

The Q3 2015 Preqin Quarterly Update

Real Estate

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

Content includes...

Fundraising

Q3 saw the largest amount of capital ever raised in a single quarter.

Funds in Market

Over half of funds in market have been seeking capital for more than a year.

Investors in Real Estate

Half of investors are planning to make four or more new commitments in the year ahead.

Fund Performance

PrEQIn Real Estate Index currently stands at its highest point since Q3 2008.





Foreword - Andrew Moylan, Preqin

Fundraising for private real estate funds has been strong in 2015. The \$86bn raised in the first three quarters of the year comfortably surpasses the \$75bn raised during the same period last year. Several large funds reached final closes, including the largest ever private equity real estate fund, Blackstone Real Estate Partners VIII, which held a final close on \$15.8bn, raising \$1.3bn from retail investors after closing the institutional portion of the fund back in March. Other brand-name firms including Carlyle Group, Global Logistic Properties and Morgan Stanley Real Estate Investing also closed out large offerings in Q3.

Driving investor appetite for the asset class is strong performance; closed-end private real estate funds have posted positive average changes in NAV for 19 consecutive quarters and the PrEQIn Real Estate Index currently stands at its highest point since Q3 2008. As a result, institutional appetite for real estate is considerable and many investors are planning sizeable commitments to real estate in the coming year.

Despite this positivity, capital remains concentrated among a small number of managers; only 33 real estate funds reached a final close in Q3, the lowest quarterly number since the beginning of 2005. With such a small number of funds reaching a final close, the marketplace remains very competitive: 436 funds are in market seeking \$152bn from investors.

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Key Facts



Amount of capital raised in Q3 2015, the largest amount ever raised in a single quarter for closed-end private real estate funds.



Capital secured by the largest fund to close in Q3, **Blackstone Real Estate Partners VIII***, which is also the largest private real estate fund of all-time.



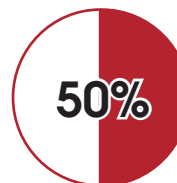
Number of North America-focused private real estate funds closed in Q3, compared with seven targeting Europe.



Number of consecutive quarters seeing a positive average change in NAV.



Proportion of investors intending to commit more than \$300mn to private real estate funds in the next year.



Proportion of investors intending to invest in more than four private real estate funds in the next year.

**Blackstone Real Estate Partners VIII closed to institutional investors in Q1 2015, having raised \$14.5bn. It then raised additional capital from retail investors, and reached a final close in Q3 2015 on \$15.8bn.*

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Fundraising in Q3 2015

Thirty-three private real estate funds reached a final close in Q3, raising an aggregate \$37.5bn in capital commitments, elevated by the closure of the largest private real estate fund of all time, Blackstone Real Estate Partners VIII* (Fig. 1). Additionally, fundraising has been strong in 2015, with the \$87bn raised in the first three quarters of the year surpassing the \$76bn raised during the same period last year. Only 132 funds held a final close during the first three quarters of 2015, compared with the 163 vehicles that closed between Q1 and Q3 2014, indicative of capital concentration among fewer managers.

Geographically, 18 North America-focused funds closed in Q3, accounting for nearly 80% of the total capital raised this quarter

from institutional investors (Fig. 2). The search for returns has led investors up the risk curve: \$33.3bn was raised from 21 opportunistic or value added funds in Q3 (Fig. 3), up \$15.5bn from Q2, while core and core-plus funds raised \$700mn, down from \$2.8bn in Q2.

Funds are now reaching a final close quicker: the average time taken for funds to achieve a final close has decreased to 16 months, compared with 19 months for funds closed in 2014 (Fig. 4). Additionally, the majority of fund managers have continued to achieve their targets, with 60% of funds closing either at or above their target size this quarter (Fig. 5).

Key Fundraising Facts: Q3 2015



Largest amount ever raised in a single quarter for closed-end private real estate funds in Q3 2015.



Amount of capital secured by the largest fund to close in the quarter, Blackstone Real Estate Partners VIII*.

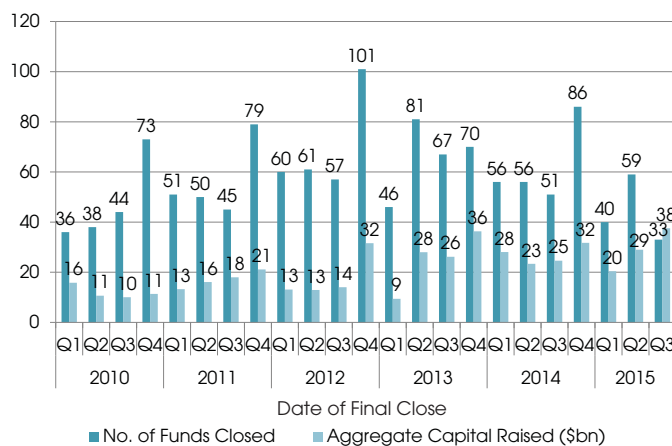


Higher risk strategies secured \$32.5bn more than lower risk funds in Q3 2015.



