The CenterCap Group is a boutique, real estate focused investment bank providing strategic advisory, capital raising, and consulting related services to public and private sector companies and fund managers across the real estate industry.

The CenterCap Group
media@centercapgroup.com
212-620-2655

Next Stop: Retail Capital.

By Deborah Smith, Co-Founder & CEO, The CenterCap Group

As I sipped my cup of tea on an early Monday morning in August, watching CNBC's *Squawk Box*, a Blackstone commercial crossed the screen marketing their private equity vehicles. It struck a chord, as those active on social media will also have noticed the uptick in video clips from real estate investment management ("REIM") giants, for example, Blackrock and Apollo's C-Suite executives, making the rounds on LinkedIn. The "why" is simple. It is about establishing a direct line to the individual investor and further advancing the "democratization of private markets" (a phrase that gets thrown around now with increasing familiarity). Our last publication focused on distribution channels - accessing the insurance sector and the chase for permanent capital. This time, it is about the chase for retail capital – opening up access to private market alternatives to individual investors – a distribution channel that has long been offered a narrower set of products, such as REITs and mutual funds.

Why now? Amidst a challenging capital raising environment over recent years, investment managers ("Managers") have taken stock of where they are and taken some time to think about the future with a focus on strategic growth. In our view, managers can generally expand through one of three ways - distribution, geography, and product offerings. Seems simple enough – the execution part is a lot trickier. This makes it much easier to understand why the sector has seen a growing interest in the retail channel. It is an intriguing trend as, for decades, smaller real estate managers, mainly backed by retail-oriented capital, have aspired to enter the institutional channels on the back of a belief accessing larger pockets of capital would make life easier. A new trend marks today's world: institutional managers looking to crack into the retail/individual investor channel. The road goes both ways. What has helped is a shifting mindset or perhaps re-evaluation, of investing in public versus private markets, particularly with respect to liquidity / appropriate risk premiums. Historically, private market options have been regarded as largely illiquid, have a higher risk, and are dominated by institutional investors. Public markets are considered liquid, “safer,” and a hallmark of the American financial system. This re-evaluation is getting help from the private markets, as managers are also becoming increasingly creative in developing vehicles capable of capturing many public markets' benefits, particularly those tied to liquidity. The term "democratization of the private markets" is really a euphemism for capturing the idea of providing greater access to private market alternatives and investment opportunities to the individual investor.

In the post-COVID-19 era, the commercial real estate industry has already taken steps to open this distribution channel. For example, Ares acquired Black Creek in July 2021, adding a retail fundraising platform with a ~$ 5B perpetual, non-traded REIT product capability. Retail investors made up ~45% of Black Creek's investor base, elevating Ares's retail distribution platform to a new level. Similarly, take a look at Apollo. At the Barclays Financial Service Conference in August 2024, Co-President Scott Kleinman noted that Apollo's wealth management business has ballooned over the past three years, and today, they are selling into the retail high net worth channel about $1 billion a month across ten semi-liquid products, spanning credit, tangible assets, infrastructure, and equity. Likely, an essential part of that expansion was the merger with Athene and the acquisition of Griffin Capital. Griffin's wealth distribution business signified a deliberate move to enhance Apollo's reach into the retail channel by strengthening its offerings to individual investors. Griffin's strength lies in its retail distribution network with ~60 client-facing distribution professionals. Then there is Brookfield Asset Management's acquisition of a controlling stake in Oaktree Capital Management in 2019. Brookfield Oaktree Wealth Solutions launched with the goal of building out a private wealth distribution channel. Within two years of launching Brookfield had dedicated 150 employees to this effort and by year end 2023 was marketing five dedicated funds through this channel. On the continued path to expand distribution capability, like Apollo, Brookfield also acquired an insurance company – American Equity Investment Life – in 2023. Another giant – Blackrock, has also stepped up. Blackrock’s acquisition of Preqin presents an interesting twist as Blackrock looks to beef up its information/data analytics and in so doing, enhance connectivity between the retail channel and private markets. The goal: to create transparency, and broader data access across Preqin’s reported coverage universe of over 190,000 funds, 60,000 fund managers and 30,000 private markets investors.

While accessing the retail channel presents a substantial number of strategic advantages, it has challenges. Firstly, building a wealth management platform from scratch is a monumental task. Determining the segment of the wealth channel to target, establishing the wealth management relationships, and creating the products to sell, are also expensive and time-consuming endeavors. Secondly, there is inherent complexity involved in managing retail capital, particularly given it involves courting smaller, more fragmented investors, compared to institutional capital. Thirdly, the shift towards retail capital requires Managers to develop robust communication and client relationship management strategies and systems. Managers are, more likely, required to engage with significantly more individual investors, with each investor coming with a varying level of investment knowledge and differing expectation. This complexity can increase operational costs and dilute the focus of Managers, which traditionally excel in managing more significant, more concentrated investments. Fourthly, the dual approach of catering to both retail and institutional markets can strain resources and complicate the alignment of investment strategies across different investor bases. Allegations related to dilution of focus, expertise, standards, service, and performance, would not be unusual to expect and need to be navigated, with institutional clients, particularly. This is why it is critical to have a well-designed product strategy and distribution system if embarking down the retail distribution path.

The upshot is that the channel between retail capital and private market alternatives is expanding. Investment managers are courting retail investors to re-evaluate their investment allocations, making the case that semi-illiquid alternatives have the capacity and provide the opportunity to achieve a better risk-adjusted return. Retail investors are, in turn, offered new, exciting ways to invest in private commercial real estate opportunities. It is still in the early innings (with the most progress being made on the private credit front), but the process is well and truly in progress. With the "why" answered, tackling the topic of "how" to achieve best execution, is still up for grabs, and indeed, a topic for another article. So, stay tuned.