Distressed CRE Assets Trigger Big Moves from Investors

For the past few years, we've seen a lot of predictions in commercial real estate (CRE) around the looming "wall of debt" facing commercial assets. Many owners face a difficult refinancing environment as their loans come due, and NAI Global's Arthur Milston previously predicted a wave of distressed assets that would hit the market in 2024.

As we move into the third quarter of the year, that prediction is playing out in real-time as investment firms across the US gear up to take advantage of the distressed asset influx.

Raising Funds

Among the biggest funds being deployed is Starwood's "Distressed Opportunity Fund XIII" which aims to raise $10 billion for investment across assets ranging from hospitality and industrial to office, life sciences, and residential. Approximately half of the fund is intended for investment in the North American market.

It is worth noting that Starwood's fund won't concentrate exclusively on distressed assets. Around 20-30% will be allocated to data centers, to take advantage of the massive growth expected from the sector in upcoming years.

Another is Lone Star's opportunistic real estate fund, which closed last month, that will target asset classes with "long term structural demand interrupted by short term factors." Sectors of interest include retail, hospitality, and senior housing.

Lone Star states the fund's intention is to: "buy from banks, developers with troubled projects, funds coming to the end of their life, and open-ended funds that need liquidity" with around 30-50% of the $5.3 billion fund intended for deployment in North America.

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Other big moves include Lightstone's launch of a $500 million platform targeting the "top 50 metropolitan areas in the US" and a $1 billion fund by RXR Realty and Ares Management aimed at distressed Manhattan office properties.

Ongoing Trends

The announcements build on the trend that we saw last year where numerous new funds were already seeking to take advantage of slumping asset values. At the time, the Wall Street Journal (WSJ) noted that many owners were under pressure to sell at "marked-down prices" as they were unable to refinance in the face of rising rates.

WSJ added: "In addition, fund managers expect values to fall as regional banks, under pressure from this year's rash of bank failures, unload commercial-property loan portfolios at discounted prices."

The trend has continued into this year, as many banks with CRE loans continue to struggle in the face of high-interest rates.

"Dry Powder" Still Incoming

Despite the moves already being made, estimates from late last year maintain that there are still hundreds of billions of dollars in "dry powder" waiting to be deployed into CRE markets.

How and when that capital makes its way into the market remains to be seen. Over the next few years, however, CRE professionals and investors alike should expect to see some very interesting plays in terms of value-add and opportunistic investing in distressed assets.