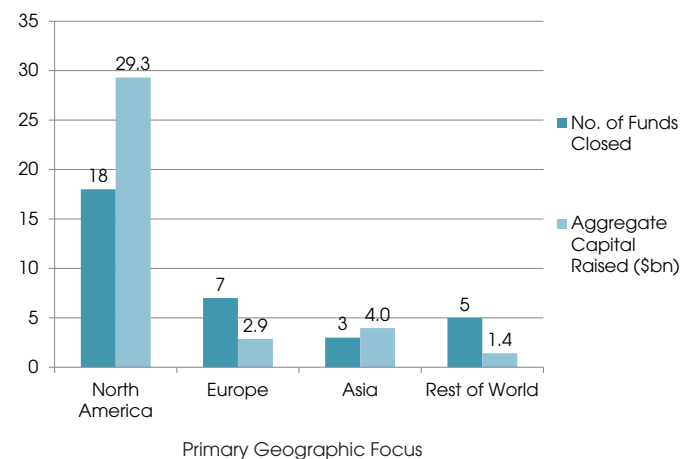
The average time spent on the fundraising trail for funds closed this quarter.

Fig. 1: Global Quarterly Closed-End Private Real Estate Fundraising, Q1 2010 - Q3 2015



Source: Preqin Real Estate Online

Fig. 2: Closed-End Private Real Estate Fundraising in Q3 2015 by Primary Geographic Focus

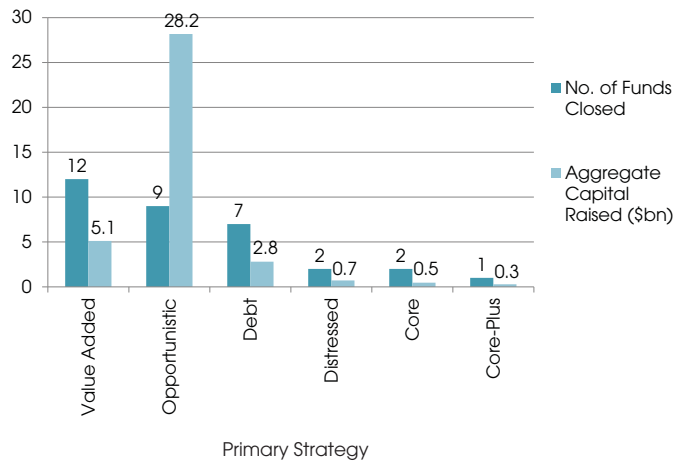


Source: Preqin Real Estate Online

*Blackstone Real Estate Partners VIII closed to institutional investors in Q1 2015, having raised \$14.5bn. It then raised additional capital from retail investors, and reached a final close in Q3 2015 on \$15.8bn.

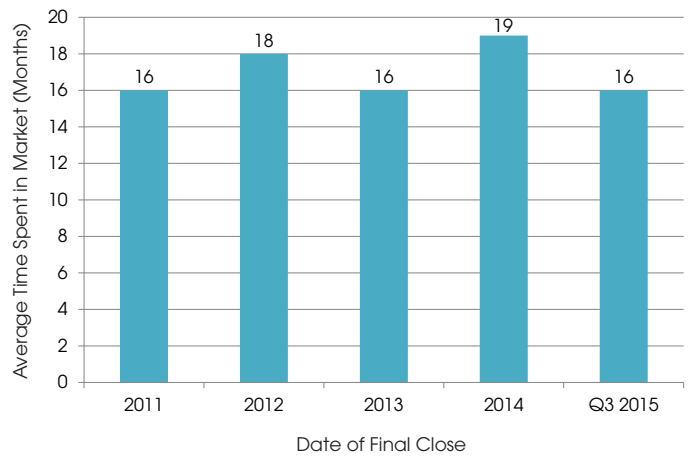


Fig. 3: Closed-End Private Real Estate Fundraising in Q3 2015 by Primary Strategy



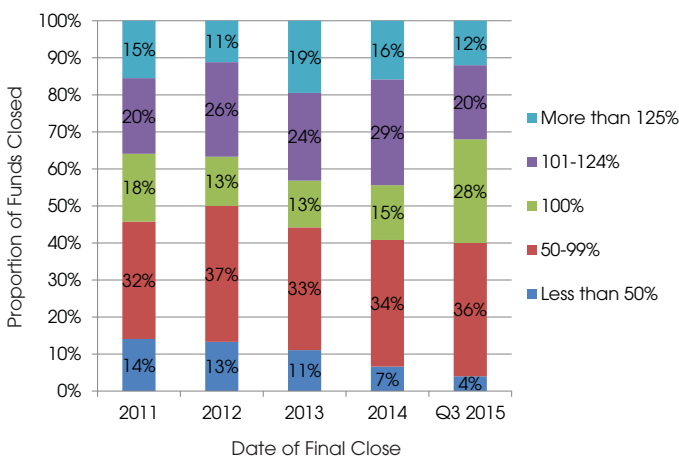
Source: Preqin Real Estate Online

Fig. 4: Average Time Taken for Closed-End Private Real Estate Funds to Achieve a Final Close, 2011 - Q3 2015



