



# PERE

**CO-INVESTING  
IN PRIVATE  
REAL ESTATE  
IN 11 SLIDES**

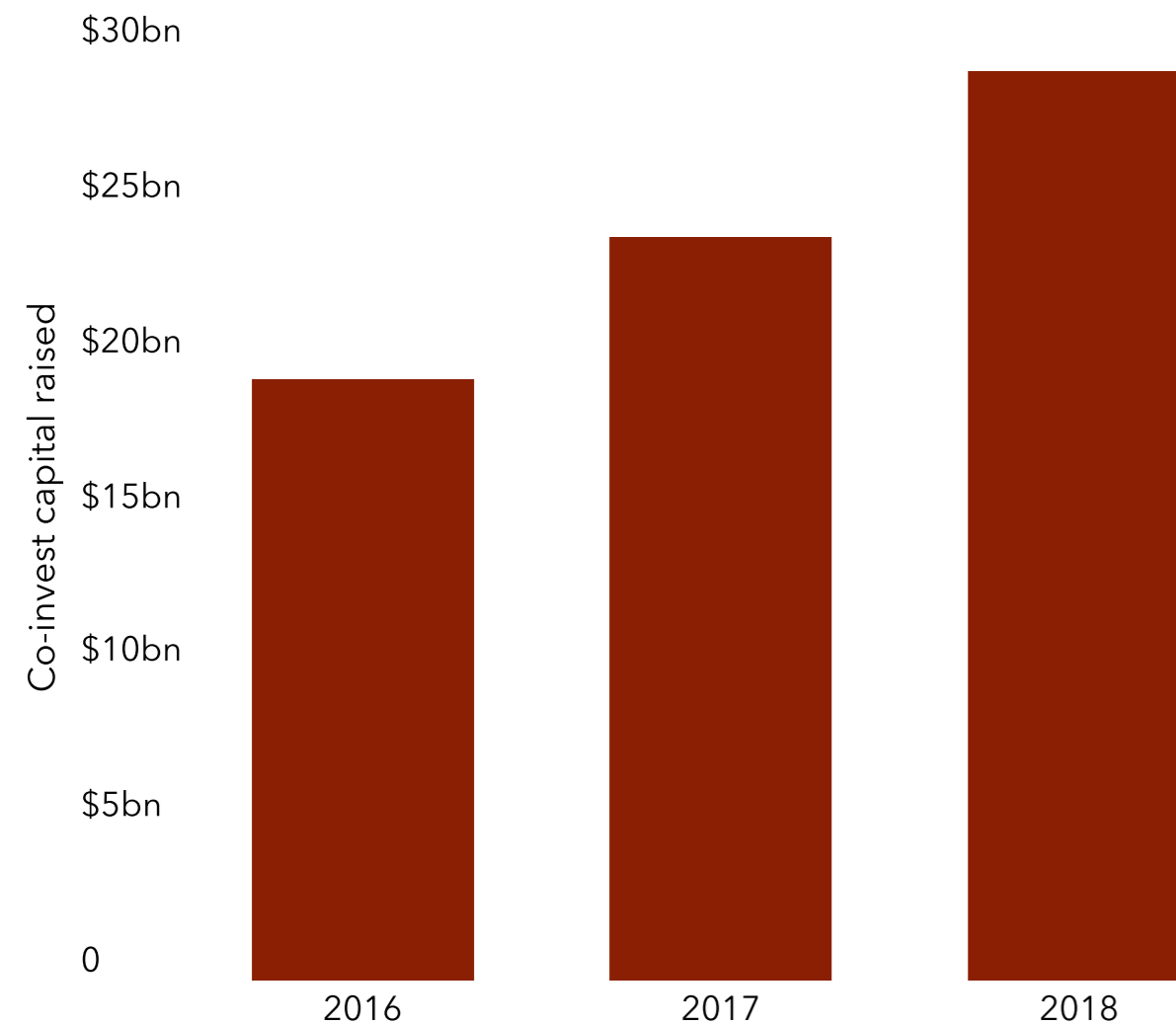
# The wild west of co-invest

# Sidecar deals, front and center

Many investors are chasing co-investment opportunities, seeking better economics and greater portfolio control. In response, top managers have made a concerted effort to make these vehicles more available

