EQT Exeter, which formed a new real estate investment trust in a flurry of registrations, plans to target industrial properties. (EQT Exeter)

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Four major investment firms have taken steps this month to set up nontraded real estate investment trusts so they can swoop in when property values finally adjust to a new economic reality of significantly reduced prices.

The filings with the Securities and Exchange Commission by Sculptor Capital Management, ExchangeRight, EQT Exeter and Invesco Real Estate represent twice as many as were made in all of the first half of the year, reflecting a stepped up attempt by investors to buy in the wake of recent price declines.

They come as concern about high inflation and a possible recession have led shareholders to cash out of nontraded REITs such as Blackstone Real Estate Income Trust and Starwood Real Estate Income Trust, reducing the pace of monthly fundraising for those big players that owned property before prices fell.

The new REITs say in their filings they intend to raise capital from a wide range of investors hoping to pick up valuable properties at reduced prices, driven in part by weakening demand for offices. The benefit for doing it now, analysts say, is that REITs are starting fresh by creating portfolios that haven't suffered heavy value degradation — and Just beginning the setup process signals they may expect more declines into next year.

The launching of new nontraded REITs before any crop of publicly traded REITs also highlights a disparity between private and public real estate pricing. Publicly traded securities of REITS, companies or funds that own or finance income-producing property, are bought and sold on major stock exchanges, with prices set by those transfers. Nontraded REIT securities are publicly offered to accredited investors but are bought and sold in private transactions, with their values set by the net value of holdings and the number of shares outstanding.

There have been no initial public offering registrations for new publicly traded REITs since 2021, showing that REIT sponsors see opportunities arising from wealthy accredited investors and not yet from the general public.

Values Diverge

Since the outbreak of COVID-19 through the end of 2022, net asset values of nontraded REITs performed better than publicly traded REIT share prices. But this year values of private REITs are beginning to decline and publicly traded REIT share prices are rebounding slightly.

Falling publicly traded share prices are often among the first indicators that individual investors believe property values are due for a drop. Now, rising publicly traded share values potentially indicates that individual investors are anticipating that real estate values will eventually begin rising.

The reversing of the direction of property values between private real estate and publicly traded REIT stock prices has created interest among investors for new nontraded REITs, according to Rich Hill, senior vice president and head of real estate strategy and research at investment fund manager Cohen & Steers, in an interview.

“If you believe, as we do, that [publicly traded stock prices] are a leading indicator in downturns and recoveries, the publicly listed REIT market is telling you that there is a recovery coming in the private market,” Hill said. “So, what’s really happening here is there’s capital being raised through a broad wide variety of sources in anticipation of really attractive vintage returns that will likely be realized in the private market.”

That dynamic is not going to happen right away, Hill added. Private valuations are likely to decrease further, and buying opportunities won’t likely begin to emerge for another 12 to 18 months.

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Cohen & Steers, known for managing multiple funds that invest in real estate securities, was the first company this year to file for a new nontraded REIT, Cohen & Steers Income Opportunities REIT.

Further Declines Seen

Hill said he could not discuss the status of that registration because Cohen & Steers is in an SEC-mandated quiet period.

Alex Pettee, president and director of research and exchange-traded funds at Hoya Capital Real Estate, agreed that nontraded REIT asset valuations have further declines coming.

“We still haven’t seen a true ‘mark to market’ event that would seriously challenge the self-reported valuations from these privately traded entities, which by our estimates are anywhere from 20% to 40% above their comparable public valuations,” Pettee told CoStar News in an email.

The large nontraded REITs are going to great lengths to avoid such value redefining events by “selling their winners and holding their losers,” Pettee said.

Nontraded REITs will try to “avoid selling any of the ‘losers’ — and if they do, will do so in a way that would obscure any direct comparison against [the] acquisition price,” Pettee said. “So, the show can play on with the hope that interest rates retreat" and market conditions start to improve before reduced values start becoming known.

Here’s a look at the four latest nontraded REITs to file with the SEC:

Sculptor Capital Pursues Distress

With the Federal Reserve expected to raise interest rates again this year, New York-based Sculptor Capital noted that could drive further divergence in performance across private and publicly traded pricing. Sculptor Capital is the sponsor of Sculptor Diversified Real Estate Income Trust.