Source: Preqin Real Estate Online

Fig. 5: Breakdown of Closed-End Private Real Estate Funds by Proportion of Target Size Achieved, 2011 - Q3 2015



Source: Preqin Real Estate Online

Data Source:

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Fig. 6: 10 Largest Closed-End Private Real Estate Funds Closed in Q3 2015

Fund	Firm	Fund Size (mn)	Strategies	Geographic Focus
Blackstone Real Estate Partners VIII*	Blackstone Group	15,800 USD	Distressed and Opportunistic	Global
Carlyle Realty Partners VII	Carlyle Group	4,200 USD	Opportunistic	US
CLF Fund II	Global Logistic Properties	3,700 USD	Opportunistic and Value Added	China
North Haven Real Estate Fund VIII Global	Morgan Stanley Real Estate Investing	1,700 USD	Opportunistic and Value Added	Global
European Property Investors Special Opportunities 4	Tristan Capital Partners	1,500 EUR	Opportunistic and Value Added	Europe
CBRE Strategic Partners US Value 7	CBRE Global Investors	1,300 USD	Value Added	US
TCI Real Estate Partners (I)	The Children's Investment Fund Management	1,300 USD	Debt	North America, West Europe
SSC V	Spear Street Capital	1,100 USD	Opportunistic	US
PCCP Credit VI	PCCP	909 USD	Debt	US
Niam Nordic VI	Niam	665 EUR	Opportunistic	Nordic

Source: Preqin Real Estate Online

*Blackstone Real Estate Partners VIII closed to institutional investors in Q1 2015, having raised \$14.5bn. It then raised additional capital from retail investors, and reached a final close in Q3 2015 on \$15.8bn.



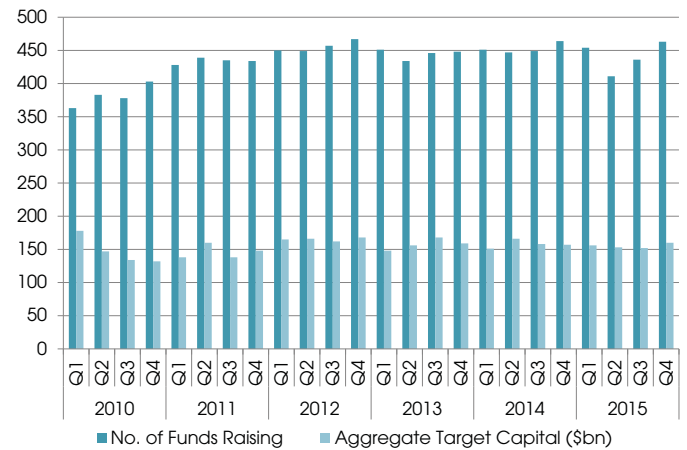
Funds in Market

The number of closed-end private real estate funds in market has increased slightly since Q2, with 463 vehicles currently seeking \$160bn in capital (Fig. 1). The make-up of funds in market at the start of Q4 2015 remains relatively consistent, with the majority of funds in market and aggregate target capital focused primarily on North America (Fig. 2).

The fundraising market remains competitive: 55% of funds on the road have been raising capital for over a year. Fifty-eight percent of funds that have yet to hold an interim close have been launched in the last 12 months, while 68% of vehicles that have held at least one interim close have been in the market for over a year.

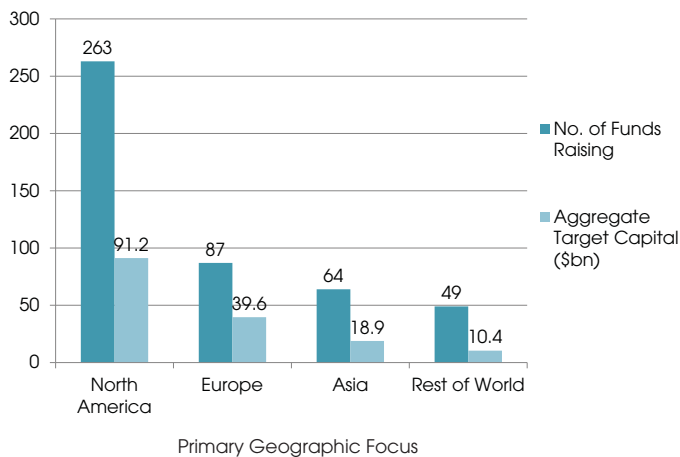
The largest closed-end private real estate fund in market is Brookfield Strategic Real Estate Partners II, currently targeting \$7bn in institutional capital commitments. Managed by Brookfield Asset Management, the fund will look to invest in commercial properties and real estate operating companies on a global scale (Fig. 4). If Brookfield Strategic Real Estate Partners II reaches its target capital in its final close, it will become the ninth largest closed-end private real estate fund of all time.

