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# Decoding GP Investments: A Practical Guide For Investors and Investment Sponsors



This evolving landscape has introduced a variety of new terms and concepts, but a clear industry standard has yet to emerge.



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**G**rowing interest and activity continue across various forms of general partner (GP)–position investing—ranging from GP stakes at the entity level to GP equity at the vehicle or asset level to operating company / property company structures. In parallel, merger and acquisition (M&A) activity among investment sponsors has also been gaining momentum.

This evolving landscape has introduced a variety of new terms and concepts, but a clear industry standard has yet to emerge. The resulting inconsistency in language can create unnecessary friction for all stakeholders—whether they are investment sponsors trying to articulate their offerings to investors or investors working to explain the strategy to their investment committees.

In today’s environment, *GP stakes* has become a widely used yet often misunderstood term. This article aims to clarify the various forms of GP-related investing and offer a practical tool kit to support clearer communication and stronger partnerships across the industry.

## History

### Investment sponsors ...

- have not had realizations from earlier vintage-year investments—they are cash-strapped. As more compelling vintages and opportunities emerge, sponsors need capital to scale their teams and provide their percentage coinvestment requirements for deals, joint ventures (JVs), and funds.
- are approaching firm-level inflection points. Founding partners are considering retirement and exploring ways to monetize their ownership, while the next generation is focused on identifying new avenues for growth. Additionally, some firms have evolved from deal-/vehicle-level operators to fund managers, creating a need for growth capital to continue scaling the platform.
- are experiencing a growing bifurcation between large firms and smaller players. In sectors such as multifamily and industrial, the competitive landscape has also become increasingly crowded. To remain competitive, many recognize the need to grow and secure more reliable capital sources than what traditional sequential closed-end funds or deal-by-deal syndications can offer.

### Capital providers (an intentionally broad use of the term) ...

- are exploring creative structures to generate alpha in an environment in which simply selecting the right property sector or investment partner is no longer sufficient.
- are consolidating relationships across their portfolios, leveraging their capital to build strategic partnerships with their highest-conviction investment sponsors.
- are seeking to participate in the upside of the investment sponsors they support, aligning incentives and deepening engagement.

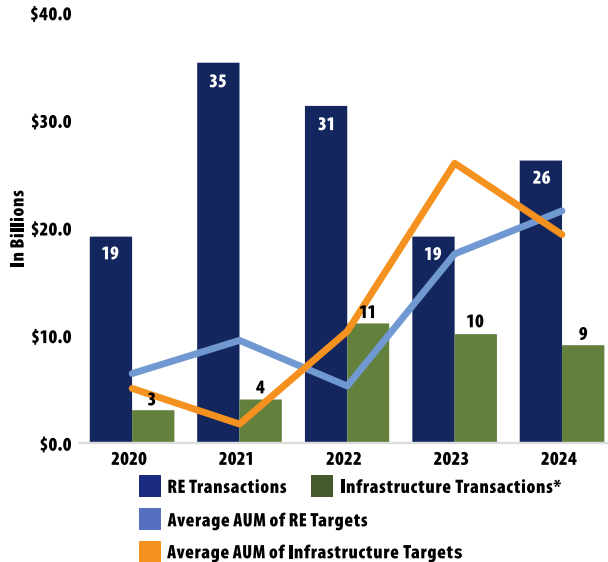


**Jennifer Wenzel**  
Teacher Retirement System of Texas



**George Zhang**  
Teacher Retirement System of Texas

**Exhibit 1: Real Estate and Infrastructure M&A Transactions**



Source: Hodes Weill 2024 M&A Market Review

\*Hodes Weill began tracking infrastructure transactions in 2022.

The rise in GP-level investing presents strategic implications for market participants:

- **For Investment Sponsors:** GP-level capital provides access to long-term growth funding, enabling firms to scale operations, expand platform capabilities, and more effectively navigate market cycles. It also supports strategic initiatives such as talent retention, technology investments, product diversification, and geographic expansion.

- **For Capital Providers:** GP-level investments offer the opportunity to participate in the broader economics of an investment sponsor's platform—including recurring fees, carried interest, and potential long-term enterprise value. These structures can deliver enhanced, diversified, and downside-protected returns while fostering deeper, more strategic partnerships.

According to data provided by Hodes Weill & Associates, cumulative M&A transaction volume for real estate and infrastructure investment sponsors has increased over the past five years (Exhibit 1). Based on the trends that caused them, we expect this activity to continue.

