

# REAL ESTATE SPOTLIGHT

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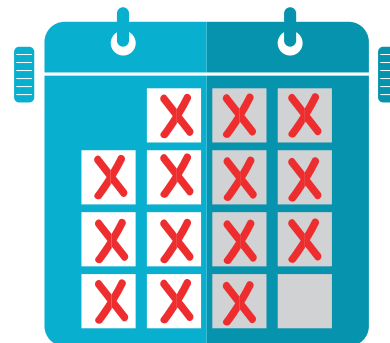
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## 2017 IN REVIEW



As the year draws to a close, this issue of Real Estate Spotlight provides a round-up of some of the key real estate research released by Preqin over 2017, including:

- Women in Real Estate
- Real Estate Debt Funds
- The \$1bn Club
- Predictions for the Market in 2020
- Emerging Managers

And much more...

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# 2017 IN REVIEW

As we approach the end of 2017, we provide a round-up of some of the key pieces of real estate research that Preqin has released over the past year.

## PRIVATE REAL ESTATE CONTINUES TO DELIVER FOR INVESTORS

Investors surveyed in June for the [Preqin Investor Outlook: Alternative Assets, H2 2017](#) reported high levels of satisfaction with private real estate returns. The majority (95%) of respondents reported that the performance of their private real estate portfolios had met or exceeded their expectations over the past 12 months, and 91% felt that they had met or succeeded over the past three years. It is clear that investors have a generally favourable view of the asset class, with 44% reporting a positive perception of real estate, compared with just 14% that have a negative perception.

However, investors were concerned about how the recent strong performance of private real estate funds can be maintained at a time of high valuations and increased competition for assets. Thirty-nine percent of respondents expected their real estate portfolios to perform worse in the next 12 months than in the past 12 months, while just 4% expected them to perform better (Fig. 1).

As a result, some investors are being cautious in their short-term plans for

real estate: 28% of investors surveyed were planning to reduce their real estate investments over the next 12 months, and 26% intended to invest more.

## WOMEN REMAIN UNDER-REPRESENTED IN THE PRIVATE REAL ESTATE INDUSTRY

The publication of the [Preqin Special Report: Women in Alternatives Assets](#) in October 2017 highlighted the under-representation of women across the alternative assets industry. Real estate fund managers had the largest proportion of female employees, at 20.6%, while private equity firms had the lowest at 17.9%. Representation is lowest in more senior roles, with women representing just 10% of senior employees at real estate firms. Even at junior levels, however, there are significantly fewer female (36%) than male employees.

## DEBT FUNDS RISE IN PROMINENCE

As shown in Preqin's overview of the [Private Real Estate Debt Market](#), investor interest in real estate debt funds has grown significantly. The proportion of investors targeting real estate debt funds has increased in the past three years, from 13% in Q3 2015 to 27% in Q3 2017 (Fig. 2).

However, fundraising for real estate debt remains comparable with previous years: 28 funds had closed by September 2017, raising \$17bn, and 47 funds closed in 2016 and secured \$22bn. There are signs that fund managers are taking notice of the rise in appetite, as the number of debt funds raising capital has increased substantially as new players have entered the market. There were 98 real estate debt funds in market in September 2017, targeting \$37bn, up from 66 funds targeting \$30bn in September 2016.

## PREDICTIONS FOR REAL ESTATE IN 2020

The private real estate industry has grown significantly in recent years, with fund managers optimistic about the possibility of this growth continuing. As part of Preqin's biannual survey of real estate fund managers, GPs were asked about the prospects for the industry in 2020. As reported in Preqin's September issue of [Real Estate Spotlight](#), 71% of respondents expect the size of the industry to increase, with just 10% expecting assets to decrease (Fig. 3).

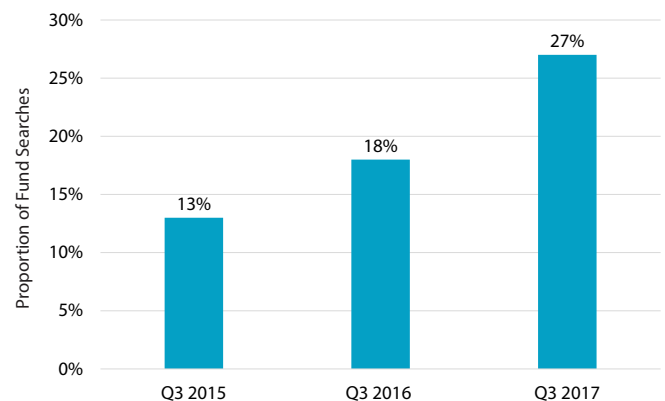
Although the growth in the number of private real estate firms has slowed in recent years, peaking at 1,295 in 2015, 42%

**Fig. 1: Institutional Investor Views on Alternative Assets Performance**



Source: Preqin Investor Interviews, June 2017

**Fig. 2: Investor Searches and Mandates that Include Debt Funds, Q3 2015 - Q3 2017**



Source: Preqin Real Estate Online

of surveyed fund managers expect there to be more active managers in 2020 than today, compared with just 29% that expect there to be fewer.

