



SPRING  
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# PRIVATE WEALTH WILL CHANGE REAL ESTATE



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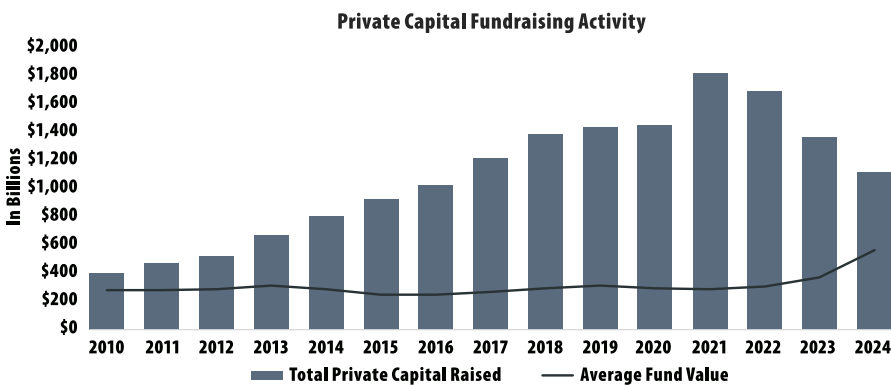
Private wealth is poised to reshape commercial real estate. As more high-net-worth (HNW) and ultra-high-net-worth (UHNW) individuals seek uncorrelated returns to the public markets, private investments have become an increasingly attractive destination for their capital. For general partners (GPs), this shift presents enormous opportunity—and new complexity.

### The Growing Appetite for the Private Markets

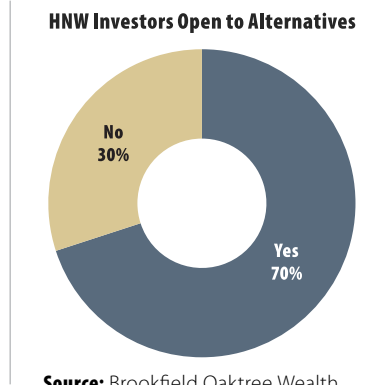
The total size of the private markets is already huge at \$25 trillion and is predicted to more than double to \$60 trillion by 2032. A key driver of this growth is the increasing involvement of individual, wealthy investors in alternative investments such as private equity and real estate.

Several factors are fueling this interest. The most obvious is that investors are seeking higher returns than they expect from public markets. As Mark Neely from GenTrust Wealth Management noted in a recent episode of the podcast *The Distribution by Juniper Square*, “Things in the public markets that are easily accessible have just become very rich. You’re paying a lot for growth.” Furthermore, after experiencing the volatility of public markets, some investors are looking to diversify their portfolios and find potentially less correlated assets in the private space.

The anticipated influx of capital from the wealth channel is significant. Estimates suggest that over the next several years, around \$14 trillion of new capital will enter private markets, with more than \$7 trillion expected from private wealth. This represents a vast pool of potential capital at a time when vying for the next dollar has never been more challenging.



Source: PitchBook—Geography: Global; as of Nov. 27, 2024



Source: Brookfield Oaktree Wealth Solutions—Geography: Global; as of Nov. 27, 2024

### Why Are GPs Tapping Into the Private Wealth Channel?

Sourcing capital from HNW and UHNW investors is compelling for several reasons:

- **Diversification of Capital Sources:** Relying on a broader range of investors can reduce a GP’s dependence on a smaller number of large institutions, potentially providing more fundraising flexibility, especially when institutional allocations slow.
- **Potential for Different Capital Needs:** HNW investors might have different investment horizons and risk appetites compared with large institutions, potentially aligning with a wider variety of real estate investment strategies.

Todd Rich, cofounder and head of real estate at Declaration Partners, put this into perspective in a recent conversation on *The Distribution*: “Families in general are not trying to meet certain liability management. They don’t have to fund an annual budget for their family. They have expenses. Often the wealthy families have more expenses than me or

you; they don't have liabilities to meet. They don't have a specific timeline to meet. They don't have a need for pension contributions. ... As a result, they can be very, very flexible and they can wait."

He further elaborated, "Having money doesn't mean that they need an asset allocation plan. It means that they can wait until such time as they actually have real conviction. ... And when they deploy, [it] doesn't need to fit some box that a consultant signed up to. It could be pretty flexible."

