Press Release

7th June 2018

Locally-Focused Private Real Estate Funds Outperform

Vehicles focusing on specific countries post higher returns and show less risk than continental and multi-continental funds

More than three-quarters (76%) of private real estate funds closed since 2010 focus on a single country, and these funds account for half of capital raised by real estate funds in the period. However, a similar level of capital (47%) has been raised by funds with a continental or multi-continental focus, despite these vehicles representing just 20% of fund closures. Funds with a wider scope tend to be larger and have more successful fundraising processes, but do not typically perform better. In fact, when looking at funds of vintage 2010 or later, funds which focus on a single country or a specific selection of countries have higher median net IRRs than funds with a broader scope. However, continental and multi-continental funds do have a lower standard deviation in their returns, suggesting that their lower performance also comes with a lower level of variance.

For more information and analysis, see the full *June 2018 Real Estate Spotlight* here:
http://docs.preqin.com/newsletters/re/Preqin-Real-Estate-Spotlight-June-2018.pdf

Key Private Real Estate Geographic Diversity Facts:

- Private real estate **funds with a single country focus account for 76% of funds closed and 50% of capital raised** since 2010. Multi-country-focused funds represent a further 4% of fund closures and 3% of capital raised.
- Since 2013, **two-thirds (69%) of single country funds closed have focused on the US**, followed by the UK (6%), Australia (4%), India (3%), China (3%) and Japan (2%).
- Continental and multi-continental funds represent a combined 20% of fund closures since 2010, and 47% of total investor commitments.
- Funds with a broader scope tend to be larger – **multi-continental funds closed since 2013 have an average size of $1.6bn**, compared with $247mn for single country funds.
- They also tend to raise funds more successfully. **Half of single country funds closed since 2013 have failed to meet their target size**, while 56% of multi-continental funds have exceeded theirs.
- But **funds with a tighter focus post higher average returns**. For vintages 2010 onwards, single country funds have a median net IRR of 14.0%, while multi-country funds have a median of 17.3%
- By contrast, **continental and multi-continental funds have median net IRRs of 13.2% and 13.8%** respectively.
- However, **they also show less variance in their performance**. The standard deviation of net IRRs since 2010 is 8.9% for multi-continental funds, compared to 10.3% for single country funds.

Oliver Senchal, Head of Real Estate Products:

"Capital concentration in the private real estate fundraising market has seen some managers raise larger and larger funds quickly and with great success. These landmark vehicles typically invest across continents or around the world, and attract the bulk of attention within the asset class. However, half of all private real estate capital is still being committed through funds dedicated to specific countries, and these vehicles account for three out of four vehicles closed in recent years. They also seem to outperform their larger rivals, with single country-focused funds posting higher average returns since the Global Financial Crisis.

However, headline returns aren't everything, and it is notable that continental and multi-continental funds have less variation in the returns they offer. Single country funds may form the bedrock of investors' portfolios, but with so many funds seeking investment the challenge for institutions is to find vehicles which will suit their needs. Multi-continental funds, meanwhile, offer a moderated risk/return profile, and benefit from brand recognition and longer track records. Most investors will be looking to take a hybrid approach: seeking single country funds to diversify and gain access to specific markets, while trusting in multi-continental funds to absorb larger contributions and offer more consistent risk."