**THE “\$1BN CLUB” INVESTORS DOMINATE THE INDUSTRY**

The “\$1bn Club” of real estate investors – investors with over \$1bn in capital allocated to real estate – have an outsized importance for the private real estate industry. Despite comprising just 13% of the total number of investors in real estate, these institutions account for 84% of capital allocated to the asset class. In Preqin’s June issue of *Real Estate Spotlight*, we looked at what distinguishes these investors from other groups, analyzing their activity and investment preferences.

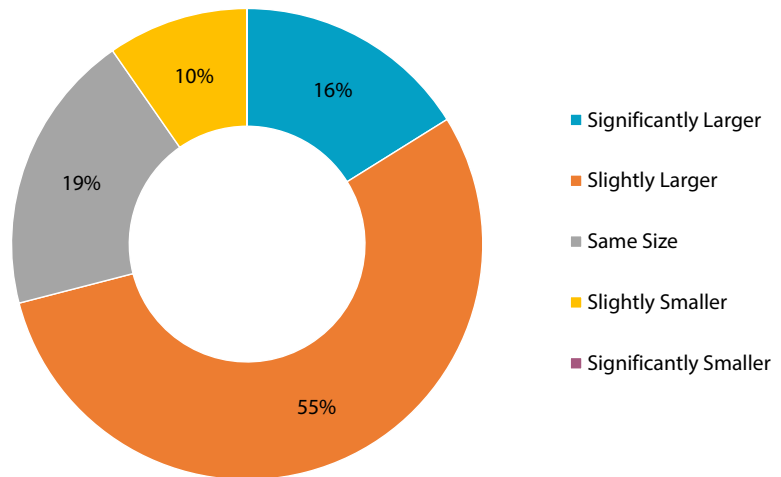
\$1bn Club investors tend to not only have greater AUM than other investors, but also dedicate a larger proportion of their assets to real estate investment. The average current allocation to real estate in the \$1bn Club is 10.1% of total AUM, with a target allocation of 11.7%. In contrast, all other real estate investors have an average current and target allocation of 7.6% and 9.6% respectively.

\$1bn Club investors also typically access a wider range of routes to market, and are significantly more likely to make direct investments (72% vs. 30% for all other investors) and listed funds (42% vs. 31%). They are also more likely to make use of separate accounts (36% vs. 10% for all other investors), invest in joint ventures (34% vs. 8%) and make co-investments (33% vs. 10%). Moreover, due to their additional resources and expertise in real estate, \$1bn Club investors tend to be more open to investing with first-time fund managers: 44% of investors with \$1bn or more allocated to real estate will invest or consider investing in first-time funds, compared with 23% of all other investors.

**EMERGING MANAGERS OUTPERFORM ESTABLISHED FIRMS**

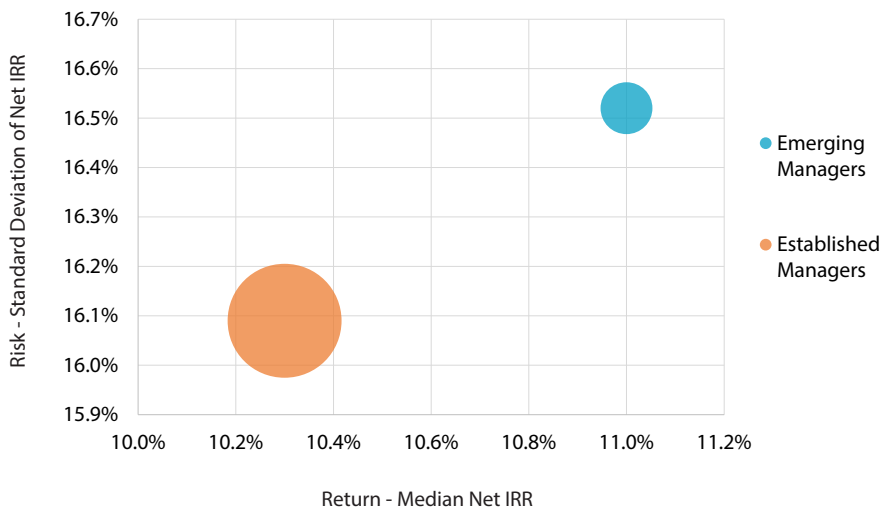
The fundraising environment has become increasingly challenging for fund managers

