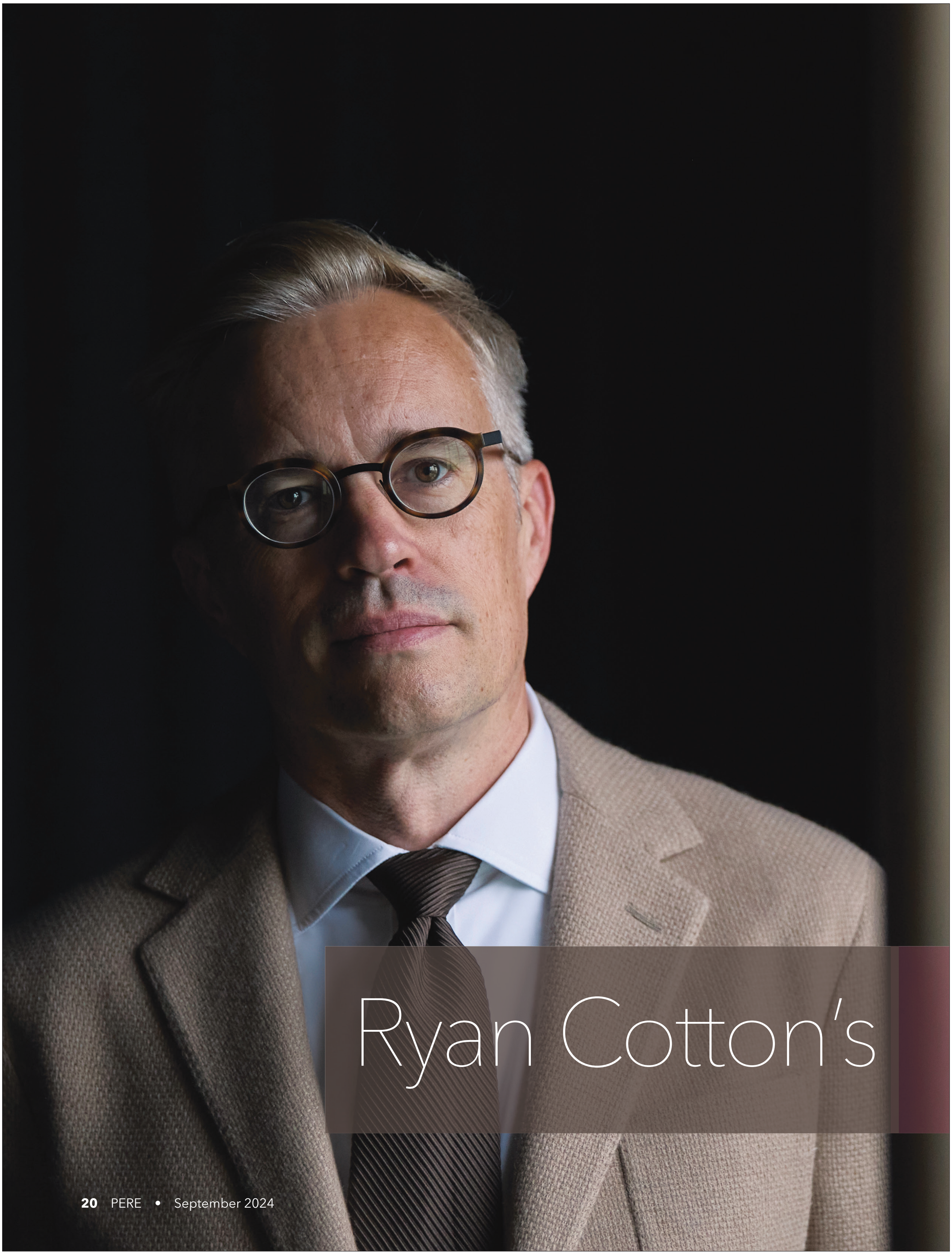

Ryan Cotton's

Cover story

Bain Capital's head of real estate credits his unconventional background with making him a better investor. By Evelyn Lee

PHOTOGRAPHER: JOHN CARDWELL

outsider perspective

Cover story

Last year, Ryan Cotton became head of real estate at Bain Capital, the private investment firm co-founded by US senator and 2012 presidential candidate Mitt Romney. He was not an obvious pick for the role.

