

Private Real Estate Managers Generate Record Distributions but Investor Concerns over Future Returns Grow

Strong performance and record distributions fail to allay long-term concerns of private real estate investors and fund managers about rising asset valuations

Preqin's update on the real estate market finds that private fund managers returned a record \$194bn to the investors in their funds through 2015, marking the sixth consecutive annual increase in the level of capital distributed. Moreover, firms called upon just \$93bn of investor capital through the year, the lowest level since 2011. This means that investors benefited from record capital flows of \$101bn, the third year in a row that distributions to investors have outweighed call-ups. Investor satisfaction with recent performance is commensurately high, with 89% of investors stating in June that returns over the past year had either met or exceeded their expectations.

However, there are concerns among both investors and fund managers that asset valuations will impact future returns, and may lead to lower performance over the coming year. Preqin's surveys of fund managers and investors in June 2016 found that 37% of investors think asset valuations will lead to lower returns over the next 12 months, compared to just 15% which think it will drive improved performance, while the majority of fund managers (51%) bringing funds to market have reduced their targeted returns because of the current environment.

Other Key Real Estate Performance Facts:

- **Assets under Management:** As at the end of 2015, **the private real estate industry stands at a record high of \$809bn, up by \$51bn from the end of 2014** and a 72% increase since 2010. Firms have already invested \$580bn of this total while uncalled commitments total \$229bn, with both seeing growth through 2015.
- **Return Expectations:** **Thirty-nine percent of investors surveyed in June 2016 stated that they expected their real estate portfolios to perform worse** over the next 12 months than they had in the year prior. Just 13% said they expected performance to improve.
- **Deal Competition:** Rising valuations are being driven by increased competition for assets. Almost half (**49%**) **of real estate fund managers said in June that they feel that there is more competition for investment opportunities** compared to 12 months ago.
- **Targeted Returns by Firm Size:** Mid-market firms anticipate the biggest downtick in performance, with **two-thirds (67%) of fund managers with \$500-999mn in AUM lowering their targeted returns due to rising asset prices**. Although half of firms smaller than \$250mn have also downgraded their performance objectives, nearly a fifth (18%) actually increased their targeted returns due to asset valuations.

To access further information and analysis, please see the full report below:

<https://www.preqin.com/docs/newsletters/re/Preqin-Real-Estate-Spotlight-November-2016.pdf>

Comment:

"Recent years have seen significant increases in real estate asset prices globally, and as a result many fund managers have viewed it as an attractive time to exit investments. This is reflected in the record levels of capital now being returned to investors, and the strong performance seen by real estate funds of recent vintage years. This level of performance has seen investor satisfaction remain high, and many institutions have been committing increasing levels of capital to the asset class in order to maintain or increase their allocations to real estate.

However, this influx of capital has increased competition for deals and pushed up asset pricing. These factors are causing concern among institutional investors; many are expecting real estate returns to fall over the coming year. With large levels of capital being returned to them, investors must find new opportunities to put this capital to work to maintain their real estate exposure, but are finding it harder to identify the best prospects given the crowded real estate market and high pricing."

Andrew Moylan – Head of Real Estate Products, Preqin

Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q', the company name being an amalgamation of the former name, Private Equity Intelligence.

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

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