

Wall of equity will 'stay on sidelines' until economic uncertainty clears

The estimated \$1.1tn of equity sitting on the sidelines of the US real estate market will largely stay put until property fundamentals start to show signs of improving.

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The wall of equity currently sitting on the sidelines of the US real estate market could remain on the edges for the foreseeable future, as uncertainty over future job growth continues to cloud the investment horizon.

An estimated \$1.1 trillion of equity currently is targeting US real estate markets, including roughly \$454.2 billion of private equity, \$184 billion of pension fund capital and \$95.2 billion of foreign investor equity, according to the latest Emerging Trends report from the Urban Land Institute and PricewaterhouseCoopers.

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However, Cadence Capital Group partner Robert Meulmeester argues much of that equity could continue to sit on the sidelines while uncertainty remains over future demand for real estate, not least of all concerns over job growth.

“The equity providers are largely sitting on the sidelines and watching what’s happening,” Meulmeester told *PERE*. “There is a lot of uncertainty over where we are heading, and much of the equity will stay there until we can work around some of the major headaches we face.”

The former senior manager at Deloitte & Touche said one particular headache was the US unemployment rate and its impact on consumer spending, together with supplier and employer demand for additional real estate space in the future.

Cadence Capital Group partner Robert Meulmeester

Last month, Jones Lang LaSalle warned occupancy levels in the US would rise modestly in 2011 compared to 2010, with net absorption expected to remain flat and strong occupancy growth restricted to “core Tier 1 office hubs. A fully fledged and sustained recovery in demand across Western Europe and the US will not materialise until there is real and consistent jobs growth in office-using sectors,” the real estate services firm said in its global market perspective report.

As a result of such uncertainty, the industry is seeing a significant amount of investor activity concentrated around core real estate, Meulmeester said. However, he noted that the “wall of equity will not continue to chase core properties” forever, although it would continue to be “cautious” while macroeconomic indicators remained unclear.

Founded in early 2009 by former Citigroup real estate investment banking executive Scott Robinson and associate professor of real estate at the New York University Schack Institute, Dr Tom Geurts, Cadence is targeting recapitalisation opportunities with owner/operators who are looking to refinance, restructure and grow their portfolios. The firm also is targeting REIT and CMBS opportunities, raising capital on a separate account basis from family offices, institutional investors and high-net-worth individuals.

Meulmeester said the crisis had seen a resurgence in appetite for US real estate, especially from overseas investors looking to take advantage of possible discounted pricing. “There is a lot of interest in US real estate, and everyone is thinking about how to access the markets,” he said, adding that recapitalisations are one of the main routes to accessing deals today.

“The financial structures of 2007 don’t make sense in 2010 or 2011, so the deals you are seeing are about restructuring the capital stack,” Meulmeester said. “The portfolios are often messy, not because of bad ownership or deals, but because of balance sheet issues that have come up and a current need for alignment of investor’s interests within the constraints given in the new normal.”