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After three M&A deals last year, head of real estate Mike Bryant is backing 'vertical depth' to propel the firm's real estate investing capabilities to new heights.

By Charlotte D'Souza

Partners Group's

PHOTOGRAPHER: PETER SEARLE

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direct drive

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Over the course of the past two years, Partners Group made a decision that would change the direction of its real estate investment business. Faced with the advent of “the next chapter of private markets,” and with interest rates set to remain elevated for the foreseeable future, the time came to “adjust how we invest on behalf of our clients,” says Mike Bryant, head of real estate at the Swiss manager.

The evolution principally concerns the firm’s direct real estate business, which constitutes around half of both its \$16 billion in real estate assets under management and its \$43 billion in gross real estate asset value. The other half is held in indirect real estate investments, in which Partners Group has a 17-year track record that includes one of the five largest real estate secondaries funds ever raised: Partners Group Real Estate Secondary 2017 was closed with \$2.9 billion in 2018, per *PERE* data.

Although the Zug-based firm has been a direct real estate manager for around a decade, fundraising for the strategy has yet to reach the lofty heights of its indirect success. This is something Bryant hopes to change through a revamped direct investing strategy predicated on “vertical depth” and operational expertise. The goal, he explains, is to “own all elements of the value chain, not just through a contractual relationship, but through an ownership stake in operating partners.”

The firm took its first major step in this direction with the hire of Karim Habra, formerly head of Europe and Asia-Pacific and global head of strategic partnerships at Ivanhoe Cambridge, the now-integrated real estate

investment arm of Canadian pension fund the Caisse de dépôt et placement du Québec. Habra joined in March last year as co-head of real estate, focusing his energies on new client relationships and, critically, leveraging his previous experience to address the operational intensity of Partners Group’s real estate ambitions.

In January, *PERE* met with Bryant and Habra in Partners Group’s London office to discuss how the strategy is beginning to bear fruit and where the journey will take them next. Shortly before *PERE* went to press, however, Partners Group announced that Habra would be leaving the business – less than a year after joining – to “pursue new opportunities” following the firm’s corporate acquisition of fellow Swiss manager Empira Group. The transaction was completed in January and will add \$4 billion of fee-paying AUM to Partners Group’s real estate business.

Despite the loss of Habra, and with the real estate reins back in Bryant’s hands from here on out, growing the business through a strong focus on operational real estate remains Partners Group’s lodestar.

M&A momentum

Despite the considerable slowdown in aggregate private real estate investment volumes globally, 2024 was a busy year for Partners Group’s real estate business under the leadership of both Bryant and Habra.

In February, the firm acquired a strategic minority stake in UK-based logistics developer and asset manager Citivale – the first M&A deal on behalf of Partners’ real estate business. This was followed by a strategic minority stake acquisition in US-based hospitality manager Trinity Investments in

April, before Partners Group capped off a year of M&A activity with its first full acquisition of a real estate business, agreeing in December to acquire 100 percent of Empira Group. Values for all three transactions were not disclosed, although Partners Group announced a \$500 million initial investment into Trinity at the time in the form of fund commitments and direct investment opportunities alongside the US manager.

All three deals underscore the ethos of Partners Group’s conviction in operational real estate. Although Trinity and Empira are fund managers, they are both vertically integrated with in-house operations; Trinity is a hospitality specialist, managing approximately \$6.3 billion of assets located mostly in the US, and Empira has \$10 billion under management, running investment strategies focused on European and US residential, as well as real estate credit.

“It’s no longer a physical asset class or a financial asset class,” says Bryant of real estate’s evolution in the past five years, citing the influence of e-commerce, working from home and climate change on the way all types of real estate are consumed. “This has led the business to change, to become more dynamic, focusing much more on experience-led types of assets, service-oriented types of assets, rather than just standalone assets or projects.”

Partners Group is not alone in this consensus, however, with much of the private real estate industry adjusting its focus toward serviced real estate in order to cater to occupier demand and drive further value from operational efficiencies.

In mid-2023, a report published by London-based law firm Macfarlanes described operational real estate as

“perhaps the most important structural shift you have never heard of.”

Contextualizing the speed of this shift, INREV’s *Investment Intentions Survey 2025* revealed operating platforms to be the preferred access route among European real estate investors – and on its maiden appearance in the industry association’s annual survey. When weighted by respondent assets under management, 50 percent expected to increase their allocations to operating platforms in Europe over the next two years – the largest such proportion of any route to market.

