we held our second-annual institutional real estate investing conference at The University of Chicago's Gleacher Center.

That must have been why the whole city was cheering.

In truth, we'd like to think that our event had something to do with the Cubs' first World Series win in 108 years. Maybe not, but we hope we've started a streak of our own. Our event's second year saw a world-class lineup of real estate investors large and small, all trying to make sense of a rapidly changing investment environment.

Our expert speakers covered it all—interest rates and demographic trends, secondaries and the future of cities. We learned, networked, and capped the day off with burgers and Basil Hayden bourbon. And a stirring victory.

We look forward to seeing everyone next year. We're aiming for another big win.

Enjoy the report,

Matthew Malone

In This Report

What You Missed at

Privcap Game Change:

REAL ESTATE 2016

A roundup of notable thoughts from the event's panels

Our second-annual private equity real estate conference, Game Change: Real Estate, was a great success. The event, held November 2nd at the University of Chicago's Gleacher Center, drew nearly 200 delegates, including general partners, fund-of-funds, institutional investors, consultants, fund administrators, and others.

The day featured a series of panels, one-on-one interviews and breakout sessions to discuss how private real estate is reacting to changes in how people view their offices and homes, as well as weighing in on how strategies are being adjusted at this point in the real estate cycle amid record-low interest rates.

Among the topics: where there's light amid the doom and gloom of the real estate sector today; what the private markets can learn from real estate investment trusts; the changing face of the investor-manager relationship; and a "smackdown" discussion on the differences—and similarities—of millennials and baby boomer generations, and how they view real estate differently.

At the conclusion of the event, it was clear that those in real estate need to stay on top of what both investors and consumers want and adapt accordingly.

Here's what some of the expert panelists had to say:

From the panel
"Shining a Light Into Real Estate's Cloudy Outlook"

"You have to project out in real estate. Unlike in the stock market, you can't sell the next day."

– **Chris Niehaus**, a partner and head of U.S. business at GreenOak, on not having bought office property in NYC in two-and-a-half years.

"Don't look at LTV level. You have to go down a layer and look at the structure and kind of assets."

– **Seth Singerman**, president and managing principal at Singerman Real Estate on how not to be overleveraged in today's market.

"We still need to look at what's going on in Europe, what's going on in Japan. That's ultimately going to affect the U.S."

– **Caroline McBride**, Co-founder and CIO of Forum Partners, on watching deflation in other countries.

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From the panel **"What the Private Market Can Learn from REITs"**

"Given the FIRPTA law change, foreign pensions can invest in U.S. real estate. This provides headwinds for the U.S. REIT sector."

– Michael Yang, a research consultant for real assets at NEPC.

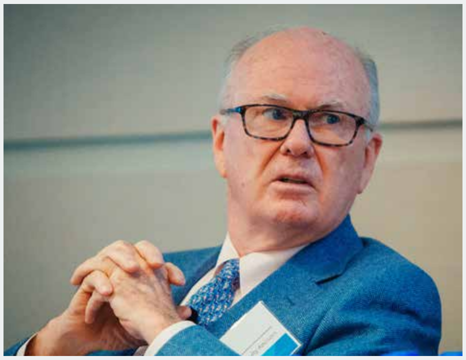
"In the last year or so, we have been out of the market. The pricing is too difficult."

– Adriana de Alcantara, senior director and head of separate accounts at TH Real Estate.

"As the Fed starts to raise interest rates, we could start to see cap rate expansion... That could be fairly dramatic."

– Paul Vosper, executive vice president of PIMCO.

From the panel **"Re-Engineering the Investor-Manager Relationship"**



"The CalPERS of the world are setting their own rules, setting their own fees, giving out money in half-billion, billion-dollar chunks. That gets peoples' attention."

– Ted Leary, founder of Crosswater Realty Advisors.

"If the LPs have a lot of leverage in this market, no one told me that."

– Drew Ierardi, managing director of Exelon Corporation.

"It's really exciting when CalPERS is giving you a big huge check, but you need to think about all the hands that are feeding you."

– Larissa Herczeg, managing partner and CIO-seeding and strategic capital at Oak Street Real Estate Capital.