Fig. 1: Closed-End Private Real Estate Funds in Market over Time, Q1 2010 - Q4 2015



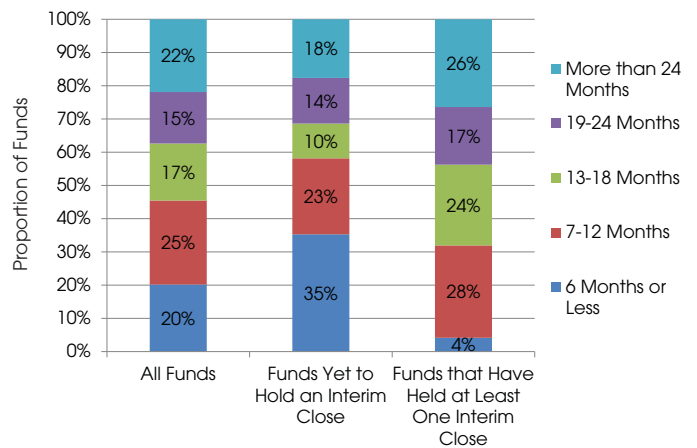
Source: Preqin Real Estate Online

Fig. 2: Breakdown of Closed-End Private Real Estate Funds in Market by Primary Geographic Focus



Source: Preqin Real Estate Online

Fig. 3: Breakdown of Closed-End Private Real Estate Funds in Market by Time Spent on the Road



Source: Preqin Real Estate Online

Fig. 4: Five Largest Closed-End Private Real Estate Funds Currently in Market

Fund	Firm	Fund Size (mn)	Strategies	Geographic Focus
Brookfield Strategic Real Estate Partners II	Brookfield Asset Management	7,000 USD	Opportunistic	Global
Oaktree Real Estate Opportunities Fund VII	Oaktree Capital Management	3,500 USD	Debt, Distressed and Opportunistic	Global
AgFe Real Estate Senior Debt Floating Rate Fund	AgFe	1,500 GBP	Debt	UK
Colony Distressed Credit & Special Situations Fund IV	Colony Capital	2,500 USD	Debt and Distressed	US, Europe
Hermes Real Estate Senior Debt Fund	Hermes Real Estate	1,500 GBP	Debt	UK

Source: Preqin Real Estate Online



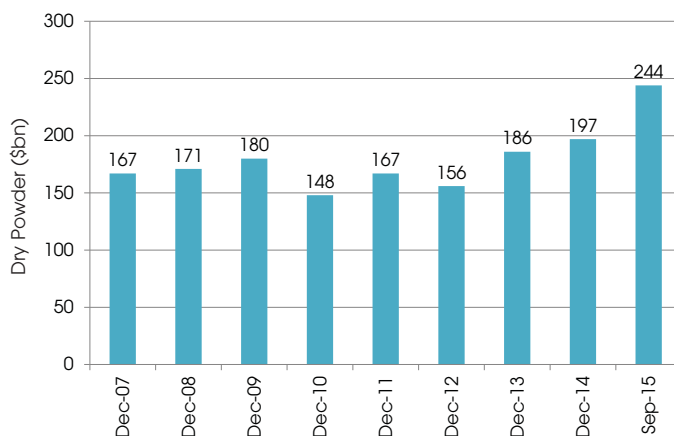
Dry Powder

The levels of uncalled capital held by closed-end private real estate funds have increased by almost \$50bn since the end of 2014, with total dry powder standing at \$244bn as of September 2015 (Fig. 1). However, dry powder has fallen by \$5bn since July 2015.

North America-focused funds constitute the largest proportion of the \$244bn available for investment, with 52% of dry powder focused on this region (Fig. 2). There has been a 27% increase in the amount of dry powder held by Europe-focused funds since December 2014, while Asia- and Rest of World-focused funds have both seen more modest 18% increases in available capital.