After more than two years of rapidly rising interest rates eroding property values, driving returns through an asset’s underlying operations – once associated only with alternative sectors such as hospitality and student housing – now has a key place on the menu of investment options across private real estate.

To achieve alignment with operating partners, managers are forming more joint ventures focused on operational real estate with third parties.

While Partners Group maintains relationships with around 100 real estate operating partners globally, most of which are structured through joint ventures, Bryant says truly embracing alignment means going “one step beyond just doing a JV” and acquiring stakes in key operators or fund managers with in-house operations.

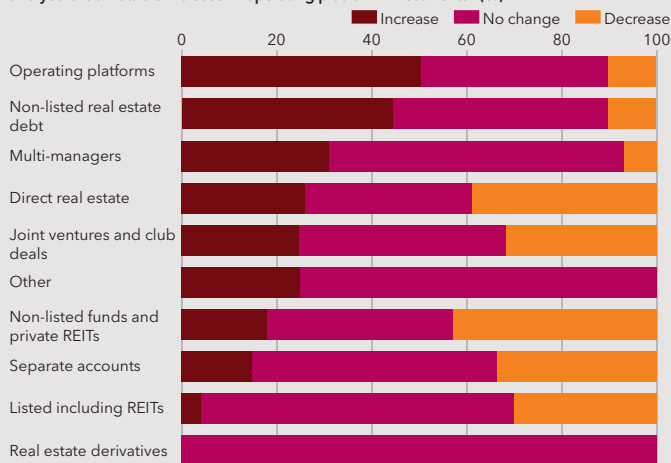
Importantly, all three real estate M&A transactions were capitalized by the firm’s balance sheet – something Bryant says makes a big difference, not just by enabling a “triple alignment” between asset owners and asset operators financially, strategically and culturally, but also by demonstrating tangible evidence of the firm’s conviction in certain sectors to its investors.

Investor response

While Partners’ balance sheet ballast may prove its skin in the game and help to banish third-party alignment concerns, investing in real estate whereby

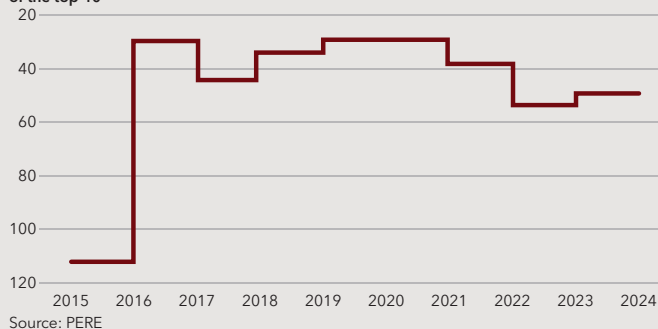
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Among investors’ expected changes to their real estate allocations in Europe over the next two years is a notable increase in operating platform investments* (%)



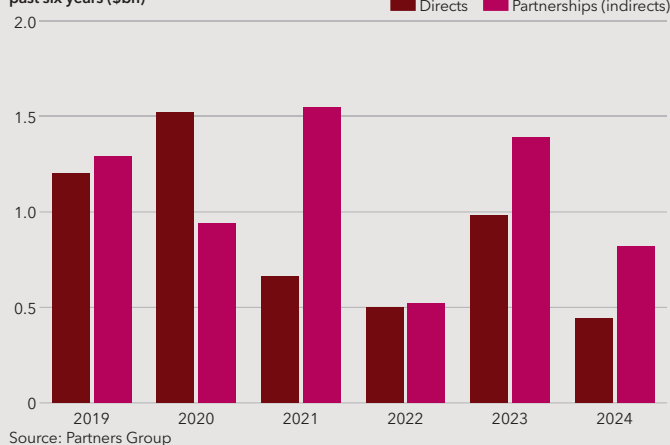
*Responses weighted by real estate assets under management
Source: INREV Investment Intentions Survey 2025

Partners Group’s position on the PERE 100 ranking has dipped in recent years to sit outside of the top 40



Source: PERE

Partners Group has raised more capital for indirect real estate programs and mandates in the past six years (\$bn)



Source: Partners Group

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returns are tied to the performance of an underlying operator is still nascent enough in mainstream sectors like logistics and residential to likely represent a significant shift for many investors in real estate.

How is Partners managing this? “Communication with clients is key when you talk about the evolution of strategy, and I think most of them are very receptive to it,” says Bryant.

