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Real Estate:UK

The future operating model for UK real estate

What fund managers can control in an uncertain market



This eBook was created in partnership with Real Estate:UK

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Introduction

While the UK real estate market continues to offer a wide array of investment opportunities, the environment has become considerably more challenging for fund managers. Defined-benefit pension scheme capital is becoming less available, expectations around transparency and reporting are increasing, institutional standards are rising, and liquidity, valuations, and operational resilience are under greater scrutiny.

At the same time, investors expect stronger and more effective governance, scalable operations, reliable data, clear reporting, appropriate liquidity management, and credible technology adoption. Together, these demands will affect fund managers' ability to compete and scale.

The fund managers best placed to thrive will be those able to respond to current market demands, adapt their operations, continue to invest well, and operate effectively under pressure.

Although this eBook touches on the broader economic pressures facing fund managers, its focus is on the factors fund managers can control in a private-market environment with more selective capital, greater fee sensitivity, increased scrutiny of liquidity and valuations, more detailed due diligence and more demanding investor reporting.

Developed in collaboration with Real Estate:UK, the eBook draws on two key industry discussions facilitated by them: a roundtable of COOs and other leading lights in the field, and a webinar that presented a new fund resilience playbook. It explores how fund managers can respond to changing market conditions and position themselves for future growth.

In a market that rewards resilience, innovation, and operational discipline, sound decisions about the operating model can provide a clear competitive advantage.



Investor dynamics

One significant change in UK real estate fund management concerns the way local government pension schemes ("LGPS") are managed. What was once a fragmented market, made up of many smaller local funds, is consolidating into a smaller number of larger pools.

This does not necessarily mean there is less capital to compete for, but it does mean that fewer decision-makers control access to that capital. The result is a more concentrated buyer universe, requiring fund managers to rethink how they engage with investors and compete for mandates.

A more concentrated buyer universe

As LGPS pooling continues, fund managers should respond to the opportunities and challenges created by these larger pools.

Larger pools have stronger investment capabilities in committing direct, more substantial internal resources, and a wider scope in how they invest. They also demand stricter governance, place more pressure on fees, expect better reporting, and hold greater bargaining power.

For fund managers, this means the standard for winning and retaining mandates is rising alongside the scale and capability of the buyers themselves.

The role of external fund managers

Despite these changes, external fund managers retain an important role. They provide specialist expertise, scalable solutions, operational capability, sector-specific knowledge, and implementation support.

What is changing is what buyers expect from these capabilities and how managers demonstrate them. Rather than waiting for market demands to become clear, managers should anticipate the needs of larger pools and develop credible responses.

Managers that understand what buyers will need next will be better placed to secure sustained growth.



Neil Meikle
Head of Private Markets Distribution,
Legal and General

"The sophistication and the level of interrogation that clients give products and propositions is far higher, and it's continuing to increase."



Marc Cox
Head of Sales (UK)
Apex Group

"The pooling of LGPS and consolidation across the pension world is placing managers and service providers under pressure in terms of fees and the service they offer."

Accessing DC capital: major opportunity, complex footing

Defined contribution ("DC") capital remains an important long-term opportunity. But accessing these schemes can be difficult because of fee sensitivity, charge caps, platform requirements, liquidity constraints, regulatory requirements and investor suitability.

Fund managers in real estate and wider private markets that can meet these requirements may gain access to a substantial source of long-term capital.

Routes to DC capital

Long-term asset funds ("LTAFs") and private-market access funds could provide important routes to DC capital. Multi-asset private-market products could also combine real estate with infrastructure, private credit, other illiquid or semi-liquid strategies, and liquid components to support diversification and liquidity management.

Repackaging established products is unlikely to be enough. Products should be built around the needs of the end investor and the operating requirements of the DC market from the outset.

The future for DC products

Sustainable DC products will need to be purpose-built, scalable, cost-effective, and suitable for the end investor.

For fund managers, the opportunity lies in building products, operating models, and distribution channels that meet the specific needs of the DC market.