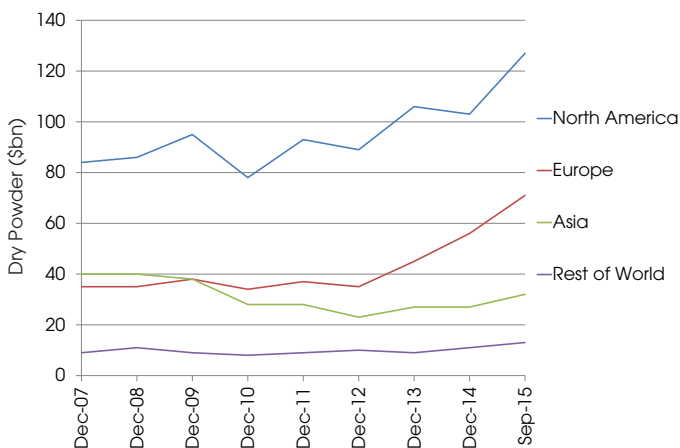
All private real estate strategies have seen increases in dry powder since December 2014, with higher risk value added and opportunistic vehicles holding 62% of the total dry powder (Fig. 3). As well as holding the highest amount of dry powder (\$97bn), primarily opportunistic funds have seen the largest increase in dry powder since December 2014 of \$27bn, although proportionally, distressed vehicles have seen a 57% increase on the December 2014 figure.

Fig. 1: Closed-End Private Real Estate Dry Powder, December 2007 - September 2015



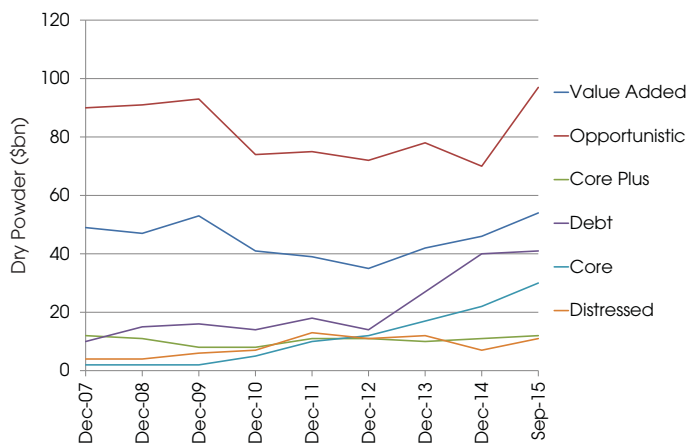
Source: Preqin Real Estate Online

Fig. 2: Closed-End Private Real Estate Dry Powder by Primary Geographic Focus, December 2007 - September 2015



Source: Preqin Real Estate Online

Fig. 3: Closed-End Private Real Estate Dry Powder by Strategy, December 2007 - September 2015



Source: Preqin Real Estate Online

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Institutional Investors in Private Real Estate

The majority (60%) of investors seeking further commitments to private real estate over the next 12 months have a preference for core vehicles, a five percentage point increase since last year (Fig. 1). Investor appetite for opportunistic fund strategies has dropped 14 percentage points since Q3 2014, suggesting that investors are seeking less investment risk and more stable returns from the asset class.

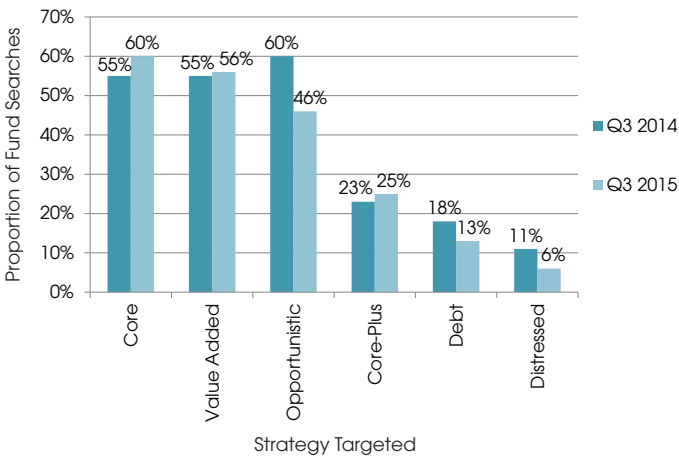
Institutional investors will continue to favour exposure to established property markets, with Fig. 2 revealing that the proportion of fund searches for North America- and Europe-focused vehicles have increased since last year by one and nine

percentage points respectively, while the proportion of investors seeking to invest in Asia-Pacific is lower at 26%.

Over the next 12 months, 35% of institutional investors committing to private real estate plan to commit less than \$50mn to the asset class (Fig. 3). However, a notable 16% of institutions are expecting to invest \$300mn or more.

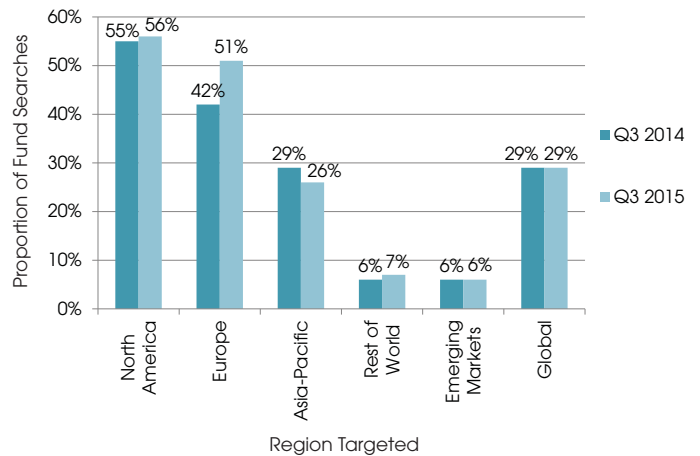
Additionally, half of investors are planning to make four or more new private fund commitments in the year to come (Fig. 4), up from 37% in Q2 2015.