## Definitions

**Investment sponsor**—an investment manager or operating company responsible for overseeing and executing

real estate investment strategies on behalf of investors. These entities are also commonly referred to as GPs or sponsors of a specific asset, investment vehicle, or partnership.

Unlike other private asset classes, real estate often features two distinct layers of GPs—the entity level and the vehicle/asset level. However, *GP* is frequently used interchangeably across these layers, leading to confusion. As such, we are adopting the term *investment sponsor* as a more neutral and inclusive label that captures both models.

- **Fund GP** (fund sponsor / investment manager): an investment sponsor that manages capital on behalf of institutional investors such as pension funds, sovereign wealth funds, endowments and foundations, insurance companies and family offices—typically through the form of funds and/or vehicles. More than 1,400 real estate investment sponsors are active in the US that invest through fund structures (per Preqin).

- **Operator GP** (deal sponsor / operating partner): a real estate operating company that executes business plans at the vehicle/asset level by forming deal-by-deal or programmatic joint ventures with fund managers, private wealth capital, or institutional investors. They typically earn deal-level promotes, development / asset management fees, or a share of operating profits. More than 4,900 real estate operators are active in the US (per the IREI iREOC database).

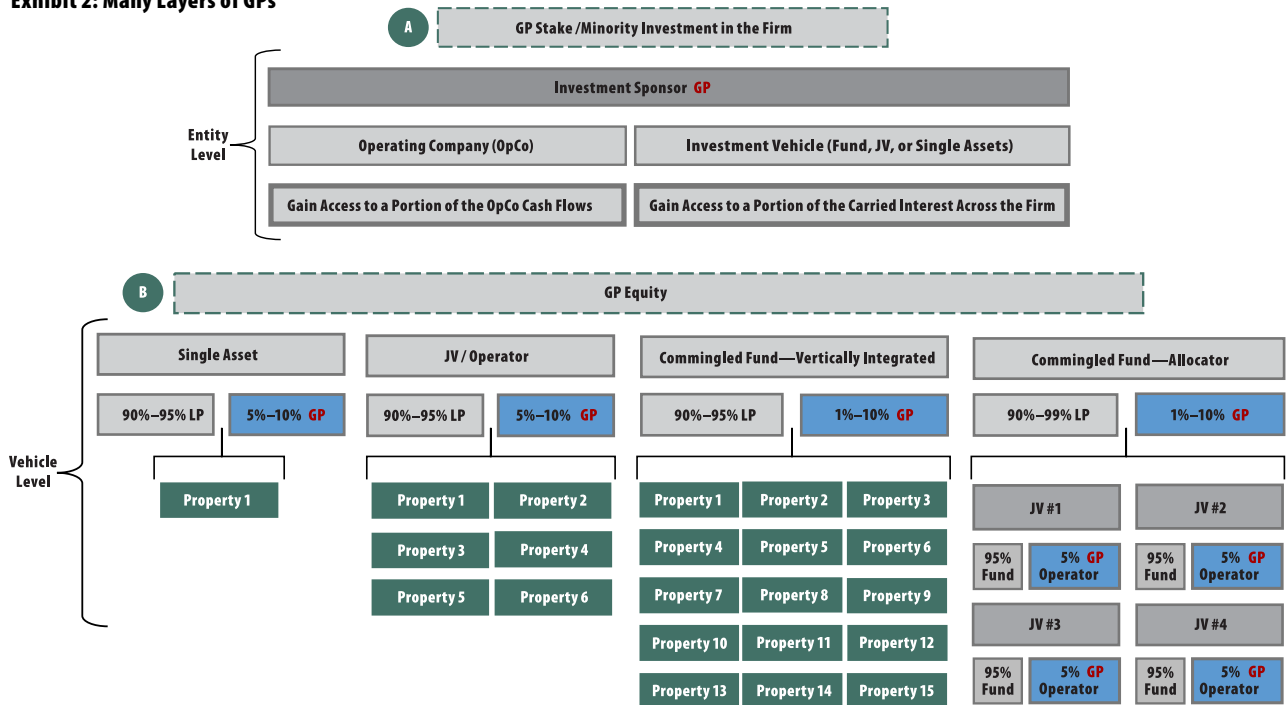
Investment sponsors can operate at different levels of the GP value chain:

- GP 1.0—asset-level operator raising deal-by-deal capital
- GP 2.0—programmatic joint venture
- GP 3.0—fund manager

Although some investment sponsors raise capital across the full spectrum—ranging from single-asset deals to joint ventures to commingled funds—others specialize in a single structure. In some instances, sponsors may evolve over time, progressing through different stages of the GP role as their platform matures. This fluidity contributes to the persistent ambiguity surrounding the term *GP* because it can refer to materially different responsibilities depending on the context (Exhibit 2).