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From the panel **"Generational Smackdown: Millennials vs. Baby Boomers"**

"One thing we can easily lose sight of—only a small amount of office space is actually in a downtown. Most of that is in New York. We continue to live in a country that is very suburban."

– **Denise Olsen**, senior managing director and investment committee member at GEM Realty Capital about the myth that all office space is in urban downtowns to cater to millennials.

"Another big change is how people want to be communicated with, whether it's a portal or instant communication. People want to, while they're there, feel like they're a part of something."

– **Daniel Roehl**, SVP of enterprise sales at RealPage, on how building tenants—whether office or residential—want to communicate with building management.

"If you don't provide something other than four walls, you're going to be stuck."

– **Neville Rhone**, co-founder and managing partner at Arc Capital Partners, talking about the necessity of building amenities.

The Right Plays for the Fourth Industrial Revolution

In a world where people expect delivery of online purchase within days—or hours—distribution centers are needed in urban areas. And with autonomous cars and trucks becoming reality, real estate needs to adapt

According to the World Economic Forum, a fourth industrial revolution is upon us. Moving beyond the third revolution begun in 1969—electronics, IT and automated production—we're now in the era of "cyber-physical systems."

What does that mean for real estate? As Kevin Traenkle, executive director and chief investment officer at Colony Capital said in a keynote interview, the need for "light industrial" assets could require a re-thinking of where industrial buildings are located. Evolving technology like autonomous cars could change the future of parking garages.

"When we're talking about a fourth industrial revolution, or potentially being on the verge or brink of a fourth industrial revolution, we take notice and try and think about how this could impact society in general, but real estate specifically," said Traenkle.

The difference between "regular" and "light" industrial is the footprint; light industrial is typically less than 200,000 square feet. Like regular industrial, the smaller spaces typically house multiple local and regional tenants. The facilities are usually located in inner cities closer to population centers, infill locations that are the product of the rededication of vacant or underused parcels of land in urban areas.

"It particularly is perfect for what's going on with e-commerce and some of the new technologies, because it's providing that last-mile solution to the delivery chain of some of these technological changes," Traenkle said.

It's an opportune time for investing in the industrial and light industrial sectors, he said, noting that "industrial is outperforming everything, including multi-family. Across the United States, on average, industrial assets are around 94 percent occupied. And last year rents grew between 4 percent and 5 percent."

Kevin Traenkle
Executive Director, CIO,
Colony Capital

Light industrial is doing even better, with the average occupancy of light industrial facilities at about 96 percent in the U.S., with rents growing at 6.5 percent.

"Why is it in demand right now? It's largely because, on the margin, light industrial is having a new user," said Traenkle. "And that new user is coming from e-commerce."

Those e-commerce tenants need three times the amount of space compared to a regular retail tenant. They're carrying more inventory items, in larger quantities, than a regular retailer, and they need more space to pick, pack, and ship those items, and to handle returns, Traenkle said.

The advent of Amazon Prime and Amazon Now has also shifted expectations about shipping times. "You could order a bunch of stuff, and that stuff will be sitting in your lap in two hours," Traenkle said. "So as the delivery times and the expectations of the consumer are ever shrinking, we need more and more of these light industrial facilities that are in these infill locations in order to allow e-commerce to happen."

Another sticking point with existing light industrial or industrial facilities is the ability to keep pace with the technological advances such as robotics. "The existing facilities are going to have to be retrofitted," he said. "A lot of these new technologies are going to cater to being able to be that last-mile solution provider to e-commerce, and the industry is going to get pretty sophisticated." ■

Peter Sotoloff
Managing Partner & CIO,
Mack Real Estate Credit
Strategies

Jeff Friedman
Co-founder,
Mesa West Capital

Michael Schwartz
Consulting Lead,
RSM US LLP

Will Sidelined CMBS Create a Funding Gap?

A once-important source of debt financing has declined, spelling opportunity for certain specialist lenders

- **'RISK-RETENTION' RULES HAVE CHANGED THE MARKET**
  The old days of bundling commercial real estate loans, structuring them and selling them off entirely are coming to an end on Dec. 24. New "risk-retention" rules require that CMBS issuers must retain at least 5 percent of the value of these structured products for five years.

