



PRIVATE EQUITY PERFORMANCE IMPROVEMENT

Corporate Real Estate: The Hidden Lever in Private Equity

Private equity (PE) operates on a simple premise: purchase an asset, improve its performance, then exit at a premium driven by a higher multiple. However, recent market shifts require PE funds to adapt.

Leading platforms are increasingly defined by their ability to drive productivity, improve cost discipline, and adapt operating models.

Over the past two decades, PE returns have been supported by leverage, multiple expansion, and financial structuring. These levers still matter, but they no longer differentiate. Entry multiples have risen, with the median US buyout multiple reaching 12X.¹ Though declining, average borrowing costs remain relatively high with 2026 borrowing costs expected to be approximately 850 basis points.² Exit markets show less forgiveness, as 30% of current PE-backed assets have been held for seven years or more.

As a result, value creation has continued to shift toward enterprise wide operational improvement. What was once incremental is now central to generating differentiated outcomes.³ Leading platforms are increasingly defined by their ability to drive productivity, improve cost discipline, and adapt operating models to structural changes in the economy, including the diffusion of AI which is reshaping the way work gets done.

Within enterprise operational improvement, one of the most significant levers is hiding in plain sight: the physical footprint and facility spend buried within portfolio companies (PortCos). Corporate real estate (CRE) refers to the land, buildings, and facilities owned or leased by a PortCo for operational use. This includes headquarters, offices, factories, labs, medical office buildings, clinics, and warehouses that support a company's core business functions. This can have an impact on the entire investment lifecycle, including buy-side diligence, hold-period operations, and sell-side valuations.

When analyzed thoroughly, leading PE funds have found success with CRE as a value lever by following a disciplined framework across the buy-hold-sell lifecycle:

- Adjust quality of earnings for real estate-related costs in diligence phases, addressing:
 - Related-party leases
 - Lease escalations or abatements
 - Exposure to above market rents and non-standard commercial terms
- Execute footprint optimization and restructuring
- Implement operating model and platform improvements

1. [Harbourvest 2026 Market Outlook](#)

2. [Capstone Partners Middle Market Leveraged Finance Update – Q4 2025](#)

3. [Pitchbook – 2026 US Private Equity Outlook](#)



CRE'S ROLE IN PORTFOLIO COMPANIES

The increased need for operational excellence has turned passive CRE management into a liability; what looks like caution at entry can manifest as a significant haircut at exit. CRE is often not a priority item in PE underwriting conversations at the onset. Instead, it typically gets framed as overhead, delegated to facilities or operations teams, or handed to brokers post-close. This approach is convenient but expensive long term.

Gaining a clear view of current real estate and facilities expenditures at both the rooftop and contract level for every owned and leased location within an asset's portfolio is essential. This level of transparency directly strengthens the asset's equity story by providing potential buyers with confidence in the accuracy and quality of underlying cost structures and any exposure to risk. It also reduces ambiguity for bidders during the transaction process, streamlining diligence efforts and minimizing uncertainties that can delay or disrupt deals.

CRE represents one of the largest cost bases in portfolio companies, particularly in asset-heavy industries, and is also one of the largest pools of long-dated contractual commitments.

More critically, CRE decisions directly impact performance metrics, below are several examples of where and how:

- **EBITDA quality and durability** - review existing rents against market rates and negotiate rent reductions
- **Enterprise value** - monetize non-core assets to generate working capital
- **Cash flow and capital efficiency** - utilize sale leasebacks as an alternative for high capital costs
- **Strategic growth during hold periods** –involve real estate expertise early to deliver capacity with long-term growth plans
- **Synergy targets** - execute lease terminations for under-utilized space
- **Buyer confidence and transaction certainty at exit**
- provide clear transition plans and a clean legal entity structure

In PE, CRE is not only about buildings and the processes that govern them. It is about whether the physical footprint is aligned to a PortCo's exit strategy, which reinforces or undermines the investment thesis. As a result, it is a common source of exit friction and reduced deal quality if not managed and assessed properly from the onset.

CASE STUDY

While advising on a buy-side PE carve-out transaction for an industrial target, A&M CRE led real estate-focused, red-flag diligence. The team determined material risks embedded in the target's footprint and separation structure. The analysis also identified approximately \$450,000 of real estate-related Quality of Earnings and standalone cost adjustments, which were driven by incremental annual operational expenditure (OpEx) associated with two new sites coming online, separation-related lease considerations, and \$150,000 of one-time costs tied to carving out a shared office. Value creation opportunities were also surfaced, including operational and personnel disentanglement at the primary manufacturing site that would require a reverse-transition services agreement, generating \$200,000 of income post-close.





BUY SIDE: WHERE CRE DISTORTS DEAL QUALITY

At entry, rigorous due diligence covering quality of earnings (QoE), standalone costs, and one-time cost structures are table stakes for any fund. CRE typically only receives a confirmatory review to validate it, not interrogate it. That is a mistake.

CRE influences deal quality in ways that are easy to underestimate and difficult to fix later. Often, the risks aren't obvious. Lease expirations can create hidden market exposure while restoration, dilapidation, and environmental obligations are considerations that do not sit in financial statements. Other risks cause issues over the long term. Above-market or related-party rents inflate normalized EBITDA, contractual escalations erode margin over the hold period, and inflexible footprints constrain growth, integration, and cost reduction initiatives.

