Institutionalizing real estate

The growing appetite for niche property types is prompting investors to rethink conventional norms for defining institutional-quality real estate

by Beth Mattson-Teig



The checklist for identifying "institutional-quality" real estate once centered on large buildings in major gateway markets, recognizable tenants and a clear pool of potential buyers to provide exit liquidity. Think One Vanderbilt in New York City or Willis Tower in Chicago.

As capital continues to flow into alternative property sectors characterized by smaller transaction sizes and greater operational intensity, the traditional definition of institutional real estate is continuing to evolve. "The definition has certainly changed. It's really about the quality of the investment ecosystem surrounding the real estate," says Mike Gordon, global CIO at Harrison Street Asset Management.



Today's checklist addresses questions such as: Do you have durable underlying demand? Do you have enough data to underwrite the investment with conviction? Do you have the right operating expertise? Can you create scale and liquidity over time? And are the governance, reporting and risk management systems up to institutional standards? "A $40 million asset can be every bit as institutional as a $400 million asset if all those things come together," says Gordon.

Previously narrow views of institutional-caliber investments are widening along with the growing opportunity set in alternative or niche sectors, such as student housing, senior housing, medical office, self-storage and data centers. Some 20 years ago, alternatives represented less than 2 percent of the NCREIF Fund Index — Open-end Diversified Core Equity (NFI-ODCE) compared with about 13 percent today. The shift is even more significant in public markets where so-called "alternative" property sectors — those beyond the traditional mainstays of office, industrial, multifamily and retail — now represent nearly 60 percent of market cap on the FTSE Nareit All Equity REITs Index.

"Many of the alternative sectors provide steady, predictable, growing cash flow, and when you get down to it, that's the most important definition of core or institutional-quality real estate," says William Maher, director, strategy and research, at RCLCO Fund Advisors.

Navigating barriers to entry

Investing in alternative sectors can present several distinct challenges relative to traditional property types. The biggest challenges are typically scale, information availability and operating expertise. Many alternative sectors are fragmented, the assets are smaller-sized, and market data are not as standardized as in traditional property types. "In our experience, there also tends to be greater dispersion in operator capabilities and investment outcomes, so execution matters significantly," says Andy Stewart, co-CEO and managing partner at Argosy Real Estate Partners.

Institutions are solving for these challenges in different ways. Some are building dedicated teams or acquiring platforms, while others are partnering through joint ventures with specialized operators that have spent years in a particular property type.

You don't have to solve fragmentation by waiting for bigger assets. You solve it by building an infrastructure capable of aggregating smaller properties.

Mike Gordon
Harrison Street Asset Management



Argosy's approach is partnering with specialized operators. "We think there is an opportunity to combine the sourcing and operating proficiency of a specialized local partner with the underwriting, governance, capital markets and asset management skills of an experienced institutional fund manager," says Stewart.

This combination allows the firm to access the specialized sectors and markets without having to recreate that knowledge and experience internally across every property type and market. "It also allows capital to remain flexible, moving toward sectors and markets where the risk-adjusted opportunity is most compelling rather than being constrained by a fixed operating infrastructure built for a single asset class," says Stewart. It is important, however, to pair that operating proficiency with a consistent institutional framework for underwriting, portfolio construction, governance and asset management, he adds.

We think there is an opportunity to combine the sourcing and operating proficiency of a specialized local partner with the underwriting, governance, capital markets and asset management skills of an experienced institutional fund manager.

Andy Stewart
Argosy Real Estate Partners

In addition, the number of operators with deep, sector-specific experience — who also have the desire and wherewithal to grow — can be limited, and many capable operators have not yet built institutional reporting and control frameworks.

"A core part of how we navigate these sectors is a willingness to move early. In many cases we would rather build a position while a sector is still fragmented and underappreciated than wait until it is more institutionalized and competitively priced, which we believe is where the opportunity is often greatest," says Derek Lopez, CIO of private markets for GEM Realty Capital.

GEM Realty Capital works through the practical challenges with disciplined diligence on strategy feasibility, careful operator selection, strong partnership alignment and a hands-on approach to working alongside operators as they scale. According to Lopez, the firm helps operators target markets and conducts top-down research. "Because these sectors can be opaque, we invest significant time in gathering market data and forming our own independent views," he adds.

