Substantial repricing in store but investors will increase RE allocations

Real estate prices are set to decline by up to 25 percent in developed markets, according to Townsend co-founder Kevin Lynch. However he said there were plenty of opportunities amid the distress, telling PERE at the ExpoReal conference in Munich that investors were increasing their allocations to the asset class.

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The real estate market is in for a period of "substantial repricing" over the next 18 months with valuations set to decline by up to a quarter in some developed countries, according to The Townsend Group co-founder Kevin Lynch.

Speaking at the ExpoReal conference in Munich today, Lynch warned real estate prices were expected to fall by up to 25 percent in the UK and by between 15 percent and 20 percent in the US in the wake of the credit market dislocation. In Germany, he said, they were set to drop by around 18 percent.

However he said now was the time private equity real estate funds should be preparing themselves to invest dry powder, rather than "sitting on the sidelines blindly."

Addressing delegates on the first day of the conference, Lynch added: "You will make more money while everyone is stting on the sidelines than you will when everyone is chasing real estate. Although there is a doom and gloom scenario, and that does exist, this is the time you should be lining up and identifying what strategies to incorporate in the long term.

"There are many opoprtunities today that won't exist 24 months from now."

He highlighted distressed debt, raw land acquisitions and logisitics as sectors for opportunity, as well as student housing and medical offices in the US. Debt, he said, was returning between 12 percent and 14 percent - a fact that meant it was now more profitable to own the debt rather than the underlying real estate asset.

Questioned by *PERE* about investor appetite for private equity real estate funds, Lynch went on to predict institutional investors would increase their allocation to the real estate asset class as the denominator effect impacts their targets.

"This is probably the least volatile asset class that these institutional investors have in today's market climate," he said.

In July, a study by JP Morgan Asset Management predicted that global allocations to real estate would top 5.8 percent by 2010, up from 5.1 percent over the same period.

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