DC challenges: regulatory clarity and permitted links

While DC capital remains an attractive prospect, accessing it successfully requires fund managers to work within the regulatory frameworks governing investment in private assets.

Clarity is needed

One of the main challenges facing fund managers is the need for greater clarity around what constitutes permitted and conditional permitted links for real estate product development. Clearer rules are also required for charge caps, vehicle eligibility, trust- and contract-based DC models, and the treatment of liquidity. Without clearer rules, managers face considerable uncertainty when developing products for the DC market.

Potential solutions

The Reserved Investor Fund ("RIF") could help attract DC capital (with insurance wrappers) assuming regulatory reform, which is an industry ask. Regulatory reform could also direct more capital to UK real estate, housing, productive finance, and long-term private-market investment.

International capital

International capital remains an important part of the real estate fundraising market, but international investor interest does not always lead to capital deployment. Investors considering the UK market or a particular opportunity often require credible sector information, high-quality data, and sustained engagement before committing capital.

Interest is not the problem

Many international investors continue to show interest in the UK and wider European real estate market, but often require evidence of sufficient scale, clear sector conviction, a demonstrable track record, regional rather than single-country exposure, compelling relative value, and confidence in a manager's ability to deploy capital effectively.

To address this, fund managers need to move beyond broad claims about market opportunities and provide concrete information that demonstrates both the investment case and their ability to act on it.

Structural demand stories to attract and secure investment

Stronger data and clearer investment theses can help turn investor interest into action. Managers could build investment propositions around sectors with sustained demand, including affordable housing, healthcare, social infrastructure, and operational real estate.

Rather than relying on a generic argument for the value of UK real estate, these propositions can use distinct, defensible data sets to demonstrate demand, the scale of the opportunity, and the investment characteristics of each sector.

All information supplied to potential investors should meet high standards of quality and clarity. Converting interest into committed capital will also require consistent communication, patience, and sustained engagement.



Fee pressure

Fee pressure has become one of the dominant forces shaping UK real estate fund management. Fund managers are being asked to deliver increasingly complex services, while fee levels often do not reflect the additional complexity involved.

This forces managers to reconsider both which services they provide and how those services can be structured and delivered sustainably.



Hugo Llewelyn
CEO
Newcore Capital

"If you can differentiate what you're doing, and that is in demand, then you should be able to preserve your margins in terms of fees."

A shift in manager economics

As investor expectations become more sophisticated, managers face greater demands around reporting, governance, transparency, data quality, risk management, bespoke service offerings, and operational due diligence. Simply put: the work burden on managers today is increasing.

The challenge is that this additional complexity is not always reflected in managers' fees, with real estate fee structures often less attractive than those available in other private-market alternative asset classes. This puts pressure on managers to deliver more while protecting already constrained margins.

Bespoke services

Bespoke services are particularly challenging to offer in this environment, because while fund managers can still accommodate investor-specific requests, the economics of doing so are more strained.

Services that were previously absorbed into the broader operating model increasingly need to be treated as exceptions, representing a significant shift in how fund managers think about client services.

How to navigate the change

The market pressures at play mean that margin discipline has become a core operating model issue. In response, fund managers could reassess which mandates remain commercially viable, whether client requirements are priced appropriately, and where operational complexity is eroding margins.

Balancing growth and operational resilience are key considerations. Taking on new mandates or increasingly bespoke requirements may support revenue growth, but only if the operating model can absorb the additional complexity without compromising quality, control, or service delivery.

The result should be a more deliberate approach to growth, in which managers consider whether they can win and service a mandate and whether they can do so sustainably within the economics of the business.

Product strategy: matching the new capital environment

As the real estate investment market evolves, fund managers should also reconsider their approach to product strategy. Fund managers cannot simply sell yesterday's products into today's market.



Changing market pressures

The real estate fund management model should respond to increasing fee pressure, DC requirements, the realities of LGPS pooling, liquidity expectations, international investor preferences, and the need for scale and clearer differentiation.

This means the emphasis must shift to products that are scalable, operationally efficient, clearly differentiated, aligned with investor demand, and supported by performance and track record.