Investing at scale

Institutions have long struggled to deploy capital at scale in alternative sectors, where the size of the check to buy a medical office building or manufactured housing portfolio is small compared with that of a trophy office tower. Although scale remains a challenge, it is not necessarily a barrier.

"People sometimes confuse the size of an individual asset with the scale of a strategy. They're really not the same thing," notes Gordon. In alternatives, investors often have to manufacture scale by building common underwriting standards, data systems and operating relationships across multiple assets.

Institutional investors agree that while fragmentation creates inefficiency, it also creates a lot of opportunity for alpha. Patient capital can transact in individual assets and smaller portfolios, create institutional scale through aggregation, and ultimately access a much broader pool of institutional buyers.

Self-storage is one example where small individual assets can reach institutional scale through repeated, efficient acquisition or development; consistent operations; and portfolio aggregation.

"If you have the infrastructure and operating partner relationships, that fragmentation can actually be a part of the opportunity," says Gordon. "So you don't have to solve fragmentation by waiting for bigger assets. You solve it by building an infrastructure capable of aggregating smaller properties."

A sector can achieve institutional scale despite small transaction sizes when there is market depth, consistent deal flow and a structure for deploying capital across multiple assets and markets. Smaller deals can also create advantages through higher transaction volume, a broader buyer pool and potential arbitrage opportunities, notes Eliza Bailey, co-founder, CEO and CIO at Belay Investment Group.

"The key is having the infrastructure to source, underwrite, close, manage and report on numerous smaller investments without losing detail or discipline," she says. "Programmatic partnerships are one way to do that because they create a repeatable acquisition channel while preserving local execution."

Forming strategic partnerships

In operationally intensive sectors, strong local and sector-specific operators can be critical. For example, a senior housing operator with

decades of regional experience understands labor markets, referral networks, consumer preferences and competition in ways that are difficult to replicate from a central office.

"Our job is not to run a senior living community better than someone that's been doing it for 30 years," says Gordon. Rather, the job is to know who can, why they can, whether their edge is repeatable and how to build an institutional framework around them, he adds.

Local specialists often bring proprietary sourcing, key relationships, submarket knowledge, regulatory familiarity and hands-on execution. Embedded in the market, they may also identify smaller or more complex opportunities earlier.

"Institutional investors can bring capital, process, discipline and portfolio-level perspective, but the local operator often brings the practical execution that determines whether the investment thesis is realized," says Bailey. Belay partners with local specialists while adding governance around NOI drivers and value creation. "The goal is not to remove the operational intensity, as that also presents an opportunity to drive NOI, but to pair it with a framework that can make the strategy repeatable and scalable," she says.

It is also important to note that smaller-scale assets are not synonymous with being more operationally intensive, adds Bailey. This can be the case, depending on the asset class, but in many cases it is not. When property-level operations become a larger driver of returns, institutional investors need to be more deliberate about how they access operating expertise.

The success of the business plan may depend on that expertise in terms of leasing velocity, tenant relationships, construction management, expense control, regulatory knowledge or community-specific insight. Some firms may build those capabilities internally, but in many situations the more flexible and effective approach is to partner with operators who already have that expertise and then provide an institutional overlay through underwriting, governance, asset management, reporting and compliance.

Buy, build or partner

Whether to develop operating expertise internally or externally depends on a variety of factors such as portfolio strategy, scale, risk tolerance and the required operating capability.

"When property-level operations drive a larger share of returns, the operator relationship can be as important as the real estate, and the right structure depends on the sector and its stage of institutionalization," notes Lopez. For example, dedicated joint ventures may be less necessary in mature alternative sectors with deep operator pools, but more important in earlier-stage, fragmented markets.

In either case, GEM takes a hands-on approach. "Because results can vary meaningfully across operators and assets, we place significant weight on operator selection and on working closely with our partners to enhance operations at a granular level," says Lopez. Senior members of the GEM team are directly involved in each of the firm's investments regardless of transaction size.

A core part of how we navigate these sectors is a willingness to move early. In many cases we would rather build a position while a sector is still fragmented and underappreciated than wait until it is more institutionalized and competitively priced, which we believe is where the opportunity is often greatest.

