Midwest Logistics, China Rescue: Managers Pump Up Niche Platforms

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Real estate fund managers are jumping on increasingly narrow investment segments, and relying on experts they are hiring, acquiring or partnering with to find deals in targeted areas such as Chinese distressed properties, Midwest U.S. logistics assets, the gaming sector and the fast-growing secondaries market.

Managers such as Warburg Pincus, Pantheon, CBRE Global Investors, Morning Calm Management and Invesco have picked spots and identified teams or partners for new strategies in recent weeks – betting on investor interest in specialized themes even as return prospects for the broader real estate asset class remain uncertain during the pandemic recovery. And the new investment strategies, in many cases starting out with seed capital or anchor deals, are aiming over time to invest large sums within their targeted areas.

Earlier this week, Warburg unveiled a new $600 million platform where it is partnering with Wensheng, a Shanghai-based credit manager to focus on special situations and distressed real estate deals in China, with plans to build a $5 billion venture over five years. Pantheon last week also rolled out its new real estate secondaries team with two executives it hired from GI Partners and a focus on crafting deals with sector-specific real estate managers.

Meanwhile, Morning Calm late last month announced – along with BTG Pactual Strategic Capital and Grupo Patio – the forming of Aurora Industrial, an investing platform focused on amassing $1 billion in U.S. Midwest industrial sector real estate assets over the next three years. Invesco last month also kicked off a new joint venture with Jera Asset Management, a private real estate investment trust, to form Mercury Trust, a $500 million industrial real estate platform investing in distribution centers, logistics properties and cold storage warehouses. And CBRE's parent company in June acquired Las Vegas-based Union Gaming, a boutique investment bank for gaming industry deals, with expectations that the strategic advisor will help clients shape deals around casino sector real estate assets.

Limited partners (LPs) are signaling they are ready for managers with conviction in specific real estate segments, says Mukang Cho, CEO at the newly formed Aurora.

"Having a really focused strategy today works for investors," he says. "While they're not necessarily going to stop investing in opportunities and funds that are less

segmented and less specific, there is [appetite] from a lot of LPs to be more specific in what they consume."
And players such as Pantheon see more opportunities to partner with – and build capital solutions for – theme-specific owner-operator
firms that also raise private funds, says Roman Braslavsky, who recently joined the firm as head of real estate along with David Elliott, a managing director, to lead the new secondaries team.

"The big fund sponsors continue to get bigger, but a lot of the owner-operators that historically only partnered [with other real estate managers] now create their own sponsored [private funds]," he says. "They are sharpshooters focused on specific asset types in specific areas of the country, maybe on student housing or senior housing, and now they have the investment capabilities. That's an area where we see opportunities."

Narrow themes can offer an investing advantage if they focus on less-trafficked deal segments, with the Midwest U.S. a clear example, as most industrial real estate capital flows to the coasts and high-population centers such as Texas, Cho says.

"We found there are comparable assets in the Midwest with actually the same tenants, but pricing was quite different from what you would see in the coastal markets," he says.

Aurora sees an investment thesis for capital to flow to "interior market" industrial assets built around several trends, Cho says. The first is transportation technology advancements such as driverless vehicles and clean energy that will allow midwestern hubs to be ever-faster transfer points for continental U.S. commerce, he says. In addition, strong skilled-labor markets, cheaper and more available land in many Midwest markets, and the expected repatriation of global supply chains following severe pandemic disruptions all support the theme, he says. "It's a pretty focused strategy in an asset class that's top of mind for a lot of folks," he says.

But partnering made sense for Morning Calm, which had begun investing in the industrial theme several years ago, because BTG is able to bring in its credit due diligence skills – a critical element in vetting potential lease options for industrial properties, which typically have one large tenant, Cho says. And Patio Group brings in its expertise in industrial real estate as one of the largest owner-operators in the segment across Latin America, he adds.

Pantheon's real estate launch centers around secondaries in part because the $65.9 billion firm already has similar strategies for private equity and infrastructure, but also because of a larger future opportunity to target capital strategically to owner-operator specialists through general partner-led transactions for their private funds, Braslavsky says.

"We see the opportunity and a pretty long runway ahead in the space," he says. "We see deals that need capital or larger opportunities these [owner-operators] can't accommodate with their investor base or current vehicles."

Many of the new ventures are already active, including Warburg's China distressed property platform that is pursuing non-performing loan-to-own, rescue finance and special situations deals, with the partnership having acquired seed assets in Shanghai, Zhejiang and Hainan. Wensheng first formed a dedicated distressed real estate group in 2017, and the partners say they expect faster growth by combining those resources with Warburg's China and distressed investing expertise.

Similarly, the Aurora platform has already closed on a 10-asset, 1.7-million-square-foot portfolio in Detroit. And the new Mercury platform for Invesco and Jera also already has nearly $500 million worth of assets acquired or under contract, according to a press statement.

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