Real Estate’s Underserved Middle

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The Arctos Perspective – Why a $5 Trillion Segment Requires a Different Capital Model

As of May 2026, Arctos is part of KKR Solutions, a new global investing business at KKR spanning private equity and real assets through Arctos Keystone and premier sports franchises through Arctos Sports. Together, these businesses provide bespoke capital solutions, differentiated insights and purpose-built operating capabilities to industry leaders across both markets.

Within Arctos Keystone, the Keystone Real Assets strategy serves as a strategic capital provider focused on helping middle-market property investors address complex liquidity and growth needs. We believe the opportunity for this strategy has expanded significantly in recent years, as middle-market real estate sponsors remain underserved by traditional sources of strategic capital.

The sections below explore why the middle-market sponsor ecosystem is central to the Keystone Real Assets strategy and why we believe this $5 trillion market requires a different capital model today.

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Middle-market sponsors are central to the ownership and operation of U.S. commercial real estate; yet, the segment remains undercapitalized relative to its scale. According to Arctos’ analysis leveraging data from CoStar and Preqin, this group includes approximately 5,800 sponsors controlling an estimated $5.1 trillion of U.S. commercial real estate, representing approximately 85% of the institutionally sponsored market and nearly 25% of the broader U.S. commercial real estate market.1 These sponsors manage nearly 300,000 properties and more than 24 billion square feet across asset classes, making the middle market one of the largest and most fragmented ownership ecosystems in U.S. real estate.

Despite this scale, the segment remains difficult for traditional institutional capital to access. Much of the middle market operates outside closed-end fund structures, relying instead on joint ventures, syndications, programmatic partnerships, personal capital, and deal-by-deal relationships with capital allocators. This fragmentation creates an access gap for middle-market sponsors and highlights the opportunity for a creative, solutions-oriented partner to provide growth capital, ownership realignment, GP commitment funding, and platform-level support.

This analysis reflects Arctos Keystone Real Assets’ work evaluating middle-market real estate managers and the capital needs that arise from their ownership structures, equity funding models, and platform growth objectives.

A Large but Fragmented Ownership Ecosystem

Based on property-level ownership data, there are approximately 5,830 active U.S. real estate sponsors with institutionally sized portfolios, including fund managers, national and regional developers, and operators holding at least 25 properties nationally. Within this universe, 27 large-cap sponsors control approximately $600 billion of gross property value.2 The remaining 5,800 sponsors constitute U.S. real estate's middle market and control approximately $5.1 trillion of U.S. commercial real estate, spanning a wide range of portfolio sizes.

EXHIBIT 1: $5.1T of U.S. Real Estate Held by Middle Market Sponsors

The scale of the segment reflects both the depth of private real estate ownership and the entrepreneurial nature of the industry. Sponsor formation accelerated meaningfully following the Global Financial Crisis, with approximately 2,500 sponsors formed between 2010 and 2019 compared with roughly 1,600 between 2000 and 2009. This expansion created a broad base of regional and sector-specialist operators that now control scaled real estate portfolios but often lack access to the same capital markets, institutional infrastructure, and platform resources available to larger managers.

EXHIBIT 2: U.S. Real Estate Annual Sponsor Formation

Why the Middle Market Is Underserved

Traditional fund data understates the scale of middle-market ownership. Closed-end North American private real estate funds hold approximately $881 billion of net asset value, or approximately $1.76 trillion of gross property value assuming 50% leverage.3 In effect, only 31% of the $5.7 trillion of institutionally sponsored real estate is held in traditional commingled fund structures, with the remaining 69% held in other partnership structures.

EXHIBIT 3: Institutionally Sponsored Real Estate By Channel

This dynamic is particularly pronounced within the middle market, where many sponsors are not traditional fund managers. Rather, they invest through joint ventures, personal accounts, syndications, operating company balance sheets, or direct partnerships with capital allocators. As a result, their capital needs are often more complex. They may need capital to fund GP commitments, bridge liquidity needs, recapitalize legacy ownership structures, seed new strategies, retain talent, or scale internal capabilities.

This structure creates an access gap. Traditional institutional capital is generally organized around commingled funds. Middle-market sponsors, by contrast, often require bespoke capital solutions that reflect both the economics of their real estate and the needs of their operating platforms. The same fragmentation that makes the segment difficult to access also creates the opportunity: a capital provider that can engage at both the property and enterprise levels can address needs that traditional fund capital is not designed to solve.

Serving the Middle Market Through Strategic Liquidity

Traditional institutional real estate capital is often structured to fund individual property investments within commingled funds and portfolio-level constraints. Middle-market sponsors often operate under a different set of constraints. They are managing both property investments and entrepreneurial businesses, with objectives that may include liquidity, growth, succession, talent retention, and income continuity. Those needs are not always solved through standard joint ventures or promote structures.

A strategic capital provider approaches this relationship differently. Rather than underwriting only an individual asset or transaction, strategic capital can engage with the sponsor's broader platform needs. Transactionally, this may include GP financings that fund sponsor commitments, preferred equity that bridges capital needs without forcing ownership dilution, or portfolio recapitalizations that consolidate fragmented ownership structures and create operational scale. These structures can solve immediate capital needs while preserving the sponsor's ability to continue sourcing and managing attractive real estate investments.

Middle-market sponsors often benefit from institutional support across investment process, value creation, reporting, operations, and human capital. In Arctos' experience, evaluating these opportunities requires both asset-level underwriting and enterprise-level diagnostics to identify where additional capital, infrastructure, or strategic support may be most relevant.

For the nearly 5,800 middle-market sponsors managing $5.1 trillion of U.S. commercial real estate, the need is both financial and organizational. Strategic capital can help bridge this gap by providing flexible transaction solutions and enterprise-level support, creating value at both the property and platform levels.

1 Arctos analysis utilizing property-level and manager-level data as reported by CoStar in January 2026.

2 For purposes of this analysis, large cap real estate sponsors include publicly traded asset management firms, multi-strategy financial institutions, and other real estate managers with at least $1.5 billion of "dry powder" as reported by Preqin on 1/30/2026.

3 Preqin North American Real Estate Unrealized Value as of June 2026. This data provider does not readily provide a breakdown of US vs North American data.

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