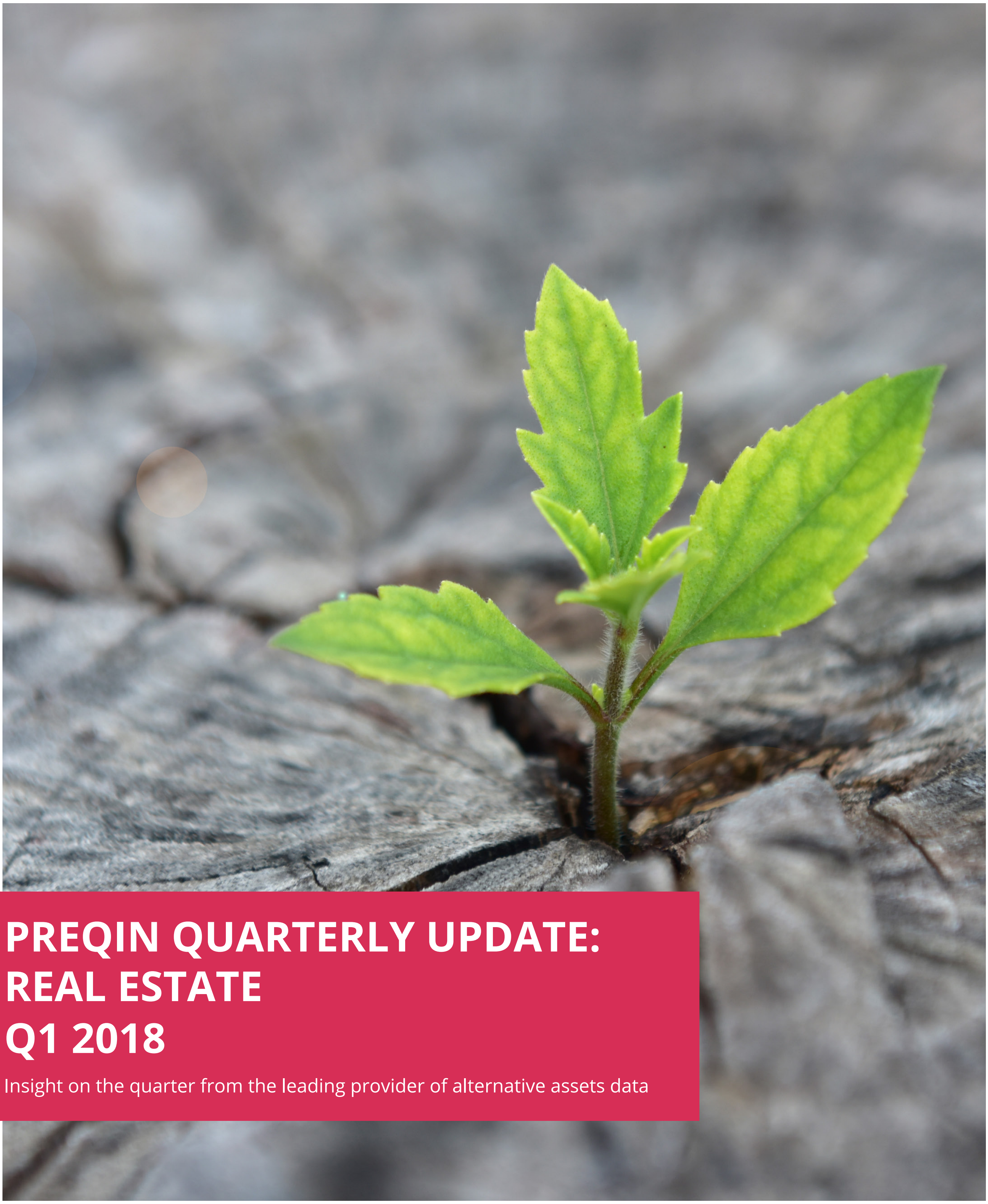


PREQIN QUARTERLY UPDATE: REAL ESTATE Q1 2018

Insight on the quarter from the leading provider of alternative assets data

Content includes:

Fundraising
Funds in Market
Deals
Institutional Investors
Dry Powder
Fund Performance

FOREWORD - Oliver Senchal, Preqin

Private real estate fundraising has had a near-record quarter in Q1 with $33bn raised, defying the concerns highlighted in our investor and fund manager interviews at the end of 2017. While this does signify the depth of opportunities that participants feel are available in the market, it is notable that this quarter has been one of the weakest in terms of the number of products that have been raised, with just 47 funds closed. This will only solidify the sense that the real estate market is becoming increasingly bifurcated, as large, brand-name managers are able to secure billions of dollars of commitments with relative ease compared to the rest of the community. Illustrative of this trend is the $14.6bn raised by Blackstone and Starwood Capital Group alone.

As we look ahead to the rest of the year, the number of funds seeking capital has continued its meteoric rise, surpassing the 600 mark – more funds in market than at any other point in the history of the industry. As such, we expect fundraising to remain difficult for many, although if large firms continue to secure significant amounts for their vehicles, the industry on aggregate could continue to generate the high fundraising amounts seen over the past five years.

The biggest question, though, is how much more capital the real estate market can take before valuations start to have a significant impact on eventual returns. The capital raised in Q1 2018 adds to an already considerable sum of available capital – a record $266bn as at March 2018 – and this capital cannot stay stagnant indefinitely. We have seen this impact the deal environment in Q1: the 1,403 transactions completed by fund managers in the quarter is up on Q1 2017 and aggregate deal value is 20% higher.

We hope that you find this report useful and welcome any feedback you may have. For more information, please visit www.preqin.com or contact info@preqin.com.

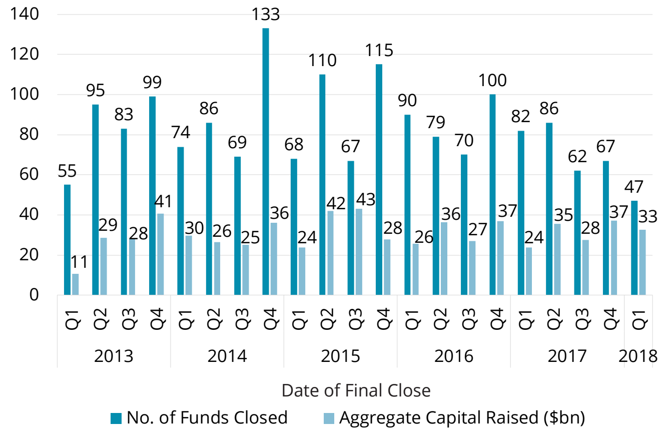
FUNDRAISING

The beginning of 2018 marked a strong start for private real estate fundraising, with $33bn raised by funds closed in Q1, representing one of the best first quarters in recent history. In comparison to Q1 2017, the number of funds reaching a final close in Q1 2018 has nearly halved (-43%), while the aggregate capital secured has increased by over a third (37%, Fig. 1). This activity has been driven by the closure of two large vehicles: Blackstone Real Estate Partners Asia II (secured $7bn) and the eleventh fund in Starwood Capital Group's flagship series, Starwood Global Opportunity Fund XI ($7.6bn, Fig. 3). The two funds alone account for more than 44% of the total capital raised in Q1 2018.