Fig. 1: Strategies Targeted by Private Real Estate Investors in the Next 12 Months, Q3 2014 vs. Q3 2015



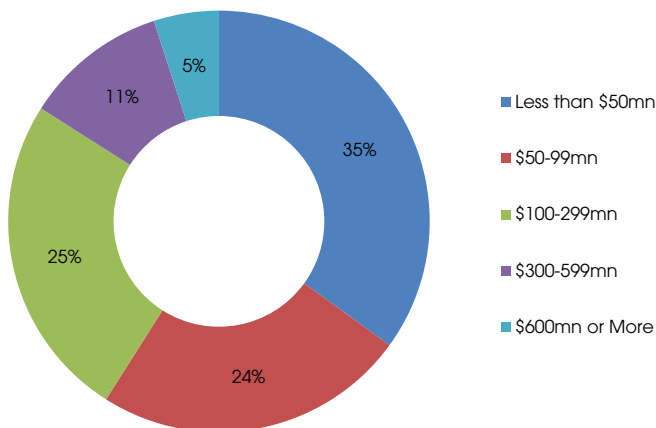
Source: Preqin Real Estate Online

Fig. 2: Regions Targeted by Private Real Estate Investors in the Next 12 Months, Q3 2014 vs. Q3 2015



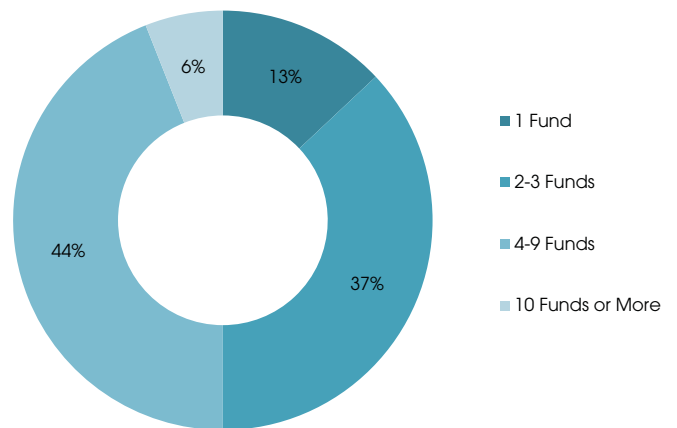
Source: Preqin Real Estate Online

Fig. 3: Amount of Capital Investors Plan to Commit to Private Real Estate Funds in the Next 12 Months



Source: Preqin Real Estate Online

Fig. 4: Number of Private Real Estate Funds Investors Plan to Commit to in the Next 12 Months



Source: Preqin Real Estate Online



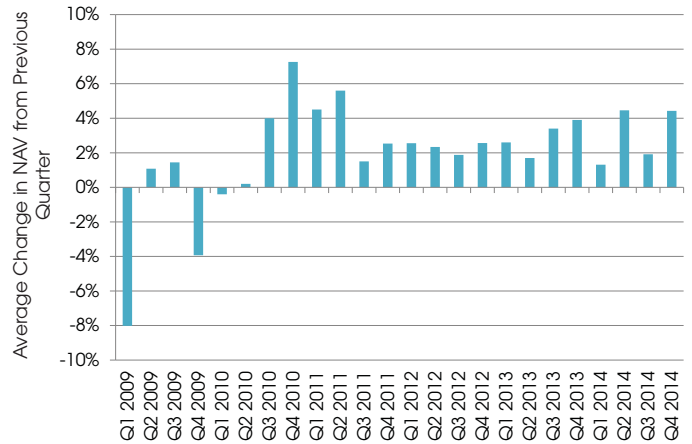
Fund Performance

Closed-end private real estate funds have posted positive average changes in NAV for 19 consecutive quarters (Fig. 1). Additionally, the PrEQIn All Real Estate Index, which currently stands at 90.6 (rebased to 100 as of 31 December 2007), is at its highest point since Q3 2008 (Fig. 2). The PrEQIn Real Estate Debt Index is the strongest performing strategy since December 2007, and is the only strategy to exceed 100 points, at 102.5.

The median called-up, distributed and residual value ratios by vintage year for real estate funds show that, with the exception of 2005 and 2006, all vintage years have median total value to paid-in capital (TVPI) greater than 100%, meaning more capital has been paid out or remains in fund portfolios than was initially invested (Fig. 3).

