Goldman Sachs Eyes Real Estate Investment Opportunities with its First Interval Fund

By Jennifer Banzaca

Goldman Sachs has added interval funds to its growing offerings of retail alternative investments.

During a keynote address at AICA's Summer Summit on August 13th, Collin Bell, Managing Director and Global Head of Client Portfolio Management for Fundamental Equity within Goldman Sachs Asset Management, said Goldman has been involved in managing money in the form of traditional '40 Act funds and separately managed accounts for decades, but entered the interval fund space in May with the acquisition of a real estate interval fund.

"Goldman's had a longstanding commitment to asset management, we manage roughly $1.7 trillion of assets across fixed-income, money market, equity alternatives. And as part of that, have always had a commitment to providing access and distributing our product to retail investors," Bell explained.

Bell said there are numerous benefits of the interval fund structure for retail investors, including that the funds are priced daily, have favorable liquidity and provide access to illiquid private investments.

The advantage for managers is that interval funds can restrict redemptions to a pre-defined interval, with the market standard being quarterly.

As to why Goldman entered the interval fund space, Bell noted that the asset manager is a very big believer in this structure and expects a lot of growth going forward.

Addressing why Goldman chose a real estate interval fund rather than one investing in other asset classes, Bell said Goldman sees "exciting opportunities" in the world of real estate.

According to Interval Fund Tracker, there are 11 active real estate interval funds with over $10 billion AUM and an 8.02% average annual total return in 2019.

"We have a constructive view on real estate long term, especially right now, that's predicated on our view that investors are faced with a very challenging backdrop today," Bell explained.

Bell said real estate offers an attractive investment outcome that has yield, growth and decent value. However, he also noted that it is important to invest in property types that are on the right side of the current market disruption for investment success.

While it has been a difficult year for the real estate market overall, Bell noted that there are property types that are performing well. While retail, lodging, hotels were hit hard during the Covid-19 pandemic, property types that have benefited from the post-pandemic world include towers and digital storage, life science offices, manufactured housing, self-storage and single family rentals "that are benefiting from families moving from the cities to the suburbs".

Another reason real estate is an attractive asset class right now is that there is also a lot of capital sitting on the sideline, with over $300 billion of capital raised in private real estate that hasn't yet been invested in real estate.

"To the extent that we see listed trade at meaningful discounts to private where they're arguably dislocated like we saw in the first quarter, we think that private capital will come in and arbitrage that gap, and that's a similar dynamic that we'll try to take advantage of in our interval fund."

When discussing how Goldman is positioning its real estate interval fund portfolio and where there are the most attractive opportunities, Bell said the real estate interval fund is so far yield at 6.3% annualized.

The mix of private versus listed is roughly 70/30 on the fund and the credit/equity mix is roughly 42% credit and 58% equity.

"It's a well-diversified portfolio across numerous different property types. We really like the protection that we get on the credit side today, particularly against this more stressed backdrop," Bell said.

"So is absolutely massive, probably the widest we've ever seen in the industry. And that just provides a very exciting backdrop for us as active managers really to exploit the opportunity that we now see."

Managers must take an active investment approach to capture the opportunities, in real estate equities and debt, and in private and listed real estate, against a backdrop of accelerated disruption and a wide dispersion of returns at the individual property type.

As to why Goldman to acquire the real estate interval fund from Resource rather than build in this space, because the firm recognized it is very difficult to get the necessary and desired investment exposures when managing a small amount of money given the diversification and liquidity requirements that come with an interval fund.

"I would say that's the primary reason, coupled with the fact that the Resource fund had $300 million in AUM and that overcomes the liquidity and diversification issues pretty quickly."

Bell continued, "As to why we liked Resource in particular, they had investment objectives and an investment philosophy that very much dovetailed with our own and had a seven-plus year track record that we thought well-evidenced the merits of that philosophy. We liked their overall portfolio positioning and the way they implemented liquidity management that we largely maintained."

Bell said Goldman has not made many changes to the real estate interval fund but is simply putting more resources behind it and "a lot more rigor to the investment process and a higher degree of integration to it".

Goldman's real estate fund is likely the first of many, Bell said, and while there are no explicit plans to launch or acquire new funds at this time, there are "a whole host of interval funds" the firm can do over time.

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