As in previous years, funds targeting value added and opportunistic strategies represented the lion's share of funds closed in Q1 2018, and the closure of the aforementioned vehicles meant that opportunistic funds represented 63% of all capital secured (Fig. 2). Debt strategies have also had success in Q1 2018: the number of debt vehicles reaching a final close and the amount of capital secured by these funds has increased from two vehicles closing on $0.6bn in Q1 2017 to seven securing $6.4bn in Q1 2018.

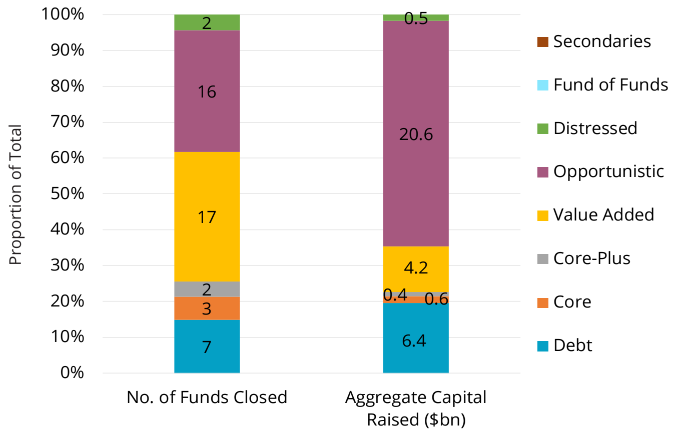
Funds targeting North America dominated the private real estate fundraising space in Q1 2018, representing 64% of funds closed in the quarter and over 62% of aggregate capital raised (Fig. 4). This being said, compared to Q1 2017, North America-focused vehicles

Fig. 1: Global Quarterly Closed-End Private Real Estate Fundraising, Q1 2013 - Q1 2018



Source: Preqin

Fig. 2: Closed-End Private Real Estate Fundraising in Q1 2018 by Primary Strategy



Source: Preqin

Fig. 3: Largest Private Real Estate Funds Closed in Q1 2018

Fund	Firm	Fund Size (mn)	Fund Type	Geographic Focus
Starwood Global Opportunity Fund XI	Starwood Capital Group	7,600 USD	Opportunistic	US, Europe
Blackstone Real Estate Partners Asia II	Blackstone Group	7,000 USD	Opportunistic	Asia, Australasia
Broad Street Real Estate Credit Partners III	Goldman Sachs Merchant Banking Division	4,200 USD	Debt	US, Europe
KKR Real Estate Partners Americas II	KKR	2,000 USD	Opportunistic	US
LBA Realty Fund VI	LBA Realty	900 USD	Value Added	US
Europa Fund V	Europa Capital	716 EUR	Opportunistic	Europe
Laxfield CRE Debt Fund	Laxfield Group	500 GBP	Debt	UK
SCOR Real Estate Loans III	SCOR Investment Partners	550 EUR	Debt	France
Prime Storage Fund II	Prime Group Holdings	670 USD	Value Added	US
AEW Europe City Retail Fund	AEW	505 EUR	Core	West Europe

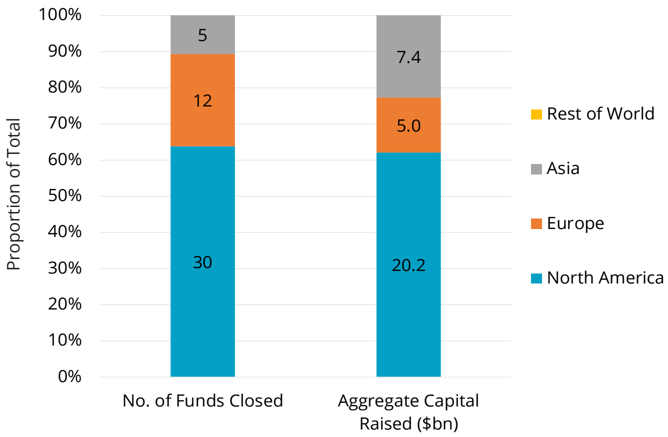
Source: Preqin

have seen their share of fundraising activity decline as more Europe-focused funds reach a final close and larger Asia-focused vehicles enter the market.

The average length of time that funds have spent in market before final close remains stable at around a year and a half (Fig. 5). However, looking further back, there has been a slight increase in the average length of the fundraising period since 2013, possibly as a result of the increase in competition in the market over this timeframe (see page 5), as well as the increase in the average size of private real estate funds. The average size of funds closed in Q1 2018 ($796mn) was 4x the size of a fund closed in Q1 2013, driven by four funds closing on over $1bn (Fig. 6).

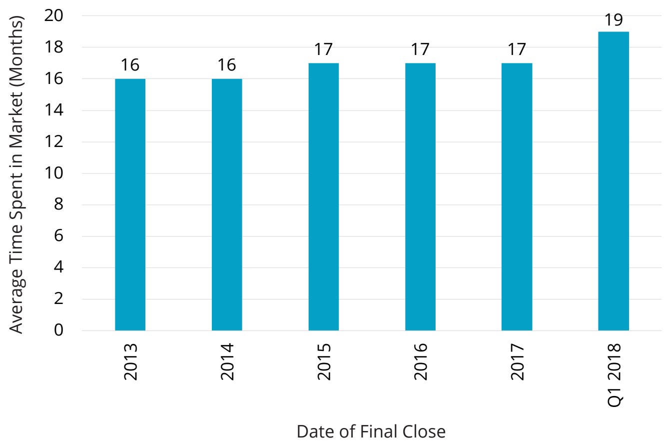
Furthermore, funds closed have had far greater success in achieving their fundraising goal than at any other point since 2013. More than half (58%) of the funds closed in Q1 2018 exceeded their target size, significantly more than the 36% that did the same over the course of 2017 (Fig. 7).

