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Press Release

10th October 2018

Real Estate Debt Funds Hold $57bn in Available Capital

Money is still flowing into the asset class, but investor interest in debt funds has collapsed

Private real estate debt funds have seen unprecedented levels of capital flow into the strategy in 2017-18, and fund manager now have more dry powder available to deploy than ever before. 2017 was a record fundraising year, as 63 funds raised just over $32bn – a significant increase from the previous record of $25bn set in 2014. 2018 looks set to match the record levels seen last year, with 40 funds raising $21bn in Q1-Q3. As such, dry powder available for debt funds to deploy has reached a new record of $57bn as at October, up from $50bn at the end of 2017. However, even as real estate debt fundraising has grown, investor interest for the strategy has plummeted: in June 2017, more than a quarter (26%) of investors were targeting the strategy over the next 12 months: a year later in June 2018, just 6% of investors were planning to target the strategy over the coming year.

For more information on private real estate debt funds, download the data pack here:

http://docs.preqin.com/data/RE-Debt-Oct-18.xlsx

Key Real Estate Debt Facts:

- **Private real estate debt fundraising had a record year in 2017, with 63 funds raising an aggregate $32bn**. 2018 has seen strong fundraising activity, with 40 funds raising $21bn in the first three quarters of the year.
- **The average fund size in Q1-Q3 2018 was $526mn** – a record high for the strategy.
- **Capital is increasingly concentrated among just a few funds.** The three largest funds closed this year so far have accounted for almost half (45%) of total capital raised.
- The largest fund closed in 2018 so far was **Broad Street Real Estate Credit Partners III, which raised a total of $4.2bn**.
- **Real estate debt dry powder has climbed to a record high of $57bn**. This is a significant increase from the end of 2017 when dry powder stood at $50bn.
- However, **investor interest in the strategy has waned**. In June 2018 just 6% of investors said real estate debt presented the best opportunities over the next 12 months, down from 26% which said the same in June 2017.
- Declining interest could be as a result of concerns about a market correction. Investor interest in lower-risk core and core-plus strategies has risen even as **56% have told Preqin they believe markets are at a peak**, indicating that there is a shift towards perceived "safer" strategies in anticipation of a downturn.
- Nevertheless, as at October 2018 **there are 106 private real estate debt funds in market seeking an aggregate $40bn in capital**. This is up from 98 funds that were seeking $37bn at the start of the year.
- **The five largest funds account for over a quarter (28%) of capital targeted**, an indication of future capital concentration. The largest fund alone, Cerberus Global NPL Fund, is targeting $4.0bn.

Tom Carr, Head of Real Estate:

"Private real estate debt has attracted substantial interest over the past few years, pushing the strategy to see strong fundraising activity and record high levels of dry powder. In fact, over the past decade, real estate debt went from accounting for a tenth of total real estate dry powder to 20%. Real estate debt funds have been heralded in the past for their high risk-adjusted returns and stable income streams, but recently investors seem to be looking to target equity investments. However, despite waning interest in real estate debt, there are a record number of real estate debt funds in market seeking more capital than ever."

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