The UK’s Tyne and Wear Pension Fund, which has invested more than £1 billion (\$1.23 billion; €1.2 billion) across Partners Group’s direct and indirect real estate fund series since 2009, is one such investor in favor of the manager’s move toward a more operationally focused direct property strategy.

“Looking for ways to add value across the investment piece around property makes a lot of sense, so I’m supportive of that,” says Neil Sellstrom, principal investment manager at the South Shields-based investor. “Particularly given the market conditions over the last few years, it’s a tough market – let’s not hide from that,” he adds, acknowledging that managers have to do more to generate good returns today than owning a building and collecting the rent.

“We’re not particularly looking for exposure to an operator. But if doing that helps the manager deliver the returns that we want, then we’re quite comfortable with it,” he explains.

While Sellstrom acknowledges the risks involved with investing in an operating partner, he says the pension has become “very comfortable” over the years with the Partners team, and aligns with their approach to the asset class.

“It’s all about the quality of the third party and what they’re bringing to the table, and that’s where the due diligence of a manager like Partners is absolutely key for making sure they’ve got the right partners,” he says.

Complementing Partners’ efforts to source, work with and

in some cases acquire stakes in the best operators is a hiring strategy which – as demonstrated by Habra’s original appointment – has prioritized experience in this field.

In February 2024 the firm hired Stephen McCall, the former chief executive officer of Edyn Group, a London-based hybrid hospitality platform owned by Brookfield since 2018, as its first global head of platforms and opcos. McCall also spent 17 years at UK-headquartered hospitality group IHG, most recently as chief operating officer for Europe.

McCall’s specific experience in hospitality was coveted by Partners not only to aid its investment strategy in the sector, says Bryant, but also to enable management to work with the team at Trinity and “make sure we have the right governance in place.”

Both within Partners’ management team and those of its operating partners, experience of handling shorter-term cashflows is especially important given cashflows now “are clearly far less certain than they were 10, 15 years ago,” he adds.

Through its three corporate acquisitions, Partners is internalizing much of the responsibility for managing these cashflows and other uncertainties associated with underlying operations.

Such a strategy reduces risk for investors – of which some do not want economic exposure to operating companies directly via funds, according to Steven Cowins, partner at law firm Greenberg Traurig.

“Opco’s require a more disproportionate amount of time to manage than property portfolios,” he explains. “Managing people is harder than managing property. And people or employees come with costs and risks which some investors simply can’t or won’t tolerate.”

Direct exposure to an opco can also be more expensive for investors, as operating costs are internalized but investors still have to pay a management fee on top, he adds.



When a manager holds the opco, such concerns are alleviated. But on the other hand, all of the opco value resides with the manager. Some investors – particularly those that can deploy large amounts of capital – may want to own part of the opco through a fund, as deploying capital through the opco means the business is worth more, says Cowins.

“Some investors place large premiums on opco value as they allow them to deploy more capital in a cost-effective manner and have more control over the management team.”

According to Bryant, Partners also has indirect ownership of a number of operators through fund capital – an approach the manager prioritizes for investment opportunities, using the balance sheet to make acquisitions “only if



Specialist synergies

Partners Group is considering specialized products to leverage operational capabilities

By its nature, investing in operationally intensive real estate necessitates a degree of specialization at the asset level. And as institutional investors develop increasingly sophisticated real estate investment strategies, their appetite for specific asset exposures grows in tandem. Through its M&A strategy, Partners Group is homing in on the intersection between these two trends.

“Our investments going forward are getting more and more operationally intense and specialized, because this is the way real estate is going,” says Bryant.

Although Partners will continue to specialize in operational investments through its existing globally diversified funds and mandates, the firm is now able to offer sector- or region-specific funds through Empira, which manages a suite of residential, transition-to-green and credit funds focused on the DACH region or the US. Bryant says this is already opening up a “different set of discussions” with existing investors,

“because we’re able to offer them something that we weren’t previously able to.”

“The funds market now fully accepts and in fact arguably favors specialized strategies,” says Greenberg Traurig’s Cowins. As such, larger managers with specialized teams can benefit from having an operating partner on their books, as opposed to owning operators indirectly through funds, he adds.

