RE Commingled Fund Closings, Non-U.S. Investors

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A recent rise in commingled fund closings is one trend in private real estate investing that has been catching the eye of a partner in the Real Estate Capital Markets group at Goodwin Procter LLP.

"There has generally been an increase in capital investments in real estate via commingled funds, joint ventures, and separate accounts," says Goodwin's Matt Giles. "The increase is due to several factors, including investors who had been cautious about investing in real estate after the recession putting more money to work, and seeing positive returns." Giles goes on to explain that after a period of relatively little new construction, developers are putting money to work more quickly and need to raise capital at a faster pace.

Giles focuses on raising capital to deploy into real estate, with a primary focus on commingled RE funds. The capital is then used by managers to buy real estate across an array of property classes, he says.

The types of investors in commingled funds, JVs, and separate accounts continue to include institutional pension plans, endowments, foundations, and high-net-worth investors. One difference, according to Giles, is that "coming out of the recession, many investors are more savvy. A number of pension plans and endowments have hired more expertise on the real estate side and are undertaking more due diligence prior to investing."

Giles also notes a recent increase in non-U.S. capital investing in U.S. real estate from a variety of sources, including Asia, the Middle East, Europe, and Canada. Examples include Asian investors interested in properties in San Francisco or other hot markets, he explains, and institutional investors like foreign sovereigns who team up with U.S. developers to buy properties in major markets like New York.

"We're seeing an upswing [in investments] because the U.S. real estate market has bounced back significantly across a variety of asset classes," says Giles. "That, coupled with the slowdown in China and in other countries, leads non-U.S. investors to view U.S. opportunities as favorable to other investment alternatives."

One of the most significant challenges for non-U.S. investors is the need to minimize their U.S. tax exposure, Giles says. "We work extensively with fund clients and real estate managers to help structure investment products to make them more tax efficient for non-U.S. investors."