




# Fund structure matters in private real estate

July 2024

## The 1940-Act tender offer fund structure designed for individual investors

### What you need to know

- ✓ Single-layer fee structure<sup>1</sup>
- ✓ Independent, third-party monthly valuation policies
- ✓ Prudent use of leverage consistent with investments in core real estate

		40-Act Tender Offer Funds	Non-Traded REITS
<b>Access</b>	 Direct Exposure to the Real Estate Portfolio	✓	✓
	Broad Investor Suitability <sup>2</sup>	✓	
<b>Simplicity</b>	 Electronic Ticketing	✓	
	Limited Leverage <sup>3</sup>	✓	
	1940-Act Registered Fund <sup>4</sup>	✓	
<b>Transparency</b>	 Daily Valuation <sup>5</sup>	✓	
	No Dual Fee Layers <sup>6</sup>	✓	✓

**1940-Act tender offer funds** provide individual investors with direct access to institutional-quality private real estate investments via high-quality managers with deep experience and expertise.

**Management fees<sup>1</sup>:** Single-layer fee structure provides long-term manager-investor alignment and often lower fees.

- Incentive fees may encourage increased use of leverage or the inclusion of riskier investments in a portfolio.
- Certain funds may charge incentive fees that are calculated based on lower hurdle rates, higher catch-up rates, and shorter time-periods than are typical for institutional investors.

**Valuation:** Independent valuations provide confidence to investors.

- The most transparent funds have their underlying private real estate assets valued by independent third parties monthly.
- Others may allow for less-frequent independent asset valuation on a quarterly or annual basis.
- Still, others may report solely on internal valuations and charge incentive fees based on those valuations.

**Leverage:** Judicious use of leverage in real estate investing can benefit investors.

- Typically, institutional investors maintain leverage levels of 20%–40% for well-leased real estate assets.
- Excessive leverage can translate to excessive risk, especially in volatile market conditions.

1. While the majority of real estate '40-Act Tender Offer Funds currently employ a single-layer fee structure, it is not a requirement or regulatory obligation to do so.

2. Suitability limitations imposed by state regulators with respect to non-traded REITs.

3. The 1940 Act limits fund leverage to 33% of total assets. A fund may enter into investment management techniques that have similar effects as leverage, but which are not subject to the 33% limitation.

4. Registered under the Investment Company Act of 1940.

5. A majority of non-traded REITs disseminate a monthly NAV.

6. No additional underlying manager fees.

**Institutional-quality:** An institutional-grade, or institutional-quality property generally refers to a property of sufficient size and stature to merit attention from large national or international investors.

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**Valuation risks:** There is no guarantee that the final value of any private real estate investment when it is sold will be greater than either the initial purchase price or any valuation assigned to it over the lifetime of the investment.

**Leverage Risk:** The use of leverage increases the volatility of investment returns and subjects a portfolio to magnified losses if an underlying portfolio's investments decline in value.