



# Why Middle Market CRE Presents a Unique Opportunity

WALKER & DUNLOP  
INVESTMENT PARTNERS

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## Why middle market CRE presents a unique opportunity for attractive risk-adjusted returns

Despite the middle market accounting for the vast majority of the commercial real estate (“CRE”) market, most institutional capital competes for transactions greater than \$100MM\*.

The result is a capital void for middle market CRE transactions and an opportunity for investors who are established in this highly fragmented but compelling sector and who have access to deal flow.

## What is middle market commercial real estate?

Middle market commercial real estate is typically defined as consisting of properties valued less than \$100MM. Property types typically include multifamily, industrial, office, retail, and hospitality assets.

## What drives the opportunity in middle market CRE?

The opportunity for higher returns from middle market CRE investment is largely predicated on the lack of institutional capital available for these properties due to their lower visibility and valuation.



Though some middle market CRE investments can approach \$100MM in value, many investments in this space are much smaller, often on the order of a few million dollars. For investors with hundreds of millions and sometimes billions of dollars to allocate every year these deals are far too small to be of interest. The lack of available institutional capital

leaves a significant capital void for middle market transactions.

This chronic inefficiency in the capital markets is the basis for the potentially superior risk adjusted returns available to investors who can properly source and evaluate these opportunities.



## Challenges in middle market CRE investment

Despite the significant opportunity that middle market CRE poses, investment in this market segment does present some obstacles for firms looking to provide capital. These challenges serve to maintain the limited supply of capital available to the middle market.

To start with, sourcing deals can be very labor intensive. Unlike the mega-deals typically executed by large institutional investors like public REITs, middle market deals by definition involve smaller, lesser known properties. Many deals involve properties with no public visibility at all — for instance, a small multifamily property owned by an individual. Often times, local knowledge is key to identifying and having access to these “under the radar” investment opportunities. For this reason, many middle market CRE investors are local operators who are experts in their own particular market.

But this market specialization is a double-edged sword. While the deep local market knowledge may be an advantage, working in a smaller geographical area naturally means a smaller pool of potential deals. It also leaves the investor more vulnerable to negative trends in the local economy as well as the broader CRE market.

This creates something of a paradox: the ideal situation for a middle market CRE investor is to have intimate knowledge of and connections in the local market, yet be geographically diverse enough to mitigate local market risks. Combine this with the constraints on institutional capital participation, and it is easy to see why middle market CRE is such a capital-starved market.

## Walker & Dunlop Investment Partners' advantage in investing in the middle market

Walker & Dunlop Investment Partners (“WDIP”) is an established CRE investment firm with a national presence across the U.S. WDIP has an experienced team of dedicated professionals based primarily in Denver, along with professionals located in Philadelphia, New York and San Diego. WDIP is a wholly owned subsidiary of Walker & Dunlop (“W&D”), one of the largest CRE service and finance companies in the U.S. and a NYSE listed public company with over 1,300+ employees located in 40 offices and 24 correspondent locations. WDIP benefits from W&D’s scale, banker and broker network, market intelligence, and operational stability.

However, WDIP’s management team and investment committees make all investment and asset management decisions independently of W&D. The result is that WDIP possesses a boutique investment firm culture supported by the resources and operational leverage of a large, public company and the market intelligence of an industry leader.

**WDIP has three cornerstones on which it creates value:**

# 1. Proprietary deal flow and market intelligence

As mentioned above, the ideal situation for an investor in the middle market CRE space is to combine an extensive geographical reach with deep expertise in local markets. For many middle market CRE investors, this means an enormous amount of time is spent building personal relationships with key local players around the country.

WDIP pairs its experienced investment team with access to W&D's scale, sponsor network, and market intelligence to form a powerful synergistic relationship. With over 230 banker/broker professionals and an extensive servicing portfolio, W&D is deeply engrained in the CRE market. Together we generated over \$160B in combined deal flow in 2021 alone. Additionally, WDIP benefits from real-time property and market intelligence generated from W&D's \$115B+ servicing portfolio across the country. W&D's servicing portfolio provides WDIP with unique, proprietary, real-time insights into market movements, valuation, pricing, and underwriting considerations.

# 2. Established presence in compelling middle market

The inefficiency of the middle markets offers attractive, hard-to-find opportunities to investors working with the right partner. With the ability to provide customized capital solutions, WDIP has established a strong presence as a creative and dependable capital provider, making over 360 investments in the middle market across property sectors, security type, and geography. Middle market focus is national in scope and provides for broad sourcing capabilities while fostering geographic diversification, as well providing a greater range of exit and capital markets opportunities.

Middle market property owners (or sponsors) prefer to focus on the acquisition and management of real estate assets, rather than capital raising and investor relations.

Through a combination of in-house and W&D parent company capabilities, WDIP is able to offer the sponsor a unique servicing offering not currently replicated within the space, including: equity and debt capital, access to lender relationships, investment sales, appraisals and substantial investment and asset management expertise.

This has forged WDIP's position as a leader in the large and fragmented middle market. As such, WDIP selectively engages in repeatable partnerships with distinguished middle market sponsors.

### 3. Active asset management

WDIP manages all the Fund's investments within the WDIP platform, from which its proactive approach to asset and portfolio management has been a key factor to its success.

WDIP maintains governance control over material actions, managerial and disposition decisions related to the investment. The asset management team is deeply involved in structuring and documentation of the investment prior to close to ensure proper controls are put into place. Post-closing, WDIP maintains continuous communication with the sponsor to oversee the business plan and mitigate potential issues, including frequent site visits. Active asset management and collaboration with the sponsor ensures optimal performance at the asset level and alignment amongst all parties.

WDIP's senior management team has extensive workout experience, including technical/monetary defaults, forbearance, private lender commercial workouts, syndicated workouts, CMBS workouts, deed in lieu transactions, and foreclosure and REO sales.

# About Walker & Dunlop Investment Partners

Walker & Dunlop Investment Partners (“WDIP”) is an alternative investment manager that provides capital solutions to middle market commercial real estate sponsors, investing on behalf of insurance companies, public pension funds, endowments, foundations, family offices, and high-net worth individuals. WDIP partners with sponsors whose transactions are in need of financing but are under-served by institutional capital. The Denver-based firm’s investment vehicles focus on opportunistic, value-add and income-oriented commercial real estate strategies. WDIP was founded in 2006. For more information, visit [www.wdinvestmentpartners.com](http://www.wdinvestmentpartners.com).

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Data points related to Walker & Dunlop and Walker & Dunlop Investment Partners are as of December 2021.

\*According to Preqin, over 70% of CRE funds raised between 2016-2021 are funds with more than \$500 million of commitments; larger funds predominantly invest in larger investments