Press Release

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Smaller Private Real Estate Funds Outperform Larger Funds

Smaller vehicles post higher returns, but larger funds have lower volatility

The private real estate industry has seen a long-term trend of capital concentration at the top end of the market; vehicles of $1bn or more in size have accounted for approximately half of the total capital raised for the industry since 2013, although they represent less than 10% of funds closed. Despite bigger funds attracting large amounts of investor capital, smaller funds of $500mn or less have generated higher average returns, and are consistently outperforming mid-size and larger funds. This is true both when assessing performance by vintage year, and when judging returns over a given horizon. Additionally, smaller vehicles were more likely to have IRRs in the top quartile of their cohort compared to larger funds. However, although smaller funds post higher average returns, they do so with greater volatility and a greater spread of performance, while larger funds demonstrate relatively lower risk/return profiles.

For more information and analysis, see the full *November 2017 Real Estate Spotlight* here:
https://www.preqin.com/docs/newsletters/RE/Preqin-Real-Estate-Spotlight-November-2017.pdf

Key Private Real Estate Performance Facts:

- **Smaller private real estate funds* with vintages 2005-2014 posted a median return of 10.9%**. This surpassed both mid-size funds, which saw a median net IRR of 9.1%, and large funds, which had a median net IRR of 6.9%.
- In fact, **for vintage years 2005 to 2014, smaller funds did not post a single negative median net IRR**, while both large and mid-size funds with vintage years 2005 and 2006 posted negative median net IRRs.
- Furthermore, in the year to March 2017, **smaller funds have an average return of 11.8%**, while mid-size and larger vehicles each generate a one-year horizon IRR of 9.2%.
- **Over the 10-year horizon, which covers the Global Financial Crisis, smaller funds generated positive performance** while mid-size funds saw a horizon IRR of -1.9% and larger funds saw -0.4%.
- **Smaller funds are also more likely to be top quartile funds.** Twenty-eight percent of smaller vehicles are in the top quartile of their respective vintage years, compared to just 17% of mid-size funds and 16% of large funds.
- Smaller funds, while able to demonstrate strong performance, do so with much greater variability in the distribution of net IRRs. **While smaller funds had a standard deviation of 17%, this figure dropped to 12% for larger funds**.

Oliver Senchal, Head of Real Estate Products:

"The private real estate industry has experienced increased capital concentration over the past few years, as investors have committed an increasing amount of capital to fewer larger funds. On a purely performance basis, however, smaller funds have higher average returns across most vintage years, and outperform larger and mid-size funds across short- and long-term horizons. With concerns of an upcoming downturn in the real estate market, it may spell a reversal in fortune for smaller funds which managed to demonstrate stronger performance in challenging market conditions.

However, strong performance from smaller funds comes with a greater level of risk, and the spread of returns among small vehicles is much wider than for larger funds. Larger funds' lower risk/return profiles may appeal to investors, particularly in a period when there are concerns over the industry's future health. Additionally, certain investors may prefer making larger capital commitments, which smaller funds would not be able to accept due to their size."

Smaller private real estate funds denotes funds of $500mn or less, mid-size funds denotes funds of $500mn-999mn and larger funds denotes funds of $1bn or more.

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