## Straight up

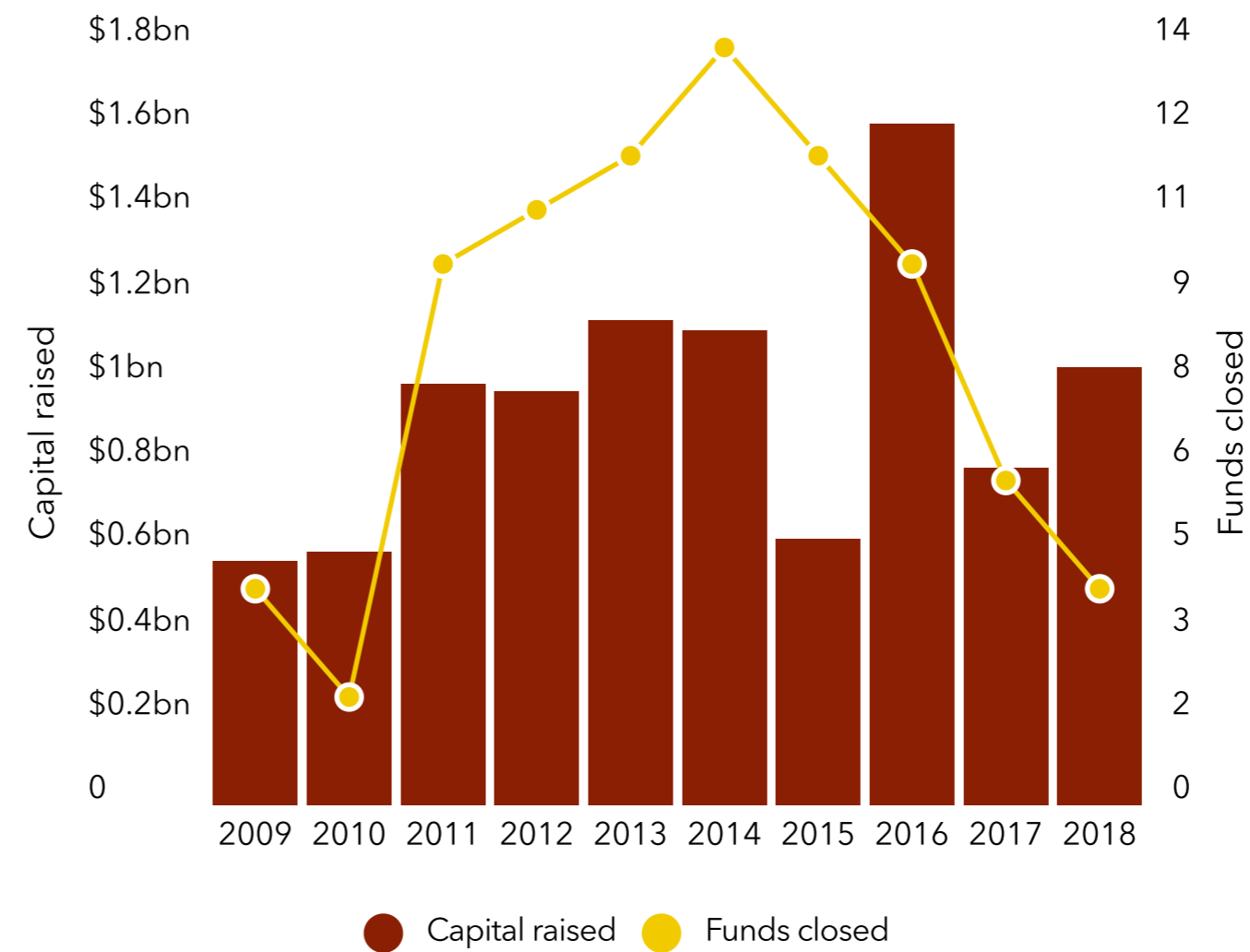
The top 20 private real estate managers increased their five-year co-invest totals by \$10bn from 2016 to 2018



Source: PERE data\*  
\*Based on five-year fundraising disclosed by the top 20 PERE firms.