Additionally, fund managers should continue to explore potential growth areas. These include multi-asset private markets access funds, LTAFs, RIFs, real estate debt, specialist residential investments, healthcare, affordable housing, operational real estate, social infrastructure, and sector-specific joint ventures.

A clear right to win

The future operating model for fund managers will show a bias towards strategies and products with a clear right to win. These will be ones that balance investor demand, fee economics, suitability, liquidity, operational complexity, and distribution route.

A clear right to win means more than identifying a market opportunity. Managers will need to demonstrate that they can deliver their strategies competitively and at an acceptable cost through a distribution model with a realistic route to scale.



Rising data demands and the impact of AI

Technology, including AI, will play an important role in the future of successful UK fund managers. But technology alone will not solve the efficiency challenge.

One of the main barriers is the underlying data infrastructure on which these technologies depend: Data is often poorly managed, limiting the ability of modern technologies to deliver the efficiency and insights fund managers need to remain competitive.

Increasing data and reporting expectations

Now more than ever, investors want more detailed information on tenants and their business models, asset-level performance, operational resilience, return and risk drivers, valuation assumptions, and ESG data to make deployment decisions.

This means that data storage, handling, and use is becoming a central concern for fund managers looking to thrive in an increasingly competitive market, shaped by factors such as LGPS pooling and the requirements associated with DC capital.

The data problem

In the current operating model, it is evident that real estate data is often fragmented, inconsistent, and held across multiple systems. This makes it difficult to track, identify, and leverage for growth.

Data may also sit with external operators or third parties, making it difficult for managers to access in real time or understand fully. Compared with public-markets data, it is also often less structured, limiting the ability to use it effectively, particularly as AI adoption accelerates.

Without clean data, AI cannot help fund managers use data in the way investors increasingly demand. That is why fund managers should identify the gaps in their data hygiene and management protocols in order to retain a competitive advantage.

The opportunity

Technology and data can be used to improve underwriting, asset management, tenant engagement, investor reporting, client education, distribution, and strategic decision-making, thereby freeing asset managers from administrative friction.

That is not to say that it should replace human judgment, as the cultivation of relationships and credibility remain critical. In fact, during the roundtable, it was highlighted that the point of technology adoption is not to decrease headcount but free up people to deliver more value.

Technology can support fund managers by helping them make better use of the information available to them. But achieving that value will depend on addressing the underlying data management challenge first.



Operational scalability

As fund managers consider operational scalability, common processes and outsourcing are becoming key concerns, especially as operating models move away from fund-by-fund structures and adopt shared house platforms supported by third-party partnerships.



The move towards commonality

Across the board, we are now seeing a shift in favour of fund managers moving towards a common operating model across real estate equity and debt, infrastructure, wider private markets, and specialist sector strategies.

The benefits are clear. A shared approach makes processes more consistent, lowers operational duplication, enables more effective use of internal resources, and provides clearer service standards. It also creates greater opportunities for margin discipline, more reliable reporting and more sophisticated client services.

Outsourcing and third-party partnerships

The move towards commonality creates greater opportunity for effective outsourcing and third-party partnerships, changing their roles from simply cost-limiting tools to key tools for resilience.

The challenge will be integration: ensuring that data flows cleanly between systems, that service providers support technology integration, and establishing how operating platforms connect investment, asset management, reporting, and client service.

The key challenge

Common processes and outsourcing are now important tools for maintaining operational resilience. Fund managers should decide where a tailored approach adds value and where it creates unnecessary cost and complexity.

Liquidity, suitability, and governance remain critical risks

Wider access to private assets is an attractive proposition for both investors and fund managers but it is best handled carefully. Real estate can play an important role in long-term portfolios, but liquidity mismatch remains a central risk.

Liquidity is not binary

Often, the challenge lies in a misunderstanding of liquidity dynamics rather than illiquidity itself. The fact is, liquidity cannot simply be classed as liquid or illiquid, and it is important that fund managers communicate these nuances to investors clearly.