**Capital provider**—a wide range of investors, including institutional limited partners (LPs) (pension

Exhibit 2: Many Layers of GPs



Source: Alliance Global Advisors

funds, endowments, foundations, etc.), allocators, GP-investment-focused funds, insurance companies, family offices, and others. We use the term *capital provider* as a more inclusive descriptor to capture the full range of entities that contribute capital to GP-position investments.

**Anchor investment**—a large capital commitment in the LP position, typically representing a substantial portion of the first close in a commingled fund or a significant allocation to a joint venture. These commitments are often paired with GP stakes or GP equity investments to help “keep the investment engine running” by providing capital for deals.

**GP stake**—an entity-level investment in an investment sponsor (typically passive minority) in which returns are driven by the firm’s overall profits and losses, as well as the long-term appreciation of its enterprise value (Exhibit 3). These investments often more closely resemble private equity, given their exposure to the underlying growth and profitability of the management platform.

In the case of early-stage investment sponsors, this strategy is often referred to as “GP seeding,” in which

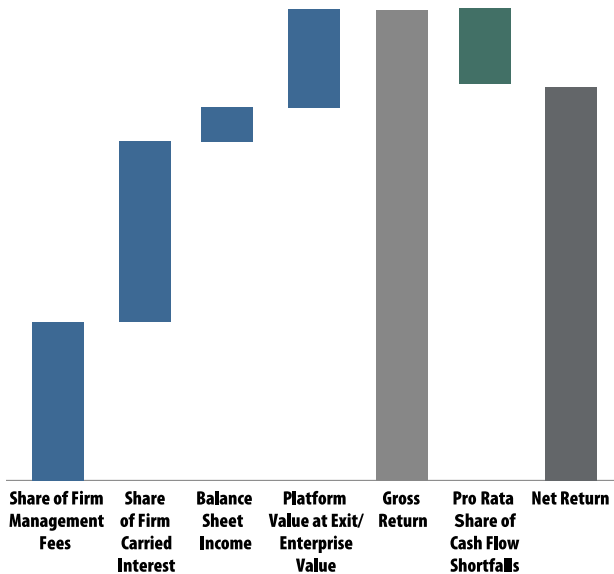
an emerging manager offers platform ownership, a revenue share, or preferential fee terms to a capital provider in exchange for an anchor investment.

■ **Methods of Access:** GP stakes can be acquired through direct transactions with investment sponsors or via specialized GP stakes funds.

■ **Structure/Governance:** GP stakes may be structured as either minority entity-level equity ownership or revenue-sharing arrangements. Depending on ownership percentage, equity ownership offers greater control and deeper integration but could also lead to exposure to firm overhead and cash shortfalls. It also entails a more involved partnership between the capital provider and the investment sponsor. In contrast, revenue-sharing agreements offer a lighter-touch structure with more immediate economic benefits, but they typically limit participation in the long-term growth and enterprise value of the platform.

■ **Return Drivers:** key sources of return are fee-related earnings, carried interest, balance sheet income, and potential gains from platform value.

**Exhibit 3: GP Stake / Minority Investment (Illustrative Example)**



Source: Created by Alliance and TRS for this article

■ **Time Horizon/Liquidity:** Investment horizons vary by structure. Some GP stakes involve perpetual ownership, while others have sunset provisions tied to the lifespan of a specific strategy (particularly in revenue-sharing arrangements). As the market matures, liquidity options are expected to expand.

**GP equity**—vehicle-level capital that funds the GP commitment in a single deal, joint venture, separate account, or commingled fund. Returns are primarily driven by the performance of the underlying real estate assets, supplemented by any reductions in management fees and participation in the vehicle-level carried interest (Exhibit 4). GP equity can be described as a “supercharged real estate investment.”

■ **Methods of Access:** Historically, GP equity was provided by friends and family of a firm. As the dollar amounts needed have grown, capital providers have entered the space and gained access through direct capital commitments to the sponsor or specialized GP equity funds.

