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Investors' Future Fund Searches and Mandates

The last few years have been challenging for those seeking to raise capital for private real estate funds, with a large proportion of investors reluctant to make new commitments to the asset class or committing less capital than they have in the past.

Overall, only 42% of private real estate fund investors expect to make new commitments in the next 12 months, illustrating that fundraising is likely to remain challenging in the coming year. As shown in Fig. 1, real estate fund of funds managers are the group which expects to be the most active in the coming year, with 74% planning new commitments in the next 12 months. Sixty percent of superannuation schemes are planning to make new commitments, and 52% of asset managers expect to be active. Only 29% of private sector pension funds and 33% of family offices plan to make new commitments in the coming year, with a large proportion of these investors content to remain on the sidelines.

Regional Breakdown of Future Fund Searches

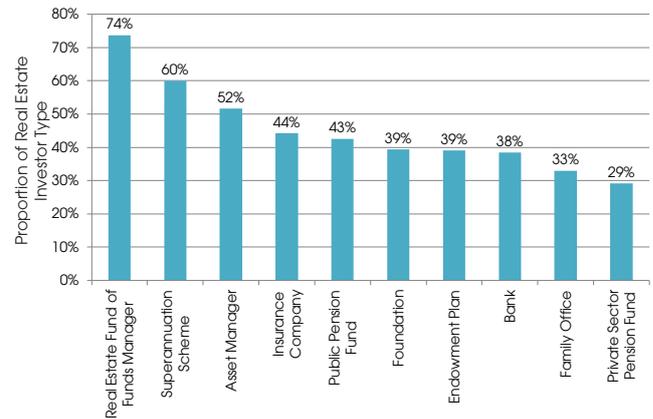
Investor intentions toward future commitment levels to private real estate funds vary according to their geographic location. Asia-based investors are set to be the most active, with 69% of investors in this region actively seeking to invest in new private real estate funds. A shift in investor attitudes may help explain why these investors look set to be the most active in the coming year. Not only are many Asia-based institutions diversifying away from traditional investments to alternative investments, but changing regulations in recent years have also allowed more Asia-based institutions to invest in real estate.

The ongoing economic volatility and sovereign debt crisis in Europe appear to be impacting investor confidence in this region, with only 37% of private real estate investors based in Europe expecting to invest in the asset class in the next 12 months. Many North America-based investors also remain cautious about allocating capital to the asset class over the coming year. Only 40% of North America-based investors are seeking to commit capital to real estate vehicles over this period, as uncertainty in the private real estate market continues.

Strategies and Geographies Targeted

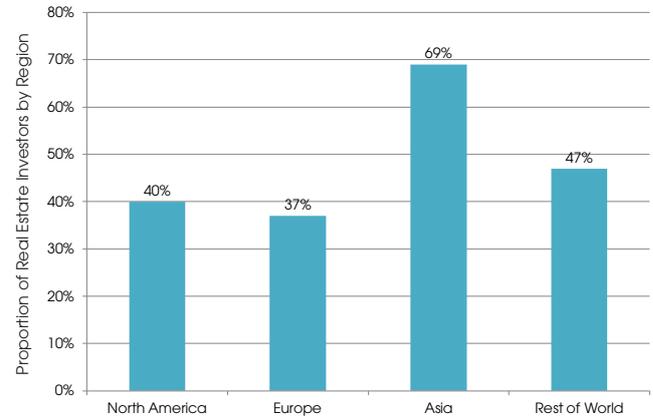
The strategies sought by private real estate fund investors are displayed in Fig. 3. Fifty-three percent of investors are seeking to invest in core funds, indicating the risk-averse attitudes of many institutions. Value-added and opportunistic funds are each being sought by 44% of investors respectively, which demonstrates that many investors still target a higher

Fig. 1: Proportion of Institutional Investors of Each Type Searching for New Funds in the Next 12 Months



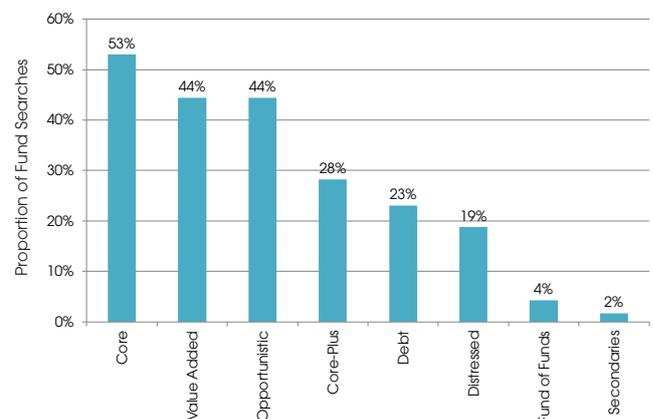
Source: Preqin Real Estate Online

Fig. 2: Proportion of Institutional Investors in Each Region Searching for New Funds in the Next 12 Months



Source: Preqin Real Estate Online

Fig. 3: Strategies Sought by Institutional Investors in the Next 12 Months



Source: Preqin Real Estate Online

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risk/return trade-off. Vehicles with a debt strategy are attractive to 23% of investors, and 19% exhibit a preference for distressed funds. Debt and distressed vehicles have been gaining traction since the onset of the financial crisis, with a large number of investors believing there are excellent opportunities for investment in these sectors. Only 2% of investors are targeting real estate secondaries funds, a market which, while growing, remains in its relative infancy.