London-based manager Schroders, for example, boosted its exposure to hotels back in 2018 by acquiring Algonquin, a pan-European hotels investment and management business. Since then, it has brought hotel-specific funds to market, including the Schroders Capital European Operating Hotels Fund, which exceeded its €300 million target to close on €525 million in 2021, and a dedicated UK Operating Hotels fund launched in 2024 with an initial £100 million in commitments.

Through its minority stake in hotel specialist Trinity, Partners is contemplating launching a strategy focused on European hotels. “Whether it’s a mandate or program, we’re not sure yet,” says Bryant. “We think the market opportunity to invest is there. We’re just working through what the right structural arrangement is.”

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2024 Partners
Group's year of
real estate M&A

February

Acquired strategic minority stake in UK logistics developer and asset manager Citivale – the firm's first real estate M&A deal

April

Purchased strategic minority stake in US hospitality manager Trinity Investments and committed \$500m to Trinity-managed funds and direct investments

December

Agreed to acquire 100 percent of Swiss manager Empira Group – the firm's first full corporate acquisition in real estate

“There’s no complacency. We’re going to have to work super hard”

MIKE BRYANT

an opportunity is not suitable for client capital.”

Acquiring firms on balance sheet, however, “is not an investment you can buy and sell in three years,” he notes. “It’s a strategic, long-term investment. We need to make sure we decide to work with people we want to work with for the long term.”

The right operators are hard to find, he adds, but Partners does not rule out further M&A activity in 2025 – particularly in the US, where the business is keen to grow its real estate portfolio.

Preparing for payoff

Through its corporate acquisitions last year, Partners has taken significant – and expensive – steps to boost its real estate firepower. But such growth is inorganic. The ultimate payoff will constitute future fundraising, particularly for the firm’s direct real estate strategies – which Bryant is keen to bolster.

Since leaping into 29th position on its debut in 2016 in the PERE 100 ranking of the world’s largest capital raisers for closed-end direct private real estate funds, Partners’ rank has dipped in recent years. The firm fell outside the top 50 in 2023, edging back up to 49th position in last year’s table.

Over the past five years, Partners

has seen more fundraising success for its indirect real estate strategies, with \$5.2 billion raised in 2020-24 across both funds and mandates, compared with \$4.1 billion for direct real estate funds and mandates, according to Partners Group data.

According to PERE data, the firm’s most recent direct real estate fund, Partners Group Real Estate Opportunities II, was launched in July 2023 and is a globally focused, diversified value-add vehicle. The firm began fundraising for Partners Group Real Estate Secondary V in August. PERE understands each fund has a target size of \$1 billion.

“These series will significantly benefit from the vertical depth we have built, and we’re building, because we will use the expertise from these acquisitions from last year to also invest through these vehicles,” says Bryant.

Opportunities to deploy capital ebb and flow between the direct and indirect sides of Partners’ real estate business depending on where the opportunities are, he adds. But over the long term, the average split of capital invested is expected to be around 70:30 in favor of direct real estate. “Our ambition is to grow, and our ambition is to grow both components of investment type,” he explains.

Bryant asserts the operational capabilities accrued by Partners have already yielded engagement with new investor relationships. “Thus far, it seems to hang together. But we’ve got to prove it all out,” he says.

Amid a wider slowdown in private real estate fundraising – which dipped to a 13-year low in 2024, per PERE data – Bryant acknowledges the road to the top of the PERE 100 will be steep to climb. “There’s no complacency,” he says. “We’re going to have to work super hard. But that’s the ambition, to make sure we get a fair share of wallet in terms of the capital that’s available.”

Much of this organic growth will, of course, be borne out by performance. And with assets that carry more operational components, investors expect “to get rewarded for them,” says Bryant. However, much like the low winter sun blazing through the wide windows of the meeting room in which we are talking, his confidence here is unrelenting.

“There are not so many examples of fund managers like us,” he says of Partners’ use of balance sheet capital to acquire operators or managers. By creating operational performance on top of property performance, he believes the firm will be able to “go further” beyond the historical average investment multiple for real estate of around 2x. But he declines to share just how far.

For fully realized investments between 2015 and 2024 from its direct Real Estate Opportunities series, Partners records a net TVPI of 1.67x, according to data supplied by the firm. This compares with 1.52x from its Real Estate Secondaries series.

Off the back of a precipitous market downturn, Bryant believes the next two or three years will prove strong vintages for putting capital to work.

“Real estate is at an inflection point in its history,” he says. “With a combination of strong vintages plus all the operational expertise we have built, and we’re building at the moment, the stars will be aligned for the next cycle.” ■