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Institutional Investor Appetite for Real Estate Debt Funds Triples in Two Years

23% of real estate investors are targeting debt funds, compared to just 8% in December 2011

New research featured in Preqin Special Report: Real Estate Debt, September 2013, reveals that institutional investor appetite for real estate debt investments has grown dramatically over the last two years, from 8% of investors targeting the strategy in December 2011 to 23% in August 2013. In addition, 62% of real estate investors with a preference for debt investments are below their target allocation to real estate, demonstrating the potential for further growth in the future.

Correspondingly, the capital targeted by private real estate debt funds in market has risen considerably over the last two years, from $13.5bn targeted by 41 solely debt-focused funds in August 2012 to 44 funds targeting $25.2bn in August 2013. This demonstrates fund managers' confidence in the strategy and its potential to attract significant investor capital.

Other Key Findings:

- Institutional investors with larger assets under management are more likely to invest in debt funds, with just over half (51%) of those managing $30bn or more in assets willing to do so. Conversely 88% of investors with less than $100mn in assets under management will not invest in debt funds.
- Investors targeting debt are more likely to invest with emerging fund managers, with 30% of these investors willing to commit to first-time funds compared to only 12% of investors not targeting debt.
- The PrEQIn Real Estate Index for debt outperformed the value added and opportunistic indices between December 2007 and December 2012. The PrEQIn Real Estate Index captures the returns earned by investors on average in their private real estate portfolios, based on the actual amount of money invested in these partnerships.
- 10 solely debt-focused real estate funds have reached a final close in 2013 so far, raising an aggregate $2.5bn.
- The capital targeted by Europe-focused debt funds in market currently stands at $12.4bn, compared to only $2.6bn targeted by funds in market in August 2011.
- The US is also a prominent market for real estate debt; there are currently 23 solely debt-focused funds in market focusing on the country, targeting an aggregate $12.2bn.

For more information and analysis, please see
www.preqin.com/docs/reports/Preqin_Special_Report_Real_Estate_Debt_Sep_13.pdf

Comment:

"We have seen a surge in private real estate debt investment in recent years, with fund managers stepping in to fill the void left by traditional lenders retreating from the market. A growing number of institutional investors are now targeting debt funds, with many believing they can provide them with strong risk adjusted returns. Fund managers are confident of their ability to raise capital for debt funds, with the amount currently targeted by solely debt-focused funds representing an increase of 155% compared to capital targeted by debt funds at the beginning of 2012. We expect to see further growth in the real estate debt market in the future, particularly in Europe where there has been a recent surge in interest in the strategy among both fund managers and investors. This may also be good news for managers looking to finance deals, with debt fund managers often prepared to lend at higher loan-to-value ratios, or to provide financing for secondary assets that might be avoided by traditional lenders."

Andrew Moylan – Head of Real Assets 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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