Press Release

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Real Estate Fund Managers Respond to Increased Pricing and Competition

Valuations remain high and competition is fierce, but managers will invest more over 2018

Preqin's latest survey* of private real estate fund managers finds that they have seen higher asset pricing and stiffer competition over the past 12 months. Seven out of 10 fund managers believe pricing for assets is higher than it was a year ago, and almost two-thirds report greater competition for assets compared to 12 months ago. As a result, 65% of fund managers say it is harder to find attractive investment opportunities, while just 2% think it is easier. Fund managers are seemingly adjusting their approaches in order to operate in this pressurized environment: 64% of fund managers will seek to deploy more capital in 2018 than they did in 2017, with half that proportion looking to deploy significantly more. At the same time, almost a third (32%) expect to make more exits in 2018, taking advantage of attractive selling conditions. However, although half of fund managers believe that the real estate market overall has peaked, more than two-thirds think that the private real estate fund management industry will keep expanding its assets in 2018.

For more information and analysis, see the full *H1 2018 Real Estate Fund Manager Outlook* here:
http://docs.preqin.com/reports/Preqin-Special-Report-Real-Estate-Fund-Manager-Outlook-H1-2018.pdf

Key Real Estate Fund Manager Outlook Facts:

- **The majority of real estate fund managers report increased pricing and competition for assets**: 71% believe pricing for assets is higher than 12 months ago, while 63% report increased competition for assets.
- **Value added fund managers report the greatest increases**: 70% are seeing higher pricing and 65% report increased competition for assets compared to 12 months ago.
- Although significant, **the smallest proportions of distressed fund managers report higher asset pricing** (45%) and fiercer competition for deal opportunities (43%).
- Unsurprisingly, **the majority (65%) of fund managers believe finding attractive investment opportunities has become more difficult**, while just 2% say it has become easier.
- However, despite these difficulties, **56% of fund managers report an increase in investor appetite for real estate** in the past 12 months, including 12% that cited a significant increase.
- **Over two-thirds (69%) of managers believe that the size of the private real estate industry will increase in the year ahead**, while just 5% believe that the industry will shrink.

Oliver Senchal, Head of Real Estate Products:

"Pricing pressure has only intensified over the last 12 months and as a result it has become far harder to extract value from the market. While the firms that have successfully raised capital in recent years can draw upon near record levels of dry powder, those actively seeking capital from institutional investors face a much tougher task of not only standing out from the crowd in a saturated fundraising market but also convincing investors that they can effectively operate in this challenging environment. While it appears that returns may start to contract, firms are adapting their offerings in order to deliver the returns to investors, with many taking on more risk or expanding their strategic or geographic focus.

Despite this environment, the real estate industry continues to draw investors in, spurred by the record level of capital distributed from fund managers in recent years. While the current environment presents challenges to recent strong performance, real estate continues to satisfy the desire for diversification, inflation hedging characteristics and suitable risk-adjusted returns. Fund managers that are able to express a unique value proposition and mitigate investors' pricing concerns will likely be the recipients of capital commitments in 2018."

Results based on a survey of 215 private real estate fund managers conducted in November 2017.

Preqin is the leading source of information for the alternative assets industry, providing insight and analysis gathered by its global teams of dedicated researchers. Founded in 2003, the company is a frequent source of intelligence used in the global financial press, through its online databases, regular publications and bespoke data requests.

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