Press Release
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Real Estate Outperforms Other Private Capital Asset Classes

Recent vintages have high median net IRRs, but some question if this can be sustained

The private equity real estate market has seen several years of strong performance, and funds of the most recent vintages have outperformed all other private capital asset classes. For vintage years 2013 and 2014, real estate funds have posted higher median net IRRs than all other private capital asset classes, returning 14.3% and 12.2% respectively. This strong performance may in part explain why a significant majority (88%) of investors felt their real estate investments met or exceeded their expectations in 2017, while 91% felt the same about their portfolios over the past three years. However, there are concerns that the industry will not be able to sustain this level of performance, given that half of investors and more than half of fund managers believe that the market has reached its peak. Crucially, 61% of fund managers that are bringing a fund to market have said they are reducing their targeted returns, and a quarter of investors expect performance in 2018 to be worse than in 2017.

For more information and analysis, see the full *March Real Estate Spotlight* here:
http://docs.preqin.com/newsletters/re/Preqin-Real-Estate-Spotlight-March-2018.pdf

Key Real Estate Performance Facts:

- For the vintage years 2013 and 2014, **real estate funds outperformed all other private capital asset classes**, with median net IRRs of 14.3% for 2013 funds and 12.2% among 2014 vintage vehicles.
- As a result of recent strong performance, **88% of investors felt their real estate investments had met or exceeded their expectations in 2017**, and 91% felt the same about their portfolios over the past three years.
- However, **48% of fund managers and 50% of investors now believe the real estate market is at a peak** going into 2018.
- This may impact future returns: **61% of fund managers are reducing the targeted returns** of funds they are bringing to market as they lower their performance expectations.
- At the same time, **24% of investors expect real estate performance to be worse in 2018 than in 2017**, while 14% expect it to improve.
- However, **56% of fund managers report that investor appetite has increased over 2017**, despite concerns over asset pricing and performance.
- **Investors are still set to commit significant capital to real estate** in the year ahead. Twenty-six percent intend to invest more in 2018 than in 2017, while the proportion that will reduce their exposure has fallen to 16% in December 2017, down from 24% 12 months prior.
- As a result, **69% of fund managers believe that the size of the real estate industry will continue to grow** over the year ahead.

Oliver Senchal, Head of Real Estate Products:

"The private real estate industry has proved valuable to investors: performance has been strong in recent years, and among the most recent vintages real estate has the highest average return of any private capital asset class. Given that, it is no surprise that the vast majority of investors have pronounced themselves satisfied with the performance of the asset class in recent years. However, pricing concerns are at an all-time high, and significant proportions of both investors and fund managers feel that the market is currently at a peak. That managers are lowering their targeted returns is a sign that they do not know that the current level of performance is sustainable.

This does not mean the real estate industry is set to lose its lustre for investors. The majority still intend to commit at least as much capital to the asset class as they do currently, both in 2018 and over the longer term. It is also worth noting that performance relative to expectations may remain on course: investors value factors beyond headline figures, such as diversification, inflation protection, low correlation and risk adjustment. The high-point in the market may mean that top-level returns in the years to come may not match current levels, but real estate is likely to play an important role in investors' portfolios nonetheless."

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