

Kayne Anderson

Real estate's rotation of capital: the opportunity in alternatives

*Institutional real estate portfolios are evolving as investors reassess traditional allocations and broaden their exposure to sectors supported by long-term demographic demand, constrained supply and durable income. In the following interview, **Al Rabil**, co-founder and CEO of **Kayne Anderson Real Estate**, discusses what is driving this rotation, where the firm sees opportunity and why specialized operating capabilities become increasingly important as mission-critical real estate sectors attract more institutional capital.*

What is driving the rotation of institutional capital toward alternative real estate today?

It starts with the recognition that real estate is not one homogenous asset class. For a long time, institutional portfolios were constructed primarily around office, retail, industrial and multifamily because those sectors offered scale, liquidity and established benchmarks. But the underlying fundamentals across those property types have become increasingly differentiated.

Office is obviously going through a structural change in how space is used. Retail has gone through its own evolution, leaning into experimental mixed-use, and using physical locations to fulfill online shopping. At the same time, many institutional portfolios already have substantial exposure to multifamily and industrial. That naturally leads investors to ask where else they can find durable income, attractive risk-adjusted returns and differentiated demand drivers.

That is where mission-critical alternative sectors become increasingly relevant. Medical office, seniors housing, student housing and light industrial are supported by very different underlying economic and demographic drivers. Historically, NPI data for Kayne Anderson Real Estate's target alternative sectors has shown higher absolute returns and lower volatility than NPI data for traditional real estate sectors over the same time period.

The important point is that I do not think this is simply capital moving from one favored sector to another. It is a broader recognition that institutional real estate portfolios can potentially be constructed around a more diversified set of demand drivers.

What makes the demand story in these alternative sectors different?

We tend to focus on sectors where demand is tied less to short-term economic activity and more to long-duration demographic or structural trends.

Healthcare is a good example. The U.S. population is aging, and older Americans utilize healthcare at materially higher rates. At the same time, healthcare delivery continues to shift from inpatient hospitals toward outpatient settings. From 2000 through 2023, outpatient visits increased 31 percent, while inpatient admissions declined 19 percent. That supports demand for well-located medical office properties tied to major health systems and patient populations.

The demographic effect is even more direct in seniors housing. The U.S. population over age 80 is projected to increase from approximately 15 million in 2025 to 27 million by 2040. That is a significant increase in the population that typically

moves into seniors housing, while development has remained severely restrained.

Student housing is different, but the principle is similar. We are focused primarily on major Power Four universities where enrollment growth has increasingly concentrated. Power Four enrollment was up 1.7 percent year over year and is projected to grow 11.2 percent by 2030, even as smaller institutions face greater enrollment challenges.

In light industrial, demand is supported by ecommerce, reshoring and the need for space close to consumers and population centers. These are often small-bay properties serving manufacturers, suppliers, service businesses and last-mile users rather than the large distribution warehouses most investors traditionally associate with industrial real estate.

The common thread is that each sector has an identifiable underlying reason for demand to exist beyond simply GDP growth and macroeconomic cycles.

Demand is only one side of the equation. How important is constrained supply to the opportunity?

It is critical. Strong demand is much more compelling when new supply cannot respond quickly.

Across several of these sectors, development has fallen meaningfully from previous peaks. Medical office starts declined from 27.2 million square feet at the recent peak in 2017 to 18.1 million square feet in 2025. Student housing deliveries declined from 51,000 beds in 2017 to 27,000 beds, and is now well below the historical average of 43,000 beds per year. Seniors housing starts declined from approximately 42,000 units in 2017 to 10,000 units in 2025. Small-bay light industrial construction starts also fell from 35 million square feet at their recent peak in 2022, to 27 million square feet last year.

There are different reasons for these declines in each sector – higher construction costs, financing availability, land constraints or operational complexity – but the results are similar. The existing high-quality assets benefit when demand continues to grow and replacement supply remains limited.

Seniors housing illustrates that imbalance particularly well. Current projections indicate approximately 564,000 additional units would need to be added by 2030 to maintain existing penetration rates, based on the demographic growth assumptions. Meanwhile, new units breaking ground in 2025 were at their lowest level since 2009.

When we evaluate sectors, we are looking for that combination of visible demand growth, barriers to new supply and the ability to translate those conditions into durable cash flow growth.

Are these sectors still really "alternative," or are they becoming part of the institutional real estate mainstream?