Cotton, a partner and 20-year veteran at the Boston-based firm, did not have a traditional background in real estate. Prior to taking over the firm's real estate business, he was in charge of the consumer vertical within Bain's private equity business for seven years.

His pre-Bain career choices were equally unconventional for a future real estate boss. At Princeton University, he studied philosophy and then pursued his childhood dream of working in professional baseball with an internship in the general manager's office at the Boston Red Sox.

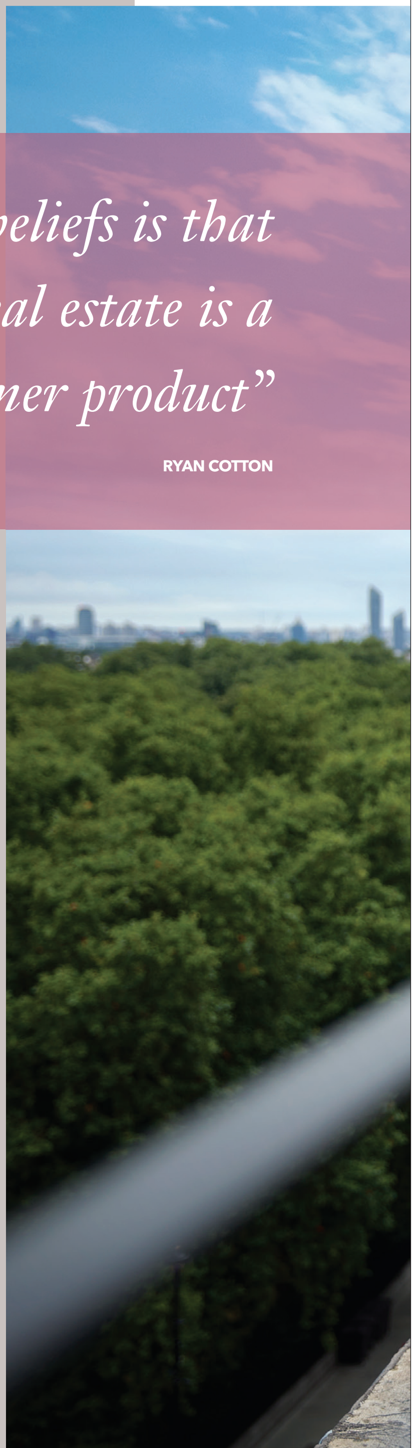
The anomaly of such an appointment did not go unnoticed by the private real estate industry. A non-real estate executive becoming head of real estate is "an unusual move in the private sector," observes Serena Althaus, European chair of executive search at talent management firm Ferguson Partners. Kevin Higgins, head of real estate at the US pension investor New Jersey Division of Investment, concurs: "I can't say it's common."

Cotton is well aware his background does not fit the mold of a typical real estate leader. "While my resume doesn't jump out as 22 years of real estate experience, I have 22 years of experience in understanding customers and what they want and need – and how to meet those needs," he says, speaking with *PERE* at Bain's London offices in late July. "One of my beliefs is that almost all real estate is a consumer product."

His personal background also deviates from the industry norm. He is openly gay, and in fact is one of the only openly gay heads of real estate in the industry.

"One of my beliefs is that almost all real estate is a consumer product"

RYAN COTTON



For 20 years in the investment world, Cotton says there have been "some really powerful forces toward conformity," including how people dress, talk and carry out business activities. "The pressure from the day you start to conform to that modal way of doing things is very real."

In real estate, conformity was the reason why the industry invested in the same office and retail buildings for 40 years, he notes. "No one wants to get their head cut off from deviating from the herd," he says. "My whole career, my whole life has [taught] me deviating from the herd is sometimes where you find a clear space to run. And to me, there's safety in that. Conformity can be dangerous."

One of Bain's best-known consumer deals – the 2013 investment in the outerwear company Canada Goose – resulted from Cotton not conforming. At the time, consensus in private equity was to avoid investing in brands. "I persuaded our firm to think differently about brands and to think differently about brand investing," he recalls.

Bain took Canada Goose public less than four years later in one of its most successful private equity exits, earning a multiple of more than 20x. "Our

job as investors is to create alpha," he says. "Inherently, alpha is about seeing things differently than the median view of the market. That's the definition of beta. And so if I'm trying to see things differently, then leaning into and embracing the ways in which my difference yields a different point of view is a potential source of edge and advantage in that marketplace."