■ **"Stickier" Capital:** While HNW investors may have their own liquidity needs, their allocations might sometimes be less prone to large-scale withdrawals compared with institutional investors facing specific funding requirements.

### Vying for Capital: How GPs Must Evolve

GPs need the will and the skill to adapt to attract capital from the growing private wealth channel. Having spoken with many of the most forward-thinking GPs in the industry, I have no doubt the will is intrinsic to their core. Building the skill is harder, and it requires GPs to have the products, people, and processes to meet the demands and expectations of these investors.

#### 1. Product Evolution: Accessibility and Liquidity

Traditionally, private equity and real estate funds have used a closed-end, drawdown structure in which investors commit capital that is drawn down over time for investments and locked up for a specific period (often ten or more years). While this structure works for institutional investors with long-term horizons, it can be less appealing to individuals who may desire more liquidity and easier access.

■ **Emergence of New Fund Structures:** GPs are increasingly exploring and adopting new fund structures to cater to the wealth channel. Interval funds and evergreen funds are becoming key access points, offering periodic liquidity options and continuous fundraising. Joan Solotar, global head of private wealth at Blackstone, noted in an episode of *The Distribution* that "We [Blackstone] have open-ended funds in real estate, private credit, absolute return, and private equity. With open-ended funds, the money is invested immediately,

and there's a degree of liquidity even if it's capped. And that immediacy of investment boosts returns, while the liquidity allows flexibility."

It's important to note that retail investors are not tax-exempt. This introduces real structural implications because taxable investors often require blocker entities or different fund structures to manage tax exposure, adding cost and complexity. It also affects how returns are reported and can shape investment preferences.

■ **Lower Investment Minimums:** Traditionally, high investment minimums for private funds can be a barrier for many HNW and even some UHNW individuals. GPs need to consider offering lower minimum investment amounts to broaden their reach.

■ **Focus on Understandable Strategies:** While sophisticated, HNW investors may prefer easier-to-understand investment strategies to highly complex or niche strategies that might be favored by some institutions.

#### 2. People Evolution: Building Trust and Providing Service

The way GPs interact with and service individual investors is significantly different from their relationships with large institutions.

■ **Dedicated Investor Relations Teams:** GPs need to evolve the way they do investor relations and be equipped to handle a potentially much larger number of individual investors and their advisors. This inherently means investor relations professionals need to be both relationship-savvy and comfortable using technology that scales their management and communication efforts.

■ **Focus on Advisor Relationships:** A significant portion of HNW and UHNW individuals allocate capital through registered investment advisors (RIAs) and private wealth advisors. GPs need to cultivate strong relationships with these advisors, providing them with the necessary information and support to understand and recommend their funds. In another conversation, Darren Fisk, founder and CEO of multifamily investment firm Forum, said this means "hiring people that have actually done it and built it before ... it takes time, it always costs more, the story in life of any business, but you have to be willing to stick it out and really stay on those RIAs and build those relationships."

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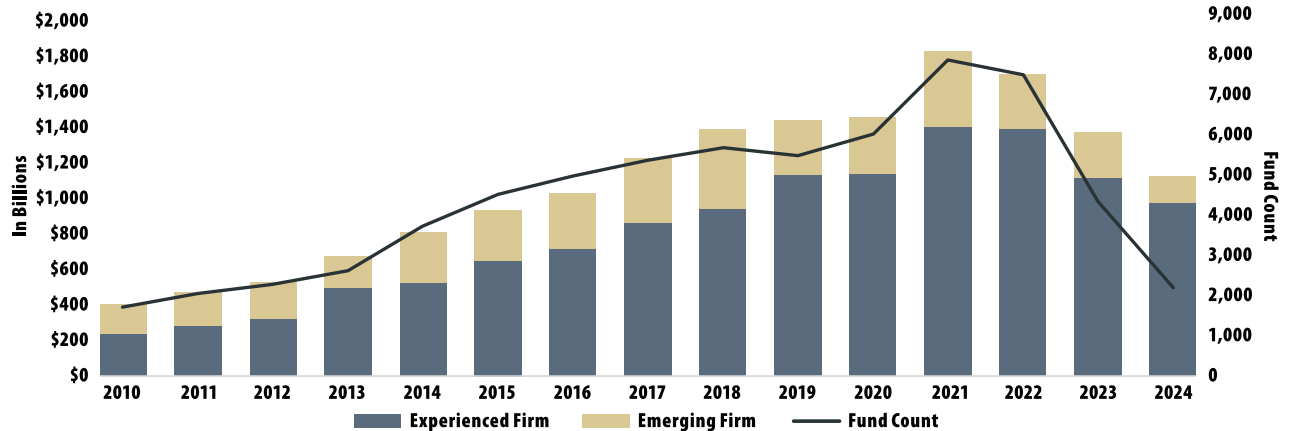
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**Private Capital Raised by Manager Experience**



