Blackstone says distressed buying opportunities still a year away

During its first-quarter earnings call, the New York-based mega-manager said it had $44bn to deploy in real estate when opportunities arise.

By **Kyle Campbell** - 2 hours ago

With $44 billion of real estate dry powder, **Blackstone** is positioned to take advantage of market dislocation brought on by the coronavirus outbreak, but chief operating officer Jon Gray says the firm is likely still a year away from large-scale deployment.

Jon Gray, Blackstone COO

During the New York-based mega-manager's first-quarter earnings call Thursday morning, Gray said Blackstone has purchased real estate debt and pubic equities in recent weeks at significant discounts, but noted that it takes time for property owners to burn through cash reserves and for assets to revert to special servicers. “It took a year after the 2001 downturn, and it took a year, basically, after 08,” Gray said. “That first year after the shock is generally pretty slow in terms of deployment. It can change, but then things start to pick up.”

When the time comes to start making acquisitions, Gray said Blackstone’s real estate dry powder – which is part of a broader $151 billion war chest across its various businesses – will provide a familiar competitive advantage. “We don’t need financing to get things done,” he said, “so we are very well positioned, as we were in the previous two downturns, to deploy capital at scale.”

Through the first quarter of 2020, both of Blackstone’s real estate strategies produced negative returns with mark downs hampering asset values. Its global opportunistic platform, comprising the Real Estate Partners fund series, saw a gross return of -8.8 percent, while its core-plus strategy, underpinned by **Blackstone Real Estate Income Trust**, declined by 3.9 percent. This compares with gross gains of 4.7 percent and 2.9 percent, respectively, for Blackstone’s opportunistic and core-plus strategies during the fourth quarter of 2019. As a whole, the company reported a $2.6 billion loss during the first quarter of this year whereas it saw $1.1 billion of profit through the first quarter of 2019.

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Meanwhile, the firm continued to raise capital, adding $12.7 billion during the quarter. It closed on $2.7 billion for its **fourth debt fund** and brought in $5.1 billion of retail capital for BREIT. It also reached a final close for **BREP Europe VI** on €9.8 billion.

"That bond of trust that you have that gets developed over decades really becomes exceptionally useful in a situation like this," chief executive Steve Schwarzman said on the call about the firm's relationships with global investors. "If you were in the position of raising a first-time fund as a relatively new firm, I think this would be, really, almost impossible. But for firms like ours, with those natural built in advantages and relationships, life goes on to the extent that capital is available."

Questions remain, however, about how the covid-19 pandemic will change demand for commercial real estate. Gray said the increased reliance on ecommerce plays to the strength of Blackstone's emphasis on logistics assets. He is also optimistic that a broader shift toward remote work will be offset in the office market by tenants shifting toward less dense workspaces. In the short term, he expects a slowdown in new supply, which would work to the firm's advantage in the life science office sector as well as certain markets, such as India.

"The biggest challenge we faced before this downturn was what were we going to do with this capital, and it was the thing we struggled with in putting out capital and we lost a lot of auctions," Gray said. "Now I do think there will be a pretty broad range of places to deploy that capital. The challenge is to be disciplined, particularly if this recovery is going to take a bit of time."

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