Smooth transition

Despite being perceived as an outsider in real estate, Cotton has been involved with Bain Capital's real estate business since the beginning.

After the global financial crisis, he began to pitch real estate opportunities to Bain's partners. These opportunities – which included senior housing, hospitality and data centers – were considered "too operating intensive for the average real estate investor at the time, and too real estate intensive for the average private equity investor at the time, and so got lost in the middle," Cotton says. "And that felt to me like that was a miss."

Bain's early real estate-related deals, many of which Cotton helped to spearhead, were done through its private equity funds. These included Bain leading a $1 billion investment in International

Saying no

Offices are among the potential investments Cotton gives the thumbs down

As an investor vetting managers, "it is a challenge to find people that think differently," says NJDOI's Higgins.

"But when you sit down and you talk with the key players, you can get a sense of it after a while."

He says one question can be particularly revealing: "What investments did you pass on? You can tell if they're really doing things in a unique way."

It is a question Cotton is well prepared to answer. "We say 'no' quite a lot," he says. One theme getting

Market Centers, the world's largest owner and operator of showroom space for home furnishings and decor, in partnership with Oaktree Capital Management in 2011. IMC, which was formed from five separate businesses, was subsequently sold to Blackstone's tactical opportunities and real estate platforms in 2017.

In December 2017, Bain announced the formation of its real estate business with the spin-out of Harvard Management Company's real estate team, which comprised 20 dedicated professionals led by Dan Cummings. After the team joined in 2018, Cotton became a strategic adviser to the platform and sat on its investment committee.

When Cummings decided to retire two years ago, "I had a pretty clear option about whether I wanted to step in or not, and was really excited to do so," Cotton says. The previous four years had given him time to learn more about the team and the industry. It also enabled him to gradually transition out of the global consumer business.

Bain's real estate leadership change was "very well thought out," says Higgins. "Having seen managers go through transitions in management, usually they're bumpy," he adds. "Sometimes it's a 'flip the switch' and there's a little bit of chaos in some organizations. But the smoothness of that transition was notable relative to the overall manager spectrum."

Ryan's résumé

From Red Sox to real estate

- **1999** Interned at the Boston Red Sox
- **2001** Graduated from Princeton University with an AB in philosophy
- **2001** Joined Bain & Company as an associate consultant
- **2003** Joined Bain Capital
- **2007** Received MBA from Stanford Graduate School of Business
- **2016** Named global head of Bain Capital Private Equity's consumer vertical
- **2023** Became head of Bain Capital Real Estate

Lofty position

Since its launch, Bain Capital Real Estate has closed on three real estate funds, raising $1.5 billion for Bain Capital Real Estate Fund I in 2019, against a $1 billion target; $3 billion for the successor vehicle in 2021, nearly double the initial $1.6 billion equity goal; and $785 million for Bain Capital Real Estate Life Science Fund in 2022.

On the back of these capital raises, BCRE has maintained a lofty position on the PERE 100 ranking of the world's largest real estate managers. The firm held the 28th spot on this year's list, with $7.78 billion in capital raised over the past five years. Just four years prior, the firm made its ranking debut at 87.

The firm is now in market with the third offering in the US-focused value-add fund series, targeting $3.75 billion in commitments, according to *PERE* data. To date, Bain Capital Real Estate Fund III has attracted commitments from investors that include Los Angeles County Employees' Retirement Association and New Mexico State Investment Council, both of which earmarked $150 million last year, and NJDOI, which committed up to $250 million in April.

In an investment memorandum, the Trenton-based pension plan cited "strong performance" as a key factor in its decision. Fund I was generating a

the thumbs down is short-term real estate credit, referring to chasing yield in the next 12 months.

In the past year-and-a-half, investors have asked the firm if it would be able to quickly bring a real estate debt product to market and begin originating loans.

"We're never going to build a product that we're not confident we can deliver with alpha and with edge," he explains.

"And while we have an amazing credit platform at Bain Capital, real estate credit is a little bit deeper, a little more commoditized, a little harder to generate an edge, at least on three months' notice."

