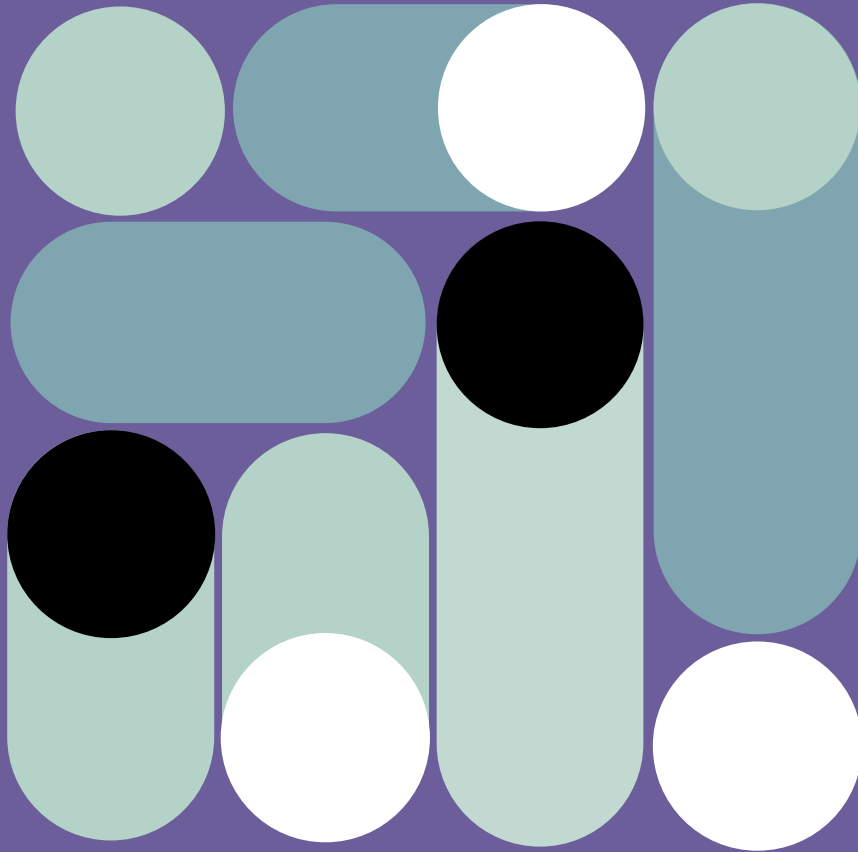


MODERNIZING MANAGEMENT



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The real estate investment management industry is modernizing its business practices and financial structures in response to a challenging liquidity environment and increased investor scrutiny.

GP-LP ECONOMICS

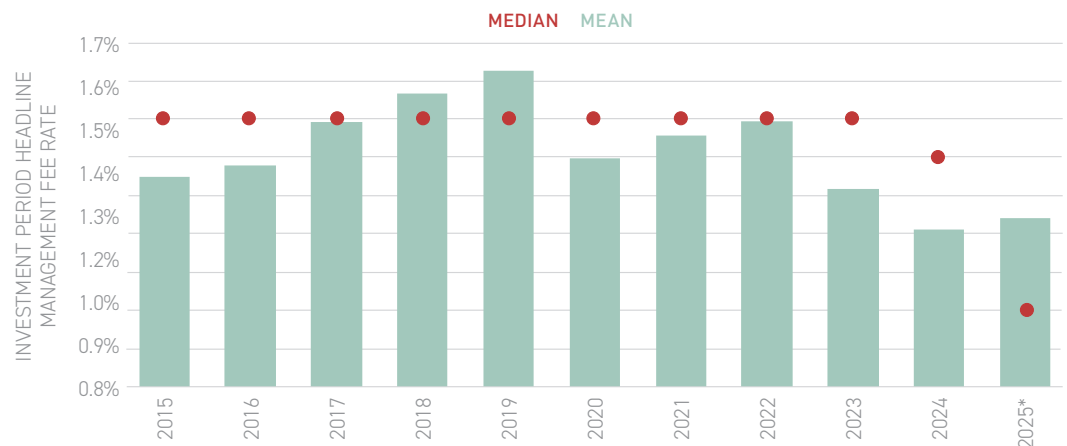
Real estate fund economics are shifting toward greater transparency and alignment, driven by LP sophistication and fundraising pressures. These shifts reflect not only cyclical market strain, but a structural repricing of governance, liquidity, and fee accountability across private real estate platforms.

