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Where Conviction Meets Selection

Finding Value in a Market of Diverging Real Estate Outcomes

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A Perspective On Why Investment Selection, Not Broad Sector Exposure, May Define The Next Phase Of Alternative Real Estate Investing

Real estate recovery is underway, but outcomes are becoming increasingly divergent across sectors, markets, assets, operators, and capital structures. Entering 2026, many investors anticipated declining interest rates, accelerating transaction activity6, and a faster normalization of capital markets. Instead, economic growth has remained resilient, inflation has proved more persistent, and geopolitical uncertainty has increased.

In our view, this uneven environment is creating opportunity, but it is also challenging the assumption that improving conditions will benefit all investments equally. The defining question for the remainder of 2026 is not simply which sectors offer attractive structural themes. It is where those themes can translate into attractive risk-adjusted investment opportunities.

Over more than two decades of investing in alternative real estate, we have developed market knowledge, proprietary data, and operating relationships that inform our ability to identify sectors, markets, assets, operators, and capital structures supported by enduring fundamentals.

That distinction is increasingly important. **High conviction in a sector does not mean every market or asset within that sector represents an attractive investment.** As performance dispersion grows, we believe selection and execution will increasingly determine outcomes.

A Market Defined by Dispersion

For several years following the Global Financial Crisis, commercial real estate benefited from declining interest rates, abundant liquidity, and growing institutional allocations. Asset selection and execution remained important, but the broader market environment provided meaningful support.

We believe the next cycle will be different.



Smart Space | Colorado Springs, CO

With capital more selective and financing costs higher than during much of the prior cycle, value creation will likely depend more heavily on entry basis, income growth, operational execution, and downside protection. Our underwriting does not rely on exit cap rate compression. Instead, we focus on whether an investment can perform based on its underlying fundamentals and a credible path to value creation.

Recent market volatility has also reinforced the importance of distinguishing between **impaired real estate and impaired capitalization.**

The recent reset did not uniformly reflect deterioration in property-level fundamentals. In some cases, fundamentally sound assets were affected by the rapid repricing of capital, higher financing costs, or capital structures created for a very different interest-rate environment. These circumstances may provide opportunities to access durable assets at a more attractive basis.

However, buying below replacement cost is not, by itself, an investment thesis. We have observed that a lower basis creates value only when paired with durable demand, limited future competition, an appropriate capital structure, and a credible operating plan.

The same discipline applies across the capital structure. Rather than asking whether equity or credit is broadly more attractive, we evaluate where investors may be most appropriately compensated for the risks assumed. In some situations, ownership can provide participation in improving fundamentals and operational upside. In others, credit or structured capital may provide exposure to similar underlying themes with different risk and downside characteristics.

Residential credit is one example of how market knowledge and operating insight developed through an equity platform can inform opportunities elsewhere in the capital structure.

Selectivity in Practice

Specialization becomes particularly important in a market where attractive headline fundamentals can mask significant differences at the local, asset, and operator levels.

In many areas of alternative real estate today, we believe broad sector exposure increasingly represents beta. The opportunity to generate alpha comes from what happens beneath the sector level: identifying the right markets and submarkets, selecting the right assets, partnering with the right operators, establishing the right basis, and determining the appropriate position within the capital structure.

We continue to apply tools including our proprietary H-PRISM™ risk-reward scoring model, sector-specific micro-market screens, and operator intelligence framework to identify patterns across markets, operating partners, and cycles. These tools are intended to help us evaluate not only where structural demand exists, but where that demand may translate into attractive investment opportunities.

Our selection process reflects several recurring questions:

- **Market:** Does local demand support existing and future capacity?
- **Basis:** Does the entry price provide an appropriate margin of safety relative to the asset's risks and business plan?
- **Supply:** Are barriers to new competition durable, or are they likely to erode?
- **Operator:** Does the operating partner have relevant sector experience and a demonstrated ability to execute?
- **Capital structure:** Is the investment appropriately structured for the identified risks and potential sources of value?
- **Execution:** Is there a credible operational path to achieve the investment plan without relying on favorable macroeconomic outcomes?