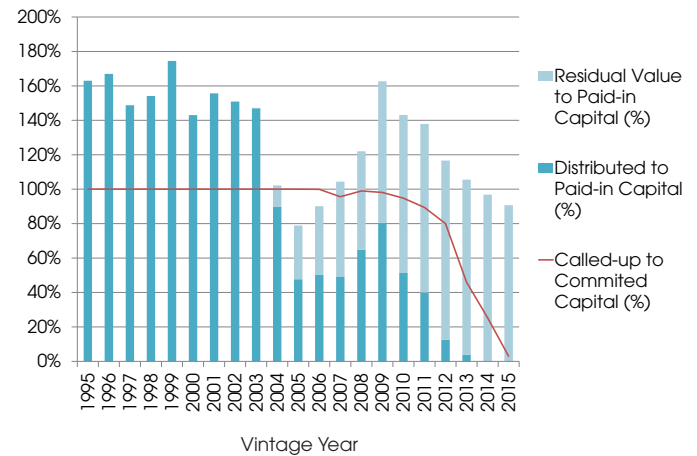
While real estate funds were worse performers than private equity funds in the three years to March 2012, performance has improved over recent quarters. In the three years to December 2014, horizon IRRs for real estate were 16.3%, 60 basis points above those of private equity (Fig. 4). Similarly, funds of vintage years 2009-2012 are posting relatively strong returns, with the median IRR ranging from 14.0% to 16.2% (Fig. 5).

Fig. 1: Closed-End Private Real Estate Quarterly Change in NAV, Q1 2009 - Q4 2014



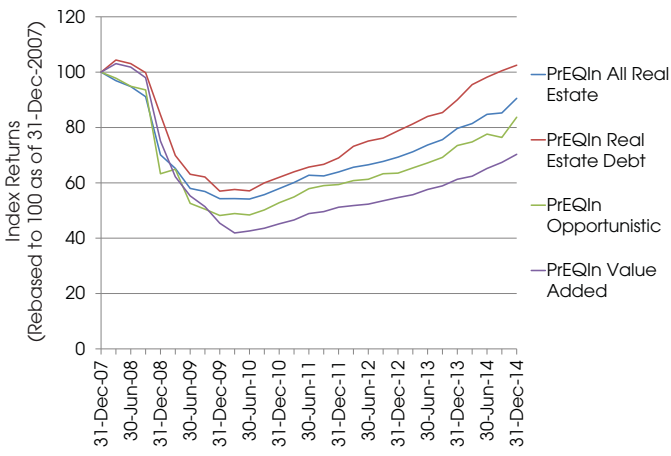
Source: Preqin Real Estate Online

Fig. 3: Closed-End Private Real Estate Funds: Median Called-up, Distributed and Residual Value Ratios by Vintage Year



Source: Preqin Real Estate Online

Fig. 2: PrEQIn Index: Real Estate by Strategy



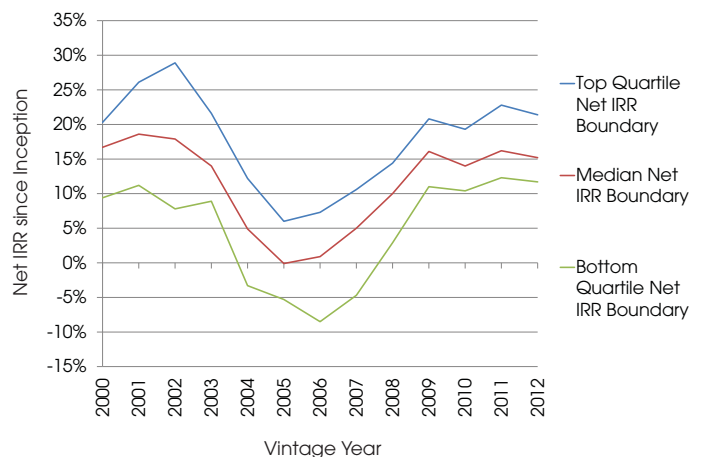
Source: Preqin Real Estate Online

Fig. 4: Three-Year Rolling Horizon IRRs: March 2012 - December 2014



Source: Preqin Real Estate Online

Fig. 5: Closed-End Private Real Estate Funds: Median Net IRRs and Quartile Boundaries by Vintage Year