**Fig. 3: Fund Manager Predictions for the Size of the Real Estate Fund Management Industry in 2020**



Source: Preqin Real Estate Online

**Fig. 4: Risk/Return of Closed-End Private Real Estate Funds: Emerging vs. Established Managers (Vintage 2004-2014)**



Source: Preqin Real Estate Online

launching their funds. The proportion of investors willing to invest or consider investment in first-time real estate funds declined from a high of 72% in 2009 to a low of 34% in 2015. Following this trend, the proportion of funds closed by emerging managers (defined as those raising first- or second-time funds) fell from 49% in 2010 to 27% in 2016.

However, investors that are willing to take on the additional risks and due diligence required to invest in emerging managers may see better fund performance. As

shown in May’s *Preqin Special Report: Emerging Managers in Real Estate*, emerging manager funds had a median net IRR of 11.0%, compared to 10.3% for funds run by established managers (vintages 2004-2014). The outperformance of emerging managers held true for these vintage years, although the greater dispersion of fund performance from the median value means that the key challenge for investors remains the ability to identify which emerging funds will live up to their potential.

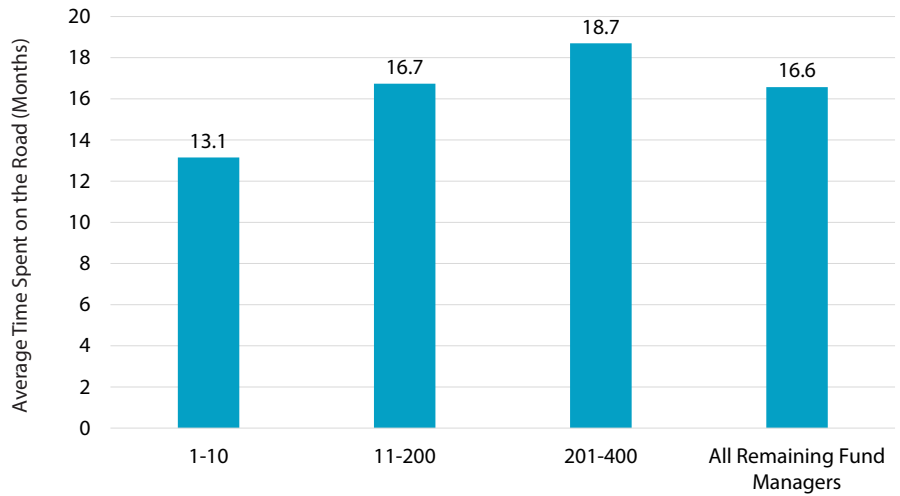
**TIME ON THE ROAD IN 2017**

The average time spent in market by closed-end private real estate funds has remained relatively consistent since 2011, at an average of 16-18 months. However, there are many factors which can help to differentiate managers and increase the likelihood of achieving their fundraising goals in a shorter period. In May's *Real Estate Spotlight* we examined some of these factors and their impact on fundraising periods.

One of the most influential factors is the previous experience of the fund manager; managers with proven track records often attract vital cornerstone investors early in the fundraising process, as well as investors that are eager to re-up with managers already in their portfolio. Since 2013, 35% of funds raised by managers that have previously raised one or two vehicles took under a year to reach a final close, which changed to 43% for fund managers that have previously raised five funds or more.

Fund manager size is also a key factor, with the largest, most established fund managers finding it easier to raise funds in a short period of time. Among funds closed between 2013 and 2017, those raised by the 10 largest fund managers spent an average of 13 months in market, compared

**Fig. 5: Average Time Taken for Closed-End Private Real Estate Funds to Reach a Final Close by Fund Manager Rank, 2013 - 2017 YTD (As at April 2017)**



Source: Preqin Real Estate Online

to 17 months for those ranked 11-200 and 19 months for those ranked 201-400 (Fig. 5).

