Green Street

Real Estate Alert

THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

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JULY 18, 2023

THE GRAPEVINE

Maggie Coleman has joined **Manulife Investment Management** as chief investment officer for North America. She's responsible for investment strategies, sourcing deals, working with joint-venture partners and capital formation. Coleman started on July 6 in Los Angeles, reporting to global head of private market real estate **Marc Feliciano.** She moved over from advisory firm **Sera Global,** where she was a managing partner. Before that, Coleman was a senior managing director and head of international capital for **JLL.** Manulife has made several other notable hires recently. Last

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M&A Deals Dry Up as Buyers Wait for Clarity

The market for mergers and acquisitions of real estate companies remains mostly frozen.

Just two deals with a combined value of $14.67 billion closed in the first half of 2023, according to **Real Estate Alert's** midyear tally. But nearly all that value came via the $13.80 billion purchase of self-storage REIT **Store Capital** by a joint venture between Singapore sovereign-wealth fund **GIC** and **Blue Owl Real Estate Capital,** which recently rebranded from **Oak Street Real Estate Capital.**

And while a few midsize deals and another self-storage megamerger is set to close by yearend — **Extra Space Storage's** roughly $12 billion acquisition of **Life Storage** — the market is largely at a standstill amid rising interest rates and continued uncertainty surrounding underlying property valuations.

"Debt financing costs are much higher, and that puts a lot of people on the sidelines," said **Jens Thomas Jung,** a managing director in the real estate and lodging

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Pension Pledges Plunge Further in 1st Half

U.S. public pensions nearly halved their commitments to vehicles investing in commercial real estate in the first half of the year.

Pledges to funds and separate accounts totaled just $18.45 billion over the first six months of 2023, down 43% year over year and the weakest first-half volume since 2020, which logged $17.47 billion, according to **Ferguson Partners.** With just $7.58 billion of pledges from April through June, the second quarter was down 49% year over year — the lowest three-month tally since the fourth quarter of 2020 saw $6.82 billion of commitments.

"This is now the third consecutive quarter of year-over-year decreases," said Ferguson director **Scott McIntosh.** "These declines are now becoming compounded and more extreme."

The first-half pace puts 2023 on par with 2020, when the lingering impact of the pandemic led to just $37.25 billion of pledges, the lowest since $35.25 billion in

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4 Denver-Area Rentals With Upside Shopped

A portfolio of workforce housing apartments in the Denver area that could fetch $380 million is being pitched to value-added investors.

The package encompasses 1,730 units in four garden-style complexes valued at an estimated $220,000/unit. **Newmark** is marketing them on behalf of a partnership between Denver-based **BMC Investments** and a fund managed by New York-based **DRA Advisors.**

The joint venture will accept bids on individual properties. But a sale of the package would be the second-largest trade of an apartment portfolio in Colorado history, trailing only **Starwood Capital's** $619.4 million acquisition of 1,445 units in December 2021 from **Brookfield,** according to **Green Street's** Sales Comps database.

Three of the offered properties are in Aurora, an eastern suburb of Denver and Colorado's third-largest city. The fourth is in Denver.

BMC partnered with DRA in 2021 to recapitalize the complexes. All were built

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The first-half pace puts 2023 on par with 2020, when the lingering impact of the pandemic led to just $37.25 billion of pledges, the lowest since $35.25 billion in 2017. Every other year from 2018 to 2022 topped $47 billion of pledges — culminating in last year's record $65.09 billion.

McIntosh noted that while the capital flow has slowed markedly after two consecutive years of record fundraising, the overall tally continues to show commercial real estate is cemented as an asset class for pensions.

The pace of pledges will depend on whether investment-sales activity bounces back from overall depressed levels.

"We're still seeing challenges on the capital-markets side. Price discovery is ongoing, and I think it will take a few more quarters for some of that discovery to resolve itself," McIntosh said. "Folks are looking for more visibility and clarity."

One shift that is happening faster is investor interest in higher-yielding strategies. In the first six months of the year, 43% of commitments, by dollar volume, went to value-added vehicles. That's up from 29% for all of 2022. Opportunistic strategies

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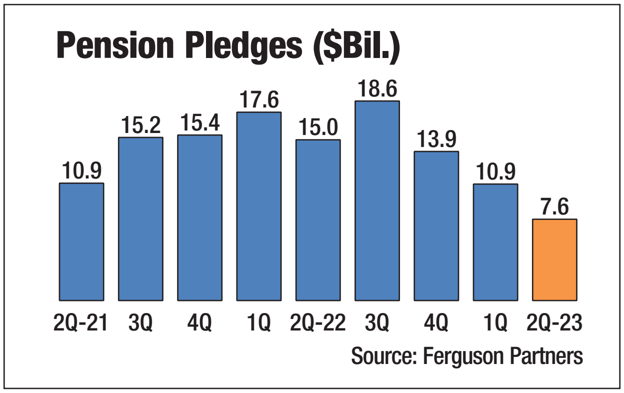
corralled 28% of pledged dollars, even with the prior year. The combined haul of 71% is well above the historical average of roughly 60% — and came at the expense of core and core-plus strategies. Core vehicles took home just 24% of total pledged dollars in the first half, with their second-quarter haul the lowest since the same period in 2016.



"This shift happened very quickly," McIntosh said. "The high-yield versus lower-yield mix historically has been highly consistent … and in one quarter it shifted dramatically. There are some [pensions] that are looking to be first movers on those higher-yield deals."

Pensions also are giving more money to fewer managers. Some 62% of pledged dollars went to the top 20 managers in the first half, up from 50% in the whole of 2022. While that concentration typically starts out higher during a year, it remains above historical averages at midyear.

"In this environment, with the uncertainties that exist, I would not be surprised if it were a concentrated year in terms of commitment dollars going to top managers," McIntosh said. "A flight to quality."

Pensions also continue to favor vehicles focused on a specific property type, with 54% of pledged dollars going to those strategies in the first half, up slightly from 53% last year and from 49% in 2021.

Within that group, those focused on industrial properties continue to dominate, garnering 41% of pledged dollars, up from 32% last year. Multifamily vehicles (26%) and niche funds and separate accounts (28%) made up most of the rest, with no other property type drawing more than 4% of committed dollars — another sign of the division of interest by asset class, McIntosh noted.

Ferguson defines niche as vehicles focused on life-science properties, single-family rentals, healthcare properties, data centers, cold-storage properties, debt and others.

"The real estate space has become more differentiated by property type," McIntosh said. "There is less correlation between the main four food groups, with office being in a challenging space and there being runway and tailwind for some of the in-favor sectors."

The 306 pension systems tracked by Chicago-based Ferguson have some $5 trillion under management. They represent the vast majority of assets held by U.S. public pensions. Ferguson, which has tracked the sector since 2011, will release its findings in a report next week. ❖