



Small Managers - BIG ALPHA - Report 100



A chance to own a GP stake in a private equity real estate firm

B. G., Opalesque Geneva:

ERP, a private equity real estate firm in Dallas, is offering qualified investors a Series A GP stake, i.e. a direct ownership stake, in the parent company, Essential Realty Partners, LLC.

Rick Courtney, managing partner and CEO of ERP, will present this rather new asset class during the [Small Managers - Big Alpha Episode 15](#) webinar on Tuesday 9 July (details below).

GP stakes

Investing in the fund managers themselves is a relatively new and fast-growing way to invest in alternatives, [explains](#) MJ Hudson, a business management consultancy in London, on Mondaq. "A GP stakes investment is the direct acquisition of a minority equity position in an alternative asset manager (GP); in other words, making an investment in the fund sponsor as opposed to in (or alongside) the fund itself. The strategy represents a bet on the future growth and profitability of the investment firm behind the fund. It has grown more popular in recent years because it gives the investor a share of returns from what may be multiple funds and accounts managed by the firm - and, thus, the advantage of diversification - rather than just the income and gains from one of those funds."

[According to](#) Ali Raissi-Dehkordy, co-head of Goldman Sachs' Petershill unit, one of the biggest investors in this market, when they started GP stake investments in 2007, investors did not initially understand. It was not a recognised strategy or asset class. Now the business of GP stakes investing has evolved and moved on to close the bridge between founder generations and the next.

GP stake is a way to acquire GP-level economics, says ERP, - usually two or three times greater return potential than a typical LP position. The revenues from a GP stake investment come from management fees, promoted interest and balance sheet investments.

Proceeds from this offering will be used to overcome the bottlenecks and hurdles that most GPs never do - providing ERP with the potential to reach top-tier status quickly. The minimum investment is \$50,000 and the security type is 10% Preferred Series A-1 Non-voting Units. The targeted hold period is five to seven years, and the targeted investor IRR is 30-50% in five years. This is ideal for investors seeking asymmetrical passive cash flow potential.

Dry powder

For ERP, the best way to returns is dry powder. The firm has signed term sheets giving them up to \$1bn

in potential deal-level buying power. In addition to the \$1bn in potential dry powder, the firm wants to be ready to move fast. To help them, they have built a platform infrastructure that identifies assets to reach scale quickly. "Investors with dry powder that can move fast, land the best deals when equity and debt are scarce during the downturn phase of the cycle," they say.

This platform has been tracking market metrics for the past 24 months and is signalling the beginning of the best buying opportunity in 17 years. In other words, we are in a buyer's market.

Market opportunity

The era of easy money and low interest rates ended in 2022, and real estate, not unlike bonds, has an inverse relationship to interest rates. The rate increase initiated a downturn and is ushering in the early stage of a new real estate investment cycle.

Multifamily values have dropped up to 30% but the losses have not been realized due to loan extensions that will begin to burn off this year. Furthermore, a massive wave of \$682bn in loan maturities and one million units in new construction supply over the next two years will cause distress and force sales at discounted pricing. ERP believes that this potential distress and reset of values have created a once-in-a-generation buying opportunity. It presents ample opportunity for those with dry powder.

The company

[Essential Realty Partners \(ERP\)](#) was founded in 2021 and specialises in multifamily investments across the United States through several funds and customised investment structures. With a focus on rental housing as a basic need investment, ERP's founders have successfully deployed and managed capital across more than 50,000 units nationwide.

ERP's investment strategy centres on acquiring multifamily and build-to-rent (BTR) communities in carefully selected target markets nationwide. The firm's Principals bring over 120 years of combined industry experience to the table. This wealth of knowledge is complemented by ERP's platform which integrates proven processes with advanced AI, automation, and predictive analytics technology, empowering the team to make informed decisions ahead of the competition.

Upcoming webinar

Small Managers - BIG ALPHA Episode 15

Episode 15 of this groundbreaking interactive webinar series presents you with another carefully screened panel of investment managers worth looking into.

Who:

- o Rick Courtney, Essential Realty Partners
- o Laurent Jeanmart, Katch Investment Group
- o Pranav Kanade, VanEck's Digital Assets Alpha Fund.

When: Tuesday, July 9th, 2024, at 11 am ET

Free registration here: <https://www.opalesque.com/webinar/>