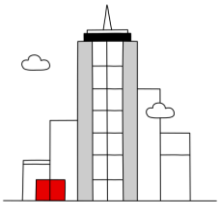
IPM monthly blog

Our monthly insights into private markets – April 2023

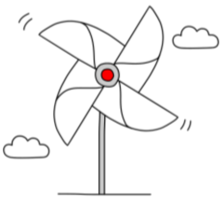
Real estate



Tighter lending conditions to weigh on market

- Banking sector stress eased in April from heightened levels in March.
- Lending conditions are tightening though, which we think will delay the recovery in global real estate markets.
- However, we do not expect a repeat of the credit-crunch experienced during the Global Financial Crisis.
- Care is needed in deploying capital into the wider real estate market, while distressed opportunities at attractive pricing are also emerging.
- Preliminary data from MSCI showed that global real estate transaction activity remained subdued in 1Q23 as prices continued to adjust[1].
- The UK is further ahead in the cycle and showed signs of stabilization in March when, according to MSCI, capital values rose for the first time since June 2022[1].
- Sector-wise we remain very bearish on offices. A combination of weak demand stemming from the slowing economy, a structural shift towards home working and very high capex requirements to maintain competitiveness is finally starting to have a meaningful impact on valuations, particularly in the US where home working is the most pronounced.
- Sentiment is warming to logistics again as the repricing starts to create some attractive entry yields, with most markets still having a positive outlook on rental growth. Niche sectors with strong occupational outlooks such as cold-storage, data centers, self-storage, student accommodation and life sciences remain high on investors' wish lists.

Infrastructure

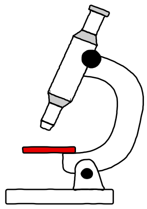


Weaker infrastructure fundraising amid market uncertainties

- According to both Preqin[2] and Infrastructure Investor[3], the private infrastructure sector raised less than USD 10 billion in the first quarter of 2023, making it the weakest fundraising quarter in almost 10 years.
- Most of the current fund commitment decisions were made last year, which was impacted by the denominator effect as public markets underperformed. Investors are therefore pushing up against their private market allocation limits.
- If fundraising continues to be weak, a secondary impact to watch out for is the decline in dry powder and the potential downward pressure on valuations, as there is less capital chasing deals (which could also be an opportunity).
- Commodity prices have moderated since the start of the Ukraine war in 2022, due to a combination of supply response and demand destruction from a slowing economy, alleviating some of the concerns around inflation.
- Ultimately, infrastructure assets provide essential services to society and will continue to benefit from secular trends such as digitalization and decarbonization.
- Clarity around government policies eg further guidance on the US Inflation Reduction Act or details around Europe's green industrial plan, will drive more investment opportunities in the sector.

Source: **1** MSCI, April 2023; **2** Preqin, 1Q23 data; **3** Infrastructure Investor, March 2023.
Past / expected performance is not a guarantee for future results.

Private equity



Cautiously optimistic despite signs of stabilization

- March was a turbulent month as the failures of several US banks, most notably Silicon Valley Bank (SVB), roiled venture capital (VC).
- Many VC funds and early-stage companies banked with SVB, leading to temporary alarm in some sectors of the private markets.
- Regulators now appear to have stabilized the banking system, and banks are again experiencing capital inflows as of April 2023.
- SVB was also a lender to many early-stage companies which rely on venture debt to support their operations.
- We believe this series of events will not seriously impair the venture ecosystem, but does serve to tighten the supply of capital to early-stage companies and VC funds. This will act as another drag on the space which has suffered in recent quarters.
- Despite the near-term overhang, we are cautiously optimistic on VC in the medium term, especially as IPO markets begin to reopen.

Private credit

Downside protection in an opportunistic market

- With the collapse of SVB and Signature Bank, market participants are seeking to assess the broader implications these failures will have on commercial real estate markets. In the US, regional banks are the foundation of commercial real estate (CRE) lending activity, originating ~65% of CRE loans and holding ~70% of CRE debt outstanding in the banking system.
- Over the past few years, regional bank CRE holdings have faced headwinds from multiple directions. This has included operational stress on properties, and ultimately markdowns, arising from the paradigm shift in office and retail CRE demand as a result of the pandemic. The recent rate hike cycle has also slowed overall real estate market activity, and significantly impaired the viability of some real estate projects, where financing is a critical component to most deals.
- The recent bank collapses have brought these issues into the spotlight, bringing attention to a material pullback in regional bank lending activity as they contend with stressed balance sheets, tightening lending standards and rising rates.
- However, this retrenchment has created a growing opportunity for private credit investors to step into the CRE lending market. The opportunity set continues to develop, with investors now able to lend against high quality assets across multifamily, industrial, office and retail properties at attractive rates and reasonable loan-to-value ratios.
- Additionally, opportunistic secondary transactions have begun to arise as banks are forced to unload CRE loans and other assets off their balance sheets. In the near term, auctions of bank assets related to the recent collapse will also likely provide investors with the opportunity to purchase other real estate-related securities at attractive discounts.

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