“Continued signs of stress are materializing across global markets as interest rates increase and credit conditions tighten,” Sculptor Capital noted in its SEC filing. “However, we believe that this stress could lead to attractive acquisition opportunities and that [Sculptor Diversified REIT] is well positioned to execute on the company’s investment objectives and navigate these challenging conditions.”

Sculptor Capital did not respond to requests for additional information.

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Sculptor Diversified REIT’s property investments will consist primarily of stabilized, income-generating commercial real estate focused on a range of asset types.

In January, the nontraded REIT acquired a controlling interest in CapGrow Partners for $455 million, which will make up its initial portfolio, according to the filing.

CapGrow owns a portfolio of 1,045 primarily single-family homes leased to and operated by care providers that serve individuals with intellectual and developmental disabilities. The homes in the CapGrow portfolio are leased to 38 different providers in 39 states, providing housing for over 4,000 adults as of March 31.

ExchangeRight Expands Funding

Pasadena, California-based ExchangeRight, a provider of tax-advantaged real estate investments, has introduced Essential Income REIT, aiming to provide "more investors with a strategy focused on stable income, capital preservation, and risk-adjusted growth potential in the face of significant macroeconomic risks that are increasingly impacting the U.S. and global economies," Joshua Ungerecht, ExchangeRight managing partner, said in an email.

ExchangeRight expects to reach a wider audience of financial advisers and the accredited investors they serve. Essential Income REIT, which was converted from a fully private REIT, has a portfolio including 943 properties totaling 16 million square feet.

Throughout the pandemic, ExchangeRight's some 80 funds, focused on net-lease deals where the tenant pays for taxes insurance and maintenance costs, have met or exceeded projections and paid investors distributions on time, according to Ungerecht.

"Unlike others that are facing net outflows and that have had to gate or limit redemptions, our REIT has consistently experienced net inflows of investor capital," Ungerecht said. "All redemption requests for the REIT inception-to-date have been fully satisfied and represent less than 2% of total equity raised through June 30, 2023."

The nontraded REIT sector has been flooded with shareholders requesting their shares be repurchased. Most nontraded REITs allow for repurchases up to 2% of net asset value in any month and 5% of net asset value in a calendar quarter. Since November, many REITs have said redemption requests exceeded those limits.

Through May, Blackstone REIT, with a net asset value of about $68 billion making it the industry's largest nontraded REIT, reported paying out $8.2 billion in redemption requests since November.

Bets on Industrial, Debt

Global investment giant EQT Exeter's REIT offering is EQT Exeter Real Estate Income Trust. The company declined to comment, citing SEC rules.

But, according to its filing this month, the Philadelphia-based REIT intends to invest primarily in stabilized, income-oriented U.S. commercial real estate. Its primary targets are supply chain industrial properties and offices leased to research and development tenants in industries such as healthcare, biotech, and pharmaceuticals.

EQT Exeter recently held the final close of its EQT Exeter Industrial Value Fund VI with $4.9 billion in capital raised — making it the third-largest U.S.-focused fund to close this year and exceeding its target of $4 billion. Only global private equity giants Blackstone Group and Brookfield Asset Management have held larger U.S.-focused final fund closings this year, according to CoStar data.

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Also in July, Dallas-based Invesco filed to start up a nontraded commercial property finance REIT, Invesco Commercial Real Estate Finance Trust, as investor demand grows for diversifying income sources.

Invesco Real Estate is not new to commercial property lending, but this is its first private fund aimed at raising capital from individual accredited investors to put into mortgages and property debt.

Invesco Commercial Real Estate Finance Trust will focus on originating, acquiring, and managing a diversified portfolio of loans and debt-like preferred equity interests for primarily multifamily, industrial, single-family rentals and self-storage properties in North America, according to a statement.

Earlier this year, New York-based global investor BentallGreenOak took steps to start BGO Industrial Real Estate Income Trust. Its seed portfolio consisted of about 9.4 million square feet in 29 separate industrial buildings throughout the Midwest.

Blue Owl Real Estate Net Lease Trust converted from a private REIT to a nontraded REIT in April with a previously acquired portfolio of 182 properties purchased for $3.1 billion. As of May 31, the REIT had already raised $96.5 million through the sale of common shares.

Inland Private Capital is setting up a new nontraded REIT, IPC Alternative Real Estate Income Trust, which plans to initially establish itself with a portfolio of principally medical office buildings but seeks to also focus on acquiring self-storage and student housing properties.