

# Silent Capital, Loud Consequences

Why Rebalancing LP–GP–Asset Manager  
Interaction Is Now a Strategic Imperative  
in Real Estate

In collaboration with



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# The Invisible Backbone of Real Estate

Real estate is the world's largest asset class. With an estimated USD 380-400 trillion in gross value globally, it represents roughly 35–45% of all real assets, depending on valuation methodology and year<sup>1</sup>. Residential assets account for the majority of this value, while institutional capital is concentrated primarily in commercial real estate and operational real assets.

Yet one of the most important stakeholder groups in this ecosystem rarely features in industry narratives: Limited Partners (LPs).

Pension funds, insurance companies, sovereign wealth funds, endowments, foundations, and family offices provide an estimated 65–75% of global private real estate equity capital<sup>2</sup>. There are well over 10,000 institutional LPs worldwide, with pension funds alone managing more than USD 50 trillion in assets globally<sup>3 4</sup>.

## 65–75%

of global private real estate equity capital — pension funds, insurance companies, sovereign wealth funds, endowments, foundations, and family offices<sup>2</sup>

## \$50T+

in assets managed by pension funds alone globally

Despite this scale, LPs remain largely invisible. They do not operate buildings. They do not raise funds. They rarely dominate conference panels. Yet they carry the ultimate financial, regulatory, and reputational risk of real estate portfolios.

**In the current market environment, this asymmetry has become acute.**

Rising interest rates, refinancing risk, valuation uncertainty, regulatory pressure, and the energy transition affect the entire industry. But LPs face an additional structural burden: they are dependent on the quality, transparency, and decision-making capability of their GPs and asset managers, often with limited ability to intervene.

Still, most LPs do not speak up. This silence is not a sign of satisfaction. It is a function of power dynamics.

“LPs often act as ‘silent partners’ not by choice, but by constraint. There is a documented hesitation to push for transparency because of the perceived risk of losing access to oversubscribed future vintages.”<sup>5</sup>

“The power dynamic remains tilted. Investors express dissatisfaction in private surveys that they would never voice in a formal GP meeting for fear of being labeled a ‘difficult’ partner.”<sup>5</sup>

**The result is a paradox that defines today’s LP–GP relationship: LPs feel they are chasing clarity, while GPs feel chased—yet neither side is truly collaborating on value creation.**

# The Five Structural Challenges LPs Face

LPs are accountable to their own beneficiaries and stakeholders. Their objectives are clear: Increase total return — cash yield and capital appreciation. Over recent years, at least five structural challenges have emerged that directly threaten both.

## The global refinancing wall

Over the next three to five years, a record volume of real estate debt — originated largely during a low-interest-rate period — will mature globally<sup>6</sup>. Refinancing today often implies interest costs 200 basis points higher<sup>6</sup> or even more, tighter loan-to-value thresholds, stricter covenants, and rising ESG-linked credit requirements.

For LPs, this translates into unexpected equity injections, dilution risk, or forced asset decisions without sufficient transparency at asset level.

## The denominator effect and liquidity lock-in

Because public market valuations corrected faster than private real estate values, many institutional portfolios are now technically over-allocated to real assets.

This so-called denominator effect has constrained new commitments and, in some cases, forced secondary sales or asset disposals at unfavorable points in the cycle<sup>7</sup>.

## Stranded assets and the brown discount

In Europe alone, 30–40% of existing office stock risks becoming economically obsolete due to tighter regulation, energy-performance requirements, and changing occupier behavior<sup>8</sup>. Similar dynamics are emerging in other regions.



Investor sentiment toward green buildings remains broadly positive but has moderated over the past five years. The share of respondents reporting rising investor demand declined from over 70% in 2021 to roughly 40% in 2025, while the proportion seeing no change increased, reflecting weaker transaction activity across commercial real estate markets. However, there have been signs of a recovery more recently.<sup>9</sup>

Still, LPs face difficult decisions around funding capital-intensive retrofits to secure value, or pursuing repurposing strategies—often without decision-grade insight into costs, value uplift, and emissions impact.

## **Geopolitical portfolio reallocation**

Institutional capital is increasingly shifting away from broad global diversification toward energy-secure, politically stable “safe-haven” markets. This requires active reallocation across regions, funds, and vintages. Without integrated, forward-looking data from managers, LPs struggle to assess portfolio-level exposure and define coherent rebalancing paths<sup>10</sup>.

## **Demographic change and sector rotation**

Traditional office and retail allocations are losing structural relevance, while healthcare, data centers, living, and affordable housing are gaining importance. Many LPs lack internal benchmarks and underwriting track records for these sectors and depend heavily on their GPs and asset managers for strategic guidance<sup>11</sup>.

