Despite Pandemic, Capital Raising Remains Resilient for Alternative Investment Industry

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From a capital-raising and investor equity perspective, the alternative investment industry?s verdict on 2020 might be ?it could have been worse.?

The COVID-19 pandemic slowed capital formation in the late spring and early summer. But several alternative investment sectors have proven resilient given the headwinds they faced earlier in the year, and many appear poised for a rebound in 2021, according to several reports by industry experts and organizations published in recent weeks.

According to recently reported data:

- Real estate investment trusts (REITS) attracted more than $8 billion in investor equity through the first three quarters of 2020. Non-traded REITS are on pace to top $11 billion for the entire year compared to the $11.9 billion in equity raised in 2019.
- Delaware statutory trusts (DSTs) raised $2.2 billion during the first three quarters of the year. The final number for 2020 is likely to top $3 billion.
- Interval funds are expected to raise nearly $6.3 billion as of Dec. 31, a roughly 10 percent decline from 2019?s $6.9 billion.
- Opportunity zone offerings are on track to raise $820 million, about half of their 2019 capital.

OPTIMISM INCREASES

A recent survey of 259 alternative investment industry professionals found that nearly three-quarters of them expect deal activity to return to normal levels by the fourth quarter of 2021. Forty-one percent expect the rebound to occur even sooner, by the first half of the year, according to the survey by EisnerAmper, a professional services firm.

The survey found that deal makers adjusted to the pandemic by working remotely. Some 80 percent of those surveyed said they have been able to conduct adequate due diligence despite the pandemic. And nearly 75 percent said they believe deal making has forever changed, with in-person meetings and site visits expected to decrease even after the pandemic subsides.

In the real estate investment trusts sector, the National Association of Real Estate Investment Trusts (NAREIT) suggests in a recent report that 2021 ?may well be the mirror image of 2020.? Real estate sectors hard hit because of reductions in travel, closed businesses, and social distancing ?may have a more robust recovery in 2021.?

However, investors would be wise, the report notes, to consider longer-term changes likely to result from the pandemic. As NAREIT noted in its Fall 2020 review of the state of the real estate markets, ?many of the changes in real estate markets that have happened this year will persist long after the virus comes under control, as they reflect not simply a lower level of demand, but rather structural changes in how people use real estate.?

1031 EXCHANGE TRENDS

In another key alternative investments area, the 1031 exchange market raised $1.46 billion during the first half of 2020, compared to $1.36 billion in the first half of 2019, according to a recent article in *AI Quarterly* published by the Alternative & Direct Investment Securities Association (ADISA) Industry analysts expected equity levels to hit $2 billion to $2.5 billion by the close of business on Dec. 31, the ADISA article said.

Demand for Section 1031, or like-kind, exchanges declined as uncertainty and market volatility increased. And IRS extensions of traditional 1031 exchange deadlines, gave investors a longer period to wait on deals.

Though these factors depressed transaction volume in 2020, financing remains available for transactions, and capital costs remain at historic lows. This is a marked difference from the global recession of 2008-2009 when financing evaporated and transactions essentially came to a halt. As a result, market demand for 1031 exchanges ?should continue to accelerate,? the ADISA article noted.

Naturally, the increase in 1031 exchange demand and other positive developments assumes the pandemic will subside with the wide distribution of a COVID vaccine and that no other major global crises will disrupt the economy. Also, a new administration in Washington could mean regulatory changes that will affect the market for some investments. The incoming Biden administration has, for instance, proposed eliminating Section 1031 exchanges.

Contact us for a consultation to learn more about the legal issues surrounding alternative investments.

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