

# Private Equity International

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## NEWS & ANALYSIS

# How tech is blurring the lines between PE and RE

The emergence of hybrid funds and real estate managers acquiring tech companies suggests the two asset classes are getting closer

Multi-platform asset managers have long espoused synergies between private equity and real estate; technology has accelerated this.

Venturous, the Beijing-headquartered family office of Fidelity Asia Ventures founder Benson Tam, is a prime example. In August, the institution merged with real estate and venture capital advisory Lioncrest Global to launch a \$1 billion strategic fund targeting both asset classes.

The capital will be used to build 10 smart city districts in China, with Venturous deploying half the fund into technology companies focusing on areas such as 5G, proptech and the Internet of Things to help create the necessary digital infrastructure, and the remainder into property development.

Established real estate managers are also recognising technology's appeal. Hong Kong's Gaw Capital Partners, which has around \$18 billion of assets under management, has deployed over \$100 million from its \$2.2 billion 2018-vintage Fund VI into three private equity deals, per sister publication *PERE*.

Some of these companies feature a strong tech angle: China's Tencent Trusted Doctors is an online-to-offline healthcare provider with 50 physical clinics and outpatient surgery centres, while Beike, also an online-to-offline platform, enables users to search for properties and secure financing.

Gaw is also investigating emerging opportunities in the proptech sector and in February hired former Microsoft director Bill Lee as a senior director to that end.

Last year GLP, an investor in logistics real estate with \$50 billion in assets under management, made a dramatic entry into private equity by raising 10 billion yuan (\$1.6 billion; €1.3 billion) to invest in "companies employing technology to enhance efficiency in the logistics industry".

The two asset classes are clearly complementary. Proptech companies can enhance efficiency in the building, sales or lettings process. Connectivity-focused businesses can make properties more valuable with the addition of better internet, energy efficiency or smart office design.

Meanwhile, start-ups need property, efficiently accessed if their shareholders are also their landlords. In Venturous Group's case, the smart towns will serve as captive markets for its portfolio of tech start-ups, essentially guaranteeing them business.

There's also the matter of returns. Tech deals tend to secure higher valuations, with global companies in this sector trading at 22x EBITDA as of November last year, according to S&P Global Intelligence. Global software buyouts delivered a 1.9x median gross return between 2005 and 2014, compared with 1.6x for non-software deals, according to data from CEPRES PE Analyzer.

Depending on the strategy, real estate funds have different return profiles to conventional private equity. Core funds will target IRRs of around 5 percent, while up the risk spectrum opportunity funds will look for 20 percent and 2x investors' money. Gaw, for example, is understood to be targeting around 25 to 30 percent returns from its private equity investments, compared with high-teens for the whole of Fund VI.

Questions remain over investor appetite for such vehicles. Limited partners typically have separate allocations to real estate and private equity because the risk profiles are different. Venturous intends to diminish this issue by offering a 4:1 co-investment

ratio, enabling investors to shape their exposure to either asset class, and Gaw has invested only a fraction of Fund VI outside real estate. GLP's private equity efforts are housed in a different fund under a separate fund management brand.

But as real estate and technology become increasingly interconnected, distinguishing between the two strategies may become more of a challenge. Investors might have to rethink their allocation "buckets". ■