Fig. 4: Closed-End Private Real Estate Fundraising in Q1 2018 by Primary Geographic Focus



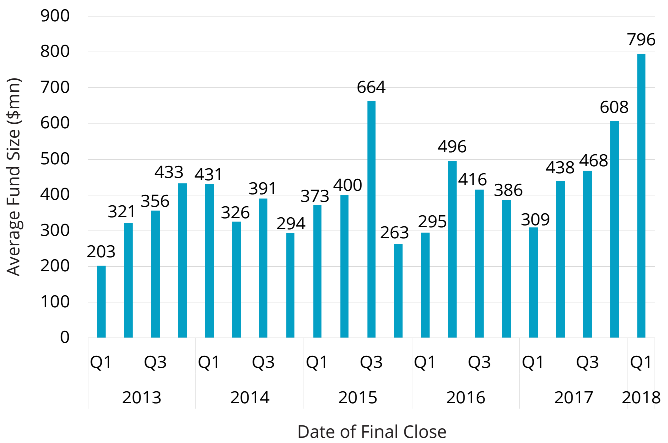
Source: Preqin

Fig. 5: Average Time Spent in Market by Closed-End Private Real Estate Funds, 2013 - Q1 2018



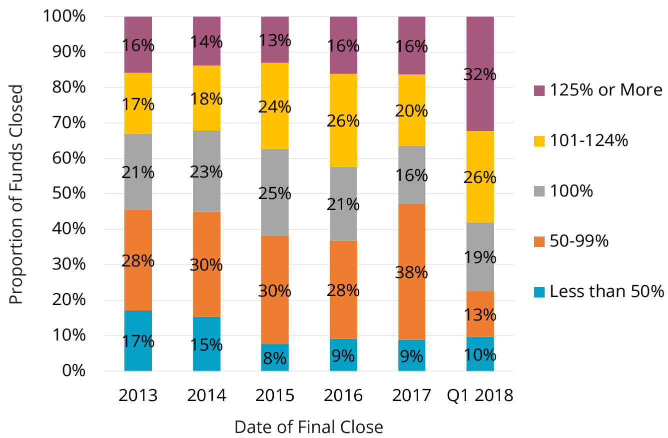
Source: Preqin

Fig. 6: Average Size of Closed-End Private Real Estate Funds, Q1 2013 - Q1 2018



Source: Preqin

Fig. 7: Average Time Spent in Market by Closed-End Private Real Estate Funds, 2013 - Q1 2018



Source: Preqin

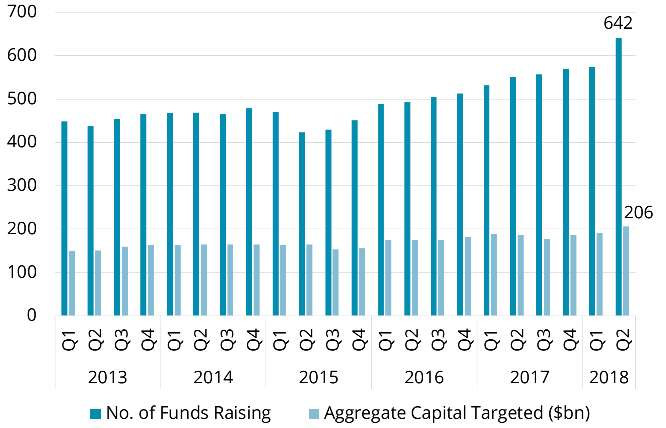
FUNDS IN MARKET

The competitive nature of the fundraising market shows no signs of abating, and despite a record Q1 2018 fundraising total, the number of private real estate funds in market continues to surpass previous records. At the beginning of Q2 there are 642 vehicles seeking $206bn in aggregate capital (Fig. 8), representing an 8% increase in targeted capital from the previous quarter and the first time it has surpassed $200bn. The effect of all this competition has meant it is now harder than ever for funds to reach a final close: over half (57%) of all funds in market have been on the road for over a year.

Value added and opportunistic funds continue to account for the majority of vehicles on the road, representing 56% of funds in market and 59% of targeted investor capital (Fig. 9). This is in line with the longer-term trend with these vehicles representing 60% of aggregate capital targeted in Q1 2017.

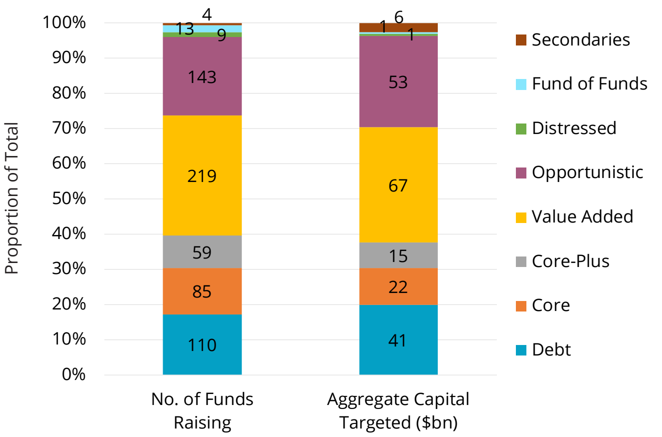
In Preqin's December 2017 survey of over 240 institutional investors, traditional markets (North America and Europe) were seen as presenting the best opportunities for the asset class in the year ahead. With traditional markets seemingly in demand from real estate investors, funds targeting these regions constitute the majority of private real estate funds in market (Fig. 10). North America-focused funds are seeking $127bn in institutional commitments, 2.5x the total capital targeted by Europe-focused funds. As institutional investors look to target more established markets in the year ahead, fewer Asia-focused vehicles are being brought to market: at the start of Q2 2018 Asia-focused vehicles represent 10% of all funds in market (Fig. 10), a two-percentage-point decrease from Q1 2017.