## Hop into my sidecar

Co-invest funds have been popular in recent years



Source: PERE data

[\*\*Click here\*\*](#)

to read more about how co-invest strategies have evolved



**52%**

The increase in co-invest capital at top PERE firms from 2016 to 2018



**PERE**

# A win-win proposition

The movement feeds into the greater trend of investors concentrating more capital with fewer managers. Proponents of co-investing see advantages for both sides



***“It’s a win-win situation for both us and the LP, in that they achieve what they prefer as a model for what they’re investing, and we actually will be able to manage more money. We’re able to get more capital into certain deals that are appealing to LPs, that satisfy their needs, while we get more assets to manage without actually deploying more resources on the deal side.”***

Christina Gaw, managing principal & head of capital markets, Gaw Capital

**[Click here](#)**

to read more on which managers are prioritizing co-investments



**\$29.3bn**

Total five-year co-invest capital raised by the top 20 PERE firms

---

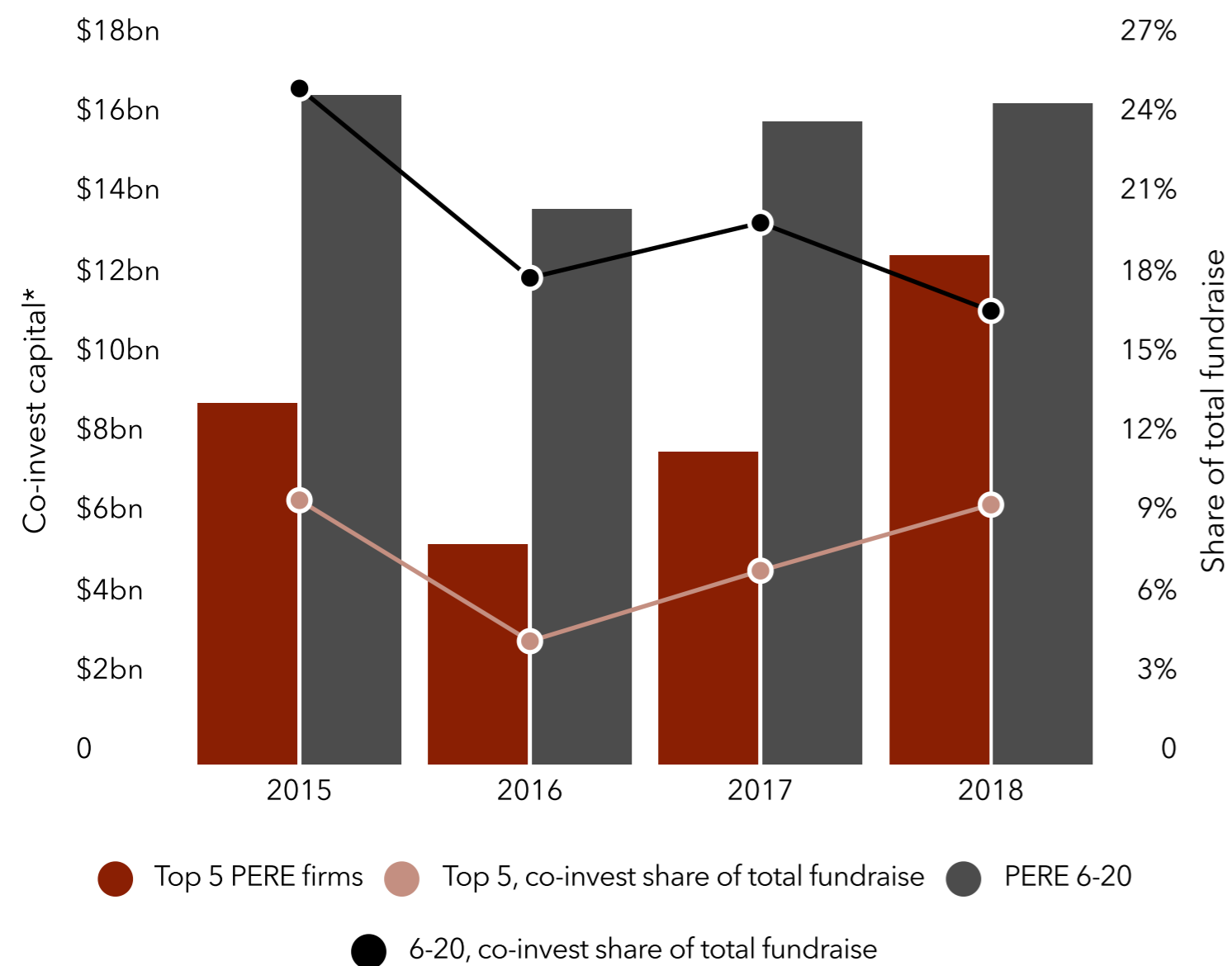
# PERE

# A tool for mid-size managers...

Co-investment offerings can be particularly useful for mid-size managers looking for a competitive edge on the industry's top fundraisers

