Different problems for real assets

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With fear permeating the real estate market, real assets are once again coming into focus. An upcoming PitchBook analyst note provides a retrospective on 2008 and potential implications for the current situation. Cash management was difficult for LPs twelve years ago. Real assets funds aged between four and eight years, normally in prime harvesting mode, distributed only about 5% of committed capital on average annually between 2007 and 2010. Between 2003 and 2006, GPs had been distributing back around 20% of committed capital per quarter for similarly aged funds, according to PitchBook numbers.

GPs are not expected to exit many holdings at such compressed prices for the foreseeable future. Compounding the problem for commercial real estate, however, is a secular trend toward ecommerce that pre-dated the outbreak. Even after the lockdowns are lifted, the shift toward ecommerce will be even stronger than it was before. On top of that, millennials now have two financial crises under their belt and are entering their prime earning years. One wonders how large the impact of all this will be for brick and mortar going forward.

There will also be opportunities, just as there were ten years ago. Anecdotally, GPs have been more aggressive in this crisis than they were post-GFC, when moving too slowly proved detrimental to eventual fund performance. There’s also some fortuitous timing on the infrastructure side. As we’ve noted in the past, there was a push to raise infrastructure funds following the 2016 presidential election, as that was the one issue that seemed to garner bipartisan support. Not much came of it but private equity raised anyway, with historically large funds raised by Blackstone, Brookfield and others. The money might be needed more now than it was four years ago.