- **SECOND-TIER BORROWERS HAVE A FUNDING GAP**
  Smaller commercial borrowers in second-tier and tertiary cities, like strip malls, used to rely on the CMBS market for financing, and now face less availability of capital. Specialist private debt groups like Mesa and Mack are stepping in to fill some of the gaps.

- **ALL EYES ON BNK1**
  In August, a joint effort among Wells Fargo, Bank of America, and Morgan Stanley produced the first risk-retention-compliant CMBS, the $870.8M WFCM 2016-BNK1. Strong investor interest suggests that many more of these new structures are on the way.

GP Operations in the Age of SEC Compliance

A discussion of how being a private fund manager has become more expensive, complicated and fraught with risk. Are you ready?

- **NOT REGISTERED YET? YOU'RE PROBABLY LOSING BUSINESS**
  If investment firms want to compete on a global scale, they most certainly need to be registered as investment advisors with the SEC. Not being registered raises compliance questions by foreign investors that can delay commitments; even worse is the untold amount of business lost to firms that are listed by the SEC.

- **IT'S ALL ABOUT FEES**
  While compliance practices should encompass a 360-degree view of the investment firm's activities, the one component that typically gets managers into hot water is accounting for all fees charged to limited partners—a top priority for SEC monitors.

- **MORE ENFORCEMENT ACTIONS ARE COMING**
  Just because the SEC has seemed to be slow in turning its attention to real estate investors, do not be fooled. The agency has already indicated looking into the asset class is a "pet project," and that alone should convince experienced investors real estate has the full attention of the watchdog.

Lindsey Simon
Founder,
Simon Compliance

Tom Feldstein
Chief Operating Officer &
General Counsel,
GTIS

Doug Cornelius
Chief Compliance Officer,
Beacon Capital Partners

Tom Green
Partner, Assurance Lead,
Great Lake Region Lead,
RSM US LLP

The Day in Photos

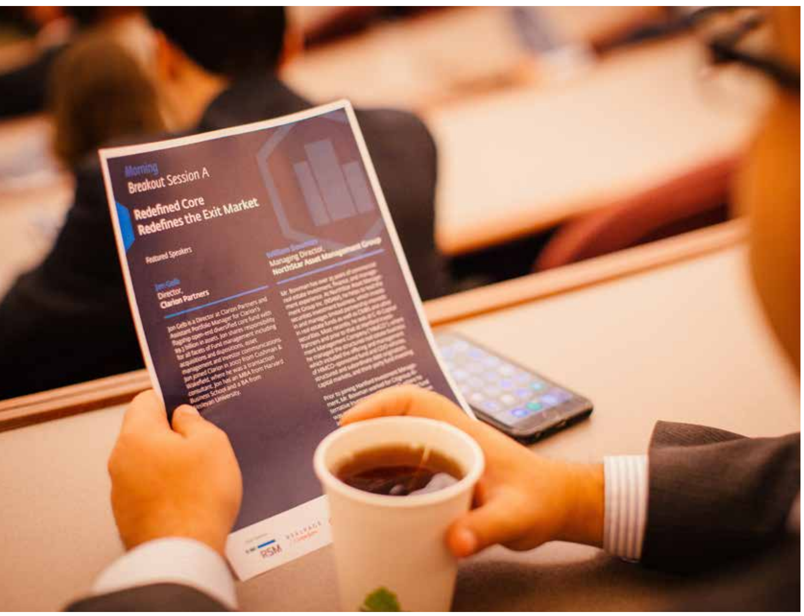
Images from Privcap's second-annual real estate conference

▲ *Zoe Hughes of Shelter Rock Capital Advisors asks questions during a panel.*

▲ *Gunnar Branson of NAREIM moderates the Generational Smackdown panel.*

▲ *Michael Schwartz of RSM heads to a session.*

▲ *Privcap's David Snow talks to panelists.*



How Real Estate GPs Can Handle Increasing SEC Scrutiny

The SEC is turning its attention to the real estate sector, looking at the reporting of investment-level and fund-level fees and expenses. Experts discuss what compliance and operational challenges are facing real estate GPs, what best practices are being adopted in the industry, and how LPs view the fee-reporting issue.