Derek Lopez
GEM Realty Capital

Certainly, there are plenty of examples of institutions that have opted to build internal operating platforms or acquire operations. Those decisions depend on factors such as how strategic the sector is to the investor, how much capital they expect to deploy over time, and whether owning that operating capability is critical to their strategy.

Acquiring a platform can accelerate that process, but it also represents a much more permanent commitment to a particular sector. "For us, that flexibility is important, but it does not mean we are using partnerships to test sectors before developing conviction," says Stewart. "Once we have conviction in the opportunity, we look for an operating partner with the specific skill and experience to help us execute that strategy." The key is maintaining alignment, transparency and appropriate control over major decisions so that the partnership operates to an institutional standard, he adds.

Underwriting operating expertise

Market participants agree the real estate still matters enormously. Location, supply and

demand, basis, and replacement cost are all important metrics that go into underwriting. But in an operationally intensive sector, the quality of the operator is increasingly playing a bigger role in underwriting.

Market participants agree the real estate still matters enormously. Location, supply and demand, basis and replacement cost are all important metrics that go into underwriting.

For example, two physically similar senior housing communities in the same market can produce materially different outcomes depending on the operator. As such, investors need to underwrite the real estate, the market and the operating organization simultaneously.

"I wouldn't say the operator has replaced the asset. But the operational capability has really become an integral part of what defines the quality of the asset," says Gordon. In senior housing, Harrison Street's investment framework treats operator strength as a critical component of the underwriting. The operating capability is one of five pillars that determines whether or not the company moves forward with a potential new investment.

Institutions still care about asset quality, basis, liquidity and market fundamentals, but they are also evaluating whether the operator has a differentiated ability to execute, agrees Bailey. "A strong operator can create sourcing advantages, improve business plan execution and provide insights that are difficult to replicate through a purely top-down investment process," she says. "The best structures align those operator capabilities with institutional processes, governance and transparency." ❖

Beth Mattson-Teig is a freelance writer based in Minneapolis.

Vetting operating partners

Specialized operating expertise requires an added layer of underwriting.

Institutions that are expanding into operationally intensive property sectors are now underwriting the operator as much as the underlying real estate.

For institutions such as Harrison Street Asset Management, that underwriting means conducting thorough diligence to determine whether an operator is the right fit. "It's track record, it's reputation, and it's looking under the hood and seeing whether or not there's been tremendous turnover in the corporate and property-level ranks," says Mike Gordon, global CIO at Harrison Street Asset Management. The firm also looks for partners that are vertically integrated and financially healthy.

Size — or lack of it — is by no means an automatic disqualifier. Most institutions care much more about factors such as alignment, integrity, operating capability, transparency, financial discipline and whether an organization can scale responsibly. Can they report consistently? Can they attract and retain good people? Do they have systems that can help grow with the business? Are they disciplined about risk? Do they communicate bad news early?

"Track record is important, but so are process, transparency, judgment and alignment," adds Eliza Bailey, co-founder, CEO and CIO at Belay Investment Group. "A smaller operator becomes credible when it has a clear investment strategy, demonstrated execution capability, a cohesive team, sound financial and operational infrastructure, and a willingness to operate within an institutional framework," she says.

GEM looks for operators who are highly experienced in the product type and are eager to grow their platforms. "Not every operator is positioned to scale, or wants to, so we spend meaningful time understanding the team's motivations and how our business plan fits within their goals," says Derek Lopez, CIO of private markets for GEM Realty Capital. "We also seek shared incentives, and, where appropriate, we will consider investing at the operating-company level to deepen that alignment."

Another key characteristic that Harrison Street likes to see in an operating partner is entrepreneurial spirit. "Entrepreneurial culture is often what makes these groups really good in the first place. So, our objective is not to institutionalize that out of them," says Gordon.

Harrison Street aims to surround that entrepreneurial capability with needed capital, and in many cases, the systems, the data, the governance and accountability necessary to grow. "We don't need an entrepreneurial operator to become a large institution," he says. "We need them to become institutionally accountable, without losing the entrepreneurial qualities that made them great in the first place."

— Beth Mattson-Teig

Copyright © 2026 by Institutional Real Estate, Inc. Material may not be reproduced in whole or in part without the express written permission of the publisher.