Fundraising momentum is also indicative of fundraising success, as the ability to reach a first close quickly is often a sign of high investor appetite for the fund and helps to lend credibility to the firm's fundraising efforts in the eyes of other investors. Among funds that reached a first close in six months or less, 19% went on to reach a final close within the next six

months, and just 10% of funds took over a year to reach their first close.

More importantly, funds that reached a first close within six months were also more likely to close at or above their fundraising target: 57% of funds to reach a close within six months went on to meet or exceed their target, compared to just 44% of funds that took more than 12 months to reach a first close.



**\$812bn**

Private real estate assets under management (as at March 2017, the most recent date for which data is available).



**\$254bn**

Private real estate dry powder as at November 2017.



**235**

private real estate funds have reached a final close in 2017 YTD (as at November), raising \$95bn.



**\$192bn**

There are 556 private real estate funds in market targeting \$192bn (as at November 2017).



**11.9%**

Three-year annualized median net IRR of private real estate funds as at March 2017.



# 17<sup>th</sup> REAL ESTATE

## PRIVATE EQUITY SUMMIT WEST

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- The increasing importance of **GP and OP partnerships** in JV equity deals
- **Demand and demographic shifts** and the overall outlook for private equity in real estate
- **Strategies in alternative debt providers** and investors acting as lenders to complement equity portfolios in the wake of new banking regulations
- A renewed look at the capital markets and **global market volatility impacting high pricing**
- New **niche opportunities and sectors** investors are looking to in diversification efforts
- **Understanding the LP and developer perspective**, and the evolution of partnerships in 2017
- Strategies for conquering fundraising challenges and the contrary issue of dry powder
- **The recent influx of foreign capital** into US real estate, and what to expect next year

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PGIM Real Estate	DRA Advisors	Harrison Street Real Estate Capital	Fairfield Residential
Oaktree Capital Management	Ares Real Estate Group	Barings Real Estate Advisers	GreenOak US
Angelo, Gordon & Co	Rockwood Capital	PCCP	Rubenstein Partners
CBRE Global Investors	Bridge Investment Group	Spear Street Capital	Acadia Realty Trust
Westbrook Partners	Walton Street Capital	Mesa West Capital	
Carlyle Group	H/2 Capital Partners	Invesco Real Estate	
CIM Group			

# CONFERENCES

## DECEMBER 2017

Conference	Dates	Location	Organizer	Preqin Speaker	Discount Code
Private Wealth Management Summit 2017	3 - 5 December 2017	Las Vegas, NV	marcus evans Summits	-	-
Alternative Investing Summit	3 - 5 December 2017	Dana Point, CA	Opal Financial Group	-	-
IPE in Person – Active Alternatives	5 - 6 December 2017	Kildare	IPE	TBC	
Astoria Investor Forum 2017	7 - 8 December 2017	Tokyo	Astoria Consulting Group	Ee Fai Kam	\$200 Discount - PREQIN2017
Emerging Manager Forum	14 December 2017	Miami, FL	CTA Expo	-	-

## JANUARY 2018

Conference	Dates	Location	Organizer	Preqin Speaker	Discount Code
MFA Network	22 - 24 January 2018	Miami, FL	MFA	Amy Bensted	-
Alternative Investing Funds EAST	29 January 2018	New York, NY	Catalyst Financial Partners	-	-

### THE 15TH ANNUAL WINTER FORUM ON REAL ESTATE OPPORTUNITY & PRIVATE FUND INVESTING

- DATE:** 17 - 19 January 2018
- INFORMATION:** <https://www.imn.org/winteropps>
- LOCATION:** Laguna Beach, CA
- ORGANIZER:** Information Management Network

Known as the must-attend CRE event of the year, we welcome 1,200 attendees (including all of the notable Real Estate PE Funds and Institutional Investors) and 80 sponsors in 2018 in Laguna.

### 17TH REAL ESTATE PRIVATE EQUITY SUMMIT

- DATE:** 21 - 22 February 2018
- INFORMATION:** [www.iglobalforum.com/repe17](http://www.iglobalforum.com/repe17)
- LOCATION:** Los Angeles, CA
- ORGANIZER:** iGlobal Forum

Join top-level senior executives in all aspects of real estate private equity looking to build new partnerships, drive returns and find new, affordable investing opportunities in a shifting space at iGlobal Forum's flagship event, the 17th Real Estate Private Equity Summit West, on February 21-22nd in Los Angeles, CA. For more information, please contact [info@iglobalforum.com](mailto:info@iglobalforum.com).