



# DD Update: Additional Update on BREIT Repurchase Request Limits



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- **Timeline of events**

- Fund Terms – offer 2% per month or 5% per quarter of NAV subject to board discretion
  - 1-year soft lock with a 5% early redemption penalty
- Portfolio today: \$69 billion of net asset value (\$130 gross asset value)
- Performance: Fund is up 9% YTD and 13% annualized since inception

- Increased redemption rate largely driven by client rebalancing
- Repurchase Request History
  - March 2020: had repurchase requests of >2% - Board agreed to give full liquidity
  - October 2022: had repurchase requests of >2% - Board agreed to give full liquidity
  - November 2022: repurchase requests of ~4.7% (\$3 billion) – had the liquidity available to fulfill the requests but decided to enforce the cap at the 2% limit to ensure proper liquidity moving forward
    - As a result, BREIT repurchased a prorated portion of all the requests (~43% of requested amount)
- Blackstone has announced that they will be making available 0.3% of NAV in December for repurchase requests
- The team has also communicated they plan on strictly enforcing the 2% of NAV per month and 5% of NAV per quarter caps in Q1 2023
- Blackstone believes there is a difference between a cap and a gate. They are committed to providing the 5% per quarter of liquidity to investors. They do not want to go to 0% liquidity.
  - When ODCE peers gate – there is 0% guaranteed liquidity for those institutions in the queue

- **Who is requesting liquidity?**

- 97% of shareholders are not redeeming
  - Of the actual redemptions, seeing on average a 4% trim rather than a full redemption
- Subset of offshore investors redeeming, with margin pressure a driver of that. Blackstone noted that only 3% of the redemption requests have come from domestic investors.
  - Offshore investors represent ~20% of the current capital base but have accounted for ~63% of repurchases in 2022
  - APAC investors have redeemed at 6x the rate of our U.S. investors

- **Cashflow Update**

- \$1.1 billion of net inflows in Q3

- \$700 million of net outflows in October
- \$3 billion of gross outflows requests in November (\$1.4 billion of total net outflows occurred in November)

- **Liquidity Available Today**

- \$9.3 billion of immediate liquidity from cash holdings as well as revolver agreements with banks
- \$9 billion in CMBS and public equity holdings – would prefer not to have to sell these but will take liquidity in a prudent manner
- \$130 billion of real estate investments
- Incremental capital inflows
- The fund has ability to finance properties within the current portfolio for additional cash
  - A number of assets in the portfolio are held with either zero or limited debt

- **Valuations and Outlook**

- Assets generally are in good shape
  - Of assets they've sold this year (>\$5 billion of asset value), averaging 6% premium to what BREIT was marking them at – shows they have prudently marked assets in the portfolio
- That said, the team has taken lumps where it makes sense
  - Cap rates: the team has taken these up about 13% through the course of 2022.
    - Now north of 5% on exit cap rate assumptions in the valuation models on average.
      - These cap rate assumptions are above what the large market research groups predict
  - Discount rates: taken these up 7-8%+ to account for increased rates
  - 3<sup>rd</sup> party appraisals: Altus (Industry standard) does an independent physical appraisal on a rolling 12-month basis for every property.
    - Altus also gives an opinion and reviews the models Blackstone utilizes for intra-year valuations

- Rising rates have been single biggest headwinds to BREIT NAV in 2022. The main offset is same store NOI growth has been around +13% YoY across the portfolio.
    - Current rents in BREIT are believed to be 20% below market, on average, suggesting imbedded value.
  - Prudent balance sheet management: 90% fixed rate financing (direct or via hedging), locked in for next 6.5 years.
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- **GP Commitment is Strong**
    - Blackstone employees:
      - Buy I-shares, have exact same fees and liquidity as other investors.
      - \$1 billion+ personal exposure from team members
        - Including \$300M of additional investment made in last couple months by Stephan Schwarzman (Blackstone CEO), Jon Gray (President/COO of Blackstone), and other team members.

Thus far the events at BREIT have not spread to other approved strategies. It is likely that Blackstone will experience further redemption pressures in future quarters. That said, the strategy maintains sufficient liquidity to handle increased redemptions in the short-term.

It is important to note that withdrawal caps, or gates, are common instruments utilized by private market fund managers to prevent liquidity mismatches and effectively help protect existing shareholders from a fire sale of remaining assets. In practice, gates allow for the orderly sale of assets and reduce the need for managers to sell assets at unfavorable times, helping to preserve the total value of a shareholder's investment.