

Real Estate Managers Push Into Advisor Market

By [Tom Stabile](#) April 19, 2017

Fund managers across the private real estate market have been bulking up to expand their presence in the advisor marketplace with recruiting, new products, platform relationships, and subadvisory deals – and the bustle is likely to continue.

These moves echo an aggressive buildup in recent years by private equity managers to hire sales staff and develop new product options to appeal to advisors and their high-net-worth clients. The activity includes both real estate market specialists as well as alts managers with a broader purview that are making advisor market moves with their real estate businesses.

One indicator is a jump in searches by real estate managers for professionals with advisor market experience in recent months, says **Gemma Burgess**, managing director at **FPL Advisory Group**, a recruiter specializing in the real assets market. Many real estate managers are looking for ways to replace institutional investor capital that would have gone into commingled funds but is now going into co-investments and joint ventures by tapping the retail market, she says.

“We’ve had quite a few conversations with big investment management platforms trying to figure out where to go, how to get there, both for product development as well as distribution,” she says.

Some of the activity involves finding ways to bring institutional-style closed-end funds to the advisor audience, while other work involves building up new real estate investment trust (REIT) products, Burgess says. “People do not want to be left out of the dance,” she says.

The moves take various forms, from **Blackstone Group’s** [high-profile build-up](#) of a new REIT and an independent broker-dealer sales team to **C-III Capital Partners** last summer buying the \$9 billion **Resource America**, which runs four non-traded REITs and two registered funds, in a bid to expand further into the retail market. **Providence Equity Partners** also pursued the acquisition route through its **Benefit Street Partners** credit arm last year, which acquired the former non-traded REIT business of **AR Global**.

Some efforts involve partnerships, such as **FS Investments** bringing its non-traded registered fund product expertise into a new non-traded REIT product with **Rialto Capital Management** as its subadvisor. Others are building it on their own, similar to Blackstone, such as **Highland Capital Management**, which has made a [broad advisor market push](#) that includes a non-traded REIT and a non-listed interval fund focused on real estate.

And some are partnering with retail platforms to get their real estate products out to advisors, including **Carlyle Group** in a [recent link-up](#) with **iCapital Network** to distribute an open end real estate fund.

Real estate managers more generally have been on a sales professional hiring tear, with 95 hires in 2016, way above the 28 new additions in 2015, according to data from **Context Jensen Partners**, a recruiting firm focused on alts manager sales teams.

Some of that sales hiring has been tied to advisor market expansion efforts, including Blackstone's independent brokerage team – an effort aided by recruiter **Kilcullen & Co.**, according to an industry source – and Resource America's **hire last month** of former **AMG Funds** executive **Jeffrey Seeley** as head of sales at its **Resource Securities** arm.

The moment seems ripe for real estate to make greater headway into the retail market, with many investors still searching for yield while interest rates are low but likely to inch upward – a scenario that favors floating rate-based investments, says **Marc Yaklofsky**, senior v.p. for corporate development at FS Investments.

That market opportunity may mix well with a new class of non-traded registered fund products that shed the high commission load model, especially in the REIT market, he adds.

“You're seeing an evolution in the REIT space of more transparency, lower fees, and broader distribution channels,” Yaklofsky says. “So there's more interest in the space from managers... and also from advisors who see more investor-friendly structures.”

Such products are also more attractive to private alts fund managers because they are a closer match to their core businesses than the assets allowed in a mutual fund format, says **Cornelia Kiley**, partner at **Judson Partners**, a recruiting firm.

“The non-traded or less-traded structures – interval funds, [business development companies], non-traded REITs – all allow for more direct access to underlying assets and offer higher yields in most cases,” she says in an e-mail. “These structures allow firms like **Apollo [Global Management]** or Blackstone to translate their otherwise illiquid strategies into retail formats... This is the real area, more than 'liquid alts', where you may see a lot of alternative product germinate.”

Such factors have led managers to step up their presence in the non-traded registered fund market, Yaklofsky says. “You're seeing more participants build up those capabilities in part because of those market dynamics,” he adds. “The opportunity is there but they're still figuring out how to capitalize on it.”

That interest might not translate into all firms making huge moves, however, Kiley says.

“The independent broker-dealer channel requires a sales infrastructure,” she says. “Many firms cannot justify the investment as Blackstone has done.”

Still, many firms are exploring new options to get in the door, says **James Waldinger**, CEO at **Artinvest**, an alts product platform aiming at advisors.

“They are trying every which way to get access to the advisor market, and some are trying to do it in creative ways,” he says. “We're seeing moves in all different directions, from crowdfunding platforms to [big traditional managers].”

In some cases, managers are opting for multiple approaches, such as hiring internal staff but also putting their products on advisor market platforms, Waldinger says. He

cites [Nuveen Asset Management](#), which partnered with Artivest on a [custom distribution portal](#) last year, as one example of a firm building up its resources, both for its real estate and broader real assets product lines.

One challenge for real estate players to introduce themselves to the advisor market is a surprising hump to get over – a belief among many wealthy investors that they already have exposure to the asset class via their direct ownership of properties like second homes, Waldinger says.

“We’ve decided to do an educational push around that concept that a real estate private equity fund is a different type of alpha than just owning real estate,” he says. “It’s incumbent upon the industry, managers and firms like ourselves, to explain that the variety of strategies around real estate investment funds are not the same as your house or vacation home.”