

Private Equity Real Estate Deal Activity Falls in Q2 2018

First half of the year sees two consecutive quarters of falling deal activity

After a year of strong private equity real estate deal making in 2017 – in which both Q2 and Q4 set new records for aggregate deal value – the first half of 2018 has seen two consecutive quarters of decline in both the number of deals announced and their aggregate value. A total of 1,295 transactions were completed in Q2 with a combined value of \$62bn, down from 1,623 deals worth a total of \$77bn seen in Q1. Preqin expects Q2 totals to rise by up to 10% as more information becomes available, but it remains some way off the record \$102bn in deal making seen in Q4 2017. The slowdown is potentially due to higher asset pricing, with fund managers moving to the lower end of the market for deal flow: two-thirds of transactions in Q2 were valued at less than \$50mn, compared with 59% the year before. Additionally, the quarter saw a shift towards residential deals, which accounted for 27% of deal value, up from 15% in Q2 2017. By contrast, office transactions fell from 36% to 28% over the same time period.

For more information and analysis, see the full *Preqin Quarterly Real Estate Update: Q1 2018* here:

<http://docs.preqin.com/quarterly/re/Preqin-Quarterly-Real-Estate-Update-Q1-2018.pdf>

Key Private Equity Real Estate Deals Facts:

- **In Q2 2018, 1,295 private equity real estate deals were completed for \$62bn.** This represents the second consecutive quarter of decline in deal activity.
- **Two-thirds of transactions in Q2 were valued at less than \$50mn** compared with 59% one year prior.
- **Residential deals accounted for a growing proportion of deal value over the past year:** transactions for residential assets accounted for 15% of deal value in Q2 2017, but accounted for 27% in Q2 2018.
- Although office assets continued to make up just over a quarter (27%) of transactions, **they fell in deal value proportions**, from 36% in Q2 2017 to 28% in Q2 2018.
- **All regions saw a drop in the number of transactions completed:** North America saw 921 deals completed, while there were another 342 deals completed in Europe and eight in Asia.
- Smaller deals represent an increased proportion of total deal value, **with transactions for assets smaller than 100,000ft² accounting for 18% of deal value in Q2 2018**, up from 8% in Q2 2017.
- **Single asset deals continue to account for the majority of deal activity**, making up 84% of deals completed and 69% of deal value.
- **The largest deal completed in Q2 2018 was the acquisition of Gramercy Property Trust by Blackstone Group for \$7.6bn.**

Tom Carr, Head of Real Estate Products:

“Although private equity real estate deal activity has fallen for a second consecutive quarter in 2018, it doesn’t necessarily mean the industry should start to worry. Even if activity has fallen below levels seen through most of 2017, the first half of 2018 has still seen activity on par with levels recorded in 2016 and 2015.

The majority of investors and fund managers surveyed by Preqin are concerned about valuations in the real estate deal market. In response, fund managers might be shifting towards smaller deals; Q2 saw a significant rise in the proportion of total deal value deployed in transactions valued at less than \$50mn. We’ve also seen a shift of capital being put to work in residential real estate, which is unsurprising given that over half of investors view residential property types as currently presenting the best opportunities.”

Preqin is the leading source of information for the alternative assets industry, providing insight and analysis gathered by its global teams of dedicated researchers. Founded in 2003, the company is a frequent source of intelligence used in the global financial press, through its online databases, regular publications and bespoke data requests.

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