The terminology is probably becoming less important than the underlying investment characteristics.

Historically, alternative real estate was sometimes treated as a collection of niche property types outside the traditional institutional universe. But many of these sectors now have significant transaction volume, sophisticated operators, institutional ownership and increasingly robust market data.

More importantly, investors can increasingly evaluate these sectors using the same fundamental questions they apply elsewhere in real estate. How durable is the income? What are the supply and demand dynamics? What are the cost basis and ongoing capex needs? How much downside protection exists? What can an owner do to improve performance?

The difference is that the answers often require much deeper sector-specific knowledge. Alternative real estate may increasingly sit alongside traditional sectors within an institutional portfolio, but that does not mean the assets themselves become less specialized.

Why does specialized operating expertise matter so much in these sectors?

Simply having exposure to an attractive sector does not guarantee an attractive outcome. In many alternatives, real estate ownership and operations are much more interconnected.

Our approach has been to build sector specialization and then surround that specialization with integrated capabilities across acquisitions, capital markets, development, asset management, design and construction, marketing, legal, accounting and operations. We also use longstanding operating partnerships where that expertise adds value.

Consider medical office. Tenant relationships, health-system strategy, lease structures and the cost of specialized buildouts all influence retention and cash flow. Seniors housing is even more operationally intensive because occupancy, labor, resident experience and revenue management directly affect property performance. In small-bay industrial, there may be hundreds of relatively small tenants across a portfolio, so leasing systems, property management and the ability to mark rents to market matter considerably.

That is why we view value creation as a lifecycle rather than simply an acquisition decision. It starts with sourcing and cost basis, but continues through financing, capital improvements, leasing, operations, portfolio construction and ultimately realizing value.

As more capital enters these sectors, that operational component and investment discipline becomes more important, and leads to differentiation.

If more institutional capital moves into alternatives, does that ultimately make the opportunity less attractive?

Increased competition can certainly affect pricing, so discipline has to remain central to the investment process.

The mistake would be to conclude that because a sector has attractive long-term fundamentals, every asset within that sector is attractive at every price. We have invested in alternative real estate since 2007, and over that period the relative attractiveness of individual sectors, markets and strategies has changed repeatedly.

That is where experience matters. You need the ability to compare relative value across sectors, understand operating performance at a granular level and walk away when the economics do not compensate you appropriately for the risk.

At the same time, a broader institutional buyer base can benefit experienced owners. As sectors mature, greater capital formation can improve liquidity and expand the pool of potential buyers for scaled, class A portfolios. For investors that have built portfolios at attractive bases and created value through operations, that can potentially create additional realization opportunities.

I would separate the structural thesis from the entry point. We believe the long-term case for many alternative sectors is compelling due to demographics, constrained supply and essential demand. But the price you pay still matters. Our objective is not to own alternatives simply because they are alternatives. It is to identify situations where those structural advantages intersect with an attractive cost basis and an opportunity to create value.

That discipline becomes especially important if the rotation of capital accelerates.

CONTRIBUTOR



Al Rabil
CEO and Co-founder
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Al Rabil is CEO and co-founder of Kayne Anderson Real Estate, overseeing strategic initiatives, operations, and asset management.

In 2007, Rabil co-founded Kayne Anderson's real estate private equity platform and continues to serve as CEO for Real Estate, setting strategic direction, overseeing investment activities, and leading fundraising for all real estate investments. Rabil's time at Kayne Anderson was preceded by an almost ten-year tenure at UBS, where he served as the Head of Real Estate Banking for the Americas and Europe. During his tenure there he played a key role in making UBS a market leader in both syndicated debt and large-loan CMBS, consummating more than \$25 billion in transactions.

Rabil graduated cum laude with a B.A. from Yale University and later earned an M.B.A. in finance from Columbia University.

COMPANY OVERVIEW

Kayne Anderson Real Estate is a leading real estate investment firm, managing nearly \$22 billion in assets under management across opportunistic equity, core equity, and real estate debt, with sector expertise in medical office, seniors housing, off-campus student housing, multifamily housing, self-storage, and light industrial (as of September 2026). In June 2026, Kayne Anderson Real Estate announced its merger with Bridgepoint Group plc (LSE: BPT), which is expected to close by year-end 2026. Upon closing, the business will operate as Kayne Bridgepoint, with no changes to leadership, team, investment strategy or investment process. For more information, visit www.kayneanderson.com/real-estate/.

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