VIEWPOINT

FOUR QUADRANTS

CBRE

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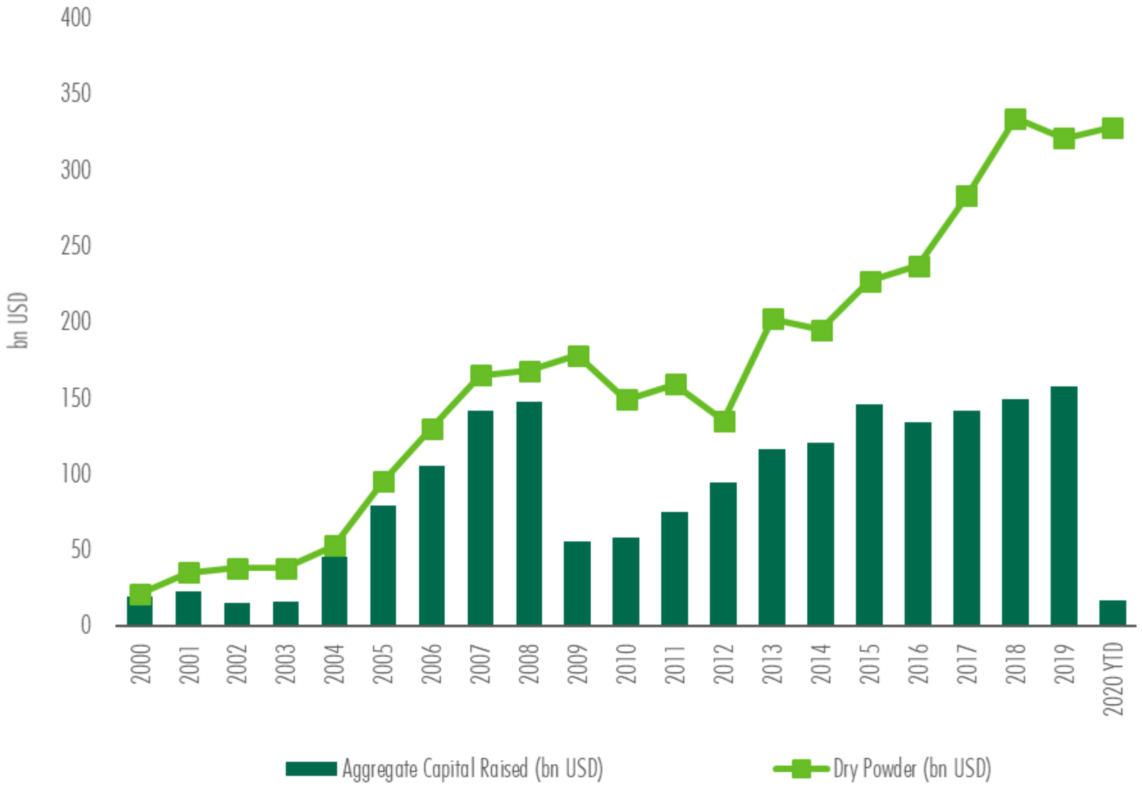
Private Equity

A couple of days into March we were asked about a statistic from Preqin that showed European fund raising for private real estate vehicles in the first two months of 2020 running at around half the level of that in 2019. Our glass was half full at the time, and we stressed the volatility of fund raising statistics over short time periods (particularly in Q1), the fact that H2 2019 fund raising was identical to H2 2018, and the fact that dry powder (uninvested capital waiting to find a home) was at a record high.

Figure 1. Fund raising and dry powder, global real estate



Source: Preqin.

Having toasted the future, we now find our glass a little emptier, and while these points still stand there is no doubt that the market is a little more shaken the morning after. The lesson from the post GFC period is that fund raising in times of unknown asset valuation is extremely difficult, and that dry powder can quickly be recalled by spooked investors.

Our secondary trading business, PropertyMatch, provides unique insight into the current pricing and trading of unlisted real estate vehicles, although it must be said that trading here has generally thinned out as investors wait to see where quarter end NAVs will land. Depending on the re-rating here, and whether investors feel it is sufficient or has more to go, will in turn dictate the extent to which bid-offer spreads will narrow and trading volumes increase. As it is, most markets, sectors and funds – with the exception of UK long income and some European funds – that were not already in negative territory have moved to pricing at a discount to NAV, discounts that those seeking immediate exit will be forced to accept in some cases given that several funds in the UK have closed to redemptions.

It is not all bad news however; opportunistic funds who had found sourcing viable investment targets increasingly problematic as yields fell ever lower should see their potential pool of deals increase as asset prices fall – as long as they can retain their capital.

Contacts

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