Lindsey Simon
Founder & CEO,
Simon Compliance

Tom Green
Audit Lead of the National
Real Estate Practice,
RSM US LLP

David Snow, Privcap: Why is it that the SEC and increasingly sophisticated institutional investors are so focused on fees and expenses?

Lindsey Simon, Simon Compliance: What's interesting is that disclosure has changed in recent years so that LPAs [limited partner agreements] are now becoming more detailed in terms of what that disclosure is for fees and expenses. And a lot of these documents are supposed to be lived with, for anywhere from seven to 10 years. The SEC, when they started registering private funds—especially real estate and private equity funds—in 2012, was not really understanding the difference in the type of disclosures. And so now that they understand private equity and real estate so well, I think that they're seeing a disconnect between what the documents are showing and then what the operations are and what is actually being charged.

Tom Green, RSM: The one thing that we've seen with these real estate structures is that they've gotten much larger and a lot more complex. So the opportunity for unintentional conflicts of interest to occur through related-party arrangements—whether it's asset-management fees or other fees at the joint venture level—has become heightened.

What evidence is there that the SEC is really taking this seriously or that very influential institutional investors are taking this seriously?

Simon: There have been three big cases [recently] that involve fees and expenses at private equity firms: Apollo, WL Ross, and First Reserve. Just looking at the SEC's enforcement actions or administrative proceedings is also a good place to see where the SEC is heading with this.

Lindsey and Tom, you have private equity and real estate fund clients. Are there any misperceptions among these managers about how they arrive at a sense of compliance and a clean bill of health?

Green: In general, one of the misperceptions is that if a fund is getting audited, that will include certain tests around fees and expenses confirming their accuracy. An audit is comprised of tests and procedures deemed necessary for the purpose of expressing an opinion on such financial statements taken as a whole. It does not include tests or procedures for the purpose of expressing an opinion on individual balances or amounts. Therefore, while there certainly will be audit procedures around fees and expenses

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as they relate to related parties and/ or they are shared or allocated across multiple entities, the audit itself will not confirm that the fees and expenses are totally correct.

Simon: When I ask my clients—mostly my new clients—if they've done any testing to review anywhere from 15 to 20 topics within the expense-allocation bucket, they often tell me that their auditors have signed off because their audit was an unqualified opinion, which, as Tom has just said, is not the same. So performing forensic testing on a regular basis on your expense allocations and your fee calculations is something that auditors love for you to do. But it's not something that they are doing as part of their audit.

Green: The other thing that should not be assumed is, if you've been recording and/or reporting and disclosing fees and expenses the same for many years, that you have no issues. It's really important to have some type of test regimen that is done on somelevel of frequency to make sure that fees and expenses conform with the documents that are in place.

Many private equity firms are operating from funds that have documentation that was put together 10 years ago. What challenges does that present because the expectations from the SEC and from investors have changed?

Green: We can observe over time how fund documents such as PPMs and operating agreements and other related-party agreements in a fund structure have advanced. The entire fund formation and reporting process has changed. And the parties that are participating are a lot more focused, educated, and accountable. As a result, professionals such as compliance consultants, attorneys, and accountants have been able to elevate the document to be a little bit tighter around fees, expenses, and other conflict-of-interest issues.

Simon: One of the things that some of my PE clients across the country are starting to do are additional supplemental schedules that break down some of the fees, because their documents might be 10 years old. And someone who's a CFO knows which expenses are generally booked as fund expenses. Also having the CFO involved in drafts of new fund-formation documents is important.

Lindsey, can you walk us through what a firm that does not have its ducks in a row might look like by way of fees and expenses?

Simon: You would maybe have vague offering documents. You would not have internal policies and procedure guides as to how you're going to allocate expenses. You wouldn't have a spreadsheet set up as to the different funds and their permissible calculation methodologies under the LPAs. You may or may not be calculating correctly, but then you also wouldn't be disclosing specific items—so, for example, in a financial-statement footnote having a related-party transaction footnote that has dollar amounts, or if you had a co-invest vehicle that received certain fees that you didn't offset.