# A Fundamental Shift Required – What Must Change on the GP & Asset Manager Side

To remain relevant partners for institutional capital, GPs and asset managers must move beyond incremental process improvements. What is required is a structural shift from reactive administration to proactive value creation, with LPs treated not as downstream recipients of reports, but as strategic partners in decision-making.

This shift is less about intent and more about capability—how decisions are prepared, supported, and ultimately made.

FROM backward-looking ESG reporting as obligation > TO green transformation as a value engine

ESG reporting has significantly improved transparency and comparability across the industry. However, it is still often experienced as a compliance-driven exercise with LPs receiving growing volumes of disclosures, ratings, and KPI tables, yet often lacking sufficient clarity on how sustainability measures translate into financial performance, asset resilience, refinancing optionality, or exit value. Many ESG tools today are primarily designed to consolidate historical data rather than to support forward-looking decisions — where to hold, sell, renovate or repurpose at which cost and IRR, impact on CO<sub>2</sub>e and EUI, and value-add (NAV, NOI and distribution yield). They lack the accurate reflection of buildings, are rarely integrated with financial planning or capital allocation, and do not deliver the decision-grade that LPs require.

“Investors are increasingly frustrated by the volume of ESG reporting and the lack of clarity on how it translates into financial performance or risk mitigation.”<sup>12</sup>

## WHAT IS REQUIRED

A shift from disclosure to decision logic. Sustainability must be embedded into manage-to-green strategies that quantify retrofit pathways, capex requirements, CO<sub>2</sub> abatement, operating cost impact, and value uplift at asset and fund-level. This requires analytical toolkits that connect sustainability measures directly to cash flows, risk metrics, capex requirements and valuation, and that can accurately reflect individual buildings—

turning ESG from a reporting obligation into a key value driver.

“This issue will remain at the forefront for the sector because the challenges arising from a changing climate can lead to new crises for the real estate industry. Companies that consider the potential impacts and the fitting solutions to them today will be at a clear advantage tomorrow.”<sup>13</sup>

FROM PDF reporting



TO radical transparency and shared data environments

Quarterly PDF reports explain the past, but they do not enable collaborative decision-making. LPs increasingly expect timely, decision-useful transparency into cash flows, vacancies, capex pipelines, refinancing risk, and transition trajectories across portfolios and funds. In practice, many LPs still receive static reports, spreadsheet extracts, or ESG data with material time lags and no decision records, limiting their ability to engage proactively or to act.

“Limited partners are asking for more timely, decision-useful information rather than static, backward-looking reports.”<sup>14</sup> This is true for both sustainability as well as financial data.

### WHAT HAS TO CHANGE

The replacement of one-way reporting with shared, interactive data and decision environments. This does not mean operational micromanagement, but rather enabling LPs to understand assumptions, explore scenarios, and assess trade-offs alongside their managers.

Achieving this requires moving beyond document-based reporting toward platforms and systems that support real-time interaction, scenario analysis, and structured dialogue based on decision-grade insights

FROM financial leverage



TO operational alpha

For more than a decade, value creation in real estate was heavily supported by falling interest rates and financial leverage. That environment has fundamentally changed. Today, returns increasingly depend on operational performance: tenant retention, energy efficiency, cost control, space utilization, or adaptive reuse. Yet many investment and asset strategies are still evaluated using high-level assumptions rather than operationally grounded analysis.

With interest rates remaining higher for longer, real estate returns will increasingly depend on operational performance rather than financial engineering.<sup>15</sup>

### WHAT IS REQUIRED

What is required is a shift toward treating assets as operating businesses, not passive balance-sheet positions. This demands more granular operational data, deep understanding of the individual building, its components and systems, forward-looking scenario modeling, and the ability to test measures—such as retrofits, tenant strategies, or repurposing concepts

—based on their impact on NOI resilience, risk profile, capex requirements and long-term valuation. Toolkits that cannot reflect “real-world” assets and portfolios, integrate operational, financial, and sustainability data, and enable reliable decision-making increasingly limit this capability and become a business risk.

FROM **Decision Transparency**



**TO** **Decision Authority**

Industry-wide standards and benchmarks, such as those provided by GRESB, play a critical role in improving transparency and comparability across funds and managers. Greater transparency and shared analytical environments are a necessary foundation for stronger LP–GP collaboration, but they do not, on their own, guarantee better outcomes. As the market matures, the next step is integrating this standardised data into more forward-looking, decision-oriented investment processes. And a second constraint increasingly comes into focus - the way capital itself is governed.

Across much of the industry, capital expenditure is still authorised through annual planning cycles designed for a more stable market environment. In that context, annual budgets provided predictability and control. Today, however, key risks and opportunities, refinancing conditions, regulatory change, energy economics, and asset obsolescence, evolve continuously rather than in line with calendar-based approval processes.

