



GLOBAL MARKET INTELLIGENCE FOR INSTITUTIONAL REAL ESTATE INVESTMENT

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Growth in separate accounts could lead to 'bifurcation' of fund terms

GLOBAL – The world's largest real estate investors are ditching commingled funds in favour of separate accounts, potentially leaving smaller investors in a weaker position when securing fund terms with managers.

CalPERS, the largest pension fund in the US, which has spent recent months overhauling its real estate strategy and streamlining the number of managers it employs, has said it will focus on committing new capital to separate accounts in the foreseeable future.

This comes soon after it was revealed that Norges Bank Investment Management would be focusing on large joint ventures in its bid to construct the fledgling real estate exposure for Norway's sovereign wealth fund.

Ted Leary, president of Crosswater Realty Advisors, said the trend might lead to a two-tier institutional real estate market, with the largest investors negotiating aggressive terms with their separate account managers and terms in commingled funds seeing much less change.

Leary, who has been advising a number of large institutional investors on negotiations with existing funds and assessing manager performance during the crisis, said he wouldn't be surprised to see a "bifurcated market", where the "big guys with more resources are going to drive a more balanced bargain with their managers".

He added: "I'm just not convinced that disparate, smaller investors will have the same success with general partners on commingled funds."

Leary said this was more likely to be the case in Europe, where he observed investors as being more passive than their North American counterparts, although this was often a product of investor size.

"I don't get any sense European investors are going to be as tough – time will tell," he said.

"If the big guys leave the field, does that mean there is nobody leading the charge to align the interests appropriately?"

"I don't know the answer to that. I just know that, when you have disparate investors, it is harder to assert the investors' rights."

Author: Richard Lowe