Operators as a Source of Alpha

We believe alternative real estate is fundamentally operational; recent volatility has reinforced the extent to which operator quality can influence occupancy, pricing, expense management, resident or customer experience – and ultimately investment performance.

Operators also provide real-time insight into leasing velocity, labor conditions, customer preferences, pricing power, competitive supply, and local market dynamics. As a result, operator selection has become an increasingly important component of our underwriting.

Senior Housing: Durable Demand, Disciplined Selection

Senior housing remains one of the clearest examples of a sector where durable demand and constrained supply may support long-term opportunity. The population of adults aged 80 and older is growing, while new construction remains below projected demand growth.[1] Our analysis suggests demand growth is approximately four times current construction activity, supporting the potential for continued occupancy gains and pricing power.[2]

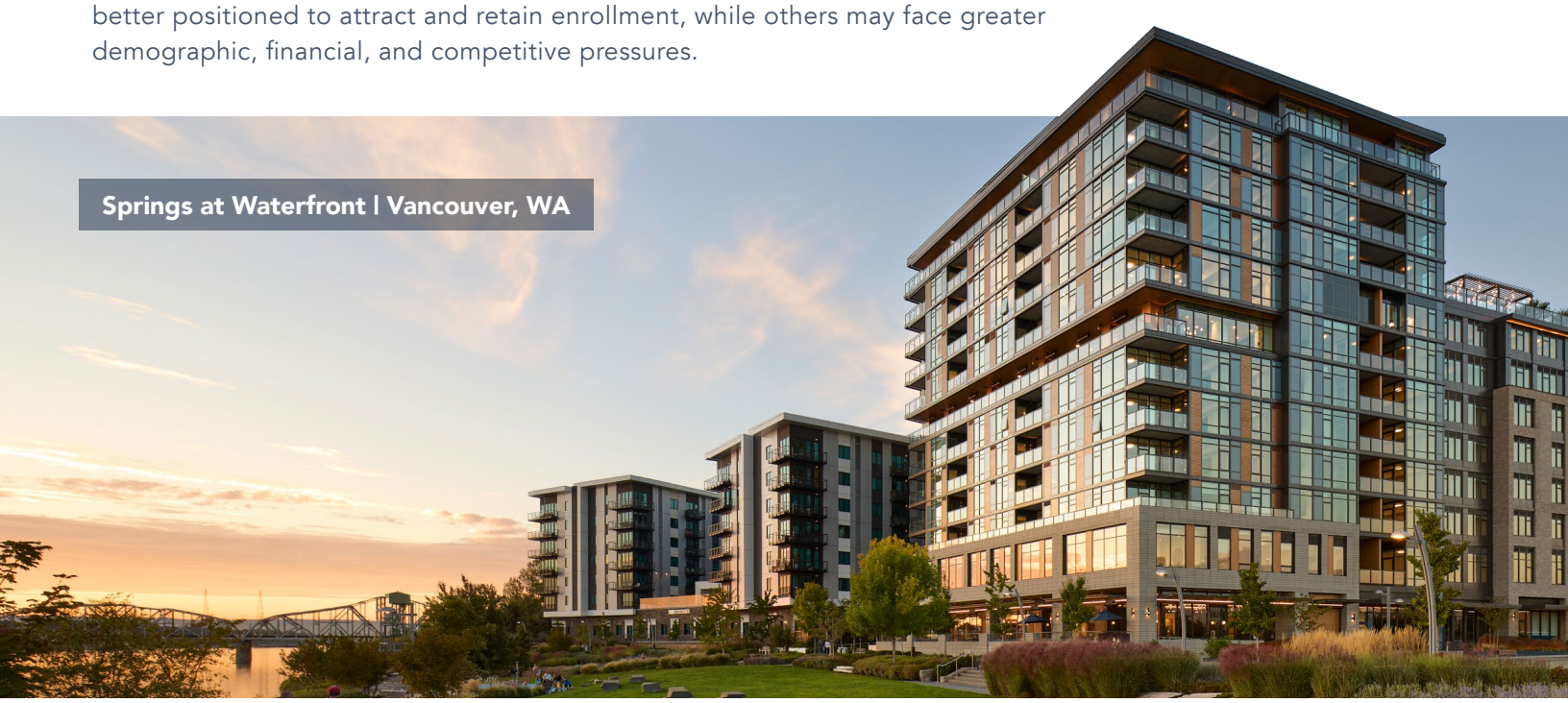
As fundamentals have strengthened, investor interest has returned and so has the need for selectivity. We employ a ZIP code qualification framework that evaluates supply and demand fundamentals, resident affordability, demographics, competitive supply, and operator capabilities to identify markets where these factors align and support long-term investment potential.