■ **Structure/Governance:** Real estate vehicle-level joint ventures typically follow a 90-10 or 95-5 split between LP and GP. GP equity typically involves providing a portion of GP commitment capital in exchange for GP economics—

often including fee income and a portion of the carried interest. The level of governance varies between a true “co-GP” of the vehicle (with participation on the investment committee) and a passive minority stake.

■ **Return Drivers:** The majority of GP equity returns are driven by asset-level income and appreciation. From a capital provider’s standpoint, underwriting a single deal, joint venture, or commingled fund from the GP perspective is very similar to underwriting from the LP perspective—but with the added benefit of reduced fees and participation in carried interest at asset exit.

■ **Time Horizon/Liquidity:** GP equity exits are tied to the life cycle of the underlying vehicle or asset. As assets are sold, GP equity naturally winds down, providing built-in liquidity over time.

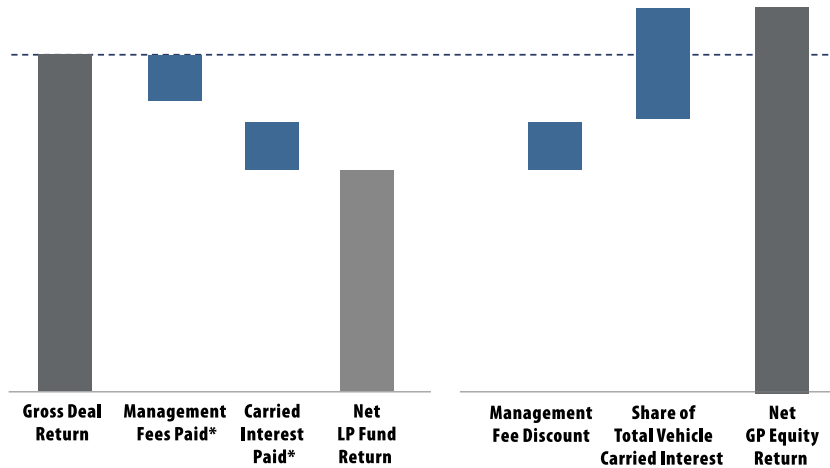
Many capital providers do not view GP stakes (entity-level investments) and GP equity (vehicle-level commitments) as either-or options. Instead, they often pursue a combination of both—either through direct investments or via specialized funds. The key distinction lies in the return profile: whether value is driven primarily by firm-level activities (e.g., management fees, enterprise value) or property-level performance (e.g., asset appreciation, cash flow). Exhibit 5 illustrates the spectrum of options and the corresponding degrees of control and alignment.

### Benefits for GPs and LPs For Investment Sponsors

■ **Access to Growth Capital:** GP stakes investments at the entity level provide investment sponsors with capital to support firm expansion, platform development, and operational scaling. This capital enables sponsors to pursue growth initiatives with high return on investment tailored to their strategic goals—such as building out institutional capital markets and distribution teams, expanding into private wealth channels, broadening geographic or sector exposure, launching fund business or new fund strategies, or integrating artificial intelligence and technology into investment and operational workflows.

■ **Support of Pipeline Investments:** GP equity investments at the vehicle/asset level are particularly

**Exhibit 4: GP Equity (Illustrative Example)**  
**Traditional Real Estate Funds (LP Position)**



**Source:** Created by Alliance and TRS for this article

\*Vehicles using an allocator model will have a second layer of fees and higher gross-to-net leakage.

valuable in challenging capital formation environments in which traditional capital sources may be limited. Because investment sponsors are expected to commit GP coinvestment into each transaction (deal by deal, joint ventures, and fund structures), their ability to remain active in the market is limited by the liquidity of their own balance sheets. Many sponsors fear becoming obsolete if they are unable to participate in new opportunities over an extended period.

■ **Retention of Control With Customizable Structures:** Minority GP stakes investments can be structured to allow investment sponsors to maintain significant control over operations while benefiting from the resources and expertise of their capital provider partners. Likewise, GP equity allows investment sponsors to have control over the day-to-day management of assets and ownership of their track records.

■ **Efficient Succession Planning:** As investment sponsors founded 15 to 25 years ago begin to consider succession, bringing in minority investment can be an efficient way to provide liquidity for founders. These investments can also supply growth capital to empower the next generation of leaders, enabling them to pursue the firm's next phase of strategic expansion and evolution.