## All the rest co-invest

Smaller managers lean more heavily on co-investment



**IFC Seoul:** LaSalle Investment Management acquired a stake as an investor in a co-investing platform, now part of its Global Partner Solutions platform

[\*\*Click here\*\*](#)

to read more on the advantages mid-size managers see from co-investing



**56%**

The share of PERE top 20 co-invest capital raised by firms ranked 6-20

Source: PERE data

\*Five-year totals based on financial disclosures

**PERE**

# ...and big investors, too

The largest investors have tooled up their staffs to take advantage of co-invest opportunities and the advantages they offer



***"It's all about speed. We've set up our approval processes internally that we only work with a veto right and not [the] full approval that we'd usually have when we do the main fund investment itself. That has allowed us to execute on these co-investments."***

Annette Kroeger, chief executive of Allianz Real Estate in North and Central Europe

[\*\*Click here\*\*](#)

to find out how investors are becoming bigger, faster and stronger as they hunt for co-investments



**50%**

The typical fee discount offered to co-investors

---

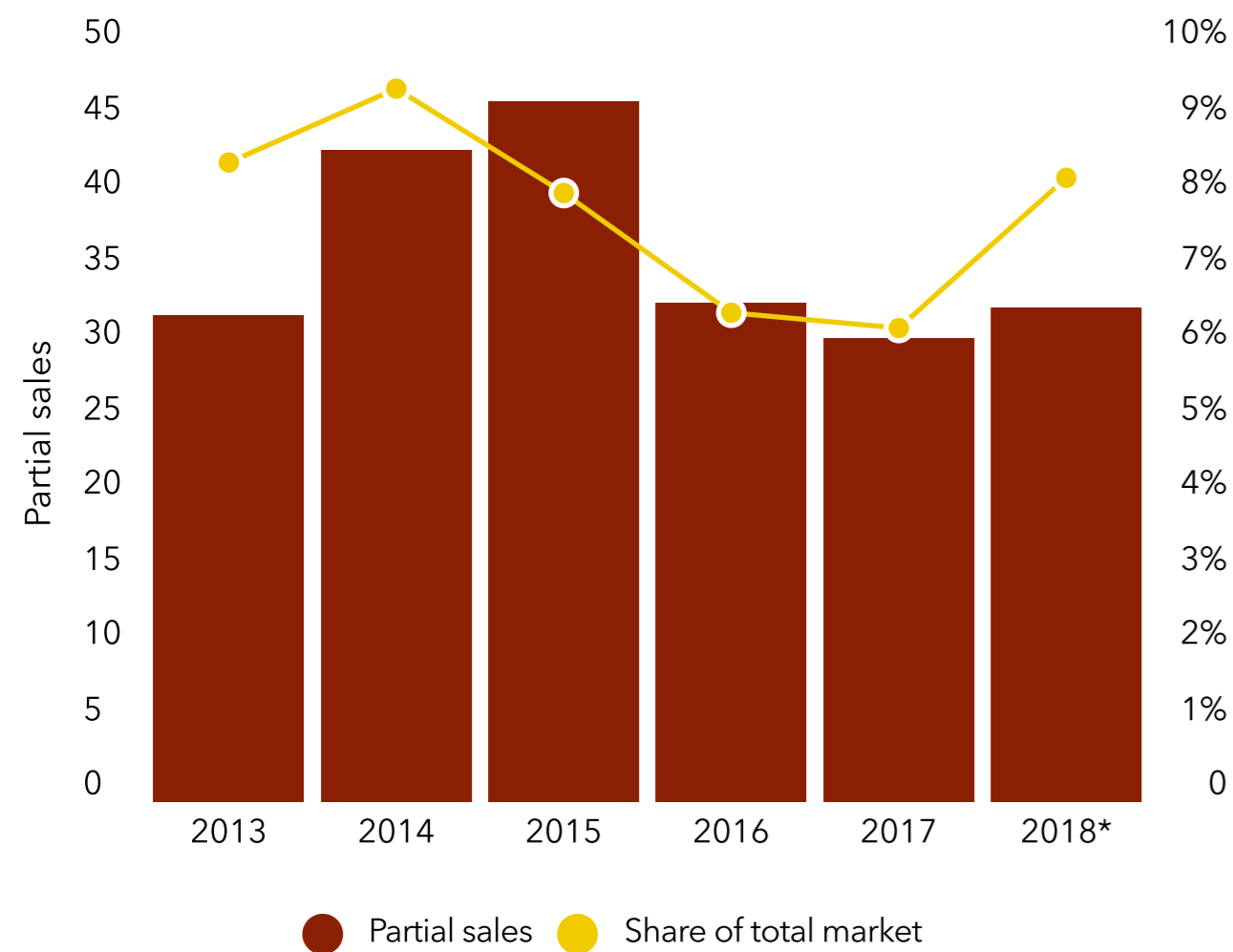
# PERE

# Sharing is caring

Co-investment is one of several partial-interest structures that have grown in popularity in recent years, along with joint ventures, club deals and other models that give investors direct exposure to assets

## Let's get together

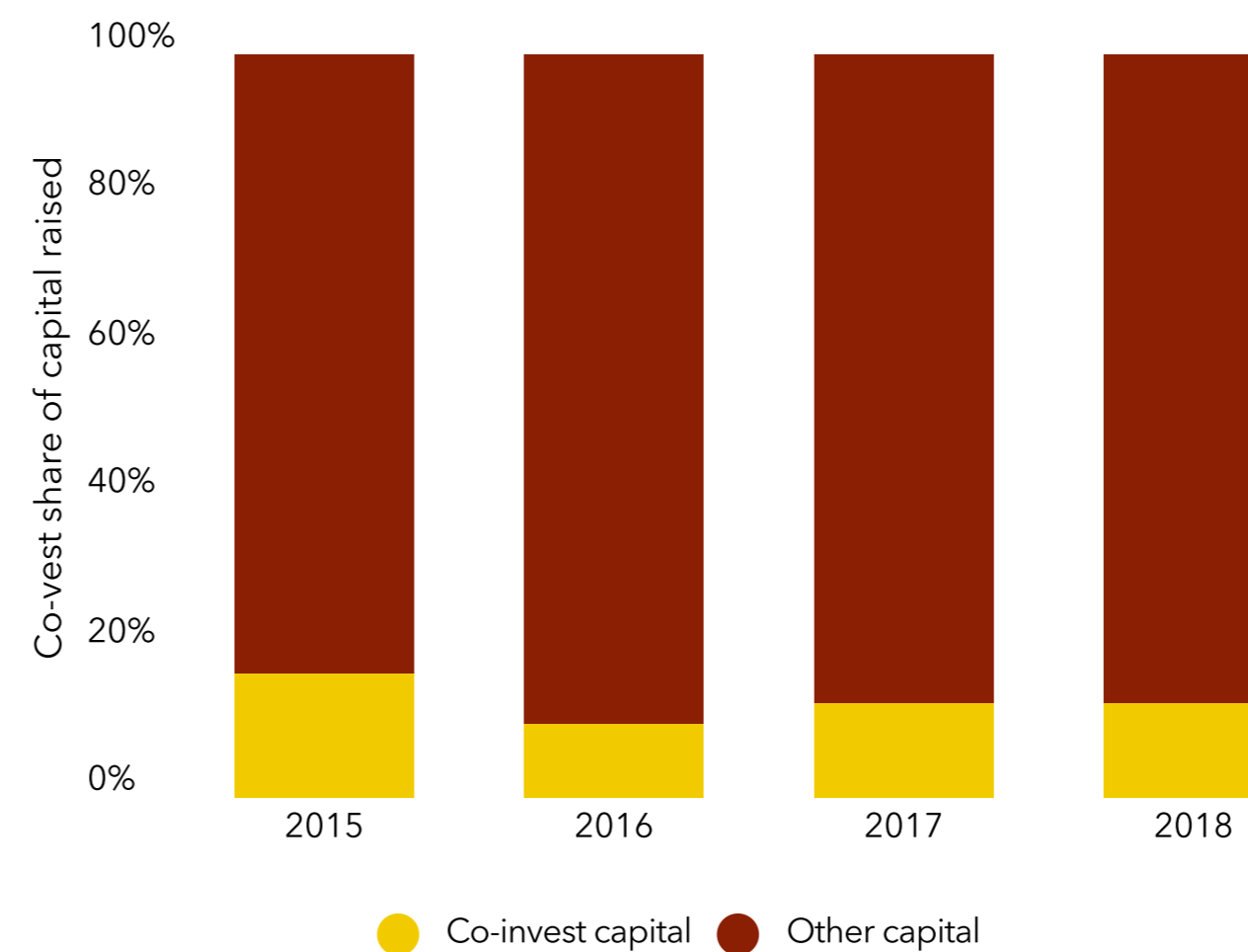
After a downturn, partial-ownership transactions rose in 2018



