PrEQIn Private Equity Quarterly Index: Real Estate Performance

Olivia Harmsworth examines the PrEQIn Real Estate Quarterly Index and how it compares with the PrEQIn Private Equity Quarterly Index and the S&P 500, as well as looking at returns by strategy.

The PrEQIn Real Estate Index

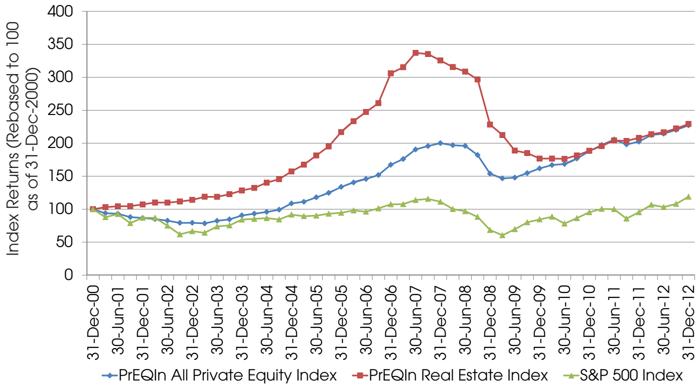
The PrEQIn Private Equity and Real Estate Indices capture the returns earned by investors on average in their private equity and private real estate portfolios, based on the actual amount of money invested in private equity partnerships. Fig. 1 reveals that since 2010, the performance of the real estate and private equity indices have been similar, with the PrEQIn Real Estate Index standing at 229.2 as of 31 December 2012, compared to 227.1 for the PrEQIn All Private Equity Index, and a much lower 118.9 for the S&P 500. Although this demonstrates the improved performance of the asset class, it also clearly shows the sharp decline in valuations that occurred following the financial crisis, with the PrEQIn Real Estate Index yet to return to the peak levels of 337.0 seen in June 2007.

Performance by Strategy: Debt, Value Added and Opportunistic

The variation in performance levels across different real estate strategies since 2007 is shown in Fig. 2. Despite the declines suffered by each strategy in 2008 and 2009, the real estate debt index has outperformed the value added and opportunistic indices in the time period shown, standing at 77.2 at the end of 2012, in comparison to the opportunistic index which stood at 64.3 and the value added index which stood at 54.5.

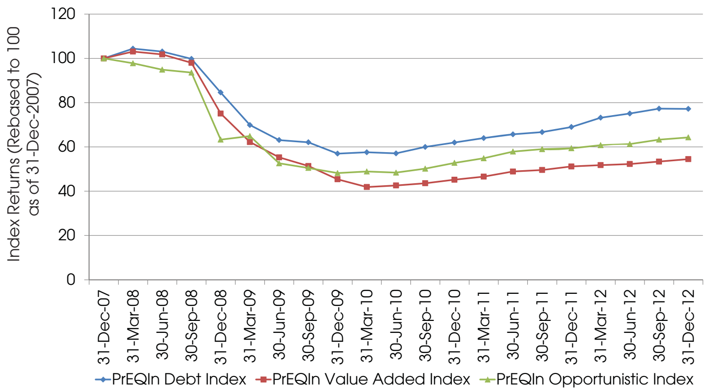
Debt funds are playing an increasingly prominent role in private real estate, with a growing number of investors targeting the strategy. The July edition of Real Estate Spotlight, revealed that 27% of investors in private real estate are targeting debt funds in the next 12 months. In comparison, in January 2012, only 8% of investors were targeting this strategy in the year ahead. This growth in appetite for debt is a reflection of the belief held by many investors that debt may provide better risk/adjusted returns than funds making equity investments and the outperformance of the strategy in this period, in comparison to opportunistic and value added strategies, demonstrates the potential merit of this view.

Fig. 1: PrEQIn Index: Real Estate vs. Private Equity & S&P 500



Source: Preqin Real Estate Online

Fig. 2: PrEQIn Real Estate Index by Strategy: Debt, Value Added and Opportunistic



Source: Preqin Real Estate Online

Subscriber Quicklink:

Interested in accessing more quarterly real estate performance data? Subscribers to Real Estate Online can click here to view the latest PrEQIn Real Estate Index data, including the newly-added breakdown by strategy. Premium subscribers can then download this data to Excel for further analysis.

The PrEQIn Real Estate Index is available on the Preqin Real Estate Performance Benchmarks module, which offers the most transparent benchmarking and comparative tools available in the industry. View median, weighted and average benchmarks by fund strategy and region focus. Access to our the Preqin Real Estate Performance Benchmarks is free for real estate professionals.

To register for free online access to the Preqin Real Estate Performance Benchmarks module please visit:

www.preqin.com/benchmarks