■ **Enhanced Alignment With Capital Providers:** By involving and aligning capital providers at the entity

level, investment sponsors can foster deep, long-term partnerships. These relationships often lead to increased support in future fundraising efforts and strategic initiatives.

■ **Guidance and Resources:** In addition to capital commitments, investment sponsors often receive support in other forms, including balance sheet enhancement, operational and infrastructural resources, and strategic or organizational management guidance.

**For Capital Providers**

■ **Participation in GP Economics—**  
**Finding Alpha:** GP stakes

investments enable capital providers to participate in the broader economics of an investment sponsor's platform, including management fees and performance incentives, beyond returns from individual assets. GP equity structures help reduce the gross-to-net leakage between property-level returns and net-investor returns. In today's environment, in which traditional opportunistic investments no longer consistently yield net internal rates of return in the high teens, LPs are increasingly turning to GP investing strategies as an alternative path to achieving opportunistic-level returns with perceived lower risk.

■ **Diversification and Risk Mitigation:** GP stakes investments provide access to recurring fee revenues, carried interest, and a diversified portfolio of underlying strategies managed by the investment sponsor across sectors, geographies, vintages, and capital structures. Similarly, GP equity investments benefit from both property-level investment returns and participation in fee and carried interest revenues, offering risk mitigation and further downside protection relative to traditional asset-level investments.

■ **Market Intelligence:** Generalist investment sponsors view minority investments in specialist platforms as a means of gaining sector-specific expertise. Similarly, institutional investors increasingly use these

**Exhibit 5: Range of Deal Structures**

	Asset-Level Exposure							Company-Level Exposure	
	LP Position				GP Equity			GP Stakes	
	Wholly Owned Asset	Single Deal JV	Programmatic JV	Commingled Fund (Open End or Closed End)	Single Deal JV	Programmatic JV	Commingled Fund	Minority Investment in Operating Company	Majority Acquisition of Operating Company
Ownership from Capital Provider	100% of Deal	90% to 95% of Deal	90% to 95% of Portfolio	90% to 99% of Portfolio	A Portion of the 1%–10% the Sponsor Puts In			Up to 49% of the Firm	50% or More of the Firm
Description	Ownership of the Asset and Hiring of a Third-Party Property Manager for Day to Day	A Method to Build Relationships With Operators Through Individual Deals	Priority of Access to the Operator’s Pipeline in Exchange for Certainty of the Allocator’s Capital	Diversified Portfolio Governed by Investment Guidelines	Investment Alongside the Sponsor			Minority Investment in the OpCo (and Sometimes the PropCo)	Majority Investment in Both the OpCo and PropCo
Duration	From Asset Acquisition to Sale	From Asset Acquisition to Sale	From Pipeline Review Until Final Asset Sale	Evergreen / Ten or More Years	From Asset Acquisition to Sale	Duration of the JV	Duration of the Fund	Long Term/ Perpetual	
Level of Control from Sponsor	n/a	Deal Sourcing Property Management	Deal Sourcing Property Management	High—Fund Manager Makes All Major Decisions and Runs the Day to Day	Sponsor Gives Up Some Economics Potentially a Co-GP–Level of Governance			Gives Up Some Control of the Firm and Future Revenue-Reduction in Future Management Fees and Promotes	Gives Up Future Revenue and Exclusivity on Pipeline
Level of Control from Capital Provider	Highest—However, Many LPs Do Not Have the Expertise to Also Function as GPs	Major Decisions	Major Decisions	Limited Potential LPAC Seat	Enhanced Economics Potentially a Co-GP–Level of Governance			Ranges from Fully Passive to a Level of Active Control and Negotiated Terms	Major Decisions and Exclusivity on Pipeline
How Common Is It?	Very Common				Traditionally Self-Funded by the Firm or Friends and Family—Now Moving Into Institutional Capital			Investors Who Can Take a Private Equity View of Real Estate Firms	

**Source:** Alliance Global Advisors

partnerships to deepen their strategic exposure to niche strategies, emerging sectors, or regional markets.

■ **Pipeline Access:** GP-level investments often grant capital providers access to a steady pipeline of high-quality deal flow. Even without full exclusivity, these deeper relationships tend to yield more actionable and aligned investment opportunities over time.

■ **Customized Investment Structures:** Entity-level investments offer the flexibility to tailor deal terms to a capital provider’s specific objectives, such as preferred returns, governance rights, and exit options. Investment duration and capital structure can also be customized to fit strategic goals.

