PEI Alternative Insight

PERE

FOR THE WORLD'S PRIVATE REAL ESTATE MARKETS

PUBLISHED: 19 DECEMBER 2014

What we saw, what we see

In our final Friday Letter of the year, we select 10 things that happened in the private real estate investment universe during the last 12 months that we believe were indicative of things to come in the next 12. By Jonathan Brasse

We come to that time of year again when PERE bids farewell to you, our faithful readers, for another year. In the past we used this final column of the season to either cast our minds backwards over the year, highlighting what we felt the most important stories were, or forwards, predicting what the most important stories will be.

This year we're attempting a bit of both. Below are 10 things that happened in the private real estate investment universe in 2014 that inspired us to make predictions for next year:

1. What we saw in 2014: Rockpoint Group holding its largest first closing ever, raising $1.4 billion of a $2.5 billion target - within just three months.

What we see in 2015: While third-party real estate money managers with strong enough track records continue to be inundated by a seemingly ever-extending wall of institutional capital, we think home-runs such as Rockpoint's will be rare next year – not because LPs won't want to invest, but because there will be fewer top-table offerings for them into commit to.

2. What we saw in 2014: Morgan Stanley Real Estate Investing raising its first opportunistic capital since 2010 for its latest MSREF fund.

What we see in 2015: Those US investment banks that remained in the sector will continue to rebuild their reputations, albeit via more defensive strategies. Early indications are that the first deals of MSREF VIII Global, which were focused on income, are tracking well. Meanwhile, rival and New York neighbour, Goldman Sachs' Real Estate Principal Investment Area's mezzanine finance strategy will continue to consolidate its presence in the real estate credit world.

3. What we saw in 2014: The National Pension Service of Korea selling 8 Canada Square in Canary Wharf to the Qatar Investment Authority in a deal worth £1.1 billion (€1.35 billion; $1.7 billion).

What we see in 2015: A widening appreciation that Asian institutions are not content to simply buy and hold their real estate but, even in London's trophy cabinet, they will trade when the price is right. With gateway city yields so compressed, this will happen more.

4. What we saw in 2014: Blackstone raising its first equity fund for a core-plus real estate strategy.

What we see in 2015: The New York-based giant will not be the sole traditionally opportunistic investment manager to introduce strategies that tackle investments lower down the risk/return curve. They will happen outside of the US and Europe too. In Asia, for example, Morgan Stanley Real Estate Investing, SC Capital Partners and PAG have launched core property efforts as well.

5. What we saw in 2014: Dutch bank ING's £365 million lending to Brazil's Safra Group to fund its £726 million acquisition of 30 St Mary Axe (aka the Gherkin) in the City of London at a margin of less than 130 basis points.

What we see in 2015: Such a financing is approaching the market cycle nadir and, across the world - even in Japan (ex-conglomerates of course) – margins won't tighten much further.

PEI Alternative Insight
PERE
FOR THE WORLD'S PRIVATE REAL ESTATE MARKETS

6. What we saw in 2014: Singapore-based SC Capital Partners declining to introduce a formal hard cap when raising money for its fourth pan-Asia opportunity fund - despite being asked to by early investors.

What we see in 2015: While that maverick manoeuvre of Suchad Chiaranussati to test his investors' loyalty is unlikely to provoke many copycats, it certainly was an indicator that the pendulum of power has swung back towards successful GPs. Look out for further evidence of this phenomenon next year 2015.

7. What we saw in 2014: Partners Group raising $2 billion for its latest real estate secondaries fund – twice the amount originally targeted.

What we see in 2015: Cynics suggest real estate secondaries are only proving popular now because of how steamy primary real estate investments have become. While that undoubtedly has played a part, we think the segment's maturation and wider acceptance amongst institutional investors has been equally powerful in helping it reach critical mass. Next year, more of this supposedly $100 billion sector will be shrouded in light.

8. What we saw in 2014: CBRE Global Investors' chief investment officer for Europe leaving to join capital advisory firm Hodes Weill & Associates.

What we see in 2015: The current states of the real estate and capital markets have led some to argue that it is now a more straightforward proposition to raise capital than to deploy it wisely. If you think this is right, then Will Rowson's move away from carried interest to capital advisory fee work might strike you as a sensible move. And with the strongest capital advisors edging closer and closer to the biggest pools of capital and their deals, 2015 might see more such changes.

9. What we saw in 2014: Lone Star Funds appointing Mark Newman to head its team in Asia.

What we see in 2015: If there was one outstanding 'people' story in 2014, then the bearded ex-Lehman Brothers executive's appointment by the Dallas-based private equity real estate giant was surely it. The firm was keeping pretty hush about what his remit looks like, but rumor has it he will be expanding Lone Star's reach beyond Japan – Chinese NPLs were mooted, for instance. Next year, we're sure to find out.

10. What we saw in 2014: Investment manager Momentum Global Investments circling in on a $70 million capital raising for its first ever real estate fund to be focused on sub-Saharan Africa investments

What we see in 2015: There will be exponential growth of private real estate initiatives focused on the southern half of Africa. PERE's Research & Analytics division says almost $1.5 billion was raised for the region since the global financial crisis. Last year, however, sector forerunners Actis, International Housing Solutions and RMB Westport were joined by six newcomers, Monument included. Collectively, they hope to raise the same amount of money in a fraction of the time.

Thanks very much for your support in 2014. Have a wonderful festive season and we look forward to bringing you the latest news, analysis and opinion in the private real estate investment universe in 2015. And don't forget to vote in our Annual Awards!

Best wishes,

The PERE editorial team