This creates a structural lag between insight and action. Asset-level risks may be identified early, yet the ability to respond remains constrained by fixed approval windows. The consequence is rarely poor analysis, but delayed intervention. Capital is deployed defensively rather than proactively, optionality erodes over time, and decisions are increasingly taken under pressure rather than from a position of choice.

As a result, collaboration between LPs and GPs can stall despite improved transparency. Insight without the ability to act does not translate into performance; it can instead heighten frustration on both sides.

### THE IMPLICATION

The implication is not a relaxation of discipline, but an evolution of governance.

For greater transparency, industry benchmarks such as GRESB are expanding beyond static disclosure frameworks to provide more financially material, risk-oriented insights that support capital allocation and performance evaluation. Companies have already started the integration of these data into forward-looking investment processes. On top, leading organisations are beginning to complement annual, baseline capex planning with strategically governed, rolling or conditional capital frameworks.

In these models, capital is released when predefined thresholds are met (linked to refinancing risk, regulatory triggers, or asset performance) rather than waiting for the next planning cycle.

In an environment where asset risks, opportunities and constraints change continuously, aligning decision insight with decision authority becomes a prerequisite for turning collaboration into durable value creation.

FROM **AUM-driven fees**



TO **aligned economics**

Traditional fee structures have often prioritised asset accumulation over portfolio optimisation. Management fees linked to NAV can discourage timely divestments or difficult transformation decisions, particularly in stressed market environments. For LPs facing liquidity constraints, financial commitments, and allocation pressure, this misalignment has become more visible and more problematic.

A significant proportion of LPs believe that current fee structures are misaligned with performance outcomes, particularly in periods of market stress.<sup>17</sup>

### WHAT MUST CHANGE

What must change is stronger economic alignment through meaningful co-investment, cash-flow- or DPI-linked incentives, and transparent economics. Equally important is the analytical foundation that supports these decisions.

Without shared, decision-grade insight into hold-sell-retrofit-repurpose options, even well-intentioned incentive structures struggle to deliver alignment in practice.

FROM **fragmented tools**



TO **intelligence-driven investment processes**

Most real estate organizations still operate with fragmented systems across acquisition, asset management, ESG, financing, and reporting—often connected through manual processes and spreadsheets. This fragmentation limits the ability to run consistent scenarios, compare alternatives across assets and funds, or understand portfolio-wide implications of individual decisions.

Investors increasingly view data quality, availability, and integration as core elements of governance and risk management.<sup>16</sup>

### WHAT IS REQUIRED

What is required is a move toward intelligence-driven investment processes that integrate financial, operational, and sustainability data across the full asset lifecycle and that can reflect real world complexities of buildings and complex, global portfolios. Advanced analytics and AI are becoming essential not as experimental tools, but as core infrastructure for navigating complexity, anticipating risks, and supporting faster, higher-quality decisions.

For many LPs, the maturity of a manager's decision-support toolkit is increasingly a proxy for governance quality and future readiness.

**“AI is increasingly helping owners and investors to take a more informed, data-driven approach on their overall energy retrofit strategy and better navigate uncertainties in cost-effectiveness and payback periods.”<sup>18</sup>**

# Stop the Chase – The Opportunity of Partnership on Eye Level

Today's LP–GP dynamic often feels inefficient and value-destructive. LPs chase information to fulfill fiduciary duties. GPs feel chased, squeezed between operational complexity and rising expectations. Trust erodes quietly.


**It does not have to be this way.**

A transition from a transactional to a strategic partnership could unlock significant alpha. When GPs share granular, asset-level data in real time, LPs can optimise their own capital overlays, creating value beyond the underlying asset performance.<sup>19</sup>

LPs bring portfolio-level perspective, capital allocation discipline, and long-term risk oversight. GPs and asset managers bring asset-level operational expertise and execution capability. When both operate on a shared analytical foundation and toolkit, the conversation shifts—from explanation to co-decision, from tension to mutual accountability, from silence to strategic dialogue. The upside is clear:

Firms that bridge the information silo between GP operational knowledge and LP portfolio strategy can improve reporting efficiency, strengthen LP-GP alignment, and support better long-term capital allocation decisions, among other benefits.

Crucially, this same bridging mechanism is also what unlocks delivery at the scale and speed required for Net Zero: without shared, decision-grade transparency on asset condition, sequencing, and constraints, retrofit ambition stays trapped in plans and reports rather than executed capex and measurable abatement.



This is where LPs—especially long-duration investors like pension funds—become the decisive catalyst: their time horizon and fiduciary mandate to manage long-term risk can pull forward action today by rewarding GPs who can translate building-level realities into portfolio-level, financeable pathways.

**The future of real estate will not be defined by who reports best. It will be defined by who decides best.**

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