There is a concept of fairness in allocation of expenses that is expected. What does that mean in practice?

Simon: There are some situations where you might have two funds investing in the same deal. It could be that you have another investment advisor that's investing—especially in real estate.

For sure, and that brings up a whole other topic about real estate firms—private equity firms don't generally have this— having the word "reasonable" and "market rate" or "market comps" interspersed throughout their documents. And that puts an actual obligation on you to find out what the market rates are, especially if you have a vertically integrated firm or if you're doing salary reimbursements.

What are some common themes of firms where a lesson has been learned and where it's clear what the pattern of thinking was that led them down the path to eventually get into trouble with the SEC?

Simon: Traditionally, firms that have been around longer have more of a history of living with documents that are vague. It's important to have buy-in from the top. The principals of your firm should know how important this is. The initiative in California is pretty relevant in terms of the disclosure that's going to be required for California pension funds investing in alternative managers. That's going to change disclosures

The mindset probably needs to change a little. I think there definitely has been a hesitation to disclose. The industry sort of is limping along to a little bit more disclosure. Hedge funds do a ton more disclosures. So it's just a matter of getting to that level, too.

Green: Especially if you're a newer fund or a startup fund, my advice would be to get in front of it at the very beginning, and surround yourself with good professionals and consultants and fund counsel, because it does become extremely complicated, and there's a lot at risk. There's reputational and personal risk. So it really is wise to make the investment in this compliance and reporting function. ■

Fundraising Disrupted: Foreign Capital and HNW Bundling

Fundraising remains robust for private real estate, but that doesn't mean tapping foreign and HNW capital is easy

- **FOREIGN CAPITAL IS ABUNDANT, BUT SOPHISTICATION VARIES**
  Yield-starved investors worldwide are looking to alternatives—real estate in particular—to boost returns. Successful fundraisers will understand that not all investors are created equal—investors in South Korea are established players, while Chinese investors may be new to the asset class

- **SOME SECTORS MAY BETTER SUIT FOREIGN INVESTORS**
  Our panelists invest in niche sectors like senior housing and logistics, and they might be better-suited for newer investors in U.S. real estate. Senior housing, for instance, may be less volatile; logistics can be explained in the context of high-visibility businesses like Amazon.

- **WHEN SEEKING HNW INVESTORS, TREAD CAREFULLY**
  Much is made of the opportunity presented by the abundance of investment capital held by high-net-worth investors, but that doesn't mean it's a worthwhile pursuit. They often require the same, if not more, resources to attract and service than institutions who write much bigger checks.

Nathan Paine
Senior Vice President, Client Relations, Prologis

Terrell Gates
JD, Founder & CEO, Virtus Real Estate

KEY FINDINGS

State of the Real Estate Secondaries Market

As the industry matures, expertise is still the key to success

- **REAL ESTATE SECONDARIES ARE GROWING STRONG**
  The real estate secondaries market has grown tremendously in the last decade, and is increasingly being used as a portfolio-customization tool. While RE secondaries still lag behind the more mature private equity market, it's quickly catching up.

- **IT'S NOT JUST ABOUT DISTRESS**
  Over time, real estate secondaries are losing the stigma of a distressed play. Sellers are selling for a host of reasons, including portfolio rebalancing, general liquidity needs, and raising cash for a recurring investment in a GP's next fund. Buyers can be looking for a good deal, but also to increase exposure to a fund they already have a stake in.

- **IT TAKES A LOT OF EXPERTISE TO DO IT RIGHT**
  The biggest challenge in secondaries? Valuation. Net asset value is a historic snapshot, so buyers and sellers need to do deep diligence to understand the ultimate value and prospect for future returns.

Philip Barker
Senior Managing Director, CBRE

James Sunday
Partner, Landmark Partners

SEC, IRS Scrutiny of Funds 'The New Norm'

Mandee Gruen
Partner,
Goodwin

Roy Smith
Counsel,
Goodwin

U.S. financial regulators and tax authorities are setting their sights on the private equity and private real estate industries—and their attention is only expected to grow over time, say Goodwin's Mandee Gruen and Roy Smith

It's not just the Securities and Exchange Commission that's knocking on real estate fund managers' doors these days—so too is the Internal Revenue Service.

