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## Fundraising Future Predictions

The third quarter of 2012 saw a small increase in the rate of fundraising, with 26 funds reaching a final close on an aggregate \$9bn. As more data becomes available it is likely that the final total for Q3 2012 may rise by 10-20%. While this is an increase on the \$8.3bn raised in Q2, it is less than the \$11.8bn raised in Q1 2012 and lower than any of the quarterly totals from 2011. The fundraising market has been very challenging for real estate fund managers during 2012, with many investors continuing to be wary of committing significant amounts of capital to the asset class, and the level of competition increasing. However, already in Q4 2012 Blackstone Group's final close of \$13.3bn on Blackstone Real Estate Partners VII puts the next quarter ahead of fundraising levels in Q3 2012.

There have been some notable fundraising successes in Q3 2012, with a significant 43% of funds closing on or above their targets. Iron Point Partners raised \$750mn for Iron Point Real Estate Partners II, significantly more than its \$450mn target. Real Estate Capital Asia Partners closed Real Estate Capital Asia Partners III on \$530mn, having targeted \$400mn, while Carmel Partners closed its fourth fund on \$820mn, having targeted \$700mn.

The number of interim closes does offer some encouragement for those marketing new funds. Forty-three funds held interim closes in the quarter, raising \$7.2bn towards their fundraising targets. This does indicate a degree of momentum in the fundraising market, with managers raising sufficient capital to hold closes and begin making investments.

Fundraising for private real estate funds has become a long process in recent years. Funds that reached a final close in January-September 2012 have spent an average of 18.2

months in market, a small increase on the average of 16.8 months spent in market by funds which closed in 2011. In comparison, managers that closed funds in 2007 spent an average of just 9.1 months marketing their funds.

The reason for the slow fundraising environment is a lack of appetite among institutional investors for new commitments to private real estate funds. As is discussed in more detail on pages 4-5, many institutions are not expecting to be active in the short term. Only 42% of investors in private real estate funds expect to make new commitments in the next 12 months.

While many investors remain inactive, the level of competition for those firms raising funds continues to increase. The number of funds in market at the start of Q4 2012 stands at 467, up from 457 at the start of Q3. The aggregate target of all funds on the road has decreased, from \$162bn to \$155bn, in the same period.

Fundraising looks set to remain challenging in the final quarter of 2012 and into 2013. Fund managers looking to secure capital from institutional investors will need to work very hard to stand out from the crowd given the record number of funds on the road. Fund managers need to demonstrate to investors how they differ and how they expect to generate strong returns in the current market if they are to be successful. Many firms have been forced to delay anticipated closings and this is likely to continue, with some fund managers likely to face tough choices regarding the prospects of their funds. In the medium and longer term, the outlook is more positive. Very few institutional investors are reducing their allocations to real estate and most investors that gain exposure to the asset class through private real estate funds will continue to do so.

Fig. 26: Sample of Funds Closing above Target in Q3 2012

Fund	Firm	Strategy	Target Size (mn)	Final Close Size (mn)
Carmel Partners Investment Fund IV	Carmel Partners	Debt, Distressed, Opportunistic, Value Added	700 USD	820 USD
Brookfield Fairfield U.S. Multi-family Value Add Fund	Fairfield Residential	Value Added	250 USD	323 USD
FCP Realty Fund II	Federal Capital Partners	Debt, Value Added	500 USD	529 USD
Iron Point Real Estate Partners II	Iron Point Partners	Debt, Opportunistic	450 USD	750 USD
Real Estate Capital Asia Partners III	Real Estate Capital Asia Partners	Opportunistic	400 USD	530 USD
Österreich Fonds Nr. 2	Warburg - Henderson	Core, Core-Plus	150 EUR	180 EUR

Source: Preqin Real Estate Online