

Blackstone Leaders Predict 'New Cycle' Of Higher Real Estate Values On The Way After Slow Quarter

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Blackstone's earnings didn't meet expectations in the second quarter behind slower sales of its property holdings, but the leaders of the world's largest owner of commercial real estate say positive change is in the air.



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Blackstone hasn't been exempt from pressures like a major decline in construction or interest rates remaining high.

Fee-related earnings in Blackstone's real estate business were \$481M, an 18% decline compared to the second quarter of 2023, **according to** an earnings statement. Its overall earnings of \$1.25B, or 96 cents per share, was 2% off analyst estimates and up 3% year-over-year, **Bloomberg reports**.

Across the real estate business, inflows were \$5.9B, down by \$2B compared to the second quarter of 2023. But the firm believes there is a shift in sentiment, President and Chief Operating Officer **Jonathan Gray** told analysts on a Thursday earnings call.

"I will say the tenor of the conversations around real estate have improved," Gray said. "I think people are recognizing that prices have reset and that it's an interesting time to get back in."

And when a rival's nontraded REIT, **Starwood Capital Group's** Starwood Real Estate Income Trust, **all but halted** its own investors pulling their cash out in May, the effect hit **Blackstone**. Investors in the firm's \$57B Blackstone Real Estate Income Trust asked to withdraw \$806M in June, exceeding the **quarterly limit** of 5% of net asset value. However, the firm paid out all the requests, and the demand to pull out funds halved by the end of June, the firm said.

However, since office vacancy rates remain in the 20% range, that particular segment of commercial real estate will take awhile to work through, Gray told analysts.

High borrowing costs and high interest rates have slowed down its ability to bring in capital and generate returns from its real estate portfolio, Blackstone CEO **Stephen Schwarzman** said on the Thursday call. He said most investors will need to see more signs of growth before they start to allocate more back to commercial property.

"The cost of capital has begun to decline, which should be further helped by Fed cuts later this year, we believe creating the basis for a new cycle of increasing values in real estate," he said.

Blackstone spent \$15B on real estate acquisitions in the first six months of the year, Gray said, more than twice as much as it did the prior year. Much of that activity was in two transactions, its **\$10B purchase** of AIR Communities and **\$2.5B purchase** of Tricon Residential.

The executives continued to highlight the makeup of its real estate portfolio, as it has been selling offices and buying warehouses, rental housing and data centers.

"These three sectors comprise approximately 75% of our global real estate equity portfolio today, compared to 2% in 2007," Schwarzman said.

Ninety percent of **BREIT's** portfolio consists of such assets, he said. The New York-based Blackstone, which now manages nearly \$1.1T of assets overall, is also positioning itself as a leader in **infrastructure**, including **energy** projects and **data center** projects across the nation, executives said.

Schwarzman compared the onset of artificial intelligence to the invention of the lightbulb in the way it will reshape the electric grid. He projected a 40% increase in demand for energy over the next decade. Blackstone owns \$55B of data centers online or under construction and has \$70B more in its pipeline.

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