Fig. 8: Closed-End Private Real Estate Funds in Market over Time, Q1 2013 - Q1 2018



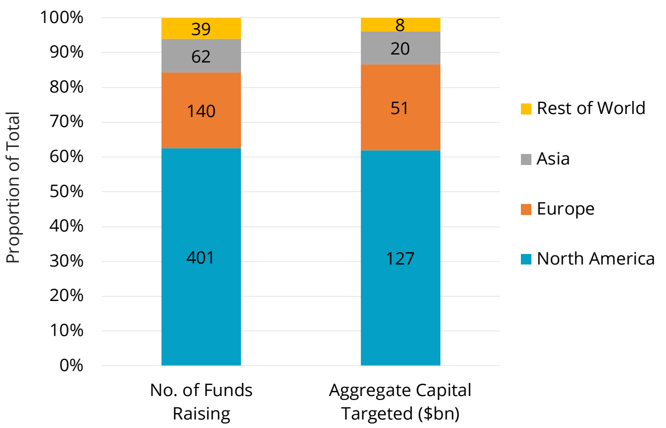
Source: Preqin

Fig. 9: Closed-End Private Real Estate Funds in Market by Fund Type



Source: Preqin

Fig. 10: Closed-End Private Real Estate Funds in Market by Primary Geographic Focus



Source: Preqin

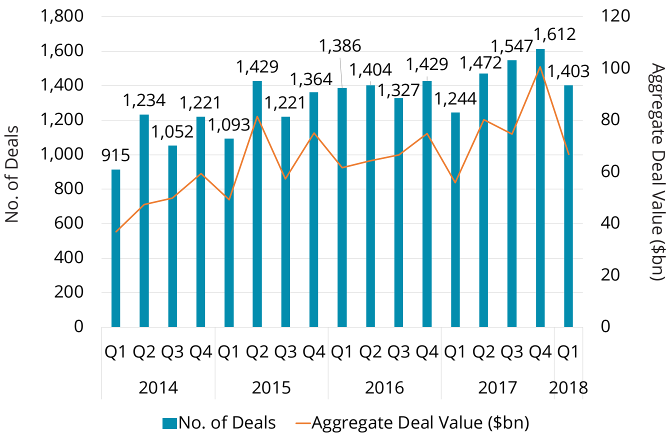
DEALS

High levels of dry powder (see page 9) have helped Q1 2018 private equity real estate (PERE) deal flow to post the highest Q1 results of any quarter in the period since 2014: a total of 1,403 deals were completed for $67bn, 13% and 20% higher respectively compared to Q1 2017 (Fig. 11).

The first quarter is usually the weakest of the year, and the drop in aggregate deal value relative to the number of deals completed since Q4 2017 can be attributed to the growing influence of smaller deals in Q1 2018, with the proportion of deals valued at less than $100mn increasing to its highest level since Q1 2017. That being said, the make-up of deals by value band in Q1 2018 shows no significant change from Q1 2017, with the greater amount of deals driving the increased aggregate deal value seen over the past 12 months.

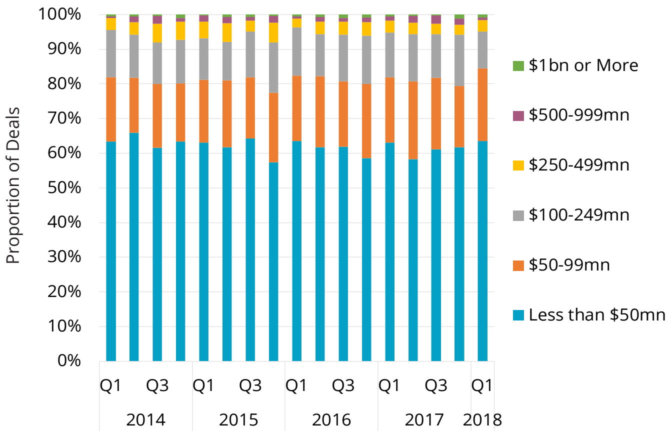
Office assets remain the most transacted property type. However, the PERE deal market has diversified over the past year, with office assets falling from 40% to 29% of aggregate deal value when compared with Q1 2017. Proportionally, more capital was invested in residential, operating companies and hotel property. While the dominance of office assets has declined in Q1 2018 relative to Q4 2017, office assets remain an influential force in the PERE market. Samsung SRA Asset Management's acquisition of the K-Twin

Fig. 11: PERE Deals, Q1 2014 - Q1 2018



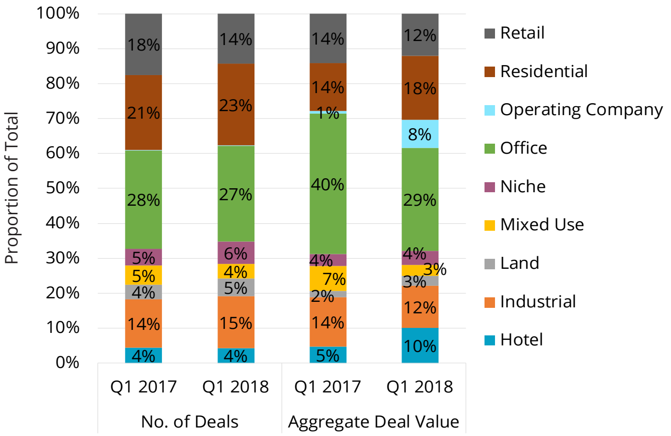
Source: Preqin

Fig. 12: PERE Deals by Value Band, Q1 2014 - Q1 2018



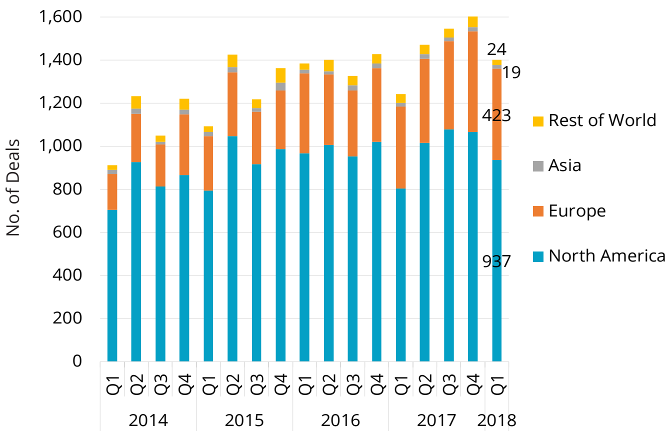
Source: Preqin

Fig. 13: Completed PERE Deals by Primary Asset Type, Q1 2017 vs. Q1 2018



Source: Preqin

Fig. 14: Quarterly PERE Deal Flow by Region, Q1 2014 - Q1 2018



Source: Preqin

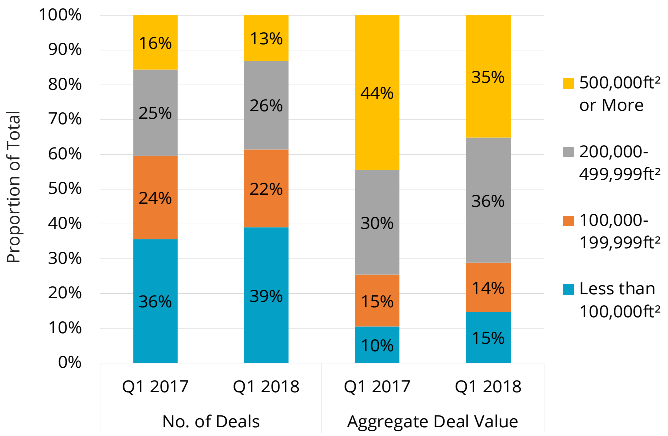
Towers and Savanna's acquisition of 5 Bryant Park, both office deals, were two of the five largest single-asset real estate deals completed in Q1 2018 (Fig. 17).

