# REAL ESTATE SECONDARY MARKETS ARE EVOLVING

## REAL ESTATE SECONDARIES PERSPECTIVE

Private real estate secondaries markets evolved and matured over the past decade to become a widely accepted and increasingly liquid tool for monetizing equity positions in an efficient and timely manner. Traditional secondaries are the purchase of limited partnership interests subsequent to the initial fundraising period. Following in the footsteps of its private equity big brother, the real estate secondaries market continues to gain pricing transparency while more structuring options emerge, and appetite continues to grow from capital providers. The buyer pool, however, remains small relative to traditional private equity secondaries. Real estate secondaries transaction volume tends to be lumpy as large portfolio sales significantly impact volume.

There is $9.3bn of dry power in dedicated real estate secondaries funds, and $2.4bn is currently being raised. The trend of growth over the past decade illustrated through historical fundraising shows no sign of slowing down (Fig. 1).

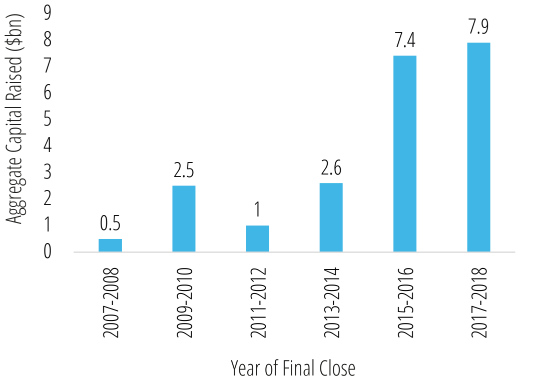
Non-traditional real estate secondaries represent an interesting segment of this market, being the least developed and with the greatest growth potential. Non-traditional and direct real estate secondaries ("Direct RES") include GP-led restructurings of funds, strips of sub-portfolios, single-asset or portfolio recapitalizations, and direct acquisitions of majority or minority interests at the property level. Each transaction type represents a different style, structure and risk profile. Tracking the complete set of transactions remains challenging in the real estate direct secondaries market.

## GOING BEYOND THE SURFACE

Direct secondary transactions are being executed at a substantial rate, with many transactions happening outside of a fund structure, oftentimes excluded in market research reports and other industry publications. The data is obscure and private, with specialist capital providers all having their own unique acquisition criteria and proprietary datasets. Small- and mid-cap joint venture equity providers are recapitalizing equity positions on a routine basis as a means of accessing new investment opportunities. For many of these investors, it is incidental that they are secondaries, not considering secondaries as a standalone investment strategy which would benefit from tracking and deliberate focus.

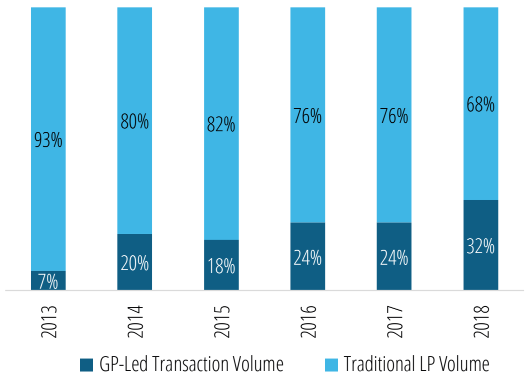
Market volume for global real estate secondaries is currently reported to be around $6.0bn annually following a decade of growth. This excludes much of the difficult-to-track Direct RES. Though centrally

**Fig. 1: Aggregate Capital Raised by Closed-End Private Real Estate Secondaries Funds, 2007 - 2018**




*Source: Preqin Pro*

**Fig. 2: Secondary Transactions Led by GPs vs. LPs, 2013 - 2018**




*Source: Greenhill Cogent*

curated data is sparse for this niche, all signs point to Direct RES increasing as a percentage of total real estate secondaries volume. An excellent proxy is found in the broader secondaries market (i.e. including infrastructure, private equity buyout and venture capital). As shown in Fig. 2, GP-led transactions in the broader market have grown from 7% of the $74bn market to 32% in the past five years. Real estate made up 5% of the 32% GP-led activity. By inference, 20% of the $6.0bn global real estate secondaries market is estimated to be GP led, which is an indicator for Direct RES. Direct RES is poised to experience outsized growth as the real estate secondary market continues to converge with the broader secondary market.

$6.0bn of annual transaction volume greatly understates the size of the overall market when joint venture and other fractional interest transactions are considered.