The most common failure is not bad decision making, but rather incomplete underwriting. Firms pay for earnings that do not persist, underestimate downside risk, and inherit physical constraints that surface only when options are limited.

Proper CRE diligence does not slow deals. It protects the investment thesis.

CASE STUDY

While advising on a buy-side PE healthcare bolt-on, multiple related-party leases were identified in which the doctors were the landlords for the business. Upon performing a fair-market rent analysis, the majority of the leases were found to not be at market, with a high proportion of landlord-favorable terms.

The most common failure is not bad decision making, but rather incomplete underwriting.

HOLD PERIOD: THE UNDERUTILIZED VALUE CREATION LEVER

Once a deal closes, CRE teams typically continue to operate business as usual. Leadership attention shifts to pricing, procurement, organizational design, and growth initiatives.

PE has always been a tremendous agent of change throughout the economy and a leading edge in adopting leading practices and leveraging the latest technologies such as AI. This focus on innovation pushes CRE into the background, and it only reemerges when a lease expires or a capital request appears. This episodic approach leaves value on the table. The issue is not that firms lack operational expertise; instead, it is that CRE is rarely treated as a high-priority operational performance improvement workstream. Too often, real estate initiatives are reactive, short-term, or disconnected from the exit thesis. Improving the business is a holistic exercise that includes determining the proper amount of space that is needed for the broader business growth roadmap.

In today's market, where asset holding periods have grown longer, value creation is more important than ever.⁴ When managed intentionally, CRE becomes an active value creation lever.

For example, a site cluster and utilization analysis conducted in parallel will identify like-for-like assets in nearby locations that can be consolidated, resulting in margin expansion when executed properly. Lease restructuring is another valuable lever that entails a wide array of strategies, including lease assignment, subleases, and blending and extending terms, resulting in a 10% reduction in total rent spend from A&M's experience.

Proactive real estate management and disciplined lease structuring reduce risk by increasing flexibility at each site and increasing the asset's economic attractiveness. This not only enhances buyer appeal but also de-risks and streamlines the eventual exit.

Lease restructuring is another valuable lever... resulting in a 10% reduction in total rent spend from A&M's experience.

⁴ [North America Value Creation in Private Equity Report - 2025 | Alvarez & Marsal | Management Consulting | Professional Services](#)

CASE STUDY

An industrial sector portfolio company needed to unlock additional capital was needed to meet debt obligations and capital expenditure requirements at critical production facilities. A successful execution of two sale-leaseback transactions will free-up over \$40 million of cash while maintaining business-as-usual operations at these sites.



SELL SIDE: WHERE CRE CREATES FRICTION, NOT UPSIDE

At exit, CRE becomes unavoidable. Sophisticated buyers will scrutinize real estate aggressively because it represents long-term commitments they inherit on Day One. Lease terms, environmental exposure, ownership structures, and near-term obligations are evaluated through a risk lens, not an upside lens.

Real estate separation focuses on establishing a clean, defensible, and standalone operating model ahead of market. This includes developing CRE transition services agreement (TSA) scope and pricing, estimating run-rate standalone facilities costs and quantifying one-time separation costs. In parallel, a clear site separation strategy at the contract level needs to be defined, addressing common items including lease novations, shared services, and asset transfers to reduce separation risk and provide buyers with transparency around post-close economics.

When CRE has been poorly managed, the consequences are predictable and include diligence delays, price chips, indemnities and holdbacks, and a reduced certainty around close. CRE often accounts for a large portion of separation costs, often with the longest lead times. Most value leakage does not come from catastrophic real estate decisions. It comes from unresolved issues that were always present, just unfound or unmanaged. Leading platforms have demonstrated that strong exits are a result of evaluating footprint during the diligence phase and immediately taking action on needed improvements.

CASE STUDY

A&M CRE recently assisted a client in identifying current transaction perimeter locations, working with HR to identify and execute move plans. The team reviewed and implemented space demising, assessed landlord requirements for lease assignments including complex sublessee scenarios, and reviewed and ensured the lease legal entities were in the perimeter. These activities resulted in no transaction close delays related to CRE and a short TSA period for the CRE portfolio.

Most value leakage comes from unresolved real estate issues that were always present, just unfound or unmanaged.



CONCLUSION

CRE is one of the last material levers in the buy-improve-sell lifecycle that remains situational, informal, and inconsistently governed. The firms that outperform do not have better insights. They have fewer gaps. The bottom line is that overlooking corporate real estate is a competitive disadvantage. If you don't leverage it, your competitors will.

Below is an indicative timeline of a real estate activity roadmap to be performed for any fund:

- **Due Diligence (60-90 days pre-close):** Baseline current portfolio, perform red flags analysis and detailed diligence on the real estate footprint, estimating the standalone cost profile, one-time separation costs, and stranded costs
- **Hold - First 100 Days:** Prioritize real estate actions, and begin quick-win synergies that were underwritten in the deal across the footprint
- **Hold - Months 6-18:** Lower ongoing real estate costs without disrupting operations, unlock capital by monetizing non-core real estate and create an operating model that aligns to the footprint
- **12-18 Months Pre-Exit:** Complete rationalization and clean up liabilities

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