Legacy fee structure models are transitioning from a single-basis to dual-basis fee structures, with initial compensation tied to committed and invested capital, then shifting to Net Asset Value (NAV) post capital deployment.¹ This aims to reduce long-term fee drag and better align costs with capital at risk. Fee rates typically exhibit an “inverted arch,” stabilizing for funds between \$250 million and \$2.0 billion.² This structure increasingly mirrors private credit and infrastructure fee frameworks, signaling convergence across real asset classes.

For 2020-and-later vintages, headline Post-Investment-Period (PIP) fees on actively invested capital are trending below the median, clustering between 1.4–1.5%. However, a significant diligence risk remains for LPs, as 46% of recorded Limited Partnership Agreements (LPA) lack specific language governing PIP fees, creating uncertainty in forward cash-flow modeling.³ This ambiguity has become a focal point of LP negotiation, as fee opacity compounds valuation and liquidity risk in a slower exit environment.

Hurdle rates have risen since 2020, with a 6.5% hurdle for real estate debt funds and an 8.7% hurdle for opportunistic strategies.⁴ In 2023–24 vintage funds, the average GP catch-up rate was 55%, accelerating GP participation pre-split. As fundraising timelines extend, the catch-up phase has become increasingly central to GP economics, intensifying LP scrutiny over incentive timing and alignment.

EXHIBIT 1: PREQIN 2025 PRIVATE CAPITAL PRIVATE FUND TERMS. REAL ESTATE FEES CONTINUE TO SLIDE



*Comprises vintage-2025 funds and those still raising

Source: Prequin, data as of June 30, 2025

Evidence of LP negotiating power is clear: Management fee discounts occur most frequently and are the largest on average in real estate. Since 2021, mean investment period management fee rates have declined to 1.31%, a 20-year low due to fundraising pressures.⁵ This shift toward greater LP favorability is structural: 28% of real estate funds since 2020 report adopting a dual-basis fee model, reducing the overall effective fee. Taken together, these trends underscore a durable rebalancing of economic control toward LPs rather than a temporary response to market dislocation.

