INVESTOR INSIGHTS

The Case for Emerging Managers in Real Estate Investment

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In real estate, "Emerging Managers" are generally considered to be Managers raising funds smaller than ~$250M. Large, established Funds typically have stronger brands and longer tracker records, but a case can be made for smaller, more hands-on and nimble Managers. These Managers can offer a superior risk-return profile through granular market knowledge and responsive execution, particularly when part of a larger diversified investment strategy.

Here, we examine five benefits when investing with an Emerging Manager, and some important considerations when selecting a Manager.

1. **Hands-On Operations.** Emerging Managers are often close to the assets, with local knowledge and contacts. This network may enable them to source more attractive deals and exploit local market inefficiencies that large funds often miss. Additionally, these Managers may be vertically integrated and execute value enhancement strategies hands-on. Core elements of Spring Tide's "Right to Win" are our local presence and in-house capability to develop and execute property-level strategy plans, including physical renovations.

2. **Increased Agility to Respond to Dynamic Conditions.** As Emerging Managers are closer to the ground and more hands on, they can quickly respond to changing market conditions such as local laws, regulations, and social trends. Furthermore, as local inefficiencies also change, those with first-hand knowledge and insights are better prepared to drive sustained value from these opportunities. While Spring Tide is governed by investment guidelines and target criteria, we maintain a degree of flexibility that allows us to mitigate evolving risks and capitalize on new local opportunities.

3. **Low-Hanging Fruit**. Large funds are constrained by the requirement to place large amounts of capital in a short period of time. For this reason, they are less suited to capitalize on small "low-hanging fruit" opportunities despite higher potential returns. Emerging Managers, on the other hand, seek these opportunities out and can leverage them to drive higher portfolio returns.

4. **Better Returns.** Perhaps the most publicized benefit from Emerging Managers is higher targeted returns. Emerging Managers are often hyper-focused, targeting niche market opportunities that create a superior risk-adjusted return when compared to large-cap investing. Leaner structures with low overhead and streamlined distribution waterfalls (without additional operating partners) are also common characteristics of Emerging Managers and contribute to higher returns. While some Managers chase high returns with speculative or opportunistic strategies, similar returns can often be produced at lower risk through increased specialization within traditional investments (e.g., multifamily value-add) and superior strategy execution.

5. **Diversification Opportunities.** Lastly, in addition to the superior return potential of a specialized or niche investment strategy, increased diversification is a key benefit for many investors. Emerging Managers can provide access to unique assets that diversify an investor's portfolio when coupled with traditional assets or larger core Funds.

Investing with Emerging Managers can yield significant benefits stemming from their agility, specialized focus, and hands on involvement with portfolio assets. Ultimately, the most important attributes of an Emerging Manager are a sound strategy and demonstrated operating capability. Easier said than done – but certainly, the path less traveled can yield great rewards for those prepared to put in the extra time and effort.

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