VIEWPOINT

FOUR QUADRANTS

CBRE

EMEA CAPITAL ADVISORS

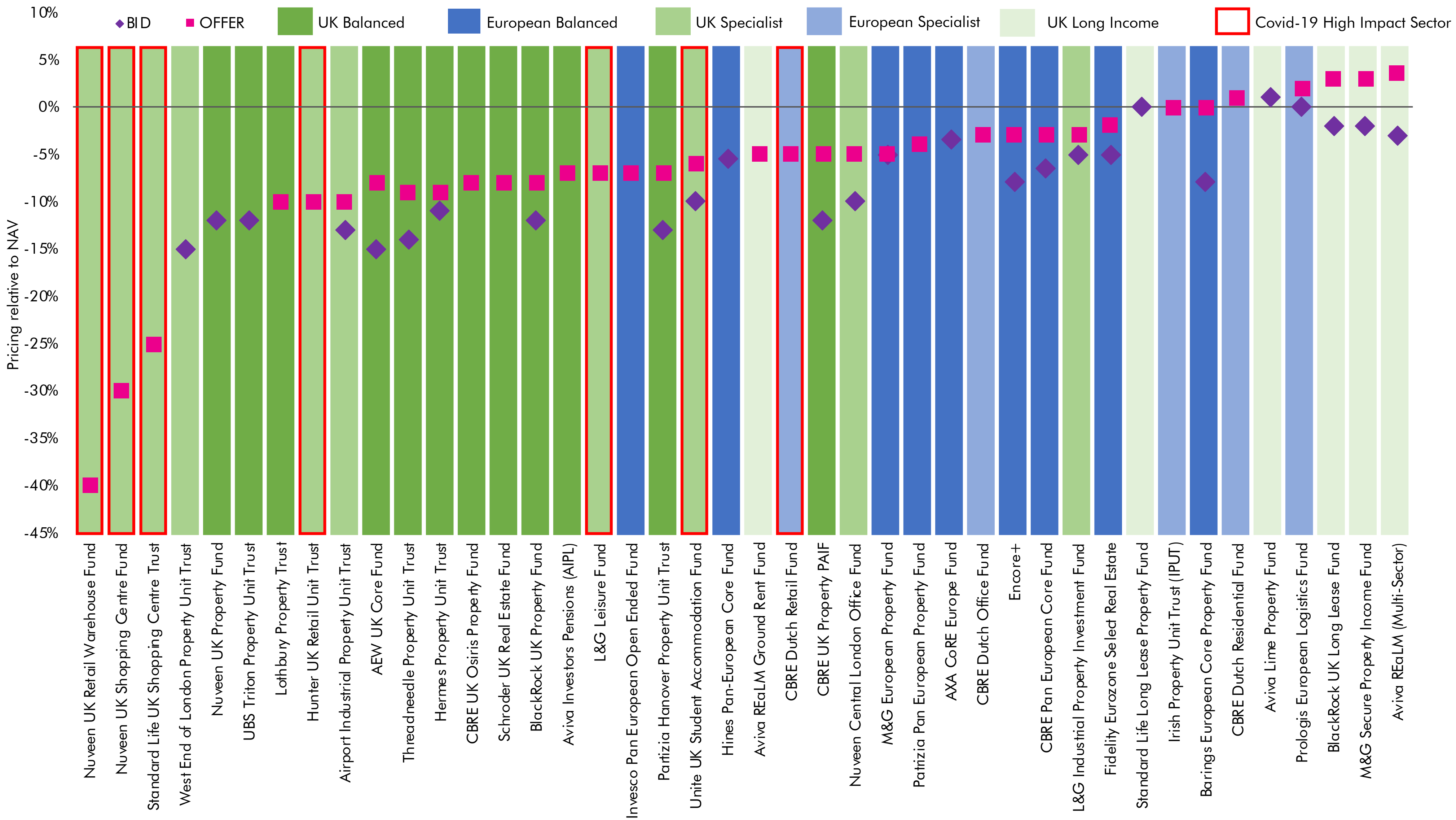
Private Equity

According to Preqin, fund raising by European focussed private real estate vehicles totalled €16.8bn in the first half of 2020, compared with €34.5bn in the whole of 2019. In other words, the H1 2020 total was only a fraction under half that seen in the previous year, more than half that seen in four of the five years prior to that (the exception being 2017, at €37.5bn), and more than the total raised in four of the five years prior to that (the exception being 2013, at €17.5bn). With the bulk of this activity coming in the second quarter it might be tempting to say “what crisis?”. However, the figures were heavily skewed by the closing of the €9.7bn Blackstone Real Estate Partners Europe VI fund, without which activity would have been much more modest. This additional €16.8bn means that the amount of dry powder available to private real estate vehicles targeting Europe remained unchanged over the first half, at €82bn – two thirds of this (€54bn) is in Valued Added or Opportunistic vehicles.

Within the set of funds completing closings in Q2 2020, some interesting patterns emerge. Ignoring the above Opportunistic fund, there is a clear preference for Value Added strategies (80% of funds raised), and for Diversified exposure (50% of funds raised). Where sector focus is the aim, Industrial is the leading destination for capital. Little surprise here, given prevailing pricing for core real estate and for the out-performance of industrial in recent years.

Some of the above chimes well with what we observe in secondary trading in our PropertyMatch business. In this sphere, liquidity and trading have been building back towards pre-Covid levels led by demand for diversified vehicles. In the UK, increasing confidence in valuation levels has seen a number of trades conclude in diversified funds, pushing pricing towards single digit discount to NAV territory, the first trade post-lockdown having been at -12%. In continental Europe, discounts never approached the same levels and pricing discovery has tended to occur at or just below a discount of -5% to NAV. UK Long Income funds continue to price around par, with specialists occupying a huge range dependent on investors’ views of their exposure to Covid-19 and of underlying structural issues; retail funds are quoted at up to -40% versus industrial and London office at single digit discounts to NAV. We anticipate a further surge in interest in this market, as investors keen on executing strategies see value in discounts available that may not be transactable in the direct market (due to lack of stock on the market) or in the public equity market (due to an absence of diversified REITs and / or a quicker closing of discounts to underlying asset value).

Figure 2: Secondary UK and European fund pricing, 7 July 2020



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