As scrutiny of the alternative asset classes, and private funds within them, increases, both U.S. regulators and tax authorities are paying much closer attention to how the industry operates—bringing a laser focus on issues including the disclosure of fees and expenses to investors, as well as the use of tax-blocking financial structures.

One of the latest sets of rules to impact the private fund market is the U.S. government's proposed regulations under section 385 of the Internal Revenue Code. The change, introduced in April 2016, impacts the use of debt-equity structures and, while it was introduced by the U.S. Treasury and IRS primarily to restrict corporate tax inversions, it's having a dramatic effect on M&A transactions and ordinary corporate finance and tax operations.

"This has been an area where managers and advisors may have traditionally been a little 'loosey-goosey' about enforcing the terms of the debt, but the IRS is focusing on these structures now and it's going to have a real practical impact on funds that use leveraged C-Corp blockers," says Mandee Gruen, partner at Goodwin.

Advising managers to spend more time on note documentation, as well as ensuring the correct debt-to-equity ratio thresholds and proper creditor's rights, Gruen says: "I think managers will need to be much more involved with ongoing monitoring owing to this heightened focus from the IRS."

But it's not just the IRS that has its sights set on the alternatives industry. The SEC is also targeting the investment management world, not least over investor fee and expense disclosure.

"This has become a real pressure point over the past two to three years and it has a lot of managers very concerned," says Roy Smith, counsel at Goodwin, highlighting the SEC's focus on the improper allocation of fees as one area generating plenty of conversation between GPs and lawyers.

"It's requiring managers to put a lot more focus and a lot more effort into making sure they consider all the different scenarios where fees and expenses could arise over the life of a fund," he says.

For Smith, the key is in the planning. "While this does mean some additional negotiation [with investors], I've not found it to be as bad as some fund managers are expecting. Institutional investors will raise their specific points of concern anyway," he says.

Gruen notes that investors are not always willing to pick up the check for complying with increased regulation and scrutiny. "I'm seeing a lot of push-back relating to SEC regulatory expenses, such as the cost of compliance with the Investment Advisers Act of 1940, as well as Forms ADV and PF and the various updates," she says. "A number of U.S. investors want these items to be expressly excluded from the definition of fund expenses."

Yet today's increased regulatory—and tax—scrutiny isn't going away anytime soon, according to Smith and Gruen.

"This is going to be become the new normal," says Smith. "At first this is something that people have a lot of heartburn over but, given time, everyone will adjust to it." ■

The Current, and Future, Shape of Retail Real Estate

Michael Berman
CFO,
General Growth Properties

In a keynote interview, Michael Berman, the CFO of General Growth Properties, provides a dose of reality about the health of brick-and-mortar stores and malls, and explains why one shopper amenity trumps all others

Privcap: Is the mall dead, or at least dying?

Michael Berman, General Growth Properties: The real issue is obsolescence. Are you in the right location? Do you have the right tenants? Is it the right mix? That's the biggest risk in the retail business. We're not building any more supply. There is demand for retail space from all kinds of tenants. How could brick and mortar be dead if we're 97 percent leased [and] there are no parking spots? It's kind of silly.

We get asked about traffic all the time. One tenant says traffic's up, another tenant says traffic's down. How could that be? One guy's doing better than the other guy is. That's why one guy's traffic is up, one guy's traffic is down.

Can you quantify the obsolescence that you mentioned?

Berman: The sweet spot for retailers seems to be 400 and 500 store, which implies there are 600 to 700 malls.

Where are you seeing all of the pain? Is it in the department stores—your Sears, your Macy's, your JCPenney?

Berman: Department stores have to figure out what they're going to do from a business-model perspective.

How are you backfilling that space?

Berman: We love getting that space back when we can release it to big-box users and other tenants and get market rents. We're getting anywhere from 7 percent to 10 percent returns on our capital.

What stores are you targeting?

Berman: Depending on the property, depending on the location, certain tenants are going to do better in certain places. We have a research department that figures out what a particular mall is missing versus another mall that might have something.

Talk about the capex. How much are you spending every year?

