



Al Rabil, CEO of Kayne Anderson Real Estate, has raised more than \$1 billion to buy property debt from distressed investors.  
PHOTO: CHRIS FAY

**The Wall Street Journal**  
**Cash Pours Into Distressed Real-Estate Funds as Investors Aim to 'Play Offense'**  
**Peter Grant**  
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Investors are pouring billions of dollars into new real-estate funds created to buy distressed debt backed by hotels, malls, office buildings and other commercial properties suffering big losses of value during the coronavirus crisis.

Firms including KKR & Co., Kayne Anderson Real Estate and Terra Capital Partners have closed or are raising distressed funds from wealthy families, sovereign-wealth funds and others aiming to profit from the upheaval, according to people familiar with the matter. With property sales in the commercial-property market nearly inactive, these firms are focusing on real-estate debt getting dumped on the market by troubled real-estate lenders and others.

The opportunities have materialized so quickly that firms are raising cash at a pace that would have been inconceivable before the pandemic erupted. Kayne Anderson, a Florida-based firm raised a \$1.3 billion fund targeting debt being sold by distressed sellers in about two weeks, according to Al Rabil,

head of Kayne Anderson Real Estate. Typically a fund of that size would take about 12 to 18 months to raise, he said.

"We had to turn investors away," Mr. Rabil said. "While there is fear and uncertainty out there, there are investors who are saying...we want to play offense."

In early April there were 939 commercial-real-estate funds world-wide raising money -- a record -- and they were targeting \$297 billion, according to a report by data firm Preqin.

The new high in the number of firms fundraising reflects in part investor appetite for distress, said Justin Bartzsch, a Preqin analyst. "People have seen these quick recessions before and the opportunities that lie there," he said.

Interest in distressed real estate is especially keen among some wealthy families and sovereign-wealth funds, said Michael Stark, co-head of PJT Park Hill Real Estate Group, a placement agent that acts as a capital adviser between investors and fund managers. He said he is talking to more than two dozen of these investors who expect to see "generational opportunities as a result of this dislocation and are trying to be deliberate about who they want to align themselves with as things play out."

Some other big investors like pension funds and endowments, for now, are being more tentative about pushing into the distressed real-estate space. They are more focused on whether their stock portfolios may face further damage or, in the case of college endowments, whether shrinking enrollment will reduce the capital they have to put into future opportunities, according to market participants.

The commercial real-estate industry is expected to remain under severe stress even after states begin to ease lockdowns and people begin to return to work. Crowds are unlikely to return to malls or travelers to hotels until the number of new Covid-19 cases are greatly reduced. Apartment landlords in some states are facing rent strikes. Demand for office space could tumble if millions of workers continue to work from home.

Most commercial property landlords who missed their April 1 debt payments have a 30-day grace period so aren't technically in default. But early indications are that more than 11% of commercial mortgages that were converted into securities will be 30 days delinquent when that grace period elapses, according to a new analysis by Trepp LLC. That would surpass the highest level hit during the last financial crisis, 10.3%, Trepp said.

Some investors are hoping to make up for losses they have suffered in their existing property portfolios. Many are also well aware of fortunes made during previous commercial property downturns by investors like Sam Zell in the 1990s and Blackstone Group Inc. following the 2008 financial crisis.

A spokeswoman for Mr. Zell declined to comment on whether he is currently in a fundraising mode.

Some investment managers had the good fortune to be closing funds just as the crisis hit, giving them plenty of ammunition to make distressed acquisitions in the months to come. For example, Blackstone earlier this month closed a \$10.6 billion fund targeting European assets.

IP Capital Partners LLC, a Boca Raton, Fla.-based investment firm that buys office and logistics properties in Florida, finished raising a \$51 million fund this month that will be invested alongside other

institutional capital. Including debt, IP Capital and its partners will have about \$700 million to \$800 million in buying power, according to Jason Isaacson, the firm's president.

"It's an envious position to be in with a fresh pool of capital and being able to go out into the marketplace and take advantage of opportunities that might result from this," he said.

Other fund managers are bolstering the dry powder they have available by raising new money. KKR is raising a distressed fund that is going to focus on real estate as well as other opportunities, according to people familiar with the matter. Its fundraising target wasn't available.

Meantime, Terra Capital Partners has \$50 million in commitments for a \$300 million distressed assets fund it is raising, according to people familiar with the matter. The firm, which has more than \$650 million in assets under management, has been buying corporate debt owed by real-estate investment trusts and commercial mortgage-backed securities that have been trading at steep discounts in public markets, these people said.