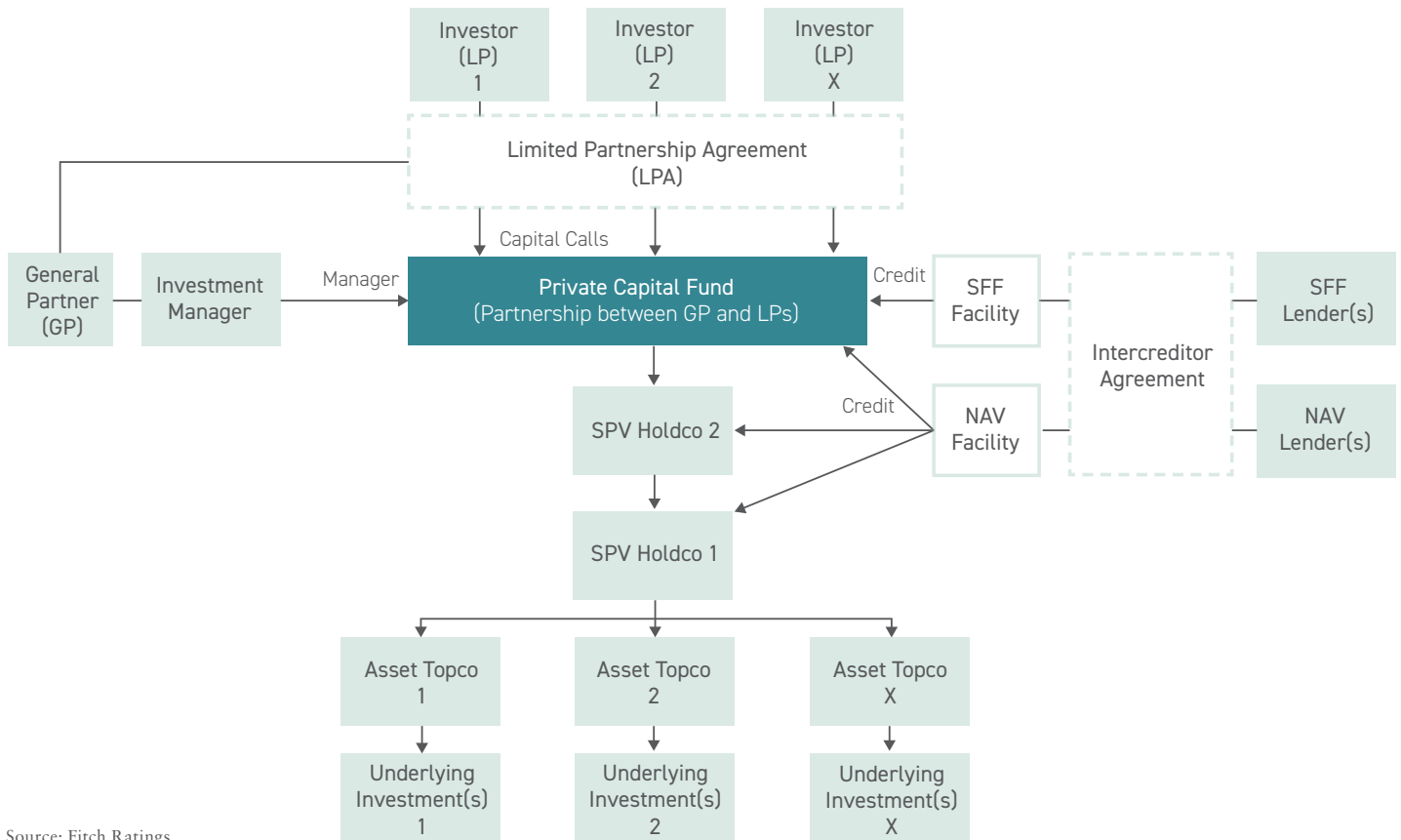
Managers are increasingly leveraging liquidity engineering tools to navigate market illiquidity and maturity. NAV facilities are used to bridge distribution shortfalls and extend business plans on transitional assets until valuations recover.⁶ They are materially more expensive than subscription facilities, running 200–500bps higher, and often include covenants and cash sweeps. Their growing use reflects the prioritization of balance sheet flexibility over near-term cost efficiency in a constrained liquidity environment.

Structurally, they operate as secured facilities backed by pledged shares or recourse-light facilities secured only by cash flow, with spreads differing by 100–150 basis points. While headline limits can reach 25% loan-to-value, practical usage is often closer to 5%. Despite LP scrutiny over potential leverage creep, adoption is rising, with 43% of surveyed lenders executing NAV deals on real estate and infrastructure portfolios in 2024. Importantly, access to NAV financing remains stratified by platform scale, asset quality, and reporting discipline, reinforcing advantages for larger, institutional managers.

In parallel, GP-led secondaries and Continuation Vehicles (CVs) have become critical safety valves for high-conviction assets. This market expanded sharply in 2024 to \$14.6 billion, a 49% increase from \$9.8 billion in 2023, driven by liquidity pressures that left distributions 60% below their 10-year average.⁷ Manager-led secondaries dominated, growing 52% year-over-year to \$9.33 billion in volume. Real estate secondaries priced near 71% of NAV in H1 2025, reflecting the gap between reported valuations and transaction pricing. Activity in 2025 is projected at \$15 billion, with strong interest in CVs tied to hard-to-replicate assets.⁸ However, managers must meticulously manage the inherent conflicts of interest when acting as both buyer and seller in these transactions. While these structures offer critical optionality, they also heighten governance complexity, requiring rigorous conflict management as GPs increasingly act as both buyer and seller of assets.