Berman: On a run-rate basis, we spend about $150M a year on maintenance capex. In addition to that, we spend $150M a year on tenant allowance, which basically means we're putting it into the stores—giving it to the tenants, but putting it into the stores. And then we have a redevelopment program where, again, it is mostly around the anchor boxes. In the last five years we've spent about a billion and a half dollars. And on a run-rate basis, it might be anywhere from $300M to $500M a year in incremental spend.

What are the top new shopper amenities that you install in your malls?

Berman: We're putting in traffic counters because we want to be able to answer the question around traffic. The biggest amenity that we're really focused on is parking.

How is medical and healthcare impacting retail real estate?

Berman: There are certain properties where that might be a good use. At the end of the day, what you want is someone to come to your property for every possible need. ■

How Repeat Encounters Can Help Raise Your Midmarket Fund

It's more important than ever to maintain relationships and know the right way to court potential new capital sources, both large and small, says Monument Group partner Lori Campana

Lori Campana
Partner,
Monument Group

Privcap: What are some of the most interesting fundraising trends that you've seen in the past year?

Lori Campana, Monument Group: This is tough because, for us, it's been a little different. It's been a year of not finding a lot of compelling real estate strategies that we have wanted to put our name on and invest in.

I think it's a reflection of the market because we're driven to raise a fund if we think it is a good strategy and team to execute at this time in the cycle and investors will have an interest. And on a relative basis, we found a lot more interest from investors for private equity. When we see the numbers, it's always private equity—the allocations overwhelm because the way people bucket things, whether it is venture or private equity, the bucket is broader than their real estate allocation. It does feel as if the tilt has been more toward private equity in terms of investor interest.

What are you seeing when it comes to LP appetite for midmarket funds? Is the concentration of capital going to the big guys?

Campana: I don't have it in front of me, but typically, when you open up the quarterly assessment of where capital has gone, [it's to] the top 10 largest funds.

If I'm a typical investor, unless there's some intrinsic policy that says we're not doing funds that are $10B, it's is difficult to ignore these funds if they are benchmarked against the market. They are going to do Blackstone, Lone Star, Rock point.

When I think midmarket, I think $500M to $1.5B. There are so many firms seeking to raise capital in this range, and the good [funds] do get raised. The track record, it's consummately important, [the] tenure of the team, all the same factors still apply, but you need to work hard to retain your existing investors, [and] simultaneously explore new pockets of investors.

Has [fund allocation] changed in the past couple of years? I am not sure. Perhaps around the margin, those seeking capital need to be patient with the process.

How do you begin conversations to try to pick up new investors?

Campana: Asia's the best example. One, you have to be of [a certain] size to go to Asia—about a $1B. You need to have a certain Roman numeral on your fund. You need maturity in your track records, and they need to be top performing funds.

You have to be patient and plan many meetings and trips to build relationships. And you should have a brand name. And your strategy in Asia generally has to be more core-like. There are a limited number of investors who will look at higher-return strategies.

Europe's a bit of a quandary because of FIRPTA and AIFMD, and now Brexit has the U.K. in a greater state of uncertainty. So there's a higher bar for funds to go to Europe for investors and a more careful process for fundraising.

And within the U.S., there are definitely investors. They keep managers on a watch list and they might have watched them for two funds and now they're considering a commitment to this next fund.

Do you think [the fundraising process is] more about those personal relationships and constant touch points?

Campana: Yes, definitely. But also having a good story to tell, and being something...that the investor—and I include consultants in that—can view as something differentiated for their portfolio. ■

KEY FINDINGS

How a Redefined Core Has Redefined the Exit Market

Jon Gelb
Director,
Clarion Partners

William Bowman
Managing Director,
NorthStar Asset Management Group

A drop in interest rates and, for investors, yield, has led to a shift in what can be expected from the exit of an asset

- **EVERYONE HAS HAD TO ADJUST RETURN EXPECTATIONS**
  Investors expecting double-digit returns seen at the height of the real estate cycle were in for a rude awakening when those returns, while still solid, sank to more reasonable levels.

- **DON'T COUNT OUT SOME HURTING RE MARKETS**
  Despite a drop in oil prices impacting jobs and housing in Houston, this is one example of a city where there are still investments to be found if you know where to look.