### Considerations

Investment sponsors should approach any potential transaction from the perspective of all stakeholders. Understanding how current investors, prospective investors, and internal employees will perceive such moves is critical to maintaining trust, alignment, and long-term success. Transparent communication, careful governance, and clear articulation of strategic intent are key to ensuring positive outcomes.

■ **Need for Transparency:** Investment sponsors must ensure that all stakeholders—both internal and external—are kept informed throughout the process. Open communication channels and opportunities for

feedback are essential, especially for team members and investors who are not directly involved in the transaction but may be potentially impacted.

■ **Governance:** Consultants and LPs not involved in a transaction will want to make sure that any GP stakes or GP equity transactions will not negatively impact their interests. Any perceived erosion of control, such as granting an external party exclusivity over pipeline, a seat on the investment committee, or influence over allocation policy, can negatively impact the sponsor's ability to attract future capital.

■ **Uses of Minority Capital:** The purpose of minority capital must be clearly articulated to avoid misinterpretation. LPs are particularly wary of founder cash-outs, especially if they believe significant turnover may follow. Sponsors should clearly communicate how the capital will be reinvested into the firm—whether through team development, platform scaling, or succession planning—to reinforce confidence in the firm's long-term trajectory.

■ **Retention of Staff:** Because a portion of future profits—from fees and carried interest—is allocated to outside capital providers, investment sponsors must ensure they preserve sufficient economics to motivate internal talent. A cohesive long-term compensation strategy is critical to retaining rising leaders and preventing loss of talent. Ensuring that key team members have meaningful ownership in the firm's success will help maintain continuity and institutional strength.

■ **Time Horizon for GP Stakes Investments:** GP stakes and minority investments often involve long time horizons, and poorly planned exits can create misalignment or disruption. Sponsors should consider structuring exit mechanisms—such as preferred equity, warrants, amortization schedules, or sunset provisions—that provide clarity and flexibility for both parties. LPs tend to view these features favorably because they reduce the risk of forced exits or secondary sales down the line.

■ **Sensitivity to Fundraising and Capital Formation:** Given the fact that GP economics are largely derived from management fee and carried interest incomes (as well as the resulting platform value from these

cash flows), the value of these economic arrangements is highly dependent on sponsors' ability to fundraise additional LP capital.

■ **Different Underwriting Process:** GP stakes investments require an underwriting framework distinct from traditional real estate deals, requiring different expertise and resources from capital providers. Investors must evaluate not just the assets but also a sponsor's corporate structure, strategic plan, leadership team, and governance model. These investments often resemble private equity deals, with governance rights, board representation, and long-term alignment as key elements.

■ **Firm Valuation:** Valuing an investment sponsor—especially a younger or development-focused platform—can be challenging because of the lack of recurring revenue. Founders and leadership may have an optimistic view of their firm's value, but incoming capital providers may apply more conservative metrics, creating a valuation gap that can complicate negotiations and delay deal execution.

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This brings us to the elephants in the room. When a founder has monetized a significant portion of the ownership but continues to retain control of the firm, what truly motivates the founder to preserve the culture, performance, and long-term integrity of the platform? Although many GP stakes transactions are structured with multiyear vesting, reinvestment obligations, and clawback provisions, these mechanisms may not fully replicate the psychological and financial incentive that comes from building equity from the ground up.

Similarly, in the context of GP equity, critical questions remain: If the capital commitment is not coming from the investment sponsor's balance sheet or the senior team, is it really skin in the game? As

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... both GP stakes and GP equity are likely to remain enduring components of the market ...

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market dynamics evolve, will the market lower expectations for the GP coinvestment percentage? Some investors have already shown flexibility around the 1%–10% GP commitment in a joint venture, which, while offering relief to liquidity-strapped sponsors, also narrows the investable universe for GP equity strategies.

However, if the private equity market is a bellwether, both GP stakes and GP equity are likely to remain enduring components of the market—driven by the need for platform scalability, succession solutions, and deeper alignment between investment sponsors and capital providers.

### Next Steps

As the conversation around GP investing evolves, we want to hear from you. Help us bring more clarity to this space by participating in our brief [industry survey](#) by either going to the link or using the QR code. What structures are you exploring? What challenges are you encountering? Your input will help shape the next phase of the dialogue. By participating, you'll receive early access to the survey results and key takeaways from across the industry. ■

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