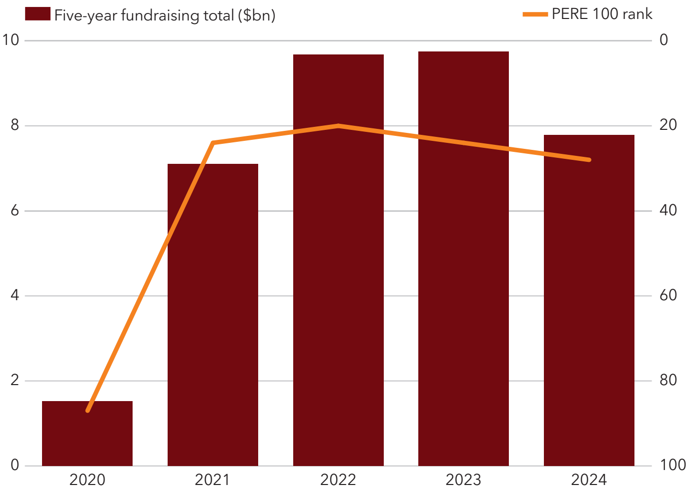
Meanwhile, Bain has also been turning down requests in office, which is a theme brought up in half of Cotton's meetings with investors.

"The phrase LPs love at the moment is they are 'office curious,'" the executive says. "They don't have a thesis yet. They're not saying, 'you need to do this,' but they're saying, 'isn't it getting really cheap out there? Shouldn't we think about it? Isn't there a moment at which you start to attach yourself to office just because it's cheap enough?' And our answer is no. There are people in the world who focus on office, and if you're office curious, you should go and give them some money and see what happens."

Cotton's own view is that office is currently not a thematic strategy where he can repeatably make money. Rather, the sector is a "hot hand sort of sharpshooter trading strategy" where investors can make money on an asset-by-asset, deal-by-deal basis.

Cover story

Bain has maintained a lofty position on the PERE 100 for the past four years



Source: PERE

net IRR of 19.1 percent, a total value to paid-in of 1.4x and distributions to paid-in of 0.6x as of December 31, according to the memorandum. Fund II had only one realized investment as of year-end.

Against the herd

Cotton uses three words to describe Bain's real estate platform. One is 'thematic,' which refers to knowing the customer and what drives people to and from real estate. The second is 'programmatic,' which refers to investing with a repeatable edge. The third is 'dynamic,' which involves re-evaluating every theme and subsector of the real estate business twice a year, based on factors such as the competitiveness of the deal market, the pricing environment and return expectations.

Such an investment approach has often led BCRE to invest against the herd, notably in life sciences, which accounted for 26 percent of Fund II's investments.

An early mover in the sector, Bain/HMC spent a decade building a large US life sciences real estate platform – which today manages $350 million in assets – prior to the pandemic. But the firm pulled back from the sector for 16 months when life sciences real estate investing was at its peak between 2021 and 2022. One reason was concern over the supply overhang as capital piled into the sector, according to Cotton. The other was projected returns for deals had dropped to the single digits.

Fast forward to today, and Bain is back. "We need to work through some near-term supply-side absorption," Cotton says. "But we're now going in and buying at a significant discount to the prices people were paying two years ago."

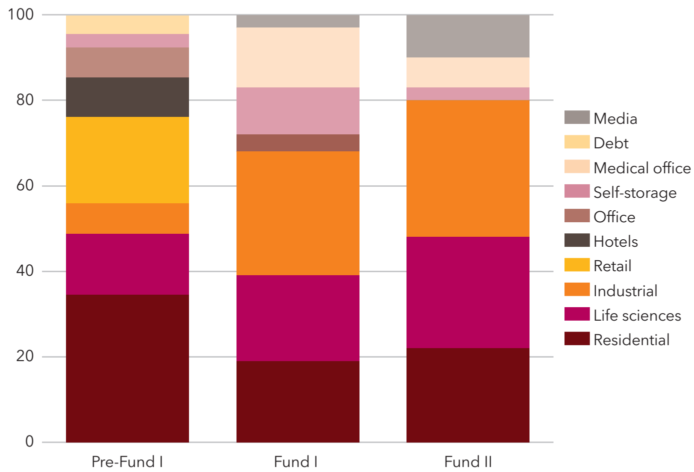
He feels contrarian about life sciences at the moment. "It went from the sector everybody wanted to be in to the sector everybody wanted to hate on pretty quickly," the executive observes. But "we don't listen to the market around us. We trust our convictions and our research, and we trust what we know about the customer."