- **SOME CORE ASSETS ARE EASIER TO EXIT THAN OTHER**
  While one panelist said the definition of core is somewhat fluid, he also said that in some cases "it's pretty easy to sell" and that certain assets within core are easier than others to part with in this part of the real estate cycle.

What Are Today's Top Dealbreakers?

Jay Eisner
Founding Partner,
LEM Capital

David Rosenbaum
Managing Principal,
WHI Real Estate Partners

Neil Furmanski
Tax Partner,
RSM US LLP

In today's real estate market, dealmakers have landmines both ever-present and new to watch out for

- **DEALBREAKERS COME IN MANY FORMS**
  Among the things the panelists cited as busting a deal were a tug of war between LPs and GPs, negotiating for and striking deal terms, and a broken down relationship between a fund and an operating partner.

- **OPERATING PARTNERS CAN GET IN THEIR OWN WAY**
  Operating partners not agreeing on terms or otherwise being difficult can not only be a dealbreaker, it often has an impact before that—most of the time the deal won't even get started in the first place if the fund manager is not on the same page.

- **FINANCING IS SCARCE FOR SOME KINDS OF DEALS**
  In some property sectors outside of multifamily, traditional asset financing has tightened in recent months, panelists said. Consequently, much more time has been spent getting lenders comfortable lending against traditional assets—which is likely due to regulatory pressure.

Tackling Real Estate's Data 'Problem'

> Alan James of RealPage discusses the competitive advantages of good data, and outlines what GPs and LPs should look for in a data platform

Alan James
SVP,
Investment Management & Commercial,
RealPage

Privcap: Large GPs have greater ability to acquire and process data. Why does that matter to smaller investors?

Alan James, RealPage: Not unlike the larger GPs, midmarket and smaller GPs have the same need for the data and the analysis to continually measure and monitor their KPIs and KSIs (key performance indicators and key success indicators) of their business to better serve their investor community.

Is that also an issue on the investor side? If so, what are the consequences for smaller LPs?

James: In the limited partner space, whether it's an institutional player like a pension fund or a family office trust, their requirements are exactly the same, but perhaps they may be even further challenged in that real estate, in many cases, is a relatively small allocation to the overall investment platform. You could have a limited partner managing $2B or $3B in real estate with just...four or five professionals managing that real estate. So, their access to technology resources and software to help them run the business is perhaps even a greater challenge than the general partner.

What sort of features should a GP look for in a data platform?

James: As you might imagine, it varies from GP to GP. Number one is scale—the resources they have available to run the platform. Second is the diversity of their portfolio in terms of the number of managers they use. Then, are they a diverse portfolio across multiple asset classes like lodging, commercial, multifamily, student, senior, etc.? Or are they focused on one asset class with just a few partners?

If they're dealing with multiple managing partners and joint venture partners and they have a rather diverse asset class, then they've got quite a challenge. That is, how do we standardize the collection of that data so that they can use that data for the now, since they need it at a portfolio level? Really, their options are two: they can either mandate some kind of a platform down at the operating partner level or they need to find a mechanism in place to collect data and provide that data holistically at the GP level.

What about LPs? Are their needs much different?

James: I would call it the real estate ecosystem: the LP, the GP, and the operator, and how do [they] play nicely together and pass the data from one level to another? At the end of the day, based on each of the individual asset classes that both the GP manages or the LP invests in, there are a series of standard KPIs and KSIs...that both the GP and LP look at on a regular basis.

The more they're able to standardize the collection of the data that supports the KPIs at that platform level, the better it's going to be for both the LP in communicating and evaluating the GP and the GP evaluating their operating partner.

What, ultimately, are LPs looking for from their GPs when it comes to data and fund-level information?

James: The LPs are looking for timely and accurate information. In many cases, even today with all the great technologies available to both the LP and GP community, the time lag between quarter-end reporting is 60 or 90 days. What LPs are looking for from their GP partners is timely and accurate data, four to six days after the quarter end, not 90 days after the quarter end. That is really difficult to do if you don't have some kind of automation in place to collect the data, aggregate the data, and disseminate the data up to your key stakeholders. ■

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