

By: Kyle Campbell  
PUBLISHED: 29 December, 2021

## MANAGERS

# LOOK AHEAD 2022: Real estate secondaries are 'at an inflection point'

Sarah Schwarzcchild, co-head and managing director of BentallGreenOak's Strategic Capital Partners group, sees the market hitting \$10bn in the near term.

**C**ovid-19 has led to an uptick in real estate secondaries activity, but not the kind most might have assumed at the onset of the global pandemic.

Instead of investors scrambling to unload troubled fund positions and rebalance their portfolios, the surge in transactions has largely been led by managers looking to recapitalize their vehicles and, in some cases, expand their holdings.

"The pandemic is serving as a catalyst for wider market adoption of these types of transactions," Sarah Schwarzcchild, co-head and managing director of BentallGreenOak's Strategic Capital Partners group, told PERE. "They were a minority of deals done pre-pandemic but have accelerated in 2020 and 2021."

Formerly Metropolitan Real Estate, the multimanager platform launched in 2002, was acquired by The Carlyle Group in 2013 and sold to BGO earlier this year. It has since been rebranded as BGO Strategic Capital Partners. But Schwarzcchild said the team has retained all its members and all the investments it made under Carlyle. It also remains focused on the same three strategies: primary commitments to funds, co-investments alongside funds and acquiring interests in funds on the secondary market.

Through the first three quarters of 2021, BGO SCP sourced more than \$5 billion of manager-initiated – commonly known as GP-led – secondaries deal flow, Schwarzcchild told PERE. That amount

roughly equals Metropolitan's total assets under management at the time of its sale to BGO.

"Helping to drive this deal flow is the wide variety of solutions that GP-led secondaries can provide," she said. "Originally these types of deals were mainly focused on tail-end fund restructurings, but have now broadened out to include mid-life recaps, single-asset situations, growth equity for portfolio aggregations, and more."

Before the pandemic, GP-led transactions accounted for one-third of real estate secondary market activity, said Schwarzcchild. During the pandemic, GP-led secondaries have accounted for two-thirds of deals. This is partially because investors were reluctant to sell their holdings until they had more clarity about what strategies would perform through pandemic-driven volatility and which would not.

Recent months have seen an uptick in LP-led secondaries activity as investors gain more certainty about the real estate sector, Schwarzcchild said. Yet, even as deal flow in this part of the market edges toward pre-pandemic levels, she does not expect investor-led deals to dominate the market as they once did.

Instead, her team predicts continued adoption of GP-led sales will open up hundreds of billions of dollars of assets held in closed-end funds to the secondary market.

"We see the real estate secondary market at an inflection point for growth,"

Schwarzcchild told PERE. "Secondaries are becoming more widely accepted as a solution, or a tool, that can be used by investors and GPs alike. We expect this to lead to strong growth in the market, with the overall size of the real estate secondary market to grow to more than \$10 billion in the near-term."

Toronto-based Setter Capital, which tracks the private fund secondaries market, tallied \$1.85 billion of real estate secondaries transactions during the first half of 2021, although the firm acknowledges that to be conservative estimate of the market. By its count, real estate secondary activity in the first two quarters was up 107 percent year-over-year.

Heading into 2022, Schwarzcchild said BGO SCP will lean on the various manager relationships it has formed over the prior two decades to capitalize on the growth in GP-led secondaries. She also noted that being a part of BGO, a \$70 billion assets under management private real estate manager, provides her team with a wealth of market insight on which to draw.

Being a part of a pureplay real estate firm, also has its advantages, Schwarzcchild said.

"Culture really does matter, and our team feels especially connected to BGO's mission to be leaders in sustainability, diversity and inclusion," she said. "We are in the ideal setting today to realize our goals for BGO SCP and strengthen our position in a market that's poised for growth."