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BLACKSTONE'S BREIT HIGHLIGHTS LOOMING DANGERS OF PRIVATE FUNDS DEC 12, 2022
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A slow-motion dash for cash is under way across the whole financial system as the Federal Reserve sucks liquidity out of the system. But given its strong performance as of late, Blackstone is perplexed that so many retail investors want their money back. The basic principle of Blackstone's BREIT fund is comprised of 50% investor capital, 50% debt, and they invest in commercial real estate, particularly concentrated in residential and warehouse assets in the U.S. sunbelt. Now with mortgage rates soaring, home prices pulling back, and recession fears setting in, it is less obvious to investors that they ought to invest in leveraged real estate ventures. To fend off against potential liquidity problems, Blackstone limits withdrawals to 2% of the fund per month, or 5% per quarter. November requests withdrawal requests were fulfilled at 43%, implying a total fund redemption request of more than 4.5%. Private credit funds, such as BREIT, have experienced immense popularity over the past decade, part of increasingly creative attempts to make money in a world of zero interest rates, many of which invest in illiquid assets and are therefore vulnerable to self-fulfilling fears about liquidity.

LS Comment: The "unwind" has only just begun for leveraged funds.