Strong sector fundamentals do not eliminate asset-level risk. Entry basis, local competition, care mix, labor availability, and operator execution can drive materially different outcomes within the same market. **For us, that makes local knowledge and disciplined underwriting particularly important.**

Student Housing: Conviction Requires Market Selection

We continue to have strong conviction in student housing, but we believe future performance will increasingly depend on institution and market selection.

Universities with strong brands, research capabilities, resources, and differentiated student experiences may be better positioned to attract and retain enrollment, while others may face greater demographic, financial, and competitive pressures.



Springs at Waterfront | Vancouver, WA

Our proprietary screening process evaluates more than 2,300 four-year public and private nonprofit universities, narrowing the universe to approximately 180 institutions with meaningful scale, 60 to 70 investable markets, and ultimately 20 to 30 high-conviction "Power 4 Plus" markets.[3]

This process is designed to move beyond broad enrollment trends and identify where demand is most durable. That discipline matters: **despite our conviction in the sector, we pursued fewer than 5% of the student housing including investments in other HS-managed vehiclesopportunities we evaluated in 2025.**

Conviction should expand the opportunity set for analysis, not lower the threshold for investment.

Self Storage: Investing Through the Cycle

Self storage illustrates why investing through cycles requires separating temporary operating pressure from changes in long-term fundamentals.

Following exceptional pandemic-era performance, the sector entered a period of normalization as housing activity slowed and revenue growth moderated. We are now observing early indications of improving fundamentals in select markets, including moderating rent fluctuations, stabilizing operating trends, and more limited future supply pipelines.[4]

We do not expect the recovery to occur uniformly, as local housing activity, supply dynamics, population growth, and operating execution will continue to shape outcomes. As a result, we remain focused on identifying markets and assets where strengthening demand is supported by manageable new supply and a credible strategy for operational performance.

The same selection principles extend across other sectors in which we invest.

Looking Ahead

Across North America, we have observed many of the structural themes supporting alternative real estate in the US also emerging in Canada, although the markets remain at different stages of institutionalization. In both markets, we believe regional and sector themes can help identify where to look, but local data, specialized operating expertise, and asset-level underwriting ultimately determine where to invest.

We remain constructive on the opportunity set for the balance of 2026, while expecting the recovery to remain uneven across sectors, markets, assets, and capital structures. That dispersion may create opportunities for investors who can distinguish durable fundamentals from temporary market disruption, while increasing the cost of getting market, operator, basis, or capital structure selection wrong.

The next phase of real estate investing will require more than identifying attractive themes. The enduring advantage comes from understanding where within those themes opportunity remains mispriced: which markets, which assets, which operators, and which part of the capital structure offer the potential for attractive risk-adjusted returns.

That philosophy has guided us through multiple market cycles: remain disciplined when markets are aggressive, remain prepared when others retreat, and continue applying the lessons of prior cycles to the opportunities ahead.