In aggregate, these shifts signal a fundamental re-architecture of real estate investment management, where fee economics, liquidity tools, and governance structures are no longer ancillary considerations but core determinants of platform durability. As capital becomes more selective and exits more episodic, the ability to actively manage alignment, balance sheet flexibility, and LP confidence has become a competitive advantage in its own right. Managers that can integrate disciplined fee design, transparent data practices, and sophisticated liquidity solutions will be best positioned to sustain investor trust, access scalable capital, and navigate an increasingly institutionalized and capital-constrained market.

EXHIBIT 2: FITCH NAV FACILITY STRUCTURE



Source: Fitch Ratings

FUNDRAISING AND DISTRIBUTION

Fundraising is stabilizing in 2025, with year-to-date commitments already surpassing 2024 levels and on pace to reach \$129 billion.⁹ Core real estate fundraising is rebounding on expectations of lower rates and the ability to buy assets below replacement cost. According to Preqin, Core strategies remain a large draw capturing 20% of capital raised in 2025. (20) Independent research reinforces that fundraising friction over the past several years has been driven less by return expectations and more by realized capital availability. As Green Street observes, “there can often be a wide gap between paper and realized returns,” (19) a dynamic that has intensified LP focus on cash distributions as a primary measure of performance. Therefore, this recovery in fundraising momentum reflects selective re-engagement rather than broad-based risk-on behavior, with capital concentrating around perceived downside protection and repricing opportunities.

Fundraising performance has marginally improved, with 30% of funds closed in H1 2025 exceeding their targets. While the number of funds closed rose to over 480 funds in 2024, the average size fell to \$231.2 million, about half of the 2020 peak, implying more vehicles are raising smaller tickets. This bifurcation suggests increasing fragmentation below the mega-manager tier, alongside continued scale advantages for platforms able to aggregate capital efficiently. Debt strategies are exceptionally strong, with private funds targeting North American commercial real estate raising \$20.9 billion so far in 2025, on pace for a record year as banks retrench.¹¹ Private credit is increasingly functioning as a structural replacement for regulated bank balance sheets rather than a cyclical supplement.

These dynamics directly constrain capital recycling across vintages. A key source of capital for new private market investments and funding calls is distributions from older vintage private market funds, underscoring how delayed realizations impair fundraising momentum even as investor appetite remains intact.

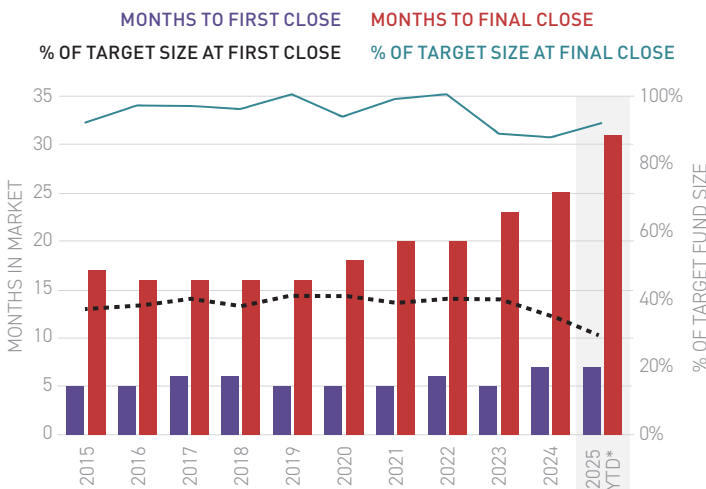
A defining feature of this cycle is the shift in the capital-source mix, with the rise of the private wealth channel filling gaps left by slower institutional pacing.¹² This diversifies GP dependence and better aligns investor horizons with real estate strategies. Family offices are highly engaged, with real estate representing 25% of their North American allocations. The growing influence of private wealth is reshaping product design, liquidity expectations, and reporting cadence across the industry.

The growing emphasis on liquidity design reflects a broader shift in how performance is evaluated. Investors have now turned an eye towards metrics focused on distributions as cash in hand becomes a more critical factor in judging performance of private funds.