The increase in deal activity in Q1 2018 compared with Q1 2017 has been seen across all regions, bar Rest of World (Fig. 14). Proportionally, there has been little or no change in the geographic make-up of PERE deal flow. North America has seen the greatest uptake in deal activity compared to Q1 2017, up 17%, followed by Asia (+12%) and Europe (+11%).

In accordance with the increase in lower-value transactions, there has been a three-percentage-point increase from Q1 2017 in the proportion of PERE deals completed for assets smaller than 100,000ft² in size. These smaller deals also represent an increased proportion of total deal value, up from 10% in Q1 2017 to 15% in Q1 2018.

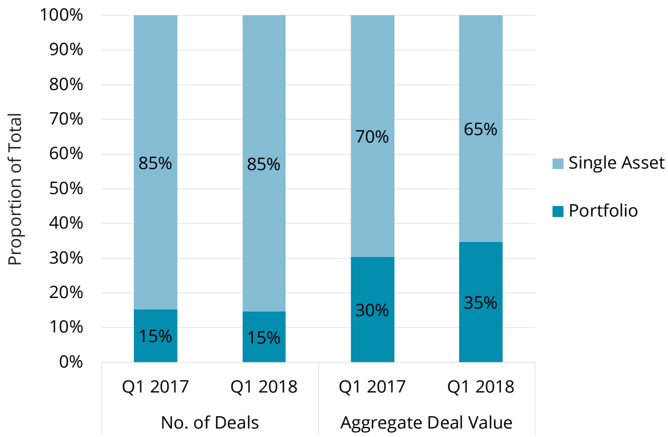
The make-up of deals by transaction type in Q1 2018 has remained relatively similar to Q1 2017. However, portfolio deals accounted for a 5% greater share of total deal value than in Q1 2017 following the completion of several $1bn+ portfolio deals in Q1 2018 (Fig. 16).

Fig. 15: PERE Deals by Asset Size, Q1 2017 vs. Q1 2018



Source: Preqin

Fig. 16: PERE Deals by Transaction Type, Q1 2017 vs. Q1 2018



Source: Preqin

Fig. 17: Largest Single-Asset PERE Deals Completed in Q1 2018

Asset	Location	Buyer(s)	Seller(s)	Deal Size (mn)	Date
701 Seventh Avenue	US	Fortress Investment Group, Maefield Development	Carlton Group, Ian Schrager Company, New Valley, Winthrop Realty Trust, Witkoff	1,530 USD	Feb-18
The Grand Wailea	US	Blackstone Group	GIC	1,100 USD	Jan-18
The K-Twin Towers	South Korea	Samsung SRA Asset Management	Vestas Investment Management	713,000 KRW	Feb-18
5 Bryant Park	US	Savanna	Blackstone Group	640 USD	Feb-18
Pearl Bank Apartments	Singapore	CapitaLand	Unidentified Seller(s)	728 SGD	Feb-18

Source: Preqin

Fig. 18: Largest Portfolio PERE Deals Completed in Q1 2018

Asset	Location(s)	Buyer(s)	Seller(s)	Deal Size (mn)	Date
Canyon Industrial Portfolio	US	Blackstone Group	Unidentified Seller(s)	1,800 USD	Mar-18
China, Shopping Center Portfolio	China	Hopu Investment Management, SCP Group, Vanke	CapitaLand	8,365 CNY	Jan-18
US, Student Housing Portfolio	US	CPP Investment Board, GIC, The Scion Group	Harrison Street Real Estate Capital	1,100 USD	Jan-18
US, Hotel Portfolio	US	Host Hotels & Resorts	Global Hyatt Corporation	1,000 USD	Feb-18
Amaris Hospitality Portfolio	UK	LRC Group	Lone Star Funds	676 EUR	Mar-18

Source: Preqin

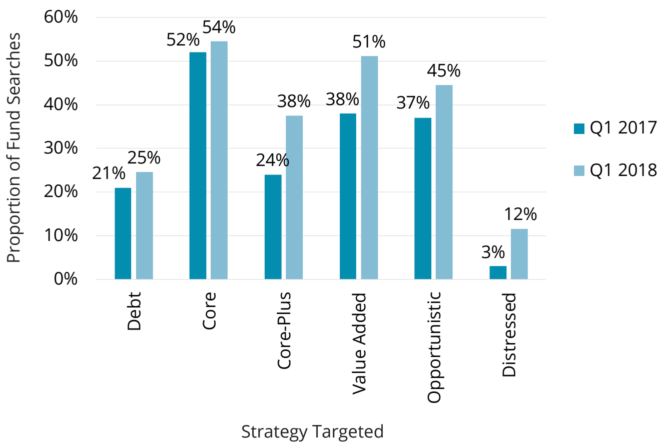
INSTITUTIONAL INVESTORS

Core (54%), value added (51%) and opportunistic (45%) strategies are widely targeted by institutional investors seeking new commitments to private real estate funds over the next 12 months (Fig. 19). Although investor interest in core funds remains high, there has been a significant increase in the proportion of fund searches issued for value added and core-plus funds compared to Q1 2017.

There does appear to have been a slight shift away from globally diversified investment to a more region-specific approach, particularly given the increase in the proportion of investors targeting Asia-Pacific (Fig. 20). However, established markets remain the core focus of institutional searches issued in Q1 2018. Europe remains the most targeted region, sought by the majority (57%) of investors, while 36% of investors are targeting North America-focused vehicles.