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Endnotes and Disclaimer

1 NIC MAP Vision, US Census, as of 2Q 2026
2 NIC MAP Vision, Harrison Street Research, as of 2Q 2026
3 IPEDS, Common Data Sets, university websites, RealPage, Harrison Street Research, as of April 2026
4 Moody's CRE, Green Street, Yardi Matrix, as of 2Q 2026

Important Information

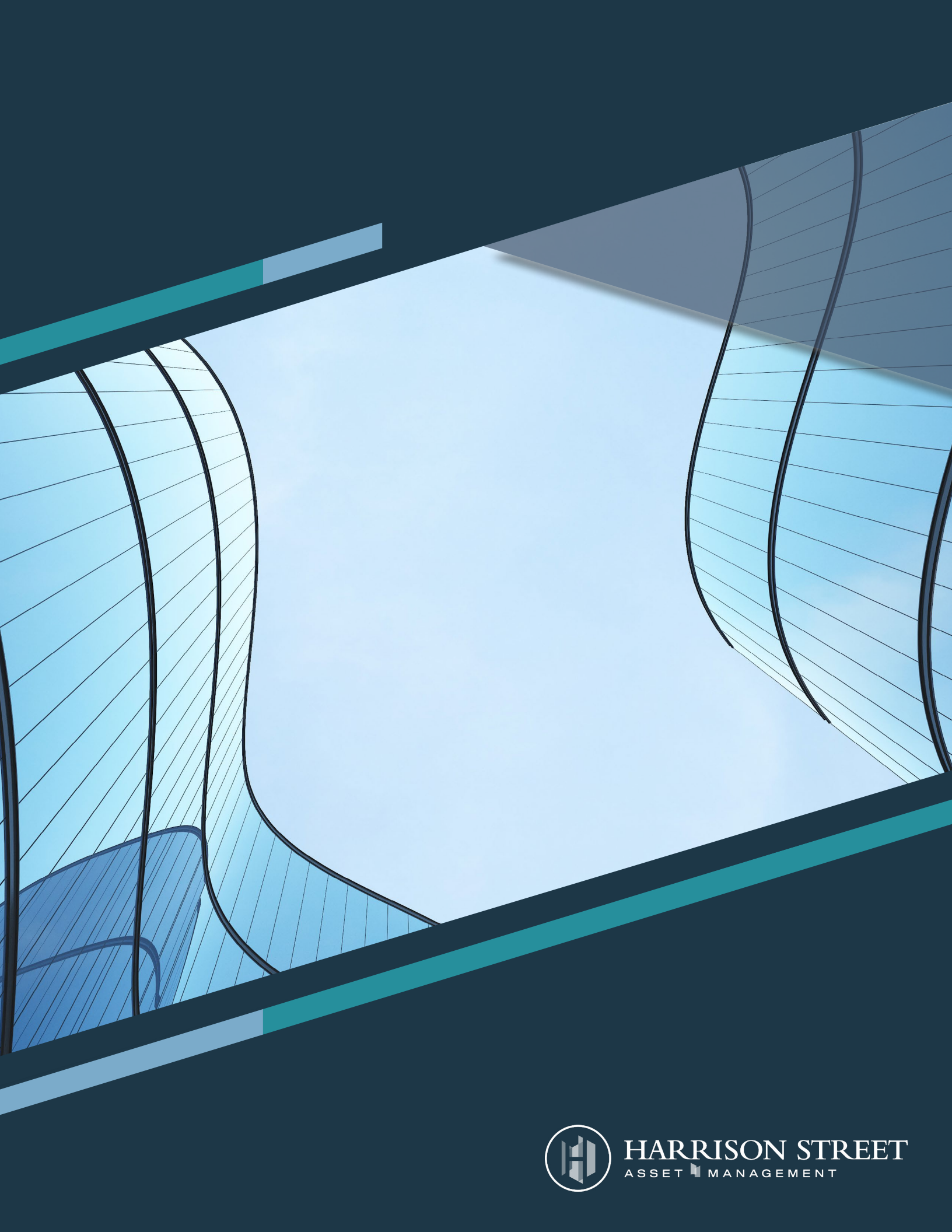
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