This trend has propelled the creation of semi-liquid or evergreen vehicles designed for both the high-net-worth and Defined Contribution (DC) channels.¹³ These vehicles reflect a structural rethinking of capital formation, prioritizing continuous deployment, automatic reinvestment, and smoother cash-flow profiles over traditional drawdown models.

DC plans, which already hold over \$59 billion in private real estate strategies, are adopting blended structures (typically 70–85% private real estate with 15–30% liquid REITs) to provide daily liquidity while preserving long-term private-market exposure. Examples include Blackstone’s BREIT, a non-listed, perpetual, monthly-valued REIT offering capped quarterly share repurchases at ~5% of NAV (20). Similarly, the Clarion Partners Real Estate Income Fund (CPREX) is an Investment Company Act of 1940-registered evergreen vehicle providing daily valuation, immediate deployment, and quarterly liquidity through tender offers.¹⁴ These structures highlight the increasing importance of liquidity engineering, valuation governance, and redemption management as core competencies for managers accessing non-institutional capital.

EXHIBIT 3: PREQIN 2025: PRIVATE CAPITAL FUND TERMS ADVISOR REAL ESTATE FUNDS TAKING LONGER TO RAISE

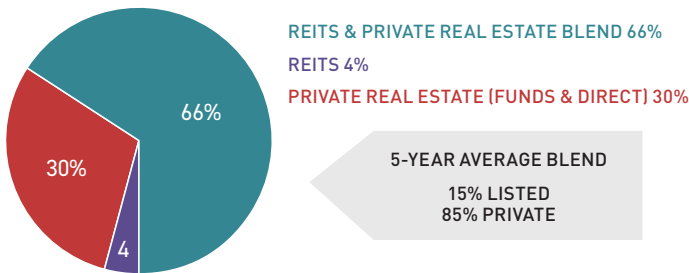


*YTD includes data up to August 2025

Source: Preqin, data as of August 26, 2025

These structures demonstrate how liquidity design, valuation cadence, and portfolio mix can be tuned to channel requirements. As these channels scale, success will increasingly depend on disciplined portfolio construction, transparent communication, and the ability to manage liquidity expectations through market cycles without impairing long-term value. Collectively, these fundraising dynamics underscore a structural shift in how real estate capital is formed, accessed, and retained. Capital is becoming more continuous, more diversified by channel, and more sensitive to liquidity design, placing greater emphasis on vehicle architecture, valuation governance, and investor communication. As private wealth and DC capital scale alongside institutional allocations, managers that can balance redemption mechanics with long-duration investment discipline will be best positioned to sustain fundraising momentum and protect portfolio value across market cycles. As Green Street succinctly frames the irony of the current cycle, “investors are demanding more distributions from illiquid vehicles only to then reinvest back into illiquid vehicles,” (19) reinforcing why liquidity engineering and vehicle architecture for this new wave of fundraising have become structural, not cyclical, considerations for managers.

EXHIBIT 4: US DEFINED BENEFIT PENSIONS REAL ESTATE STRATEGIES



Source: Preqin Real Estate Online (January 2025). Weighted by invested assets.

In U.S. ODCE core funds, the average Total Global Expense Ratio (TGER) is 0.67% on GAV and 0.95% on NAV, with most funds clustering tightly between 0.6% and 0.7%.¹⁵

OPERATING MODEL AND DATA

Tighter expense governance and scale economies are optimizing the operating model. In U.S. ODCE core funds, the average Total Global Expense Ratio (TGER) is 0.67% on GAV and 0.95% on NAV, with most funds clustering tightly between 0.6% and 0.7%.¹⁵ Management fees dominate the TGER at 0.56% (GAV)/0.79% (NAV). Crucially, the vehicle-cost loads of larger funds are roughly half those of smaller peers, underscoring the value of standardized processes. Vehicle costs (0.10–0.15%) are led by professional services (0.03–0.04%) and valuation costs (0.02%), while performance fees remain minimal at roughly 0.01%. These dynamics reinforce scale as a structural advantage, where disciplined cost control and operating leverage directly translate into higher net returns and improved fundraising competitiveness.

