

PErspective in REAL ESTATE

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

Real estate private equity funds are having a prosperous 2015, with purchasing power and capital distributions at record highs.



At the midyear point of 2015, private equity real estate funds had amassed [\\$254 billion in dry powder](#), a 37 percent increase over the end of 2014. In addition, Preqin reported that real estate-focused funds have steadily increased their distributions since 2009, returning a record \$187 billion to investors in 2014 alone. With opportunities proliferating for both profitable exits and reinvestment, PE real estate funds are well-positioned to close out the fund cycle they began between 2006 and 2008 – before the Great Recession – and begin anew.

High property valuations appear to be the primary driver of recent real estate exit activity. *The Wall Street Journal* reports that commercial real estate prices [have reached some of their highest points](#) since the market collapsed in 2008, thanks to continued low interest rates and rising demand from buyers for high-performing assets. According to Real Capital, New York City's average commercial real estate capitalization has reached 5.7 percent, more than double the yield on a 10-year Treasury bond.

For PE firms evaluating real estate investment options for their current fund cycles, the retail sector may offer promising opportunities. As consumer demand increasingly moves toward omnichannel shopping experiences, many retailers are seeking to shrink their square footage and cash in on their real estate assets. According to *McClatchy News*, Sycamore Partners' [\\$3 billion Belk buyout](#) may provide the firm the opportunity to quickly recoup part of its investment through a sale-leaseback arrangement – in which Belk

would sell its real estate assets and then lease them back from the buyer. Other retailers, such as Macy's, are [exploring options](#) for spinning their real estate assets into other investment vehicles, including REITs and potentially private real estate funds (see our own Stuart Eisenberg's [recent column](#) in *Commercial Property Executive* for more information on these spinoff deals).

However, while opportunities abound, real estate fund managers face increasing regulatory scrutiny, with the SEC's Private Funds Unit undertaking a thematic review of the real estate fund industry in 2014. In a [May 2015 speech](#), Marc Wyatt, acting director of the SEC's Office of Compliance Inspections and Examinations, pointed to potential changes ahead: Fund managers who offer ancillary services, such as property management, construction management or leasing services, may be expected to justify their fees.

The trend of surging real estate exits – and subsequent reinvestment in new real estate funds and opportunities – could very well continue through the end of 2015. Amid recent stock market turmoil and global economic uncertainty, the Fed seems [disinclined to raise interest rates](#), making the higher returns of real estate private equity funds more attractive than ever. PE funds that can effectively navigate both the changing regulatory environment and the volatile economy may be poised to cash in again in five to seven years' time.

PErspective in Real Estate is a recurring feature exploring the role of private equity in the real estate industry.



People who know Real Estate, know BDO.

www.bdo.com/real-estate

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 / mcarlie@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

RYAN GUTHRIE

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

KEVIN KADEN

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

DAN SHEA

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

TUAN HOANG

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

TODD KINNEY

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

MATT SEGAL

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

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, financial advisory and consulting services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through 63 offices and more than 450 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of 1,328 offices in 152 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: www.bdo.com.

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.