Fund managers should explain liquidity terms, gating mechanisms, redemption limits and queues, notice periods, valuation dynamics, and the long-term characteristics of the underlying assets. What must be communicated is not simply whether an investment is liquid, but how and when investors can access their capital and which conditions may affect that access.

This is particularly important for frequently dealing structures investing in illiquid assets. The more often investors are able to redeem, the greater the potential mismatch between the liquidity offered by the fund and the time it may take to sell the underlying assets.

Fund managers should carefully consider how the fund can meet redemption requests without being forced into asset sales that compromise value or unfairly affect remaining investors.

The structure should therefore account for the actual liquidity of the underlying portfolio, rather than only the liquidity investors may expect from the fund.

Four lenses for liquidity

Fund managers should consider liquidity through four lenses:

- **Structural liquidity**
- **Market liquidity**
- **Economic liquidity**
- **Fairness between investors**

This view can help fund managers identify and mitigate potential tensions, including the “last mover” problem, which could arise when one fund continues to provide liquidity while others gate.

The takeaway

Suitability is now a core concern as private markets become more accessible to DC and retail-style investors. As the investor base broadens, fund managers should clearly explain the potential benefits of private assets and the conditions under which investors can access their capital.

Governance should therefore protect the interests of existing and redeeming investors, the fund managers themselves, and the sector’s reputation. Product structures should reflect the liquidity profile of the underlying assets.

The need for sharper differentiation

As the market continues to change, it is increasingly divided into two broad operating models: managers that compete through scale and those that compete through specialism.

This leaves managers that are neither particularly large nor clearly differentiated at a disadvantage. For these groups, identifying where they have a genuine right to win and directing their resources accordingly is a strategic imperative.



Competitive differences

For specialist fund managers, the upper hand is in comprehensive sector expertise, operational knowledge, sector-specific track records, proprietary insights, and access to specific opportunities.

For large, diversified fund managers, the key advantages lie in scale, broad capability, distribution reach, operating infrastructure, and the ability to service major capital pools.

But being niche or entrepreneurial is not enough in itself. To compete effectively, managers need a strong track record, a genuinely useful strategy, clear differentiation, and institutional-grade operations and credibility. This credibility also extends to governance, cybersecurity, reporting, finance controls, risk oversight, audit trails, and readiness for operational due diligence.

Potential advantages for specialist managers

Potential areas of advantage for specialist managers include the living sector, such as healthcare, affordable housing, and other residential sectors, alongside private credit, social infrastructure and operational real estate.

Real estate and pensions: the need for a stronger narrative

Institutional real estate investment is often poorly understood. That is why the sector must cultivate a stronger public narrative that explains the connection between pension capital and the built environment, including key areas such as housing delivery, urban regeneration, and long-term retirement outcomes.



Residential and affordable-housing strategies

As an example, residential and affordable-housing strategies can be subject to broad misinformation or misunderstanding. This is particularly sensitive given that much of the capital behind these strategies comes from pension schemes and long-term savers, i.e. the "man on the street". Here, a stronger narrative could show how pension capital can help fund affordable housing, regeneration, and social infrastructure while also supporting long-term retirement outcomes.

Institutional real estate investment

Institutional real estate investment should be positioned as part of the solution to the UK housing crisis. Here, the sector has an opportunity to help people engage more effectively with their retirement savings, while explaining the wider role that long-term institutional capital can play.

Communication should reach policymakers, pension savers, local communities, the media, and the wider public. The narrative should be practical rather than defensive, helping people understand how pension capital can contribute to the public good.

Strategic implications: a practical agenda for fund managers

The future operating model for UK real estate fund managers will be the result of numerous market forces, many of which are not within managers' control: investor consolidation, fee pressure, rising data demands, and the need for scalability and shared operating models are changing the way capital flows. These forces will continue to shape the market.

What fund managers can control, however, is how they respond. The most successful managers will be those who can identify what is and is not within their control and respond practically.