Reporting and data governance are converging on cross-asset best practices for comparability and auditability.¹⁶ The ILPA Principles 3.0 anchor LP expectations, requiring standardized, transparent, independently audited reporting on fees, expenses, and carry, prompt material-event notices, and LPAC oversight.¹⁷ For global reporting, the INREV Standard Data Delivery Sheet (SDDS) has become the market standard for American GPs reporting to European LPs, streamlining data flows and improving efficiency.¹⁸ As data standards converge, reporting quality is increasingly viewed as a proxy for governance strength, risk management discipline, and institutional readiness.

AI and technology deliver tangible operating leverage. In asset management and leasing, VTS covers over 13 billion SF and 60% of US Class A office space. Its embedded AI (Proposal AI) cuts proposal entry time by 93%, saving an estimated 25,000 hours annually, and has produced measurable results like 59% faster deal execution at Carr Properties. In reporting and investor relations, Juniper Square manages over \$1 trillion in investor equity. Its generative AI features automate the ingestion and summarization of documents, compressing review timelines from days to minutes while enhancing accuracy. In credit underwriting, platforms like Polly.io automate eligibility checks and recommend structuring adjustments, leading to reported efficiency gains of up to 12%, and lock-volume growth exceeding 150% in a year. Together, these tools are shifting technology from a back-office support function to a core driver of execution speed, underwriting consistency, and platform scalability in turn reshaping how managers compete for capital and transact in increasingly complex markets.

TALENT & ALIGNMENT: PERFORMANCE-TIED COMPENSATION AND PLATFORM SCALE

Compensation structures in real estate investment management are increasingly sophisticated and performance-driven, focusing on GP–LP alignment and talent retention. Carry is typically tiered by strategy, with opportunistic and value-add funds offering the highest upside, followed by credit, and then core. NAV-based fund structures shape compensation timing and valuation. In closed-end funds, promote NAVs can be volatile, often pricing 20–30 cents on the dollar in buyouts compared to more easily valued equity in REITs or open-end funds.

A key market challenge is the shrinking “triangle of leadership” as succession planning falters. Promote buyouts are less frequent as many legacy pools went underwater, making some senior talent more accessible without expensive incentive packages. However, LPs are increasingly sensitive to organizational economic misalignment, recognizing that compensation structures must support talent retention to mitigate downstream investment risk. Talent stability is now viewed as a component of underwriting risk, particularly for multi-asset and long-duration strategies.

The risk for the deal maker has increased as GPs are pushing for full-term deal-level carry, which introduces greater individual risk tied to entire deal outcomes.

Retention structures are more rigorous than in the past, with firms commonly holding back ~25% of carry, which vests only upon asset sales or vehicle performance. This ensures long-term alignment. Compensation for senior dealmakers is tied to 1–5% of sponsor-side return economics, with retention bonuses largely replaced by these performance-tied mechanisms.

To manage the tension between successful deal execution and fund realization timing, separate managed accounts and synthetic crystallization mechanisms further reflect this evolution, with bespoke arrangements allowing professionals to access 50–60% of held-back returns while the rest remains tied to long-term realization.

Firms are also taking a surgical approach to allocating meaningful economics, vetting deal sheets, track records, and leadership ability to ensure the “right people” are rewarded. While carry practices often net to 1–2x base salary, career choices for senior professional’s hinge as much on leadership opportunity and firm influence as on absolute pay. The rise of large, multi-product platforms (e.g., Blackstone, Blue Owl) further diversifies compensation, layering fund- and deal-level carry with corporate equity and REIT share programs—a “total comp” stack that raises the bar for competing firms. In contrast, public REIT compensation often follows a “get rich slowly” approach through long-term share payouts. This divergence reinforces the competitive advantage of scaled platforms able to offer diversified economic participation and long-term career pathways.

Overall, the combination of NAV-driven dynamics, tighter vesting schedules, and internal scrutiny has created a more disciplined environment, underscoring that alignment of incentives across professionals, firms, and LPs is the cornerstone of modern compensation. In an era of constrained liquidity and heightened governance expectations, compensation design has become a strategic lever for platform durability rather than a secondary human-resources consideration.

ABOUT THE AUTHORS

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NOTES

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