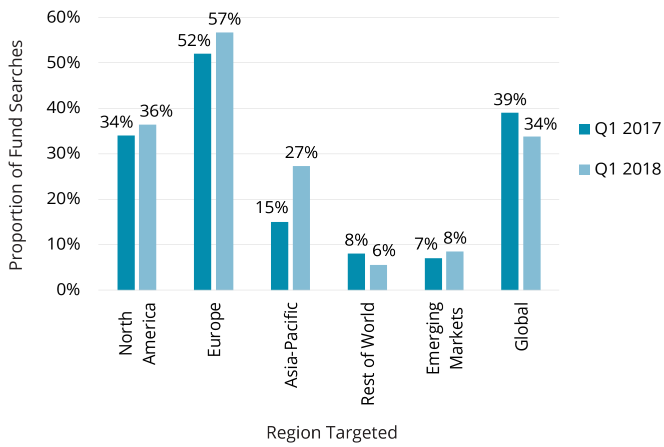
Q1 2018 has seen a decrease in the proportion of fund searches issued for commitments of less than $50mn, from 41% in Q1 2017 to 32% in Q1 2018 (Fig. 21). Correspondingly, there has been a significant rise in the proportion of fund searches issued for commitments of $50-299mn, from 27% in Q1 2017 to nearly half (48%), as investors seek to make larger commitments than 12 months ago. There has also been a decrease in the proportion of investors targeting fewer than four funds, while the proportion of investors targeting between four and nine funds has nearly doubled from Q1 2017 (Fig. 22).

Fig. 19: Strategies Targeted by Private Real Estate Investors in the Next 12 Months, Q1 2017 vs. Q1 2018



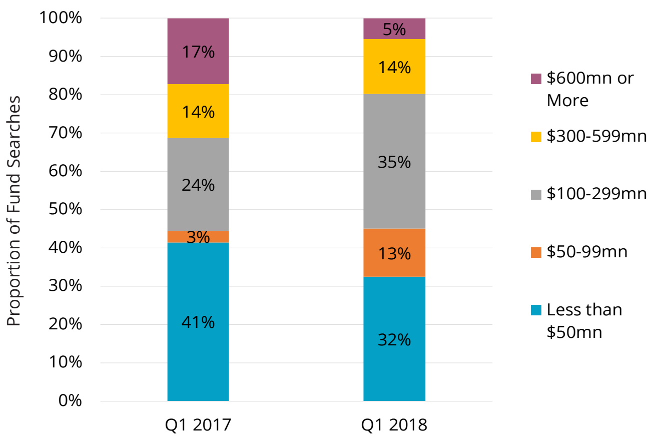
Source: Preqin

Fig. 20: Regions Targeted by Private Real Estate Investors in the Next 12 Months, Q1 2017 vs. Q1 2018



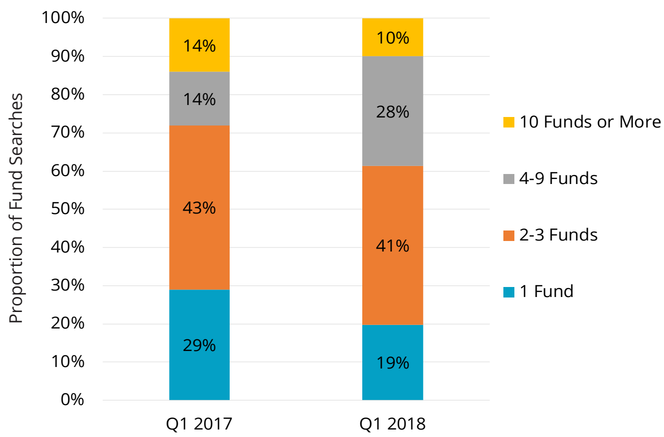
Source: Preqin

Fig. 21: Amount of Capital Investors Plan to Commit to Private Real Estate Funds in the Next 12 Months, Q1 2017 vs. Q1 2018



Source: Preqin

Fig. 22: Number of Private Real Estate Funds Investors Plan to Commit to in the Next 12 Months, Q1 2017 vs. Q1 2018



Source: Preqin

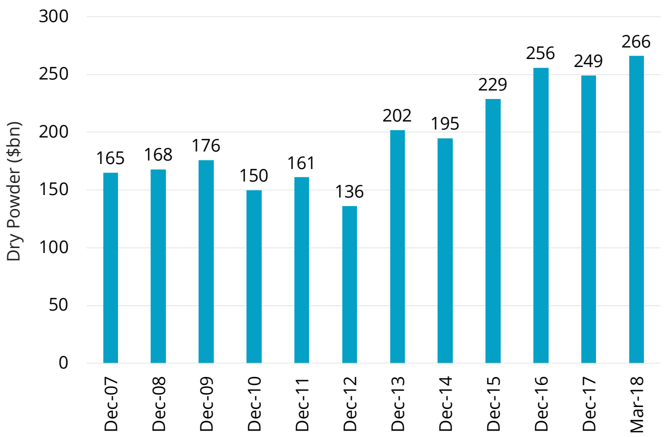
DRY POWDER

As a result of a successful fundraising quarter in Q1 2018, the amount of dry powder held by private real estate firms reached a record $266bn as at March 2018 (Fig. 23). The level of capital available follows a slight decline in dry powder over the course of 2017 (-$7bn), as real estate firms managed to put some of this capital to work over the year.

North America-focused funds continue to account for the greatest level (62%) of global dry powder, with funds targeting this region currently holding $165bn in dry powder (Fig. 25). Not only do North America-focused funds represent the majority of global capital available, but funds targeting the region are also responsible for much of the growth in dry powder since the end of 2016, which increased by 10%, significantly higher than the global average (+4%). Europe saw the largest decline (-$5bn) in dry powder since the end of 2016, while dry powder held in Asia-focused funds increased $2bn over the same period.

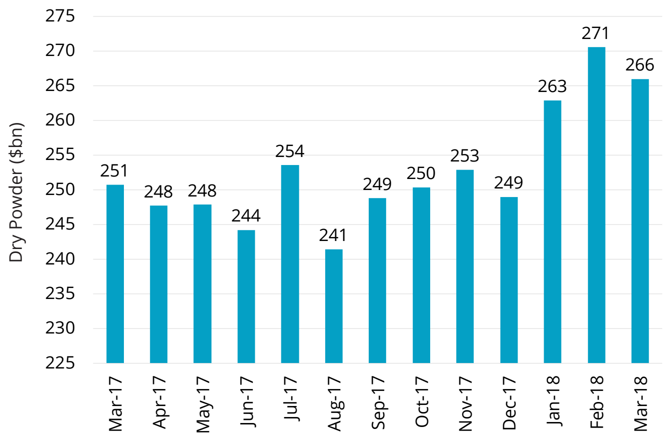
Opportunistic (40%) and value added strategies (26%) together represent the majority of private real estate dry powder as at March 2018 (Fig. 26). Many top-level strategies have seen an increase in available capital since December 2016. Dry powder held in debt strategies has increased by 25% since 2016, while the amount of capital available to opportunistic and value added strategies has each increased by 6%.