01 Investor strategy: understanding demand

Changing investor structures and capital flows mean fund managers should be more deliberate about how and where they pursue growth and how they serve investors. Managers should:

- Understand how LGPS pooling is changing demand
- Identify where external management remains valuable
- Build products and service models for larger, more sophisticated investors
- Assess the realistic opportunity in DC
- Distinguish international interest from genuinely deployable appetite

02 Product strategy: focus on scalable, differentiated propositions

Products should be reassessed against current investor requirements, with new products launched only where there is a clear opportunity to compete. Managers should:

- Reassess legacy products
- Focus on products that are scalable, efficient, and differentiated
- Align product design with investor demand, liquidity expectations, and regulatory suitability
- Avoid launching products without a clear right to win

03 Fee and margin discipline: price complexity properly

As fee pressure continues to rise, managers need to understand the base economics of the services they provide and the operational complexity they take on. Managers should:

- Identify where complexity is eroding margin
- Price bespoke requirements properly
- Be willing to decline mandates that do not support the required service level
- Balance growth with quality control

Strategic implications: a practical agenda for fund managers

04 Data and AI readiness: build the foundations first

While technology can improve decision-making and reduce administrative friction, the underlying data and infrastructure will determine whether it can be integrated effectively. Managers should:

- Focus on clean, structured, and accessible data first
- Identify where technology can improve investment decision-making
- Avoid treating AI as a solution to poor data infrastructure
- Use technology to reduce administrative friction

05 Operating model: use common processes and tailor them selectively

Fund managers should look for opportunities to remove unnecessary duplication and improve resilience, while retaining flexibility. Managers should:

- Move away from unnecessary fund-by-fund duplication
- Adopt common core processes
- Use outsourcing and third-party partnerships where they improve resilience
- Tailor services only where this creates real value

06 Liquidity and governance: ensure alignment

Liquidity and governance arrangements need to reflect the characteristics of the assets being managed and the expectations set for investors. Managers should:

- Align liquidity terms with underlying assets
- Communicate redemption mechanics clearly
- Strengthen valuation governance
- Manage suitability risks carefully

07 Differentiation and narrative: define propositions and communicate them clearly

Fund managers need to make deliberate choices about how they compete, while effectively communicating the role of institutional real estate. Managers should:

- Decide whether the business is competing through scale, specialism, or a clearly defined combination
- Build a stronger narrative around housing, pensions, and productive capital
- Communicate the fund manager's role in long-term outcomes

Conclusion: controlling the controllables

The common thread across the priorities gleaned from our candid discussions with leaders in the industry is the need for fund managers to focus on what they can control.

Managers cannot determine how LGPS pooling develops, how regulation and government policy change, or where investor demand ultimately settles. They can, however, contribute to policy and regulatory discussions through engagement with government, regulators, and industry bodies such as Real Estate: UK. They can also decide where to compete, what to offer, how to price complexity, where to invest in technology, and how to structure their operating models.



The future operating model for UK real estate fund managers will rely on much more than investment performance. Fund managers will have to prove that they can invest well and operate successfully under pressure.

The direction of travel is clear: LGPS consolidation will continue to raise expectations, while fee pressure will continue to test the economics of operating models. DC access will require new product design and greater regulatory clarity. AI will only create meaningful value where strong data foundations exist. And as liquidity continues to attract scrutiny, fund managers' credibility will increasingly depend on whether the terms they offer are properly aligned with the assets they manage.

These pressures do not imply that there is one universal operating model. The living sector, for example, offers significant opportunities, but capturing them requires the scale, operational capability, and expertise to manage increasingly complex assets.

More broadly, the market will continue to reward managers that compete through scale, specialism, or a clearly defined combination of the two. Those without a clear point of differentiation will face increasing pressure.

How to thrive

The strongest fund managers will be those that bring the different elements of their business into alignment: investment skill, institutional credibility, operating resilience, data quality, liquidity discipline, product focus, and clear market positioning.

The fund managers best positioned for the future will be those that make deliberate choices about where to compete, what to offer, and how to operate, and then align their resources behind those choices.



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