VIEWPOINT

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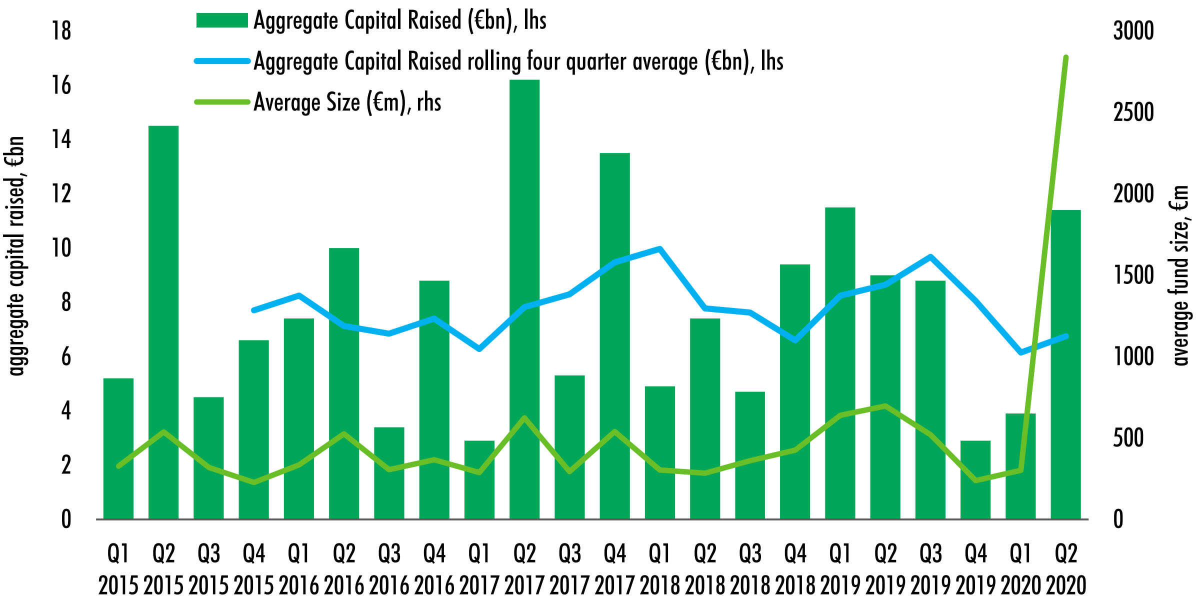
There is little "pure" information available on the performance of private real estate during the current crisis; very few markets have comprehensive, regular, high frequency valuation indices that allow us to isolate the Covid-19 period and estimate the impact of the virus, or more accurately the policy response to the virus, on real estate. The key exception is the UK, where CBRE's Monthly Index has shown that capital values have fallen by -5.0% in total since the beginning of March. Sector performance has diverged, retail falling by -8.5% versus office and industrial at a more gentle -2.7% and -2.5% respectively. Value decline has been predominantly yield driven, yields having risen by 24bps at the all property level, and by 39bps, 13bps and 12bps for retail, office and industrial respectively. With valuation decline slowing from -3.1% in March to -2.0% in April, more may be expected to come, but perhaps at a slower rate.

Figure 1 Real Estate Fund Raising, European Focussed funds



Source: Preqin. Q2 2020 figure is as at 12.05.2020.

Against this backdrop, data from our PropertyMatch business on the secondary trading of private real estate funds provides a useful triangulation point. After bid:offer spreads widened to highly aggressive levels in the initial phase of lockdown (one or two ambitious traders were attempting to buy at discounts of NAV of -30%), buyers and sellers have increasingly approached a consensus, and although differences remain bid:offer spreads for core UK funds might typically be in the -15% to -12% range, and perhaps a -10% to -5% for core European funds. Given these prices are off NAVs that will have seen some reduction already, this could imply either further declines to come in the valuation indices, or that buyers at current levels are securing attractive pricing.

Looking forward, at first glance recent data on fund raising is not as gloomy as might have been expected. Although Q1 2020 was very weak, the first half of Q2 2020 has seen a sharp bounce in completed fund raising so that H1 2020's (to date) figure of €15.3bn is only 25% lower than H1 2019's of €20.5bn, with six weeks still to go. However, Q2 2020's exceptional total is dominated by a single €9.7bn Blackstone fund, accounting for 63% of the H1 2020 total; without this the recent figures look far more concerning (27% of the H1 2019 total), implying that investment momentum in the coming quarters may be more reliant on the substantial "dry powder" amassed from historic fundraisings – currently standing at €81bn in Europe – than on newly allocated capital which is likely pausing for clarity on valuation before committing to the sector.

Contacts

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