Fig. 23: Closed-End Private Real Estate Dry Powder, 2007 - 2018



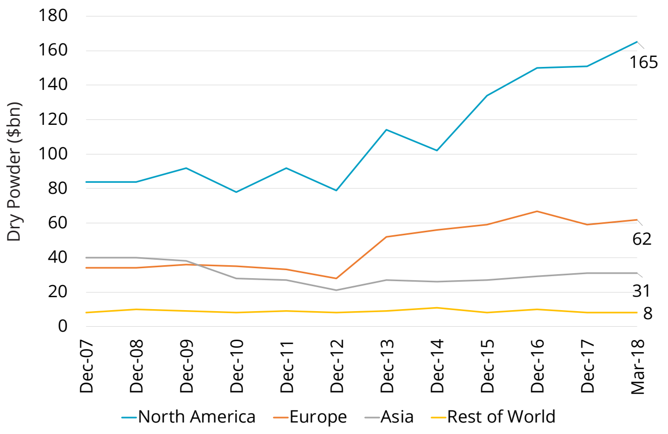
Source: Preqin

Fig. 24: Monthly Closed-End Private Real Estate Dry Powder, 2017 - 2018



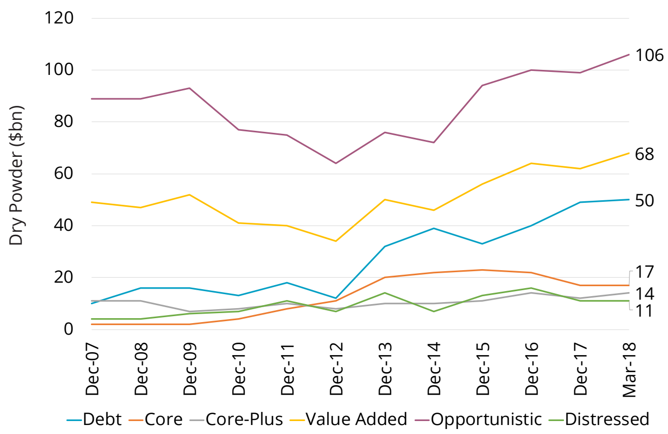
Source: Preqin

Fig. 25: Closed-End Private Real Estate Dry Powder by Fund Primary Geographic Focus, 2007 - 2018



Source: Preqin

Fig. 26: Closed-End Private Real Estate Dry Powder by Fund Type, 2007 - 2018



Source: Preqin

FUND PERFORMANCE

Closed-end private real estate funds generated strong performance in the first half of 2017, with the PrEQIn Real Estate Index gaining 3.9% and 3.3% in Q1 and Q2 2017, respectively; in June 2017 it stood at 116.8 index points (Fig. 27). The PrEQIn Real Estate Index still lags behind other asset classes that were not as drastically affected by the sub-prime crisis. However, over a more recent timeframe (post-2010), real estate strategies have outperformed. The PrEQIn Real Estate Index has grown by 83%, a more rapid growth than that of the infrastructure (+71%), private debt (+71%) and MSCI US REIT (+80%) indices.

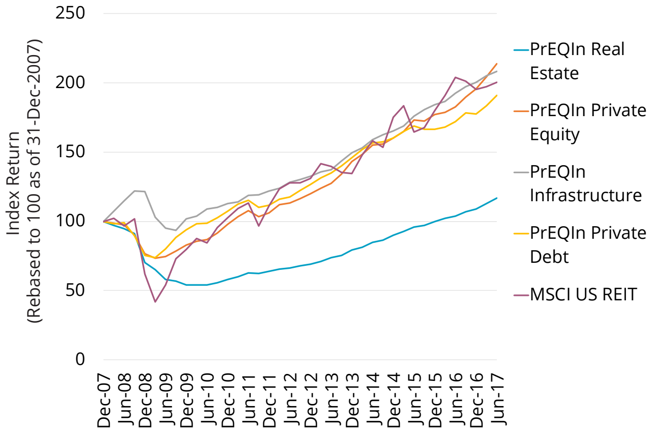
GAP BETWEEN BEST AND WORST GROWS

Private real estate funds that entered the market in 2009 onwards have generated strong returns; vintage 2011 funds have delivered the highest returns with a median net IRR of 16.4% (Fig. 29), although real estate has been consistently generating approximately 15% from 2009. The top and bottom quartile boundaries of vintage 2010-2014 private real estate funds have a spread of nine percentage points, highlighting some of the challenges facing fund selectors in identifying top performing strategies, and the most recent vintage (2015) has seen this spread increase even further.

PERFORMANCE BY STRATEGY

The generally lower-risk private real estate debt strategies return lower median net IRRs than other strategies but are generally more consistent, with opportunistic and value added strategies towards the higher end of the return spectrum (Fig. 29). Since 2009, all vintages have posted median net IRRs in the double digits and it is this strong performance that has led to the growth seen across Preqin's real estate indices.

Fig. 27: PrEQIn Index by Asset Class vs. MSCI US REIT (Rebased to 100 as of 31 December 2007)



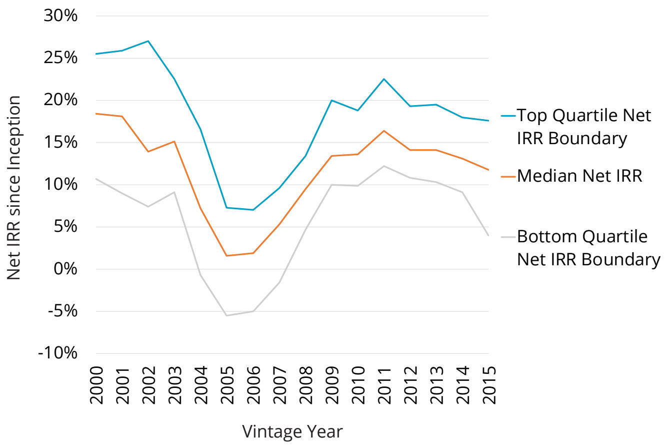
Source: Preqin

Rebasing the indices to December 2011 illustrates the consistent performance of private real estate funds in recent years, with debt strategies the stand-out performers (Fig. 30). Core/core-plus strategies have gained the least of the four top-level strategies over the periods analyzed, which is to be expected given the different expectations of these strategies.

