

Perspective in REAL ESTATE

A FEATURE EXAMINING THE ROLE OF PRIVATE EQUITY IN THE REAL ESTATE SECTOR.

Deal activity in the commercial real estate sector is growing amid soaring property values and an increased appetite for risk, according to the *Wall Street Journal*.



While many post-crisis investments have focused on core properties—fully leased buildings—some investors are now looking for funds that buy into new developments and other riskier assets, often looking for 20 percent yield or more. Morgan Stanley, hit especially hard by the last housing crisis, [recently raised](#) a \$1.7 billion higher risk fund, marking a recovery from the downturn, the *Journal* reports.

Among residential real estate acquisitions, private equity is increasingly replacing developers in deals for large buildings and apartment complexes, especially in New York, [according to *Fortune*](#). Blackstone Group—the world’s largest private equity real estate investor—recently made a major push into multifamily apartment holdings with its \$5.3 billion acquisition of Manhattan’s largest apartment complex, Stuyvesant Town-Peter Cooper Village. Blackstone’s CEO Steve Schwarzman predicts “core” properties such as this may eventually make up \$100 billion in assets for the firm, [according to *Bloomberg*](#). Turning to apartments later than some of its peers, Blackstone has acquired 46,000 units over the last two years, *Bloomberg* reports.

Blackstone’s largest real estate deal in 2015 was its \$23 billion acquisition of a portfolio of properties from General Electric. In addition to significant new investments, the PE firm has also returned \$25 billion to investors from property sales since September last year, more than half of its total realizations of \$45 billion for the same period, according to *Bloomberg*.

The hospitality sector is in the middle of a consolidation boom, as hotel brands look to boost their profits, add hotel rooms and grow their geographical footprint before the peak of the growth cycle, [according to the *Financial Times*](#). Marriott International has announced it will buy Starwood Hotels in a deal valued at \$12.2 billion, creating the world’s largest hotel company, and French hotel group Accor looks set to buy FRHI Hotels and Resorts for \$3 billion. While some hotel chains have sufficient cash for new acquisitions, they face stiff and growing competition from Chinese investors, who are expected to buy some \$5 billion worth of hotel assets this year, the *Financial Times* reports.

This M&A boom also presents exit opportunities for PE firms. For example, Goldman Sachs, Avenue Capital and GoldenTree Asset Management are considering a sale of U.K. budget hotel group Travelodge, Carlyle Group is looking to sell its 80 percent stake in French budget chain B&B Hotel Group, and Lone Star has put its Atlas Hotels portfolio up for sale.

There are opportunities for private equity firms in every corner of the real estate market. However, real estate funds should expect increased regulatory scrutiny in the coming year. Blackstone and KKR both paid multimillion-dollar settlements in 2015 over allegations that they did not properly disclose to investors special fee arrangements, discounts and waived “broken-deal” expenses that benefited certain investors, including company executives. In 2016, real estate funds can expect heightened SEC oversight of their business relationships, particularly over the [potential hiring of businesses they control](#) to do work for their portfolio companies, according to SEC Chair Mary Jo White.



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Real Estate Industry Contacts:

STUART EISENBERG

New York
212-885-8431 / seisenberg@bdo.com

BRIAN BADER

New York
212-885-8203 / bbader@bdo.com

MARK CARLIE

St. Louis
314-889-1210 / mcarl@bdo.com

BRENT HORAK

Dallas
214-665-0661 / borak@bdo.com

ANTHONY LA MALFA

New York
212-885-8140 / alamalfa@bdo.com

TOM MENK

Pittsburgh
412-281-1566

KEVIN RILEY

Orlando
407-841-6930 / kriley@bdo.com

LOU TORRES

New York
212-885-7388 / ltorres@bdo.com

CHRISTOPHER TOWER

Orange County
714-668-7320 / ctower@bdo.com

Private Equity Industry Contacts:

LEE DURAN

San Diego
858-431-3410 / lduran@bdo.com

SCOTT HENDON

Dallas
214-665-0750 / shendon@bdo.com

KAREN BAUM

Dallas
214-969-7007 / kbaum@bdo.com

JOE BURKE

McLean, VA
703-770-6323 / jburke@bdo.com

FRED CAMPOS

Miami
305-420-8044 / fcampos@bdo.com

LENNY DACANAY

Chicago
312-730-1305 / ldacanay@bdo.com

JERRY DENTINGER

Chicago
312-239-9191 / jdentinger@bdo.com

JOE GORDIAN

Dallas
214-969-7007 / jgordian@bdo.com

RYAN GUTHRIE

Costa Mesa
714-668-7385 / rguthrie@bdo.com

TUAN HOANG

Los Angeles
310-557-8233 / tmhoang@bdo.com

KEVIN KADEN

New York
212-885-8000 / kkaden@bdo.com

TODD KINNEY

New York
212-885-7485 / tkinney@bdo.com

MATT SEGAL

Chicago
312-616-4630 / msegal@bdo.com

DAN SHEA

Los Angeles
310-557-8205 / dshea@bdocap.com

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