Source: Real Capital Analytics  
\*Through the third quarter of 2018

## Steady as she cos

Co-invest capital has grown on pace with overall fundraising at the top 20 PERE firms



Source: PERE data\*  
\*Five-year totals based on financial disclosures from 2018's top fundraisers.

[Click here](#)

read why fund managers need to have a clear co-invest strategy



**\$33bn**

Partial-interest transactions through Q3 2018

# Put your money where your mouth is

Many investors negotiate for co-investment rights before committing to funds, but most are not set up to take advantage of them



***“Not all LPs are set up to systematically do co-investments because, to do that, you effectively need a platform. You need the resources, the local network to source, a team that’s real estate-driven that can evaluate, execute, and that’s not always the case depending on the LP’s sophistication or size or program. It’s easier said than done.”***

**Cherine Aboulzelof, head of Europe, Metropolitan Real Estate**

**[Click here](#)**

to learn what it takes for investors to be co-invest ready



---

**PERE**

# Crazed and confused

Co-investment has gained popularity, but there is a growing confusion about what the term means. Some investors believe it entails additional decision-making power akin to a joint venture; others don't realize the demands involved



**Aloft Boston Seaport:** LaSalle used a co-investment platform to get equity in several assets, including this hotel

***"The investor talk about co-investing is so overbearing, I think there might be some investors who might not really want co-invest, who feel compelled to say to themselves or their bosses or the market that they are active co-investors and want to grow their proportion of co-investment as well."***

A senior executive at a global private equity firm

[\*\*Click here\*\*](#)



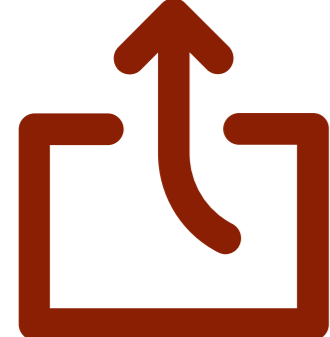
to read more about the confusion surrounding co-investment

**PERE**



# Evolving strategies

One reason for confusion is a shift in the way managers structure co-investments. Rather than relying strictly on existing LPs, some managers are bringing in outside investors

	Co-invest style	Structure
	<b>Classic co-invest (sidecar)</b>	Manager sources capital from its investors for an acquisition outside the underlying fund. All investors automatically have same right to opt into a pro-rata share of the co-investment based on their initial fund commitments. Larger investors take priority
	<b>Pre-arranged co-invest</b>	Manager and investors set co-investment rights individually during fundraising in case an opportunity should arise. Investors retain right to say yes or no to specific deals
	<b>Outside co-investment</b>	Manager opens co-invest opportunities to outside investors. Can be done alongside investors from the fund or independently

[\*\*Click here\*\*](#)

to learn more about the pros and cons of these different structures

# Conflicting interests

As managers deviate from the longstanding principles of co-investment, some worry that impropriety, or at least the appearance of it, could be on the rise



***“The inherent conflict comes in when consultants are advising investors on strategies while managing money for outside co-investors. It raises the question, ‘Could the advice I’m getting be biased?’”***

A senior executive at a global private equity firm

**Shanghai:** Allianz Real Estate participated in a co-invest with the Keppel Group’s Alpha Asia Macro Trends Fund III to acquire the Hongkou SOHO for \$525 million

**[Click here](#)**

learn more about how managers are handling co-investments

**PERE**



# PERE

This report was compiled from data collected for *PERE*'s **Special report on co-investing**, published in February 2019.

**Jonathan Brasse**

Senior Editor  
*PERE*  
jonathan.b@peimedia.com  
+44 20 7566 4278

**Kyle Campbell**

Senior reporter  
*PERE*  
kyle.c@peimedia.com  
+646-545-4428

Design: **Glen Reynolds**

Production: **Adam Koppeser**