PERFORMANCE BY GEOGRAPHIC FOCUS

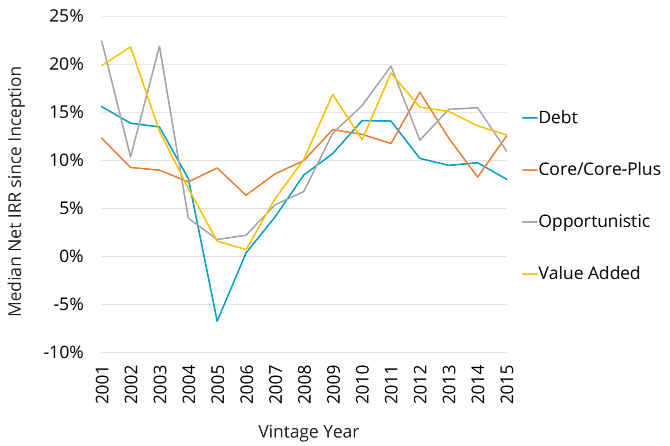
North America-focused private real estate funds of vintages 2008-2012 delivered higher median net IRRs compared to other regions; however, more recently, funds focused outside North America and Europe have been outperforming their counterparts (Fig. 31). Vintage 2014 funds focused on investment in the Asia & Rest of

Fig. 28: Closed-End Private Real Estate: Median Net IRRs and Quartile Boundaries by Vintage Year



Source: Preqin

Fig. 29: Real Estate: Median Net IRRs by Fund Type



Source: Preqin

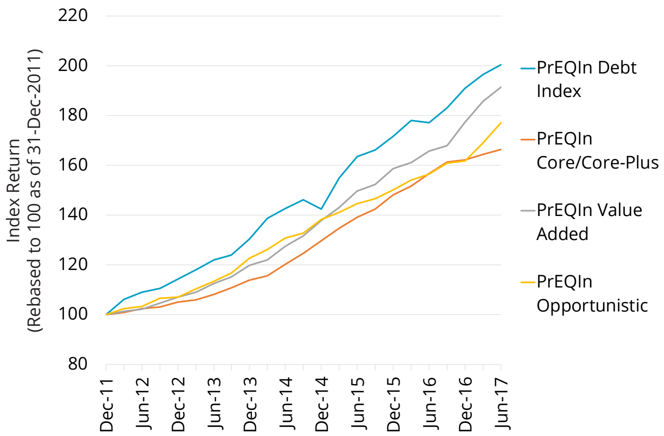
World region delivered a median net IRR of 17.3%, the highest median net IRR of any region in the past 10 years bar vintage 2011 North America-focused funds (+18.6%).

The consistent outperformance in the years following the Global Financial Crisis by North America-focused funds is seen in Fig. 32. North America-focused funds have outperformed their Europe-focused counterparts as well as the global market, with Europe-focused funds delivering relatively smaller returns up to 2015 before seeing an increase.

CAPITAL DISTRIBUTIONS

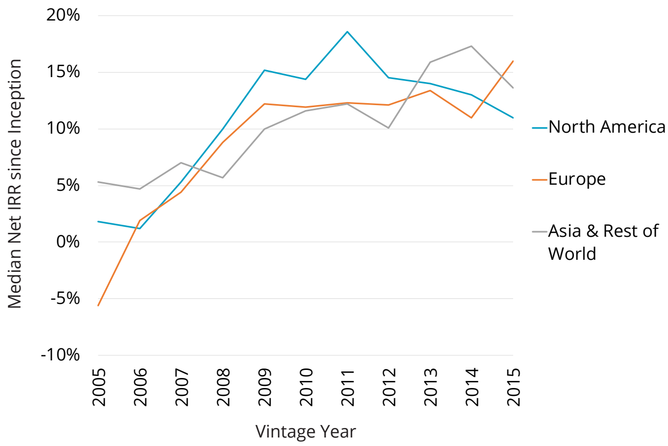
Since 2013 – the first year in which capital distributed exceeded capital called – nearly $900bn has been returned from closed-end private real estate fund managers to investors (Fig. 33). 2016 represented a record year for distributions, with $278bn returned. Furthermore, the gap between capital called up from funds and capital distributed back to investors has widened, with net cash flows reaching $100bn for the first time over 2016. However, while distributions still exceeded capital calls in the first half of 2017, both distributions and net cash flows significantly lagged behind 2016, and should current trends continue, we are likely to see a drop from 2017 levels.

Fig. 30: PrEQIn Real Estate Index by Strategy (Rebased to 100 as of 31 December 2011)



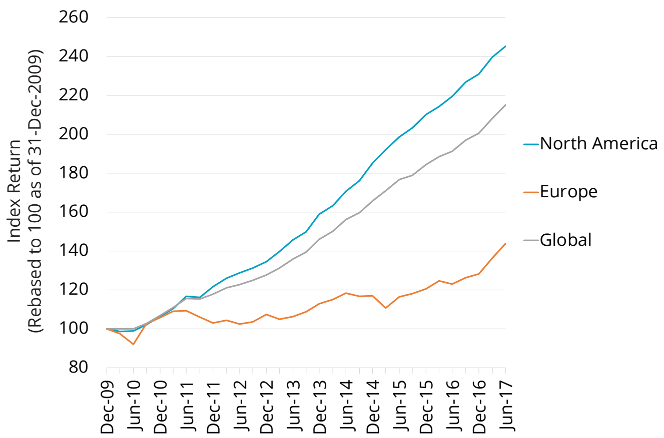
Source: Preqin

Fig. 31: Real Estate: Median Net IRRs by Geographic Focus and Vintage Year



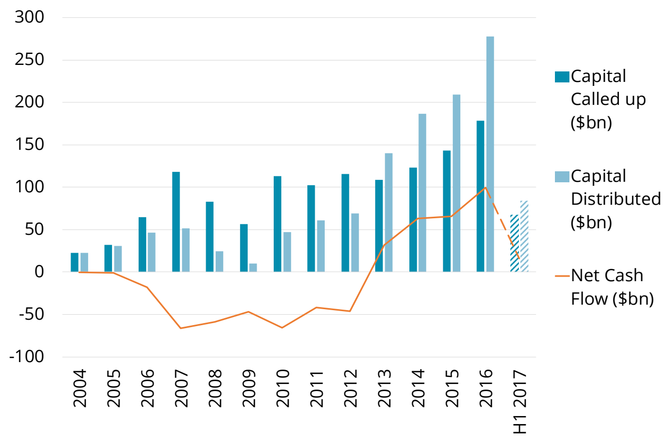
Source: Preqin

Fig. 32: PrEQIn Real Estate Index by Primary Geographic Focus (Rebased to 100 as of 31 December 2009)



Source: Preqin

Fig. 33: Real Estate: Annual Amount Called up, Distributed and Net Cash Flow, 2004 - H1 2017



Source: Preqin

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