RESERVE MANAGEMENT IN REAL ESTATE PRIVATE EQUITY

A Proactive and Disciplined Approach to Determining Appropriate Reserve Levels

INTRODUCTION

A high-performing real estate investment manager is defined not only by performance in strong markets, but by how it prepares for and navigates uncertainty. Downside assessment and protection is the manager's responsibility (not the client's) and should be embedded as a proactive, disciplined component of the firm's broader portfolio management process.

Managers should be accountable not only for identifying compelling opportunities, but also for capitalizing investments appropriately to withstand a range of market conditions, minimizing the risk of unforeseen equity needs and poorly timed capital calls.

PHILOSOPHY: PROACTIVE RISK MANAGEMENT

Ascentris' risk management philosophy is to avoid unquantifiable risks, rigorously assess and reserve for quantifiable risks at acquisition, and actively manage nominal risks through disciplined underwriting and proactive asset management. While the industry often acknowledges that additional equity may be required in downside scenarios, managers rarely reserve for it upfront, forcing reactive decisions as conditions deteriorate. Ascentris takes a different approach: we systematically identify, quantify, and reserve for potential downside scenarios from the outset, positioning investments to perform across a range of market environments.

Both the GFC and the rapid interest rate shock beginning in 2022 underscore the importance of this discipline. By maintaining adequate reserve levels, Ascentris was able to fund leasing costs and loan paydowns internally, preserving flexibility and avoiding reactive capital calls during periods of significant market stress. Establishing and actively monitoring reserves also helps protect property values during volatility and reduces the likelihood of decisions driven by short-term liquidity pressures, such as forced sales. Just as importantly, the process reinforces accountability across our investment teams by ensuring risk is continuously evaluated throughout the hold period, not just at acquisition.

FREQUENCY & METHODOLOGY

Ascentris' reserve process is conducted at least twice annually and is updated following major capital events, including acquisitions, dispositions, and refinancings. During periods of heightened market volatility, we have found a quarterly review cadence is more appropriate.

The process is led by Portfolio Management and implemented collaboratively across the firm. Portfolio Management establishes the framework and key assumptions, investment teams perform detailed property-level analysis, and senior leadership provides oversight and final approval.

The process begins with the Portfolio Management team defining a consistent downside framework through standardized assumptions across key variables including timing, rents, renewal probabilities, leasing and capital costs, and capital markets conditions. The investment teams then apply these global assumptions to each property, incorporating property-specific risks and considerations, with a focus on potential equity needs under stress caused by operating performance, leasing dynamics, and financing structures.

The results are subsequently reviewed and approved by senior leadership and aggregated into a comprehensive portfolio-level model and shared with the corresponding client.

RESERVE FRAMEWORK

At the portfolio-level, reserve amounts are determined using a formulaic approach. For each investment, Ascentris reserves the greater of [A] the incremental equity required in the downside scenario (as described above) or [B] the amount of additional equity required to reduce leverage to approximately 50% loan-to-value (or to a more conservative debt yield, if more appropriate).

Property Name	Base Case Peak Equity	Downside Case Peak Equity [A]	50% Paydown Peak Equity [B]	Reserve Amount (Greater of [A]-Base Case or [B])	Reserve % (of Base Case)
#1	$24.3	$29.6	$6.0	$5.3	22%
#2	$21.7	$25.6	$5.4	$3.8	18%
#3	$27.4	$32.7	$6.8	$5.3M	19%
Total	**$73.4M**	**$87.9M**	**$18.2M**	**$14.4M**	**20%**

For investments that are under construction, Ascentris typically reserves approximately 20% of projected equity invested upon completion[1], subject to unique property-specific factors.

In addition to determining reserves at the property-level, the Portfolio Management team evaluates the overall portfolio risk profile, including loan maturity exposure and the timing of potential equity needs, ensuring that reserves also reflect portfolio-level dynamics. It is well understood that reserving too much at the portfolio level is not in the client's best interest. While maintaining reserves may modestly reduce near-term capital efficiency, we believe the tradeoff is justified by the flexibility and downside protection it provides during periods of market stress.

[1] While many managers establish reserves at 10% or less, Ascentris' approach is informed by experience across multiple market cycles. To ensure clients remain economically neutral, we incorporate the higher reserves into the management fee (effectively waiving fees on reserved capital).

Reserve amounts are maintained at the portfolio-level and remain uncalled until required, preserving flexibility for the investments while limiting unnecessary capital drag for clients, striking a balance that is difficult to achieve without a structured approach.

CONCLUSION

The reserve management process ensures sufficient equity is available when needed, enabling investment teams to execute business plans without liquidity constraints, reducing risk, and supporting long-term value creation. Unlike reactive capital calls or recapitalizations, a proactive reserve strategy minimizes disruption during periods of market stress and allows investment teams to remain focused on operating performance rather than capital sourcing. It also provides clear visibility into available liquidity for future investments while offering clients transparency into reserves, assumptions, and overall portfolio positioning.

More importantly, disciplined reserve management creates a structural advantage for portfolios over time. During periods of market dislocation, investments that are fully capitalized maintain flexibility, preserve optionality, and are better positioned to preserve and create value when others are forced into defensive decisions. In our view, reserve management is not simply a risk mitigation exercise; it is a core component of responsible portfolio construction and long-term investment performance.

Ultimately, markets are cyclical, uncertainty is unavoidable, and capital constraints often contribute to poor investment outcomes. A disciplined reserve framework ensures decisions are made based on what is best for the underlying real estate, not what is required by short-term liquidity needs. That distinction becomes increasingly important during periods of volatility and is often what separates resilient portfolios from vulnerable ones.

ABOUT THE AUTHOR

Dylan Drescher is a Senior Vice President and Assistant Portfolio Manager at Ascentris, where he is responsible for evaluating new acquisition and development opportunities across multifamily, retail, industrial, and office property types, with a focus on the Atlanta, San Francisco Bay Area, Salt Lake City, and Seattle property markets. He works closely with asset management teams and operating partners to drive value creation, optimize hold/sell decisions, and ensure alignment with the firm's broader investment strategy. In his role as Assistant Portfolio Manager, Dylan helps inform portfolio construction, execution and risk management, including asset-level business plan oversight, capital allocation decisions, and performance monitoring across a subset of the firm's investments. In addition to acquisitions and development, Dylan actively manages a portion of the firm's existing portfolio. Before joining Ascentris full time in 2018, Dylan worked as a summer intern with Ascentris. He holds a B.S. in Real Estate Development from the University of Southern California.

ABOUT ASCENTRIS

Ascentris is a Denver-based real estate private equity firm that manages a series of fully discretionary institutional investment vehicles focused on value-add, core-plus, and core strategies across major property types and markets throughout the United States. Since 2003, the Ascentris management team has followed an investment philosophy and organizational structure designed to identify opportunities ahead of the market while delivering a high level of service, transparency, and accountability to investors. Ascentris is a privately held, management-owned, SEC-registered investment adviser* committed to putting investors' interests first.

*Registration does not imply any level of skill or training