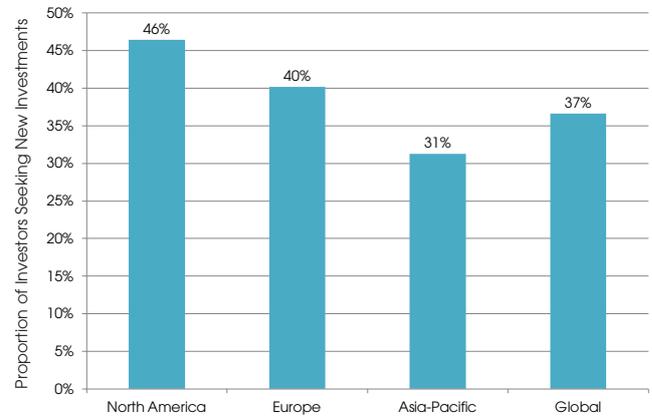
The geographies being targeted by investors active in the next 12 months are shown in Fig. 4. With 46% of investors looking to gain exposure to North American real estate, the region is the most prominent destination for institutional investment via private real estate funds. Europe-focused vehicles are targeted by 40% of investors, despite the ongoing eurozone difficulties. Thirty-seven percent of investors have a global outlook for their fund investments, while the Asia-Pacific region is on the radar of 31% of investors.

Capital Earmarked for New Private Real Estate Fund Investment

As shown in Fig. 5, of the institutions planning to invest fresh capital in private real estate funds in the next 12 months and having determined their investment plans for the coming year, 46% have set aside up to \$49mn for these investments. A further 22% indicated that they would commit \$50-99mn to real estate funds in the next 12 months. Twenty-two percent have earmarked \$100-299mn for private property fund investments and 10% stated they would invest \$300mn or more in real estate vehicles in the next 12 months. These figures are representative of a cautious investor universe, and even though institutions are becoming more active than in recent years, they are not yet deploying capital at the levels seen before the global economic crisis.

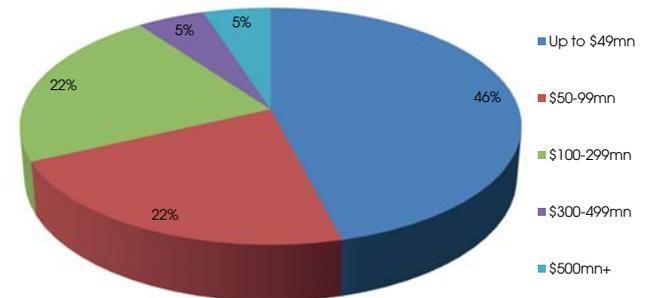
Fig. 6 shows that 60% of active investors expect to make just one or two new fund commitments in the next 12 months, and only 13% are willing to consider investing in more than five vehicles. Though some confidence is returning to the investor universe, the majority of investors in real estate are unwilling to risk making more than a couple of new investments while market uncertainty prevails. Institutions are choosing to invest only in the best opportunities offered to them and with managers that they feel will deliver satisfactory returns on their investments.

Fig. 4: Regions Targeted by Institutional Investors in Private Real Estate in the Next 12 Months



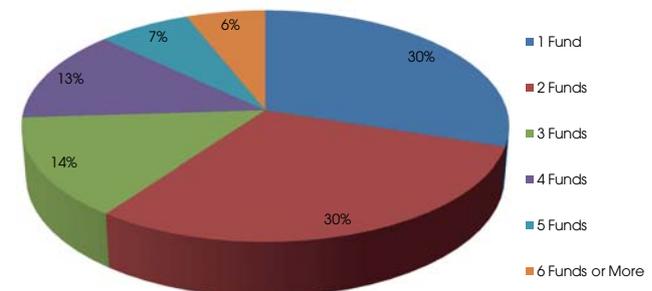
Source: Preqin Real Estate Online

Fig. 5: Amount of Fresh Capital Institutional Investors Expect to Commit to Private Real Estate Funds over the Next 12 Months



Source: Preqin Real Estate Online

Fig. 6: Number of Private Real Estate Funds Institutional Investors Expect to Commit to over the Next 12 Months



Source: Preqin Real Estate Online

Preqin's Real Estate Online product contains detailed profiles for over 3,400 institutional investors that are actively investing in unlisted real estate. For more information on how Real Estate Online can help you, please visit: www.preqin.com/reo