Most traditional joint venture equity investors executing a direct secondary do not use the same vernacular or vehicles as the specialist funds, causing an understatement in volume tracking. Instead, such transactions are typically loosely defined as recaps or partnership buyouts. These processes are many times non-intermediated and can be executed in accordance with the exit provisions of the underlying operating agreement, or not. Many of these transactions do not reach the public eye, including many of the small- to mid-cap-sized transactions. The real estate secondaries specialists can bring a level of discipline and acumen to this segment of the market to unlock value and give rise to a broader opportunity set.

For example, C6 Real Estate has tracked over $6.5bn in executed US Direct RES transactions during 2018, while sourcing an additional $1.9bn in C6's own transaction pipeline. These figures are independent of the $6.0bn of transaction volume cited above, and imply the market is larger and more nuanced than current metrics show. While there may be a process of familiarizing some sellers with a new liquidity option, direct secondaries as a portfolio management tool is widely attractive to sponsors, operators, developers and small- to mid-sized fund managers alike.

## A MARKET OF NICHES

The real estate secondaries market allows several different approaches across a fragmented marketplace. A small number of players dominate, each with a differentiated angle on the market beyond the categories discussed here. While some institutions focus on fund recapitalizations, others prefer fractional joint venture interests. Some may target lower-risk portfolios or only consider smaller or larger traditional fund secondaries.

The volume of traditional fund secondaries is significant and positioned to grow. Beyond this traditional market, however, lies a vast landscape of unchartered territory still to survey. This territory consists of joint ventures, separate account vehicles and other private partnerships. These provide compelling investment opportunities when the time and care is taken to craft thoughtful solutions with all stakeholders in mind. The secondary specialists each focus on a different kind of partnership scenario, all contributing towards increasing liquidity in the entire private real estate market.

### Fig. 3: Largest Real Estate Secondaries Fund Managers by Total Capital Raised over the Past 10 Years

| Firm | Aggregate Capital Raised in Past 10 Years ($mn) |
|---|---|
| Landmark Partners | 7,218 |
| Partners Group | 5,777 |
| Strategic Partners Fund Solutions | 3,900 |
| Metropolitan Real Estate Equity Management | 2,030 |
| Goldman Sachs AIMS Private Equity | 1,221 |
| Morgan Stanley Alternative Investment Partners | 870 |
| StepStone Group | 700 |
| Aberdeen Standard Investments | 603 |
| Neuberger Berman | 407 |
| Belveron Real Estate Partners | 404 |

*Source: Preqin Pro. Data as of February 2019*

Real estate is often associated with long hold periods. It is common understanding that all partnerships mature and change over time. As markets and goals shift, each investor adapts based on their own assessment, preferences, timing and risk tolerance. It is healthy for the market to provide various options to owners and partners on how and when to exit. As the secondary market continues to mature, its evolution will cater to the liquidity needs of traditional real estate participants.

# C6 REAL ESTATE

C6 Real Estate (C6) provides alternative liquidity options for real estate investors and owners. We unlock value in complex situations, particularly recapitalizations and complicated ownership structures. We specialize in providing choice to existing partners to retain ownership and reset terms while other partners are presented with exit options. The goal is always the same: align partners and capitalize targeted business plans to maximize value and mitigate risk.

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## BRIAN DI SALVO

Co-Founder, C6 Real Estate

Mr. Di Salvo leads origination and capital markets efforts by identifying new investments and arranging partnerships through long-term relationships with investors, lenders and property owners. He brings 14 years of investment experience having acquired over 57 assets valued at more than $1.7bn. Prior to founding C6, Mr. Di Salvo led real estate originations at Partners Group, a global investment management firm with over $80bn under management. During his tenure, he was responsible for the sourcing, underwriting, due diligence and execution of US portfolio recapitalizations. Prior to Partners Group, Mr. Di Salvo held positions at CBRE and TREC Investment Realty. Mr. Di Salvo earned a BS in Real Estate from the University of Nevada, Las Vegas.

## WARREN KOTZAS

Co-Founder, C6 Real Estate

Mr. Kotzas leads investment strategy and execution including due diligence, negotiations and investor relations. He oversees financial structuring and underwriting for all transaction activity. Mr. Kotzas has 12 years of experience including the execution of more than $1bn of real estate transactions across all major asset classes. Prior to founding C6, he led US due diligence and execution efforts at Partners Group. During his tenure, he focused on structuring and executing complex fund and joint venture portfolio recapitalizations. Prior to Partners Group, Mr. Kotzas was responsible for acquisitions and asset management for Assurant. Mr. Kotzas holds a BA in Economics from New York University.