Source: Preqin Real Estate Online



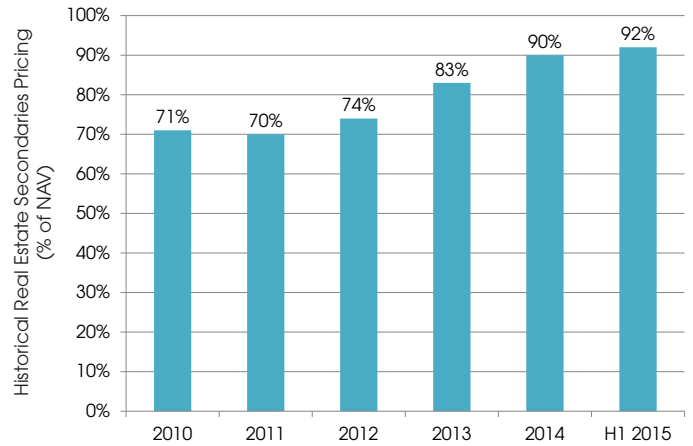
Real Estate Secondaries

Real estate secondaries fund pricing (as a percentage of NAV) has improved steadily in recent years; a particularly marked uptick in 2014 and 2015 saw an average discount to NAV of 10% and 8% respectively, compared with a 29% discount in 2010. This trend is in tandem with the amount of capital that is available for real estate secondaries opportunities: a record \$2.3bn was raised by dedicated real estate secondaries funds in 2014, with a further \$2.1bn already raised by funds closed so far in 2015.

A third of investors interested in acquiring fund interests on the secondary market are pension funds (32%), with public pension funds representing 19% (Fig. 2). A similar proportion of pension funds (30%) are looking to sell fund stakes on the secondary market, the largest proportion of any investor type.

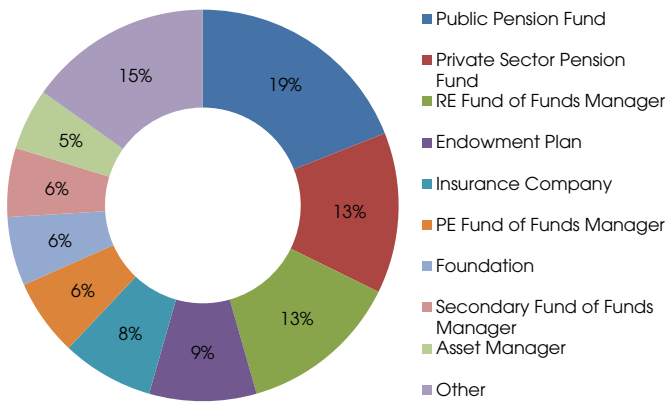
Notable recent secondary transactions involving real estate funds include Swiss Re's disposition of an interest in Niam Fund IV in June 2015 (Fig. 4). In May 2015, Metropolitan Real Estate Equity Management bought a stake in Moorfield Real Estate Fund II from William and Flora Hewlett Foundation, while in April 2015, Landmark Partners acquired interests in Europa Fund II and Fund III from Southern Methodist University Endowment.

Fig. 1: Historical Real Estate Secondaries Pricing (% of NAV), 2010 - H1 2015



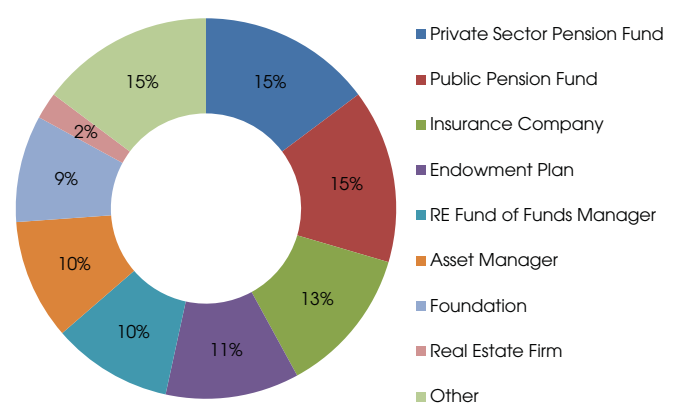
Source: Preqin Real Estate Online

Fig. 2: Breakdown of Potential Buyers of Real Estate Fund Interests on the Secondary Market by Type



Source: Preqin Real Estate Online

Fig. 3: Breakdown of Potential Sellers of Real Estate Fund Interests on the Secondary Market by Type



Source: Preqin Real Estate Online

Fig. 4: Sample of Secondary Transactions Involving Real Estate Funds in 2015 YTD

Fund	Seller	Buyer	Date
Niam Fund IV	Swiss Re	-	Jun-15
Moorfield Real Estate Fund II	William and Flora Hewlett Foundation	Metropolitan Real Estate Equity Management	May-15
Europa Fund II	Southern Methodist University Endowment	Landmark Partners	Apr-15
Europa Fund III	Southern Methodist University Endowment	Landmark Partners	Apr-15
Benson Elliot Real Estate Partners III	Bat Hanadiv Foundation	-	Mar-15
Benson Elliot Real Estate Partners III	RIT Capital Partners	-	Mar-15
Alternative Property Income Venture	Storebrand Property	Aberdeen Asset Management: Property Multi-Manager Division	Feb-15
Frogmore Real Estate Partners	Suomi Mutual Life Assurance Company	Mandatum Life Insurance Company	Jan-15
European Property Investors	Suomi Mutual Life Assurance Company	Mandatum Life Insurance Company	Jan-15

Source: Preqin Real Estate Online

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