For Higgins, the team's knowledge of the sector and its tenant base stood out to him when he met with the group for the first time a few years ago: "It was clear that they had a really good handle on who the players were, and where their key markets are and what those tenants needed. It was a level of understanding that you just don't get from every manager."

Going small

Size is another area where Bain thinks differently from its peers. In life sciences, most real estate managers – and new supply – have catered to large pharmaceutical companies, which has continued to drive commercial real estate

Bain's real estate sector allocations have evolved with market conditions (%)



Data as of December 31, 2022
Source: Teachers' Retirement System of Louisiana fund presentation, June 2023

demand, according to a May report from commercial real estate broker Savills. However, the firm has opted to focus on early-stage companies.

"That customer segment has a whole bunch of needs that are very different" from their larger counterparts, Cotton says. "They can't wait 18 months for you to build a space for them. They don't want 250,000 square feet of lab space; they want 3,000 square feet. And so we started focusing on a product that was small-suite, modularized, warm-shell, ready-to-occupy lab space."

Although large pharmaceutical companies are known for their higher credit quality, "we've been able to fill our spaces" with smaller tenants, Cotton says. "We fill them at higher rents, because for the tenancy, speed to market is what they care about, not price of the rent. And we've been able to build a relationship and a partnership with that tenancy that is now going through its own maturation and its own growth."

Bain has taken a similar approach in industrial. Whereas the prevailing strategy is to build one million-square-foot warehouses in the Sun Belt, the manager has focused on sub-100,000-square-foot facilities in the inner ring road of four cities – Boston, Los Angeles, New York/New Jersey and San Diego. This size category was the only industrial segment that had positive absorption over the last 18 months, given the oversupply in other segments, Cotton points out.

The firm keeps its average deal size in industrial to between $20 million and $30 million, using about $10 million-$15 million of equity. "You can do a high volume of that when you've got a dedicated team focused on that buy-box," he explains.

Team spirit

Bain's real estate team has expanded from 20 at the time of the HMC spinout to 92 professionals today. "As our platform continues to grow, we need to continue to add bandwidth, capability and expertise," Cotton notes.

Thirty of those professionals were brought on in just the past year. New senior hires have included Martha Kelley, formerly the head of northeast acquisitions for Goldman Sachs Asset Management, as managing director responsible for residential investments. "She answered my magic question – tell me about an investment you like – the right way," Cotton notes of his interview with Kelley. Unlike the responses of others vying for the job, "her answer started with identifying an opportunity set, not identifying a deal."

Other high-level recruits include Fortress Investment Group executive Doug Doughty as head of strategy; Michael Winiarski, previously a senior managing director of client relations at Bridge Investment Group, as a managing director on the investor relations team; and Jared Melnick, formerly head of hotel acquisitions for the Americas at Starwood Capital, as a managing director focused on hotel investments.

The firm has ongoing searches for the real estate team, including more investor relations professionals and a head of capital markets to manage the business's debt and lender relationships.

As global head of Bain's consumer vertical, Cotton says he helped build a diverse and inclusive team. He is now looking to do the same with the real estate platform. The number of investment professionals from underrepresented groups – which include women, people of color, LGBTQ+ and disabled individuals – in BCRE has more than doubled from nine in January 2021 to 21 in January 2024. Bain will continue to focus on hiring and developing diverse talent for the team, he adds.

"As an investor, I'm trying to bring as many different points of view to the table as I possibly can," Cotton says. "And so, if we can sit around a table as a team of equals who have different backgrounds, different biases, different accumulated experiences, and debate something openly and honestly and find alignment through that debate, then the odds are we've made a really good investment decision."

As an unconventional real estate leader, he aims to lead by example. "I'm really proud to be who I am, where I am in real estate because I didn't get there by fitting in. I got there by not fitting in," he adds. "And if I can inspire one person that you can do this career differently, that you can be you and find a seat at the table that fits you well, then that's a whole lot more meaningful than any deal I'll ever do." ■

Firm	Bain Capital
Founded	1984
Headquarters	Boston
Total AUM	$185bn
Real estate AUM	$10bn
Total employees	1,800-plus
Real estate employees	92
Senior real estate partners	Ryan Cotton, Dan Cummings, Ben Brady, Joe Marconi, Andrew Terris, Kavindi Wickremage