Market Analysis

Summer 2016

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 866-1124 x2403

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Non-Traded REITs Struggle to Adapt to Regulatory Changes

The CMBS market is not the only segment of commercial real estate struggling to live with a more robust regulatory environment. Fundraising for non-traded REITs has shrunk drastically in 2016 as the industry deals with the fallout over new regulations.

The regulations most impacting non-traded REITs involve the high-load management fees investors pay to buy shares. One is the Department of Labor's new Fiduciary Rule that requires investment advisors to justify high fees paid to investors. The other is a Securities and Exchange Commission rule to be implemented next year that requires non-traded REITs to immediately show investors the true value of their portfolios.

As the industry debates how best to implement the increased transparency and scrutiny from regulators, fundraising has dropped roughly 70 percent from 2013, when $19.6 billion was raised for non-traded REITs, according to Robert A. Stanger & Co., a boutique investment bank that serves as an advisor to many firms in the market. Stanger estimates that non-traded REITs will raise just $5.4 billion in 2016, although that number will gradually increase to $11 billion by 2020.

The market has also taken a hit from the troubles and poor performance of some of the larger players, including American Realty Capital, the onetime powerhouse founded by Nicholas Schorsch.

Image by vlastas/iStockphoto.com