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Real Estate Fund Sponsors Loosen Reins In Sluggish Market

By **Charlie Innis**

Law360 (September 3, 2025, 3:33 PM EDT) -- While transaction activity in the real estate fundraising market picked up in the first half of the year, fund managers have been giving more control to some of their biggest investors as a way to help alleviate their uncertainties over liquidity and U.S. tariff policies.

Institutional investors have placed more capital into funds with commercial property-related strategies so far this year than at the same point in prior years, but they're coming to the negotiating table with more expectations, attorneys told Law360 Real Estate Authority.


New capital injections saw a rise at the beginning of the year, but fundraising for real estate has since moved slowly in 2025 compared to three years ago. (iStock/ST-art)

"You're seeing investors negotiate a little harder and make more personalized requests that managers are seeking ways to accommodate," said Eric Requenez, a partner in Ropes & Gray LLP's asset management group and a leader of the firm's real estate funds team.

The increase in investors requesting and securing more individualized arrangements in addition to, or even sometimes in lieu of, a traditional capital commitment in a multi-investment real estate fund has changed the power dynamic between fund managers and some of their investors.

"That's certainly one thing we've been seeing — a bit of a shift in the dynamic of relative control over the capital, once it's committed," said Roger Singer, co-chair of Gibson Dunn & Crutcher LLP's investment funds practice group.

Fundraising Slowly Increasing

Despite the uptick in new capital injections at the beginning of the year, fundraising for real estate has generally moved sluggishly in 2025 compared to the strength and vigor the sector saw three years ago.

A total of 42 closed-end real estate funds raised about $19 billion in the first quarter of 2025, a gain compared to the first three months of 2024, when 37 closed-end investment vehicles gathered about

$16 billion of capital commitments, according to Pitchbook data.

But the uptick doesn't indicate by any means that the current pace of fundraising is on track to match the $192 billion total in capital raised in 2021, or the $180 billion raised in 2022.

Real estate vehicles are also taking longer to close, Anikka Villegas, a Pitchbook analyst, noted in the research firm's report on the first quarter's fundraising data.

Funds that capped in the first quarter of the year had a record-breaking median length of 23.7 months, an increase from last year. The median length of funds that closed in 2024 overall was 20.2, which was already an historical high at the time, Villegas wrote in the report.

"It's taking people a while to get their investors on board," Requenez, of Ropes & Gray, told Law360. "The negotiations with investors tend to be a little bit more protracted these days, because investors have been consolidating relationships among their managers."

The fundraising space has also seen a "flight to quality" in the last couple of years, with investors distributing more capital within a selective sphere of fund managers with track records, Requenez said.

"The more established managers that are out there are having a little bit more success than some of your mid-market and certainly emerging managers in raising, although there are some exceptions," he said.

Gibson Dunn's Singer also noted that, although overall volumes in fundraising have been down, more investors are making larger commitments.

The difference between a mediocre fundraise and a really successful one may be just a few investors, he said.

"In fact, for some funds, it's one or two who are investing $100 or $200 million," Singer said. "The big-ticket swings really make a difference."

Markets Turning On

John Ferguson, chair of Goodwin Procter LLP's real estate group, said more commercial properties are trading now than in recent years — an increase that has established more comfort among real estate investors on pricing for various property types. The transactions have also allowed existing funds to get returns to distribute back to their limited partners, he said.

The increase in returns to limited partners has allowed them to, in turn, deploy capital back into real estate funds, putting the whole cycle in motion.

"The whole engine seemingly started to turn back on in a way that it had not been over the last three years," Ferguson said.

He added that fundraising still stalled a bit earlier this year while lawmakers deliberated over a potential foreign investors tax during negotiations over the "One, Big, Beautiful Bill Act" that passed in July.

But with that proposed tax in the rearview mirror, investors are dabbling in deals again.

"People are starting to get their heads around the new dynamic, if you will, around some of the geopolitical and trade and tariff issues," Ferguson said.

Transactional activity in the larger mergers and acquisitions market and the private financing markets in general is picking up, according to Leor Landa, head of Davis Polk & Wardwell LLP's investment management practice. The increase in deals will create liquidity for investors that could fuel more movement in fundraising.

"As those transaction levels continue to increase, and as liquidity keeps feeding into the system, we're expecting pretty near-term, knock-on effects for fund formation," Landa said. "We're already starting to see it. We're starting to see bigger-ticket sizes, starting to see closings happening at a higher clip."

He added that there are a lot of reasons for investors to be excited about real estate in particular.

"In addition to traditional development and multifamily and commercial development, when you look at things like data centers, there is a lot of capital that's going to be flowing into those spaces," Landa said. "Real estate managers are going to take advantage of it."

Investors Wanting Control

Fund managers have been fielding more "customization requests" from their investors this year, partly in response to uncertainties over interest rates and trade policies, according to Ropes & Gray's Requenez and Jason Kolman, a partner in the firm's asset management group.

"Some investors, given the uncertainty, may be reluctant to lock themselves into a perpetual or a long-term closed-end product," Kolman said.

The managers themselves are also taking the initiative in trying to come up with ways to incentivize investors to join their funds, Requenez said.

"Managers have to come up with some creativity in terms of the things that they may offer investors to come into their products — things that may be more accommodating than they have been five to 10 years ago," Requenez said.

Many institutional investors are entering into co-investment vehicles with fund managers in addition to making fund commitments, Ferguson said.

In such cases, "usually the investor has major decision rights, certain veto rights, and more control over approvals of how and when its capital gets invested, as compared to the traditional fund, where the investors yield much more discretion to the investment manager."

While investors are largely the ones pushing for more personalized arrangements with general partners managing the funds, in some cases, general partners are proactively suggesting them, Ferguson noted.

"They're offering it to get a larger commitment than they think they'd otherwise be able to get just for their fund," he said.

In addition to agreeing to more personalized requests from investors, private equity firms and other kinds of investment players are also launching more lines of funds focusing on different assets and strategies, noted Singer, of Gibson Dunn.

Having multiple lines of funds allows fund managers to capitalize more on the relationships they have with their investors, while for investors, putting capital in multiple funds that are managed by one sponsor can seem more efficient, he said.

Landa noted that the trend of fund sponsors agreeing more to customization requests from investors is an industrywide phenomenon, occurring beyond just real estate fundraising.

Several years ago, managers would typically only agree to customization if the investor was making a significant commitment, given the hefty administrative cost of taking such requests, he said.

The threshold for how big a capital commitment must be for fund managers to agree to those requests has generally lowered in recent years as the markets got tighter, he noted.

"It'll be interesting to see as the markets, as fundraising returns, and as the funding cycle moves upwards, whether that threshold for customization starts to push back up," Landa said.

--Editing by Marygrace Anderson.
