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PUBLISHED: 11 October, 2022

## MANAGERS

# Ares closes biggest US value-add fund to date

The New York-based manager raised more than half of Fund X's total from non-US investors.

**A**res Management has closed its 10th US value-add fund, Ares US Real Estate Fund X, raising \$1.8 billion from a mix of institutional investors, including public pension funds, insurance companies, sovereign wealth funds, private banks, endowments, family offices and high-net-worth capital.

The fund represents a big step up in the fund series for the New York-based manager, having raised \$1.04 billion for US Real Estate Fund IX in 2018. The more than 75 percent increase from its predecessor was facilitated by both existing and new capital. Around 65 percent of investors from Fund IX re-committed, David Roth, partner and co-head of Ares US real estate, told PERE. Meanwhile, 35 percent of the investors in Fund X were new to the fund series.

Around 44 percent came from North American investors, primarily in the US, Roth said. Of the non-US investors, the majority came from Asia and the Middle East, with European investors making up a smaller portion.

Ares initially targeted \$1.5 billion for Fund X. The scale of the fund opens up the opportunity set for Ares, Roth said. The fund series has typically aimed for between 20 and 25 deals. That will not change in this series, meaning the target size for the deals will grow, he added.

With the size of the deals slated to

increase, that also means the type of deals might change. The firm's opportunistic fund series has grown at a similar pace to its value-add series. Earlier this year the firm's credit and opportunistic real estate businesses partnered to purchase Capital Automotive, a net lease platform focused on car dealerships. Roth intimated that similarly sized deals with a lower risk-return profile could now be achieved in this fund series.

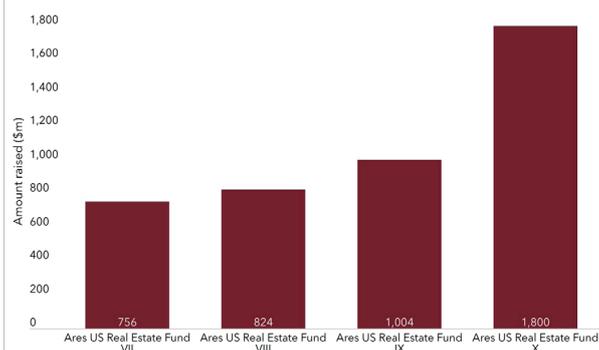
"It does now allow us to go up from the single asset or small portfolio [transactions] to more of that platform-type deal that you'd see with a slightly larger fund," Roth said.

The firm also expects to broaden its sector focus with the new fund as well. Fund IX was around 90 percent allocated to multifamily and industrial, Roth said. While those sectors will still figure prominently in the vehicle, the firm will expand its purview, looking to target adjacent property types like life sciences, medical office and single-family rentals.

Some of the fund's deals could be structured investments where Ares could

### RAPID GROWTH

Ares' last four US value-add funds have all seen material increases in commitments



Source: PERE

take multiple positions in the capital stack. For example, the firm could have preferred equity in an investment, with the sponsor's equity subordinate to that of Ares. As a result, Ares gets some downside protection, but it does limit the upside should values rebound, Roth said. This is a direct response to the current market volatility.

Roth declined to discuss target internal rates of return. Typically, value-add funds target somewhere between 14 percent and 16 percent net IRRs. Both prior funds in the series are outperforming that target currently, with Fund IX producing a 21.4 percent net IRR and Fund VIII generating a 17.5 percent net IRR, according to Ares' Q2 2022 earnings report.