Source: PitchBook—Geography: Global; as of Nov. 27, 2024

■ **Clear and Consistent Communication:** HNW investors and their advisors require clear, consistent, and transparent communication about fund performance, strategy, and market outlook. As Michael Episcopo, co-CEO of Origin Investments, pointed out, you need to “assume that they are going to read through your [private placement memorandum], that they are going to see every line.”

■ **Education and Enablement:** Many retail investors may be newer to private markets, as are many RIAs. GPs and their distribution partners need to provide educational resources that go beyond traditional means, such as pdfs and webinars, to help them understand the asset class, the specific investment strategy, and the associated risks. The learning curve for investors can feel steep. Being patient and taking the time to explain such fundamental concepts as preferred return, 1031s, etc., in plain English will help build trust.

As Mark Neely said, “The more you educate people about private markets ... the more interested they become.” Education builds trust. Trust builds allocation.

**3. Process Evolution: Technology and Transparency**

The operational processes that work for a small number of large institutional investors are often inadequate for managing a larger base of HNW investors.

■ **Technology Adoption:** GPs must embrace technology to streamline investor onboarding—know your customer (KYC) and anti-money laundering regulations,

subscriptions, capital calls, distributions, and reporting. Traditional processes are still manual and inefficient, and Juniper Square anticipates that all investors—especially from the private wealth channel—are going to accelerate their demands for a more public markets-like investing experience.

■ **Enhanced Reporting and Transparency:** Retail investors expect timely and detailed reporting on their investments, often with online access to their data—akin to what they’ve come to expect when logging into their Charles Schwab or Fidelity accounts. Quarterly reporting might suffice for a little while longer; near real time will become a requirement.

■ **Scalable Infrastructure:** GPs need to build a scalable operational infrastructure to handle the increased volume of transactions, communications, and reporting associated with a larger investor base. This includes having the right tools to enable a more public markets-like investing experience. If investors can create a Schwab account just once, then proceed to buy and sell equities as they wish with a click of a button, why wouldn’t they expect the same experience in the private markets? KYC, subscriptions, and countersigning need to be digital and frictionless.

**Competitive or Complementary to Institutional Capital?**

For those who represent pension funds: After reading all this, you may think, “So what?” I believe the rise of



private wealth capital in commercial real estate has the potential to be both competitive and complementary to traditional institutional allocations.

■ **Potential Competition:** More money is being allocated to fewer experienced firms. In a constrained fundraising environment, GPs might face a choice in allocating fund capacity between large institutional checks and numerous smaller checks from the private wealth channel. There could also be differing expectations and needs among these investor types within commingled funds, potentially creating governance challenges. Fees and governance are areas of focus to ensure alignment between institutional and noninstitutional capital sources.

■ **Potential Complementarity:** Private wealth capital can be particularly valuable when institutional allocations are limited or slowing. It can give GPs the capital needed to pursue attractive investment opportunities that might otherwise be missed. For new or emerging GPs without established institutional relationships, the private wealth channel can be a crucial source of initial funding. Moreover, the different risk appetites and investment horizons of individual investors might align with specific investment strategies that are less appealing to some large institutions.

Plenty of data suggest the increasing participation of high-net-worth and ultra-high-net-worth investors in private markets will transform the industry, but it's not yet a consensus view. Whatever your stance may be, understanding the nuances of engaging with the wealth channel and how it interacts with traditional institutional capital will be crucial for the future success of commercial real estate fundraising. ■

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