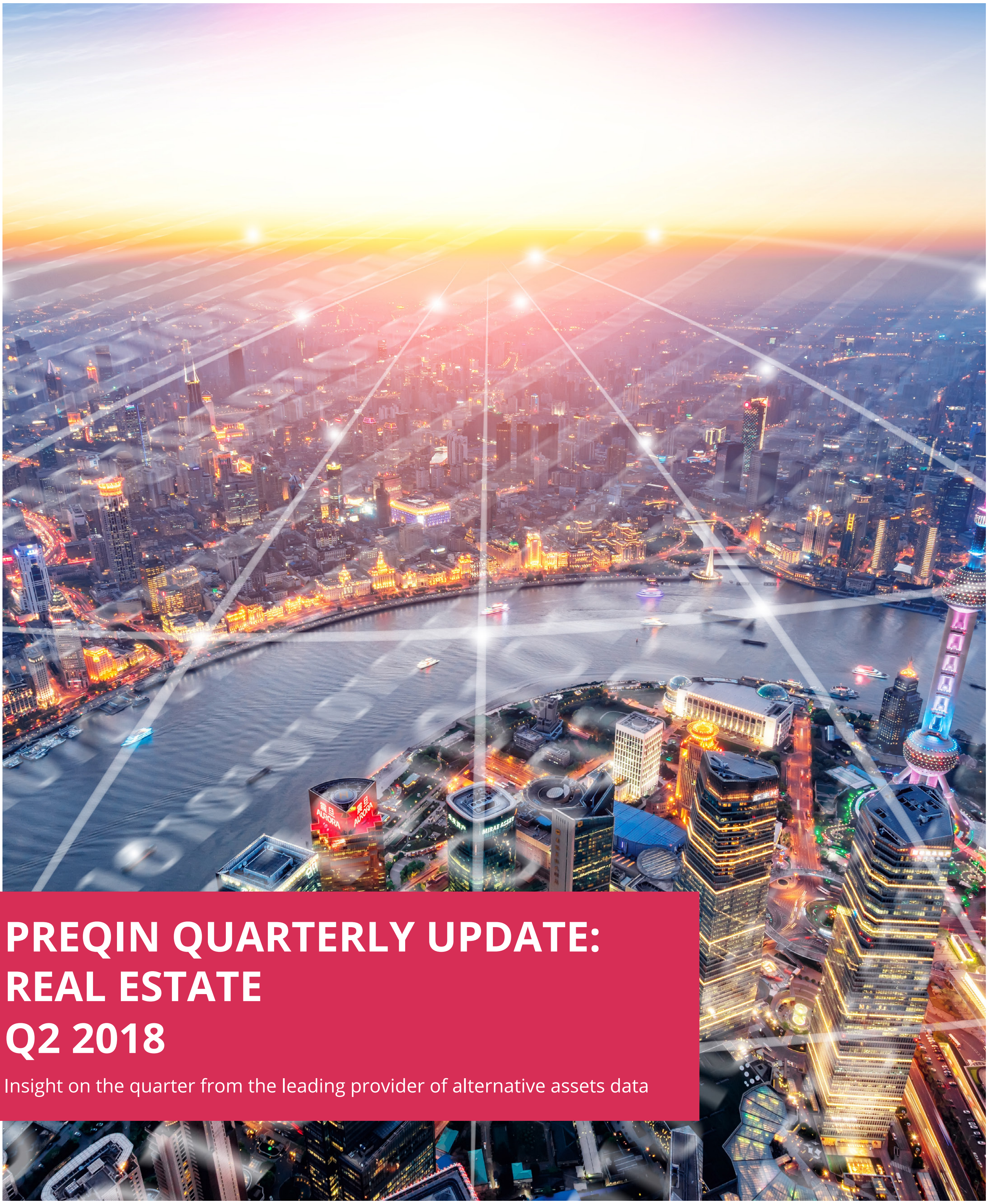


PREQIN QUARTERLY UPDATE: REAL ESTATE Q2 2018

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

Content includes:

Fundraising
Fund Launches
Funds in Market
Deals
Institutional Investors
Dry Powder & Fund Performance

FOREWORD - Oliver Senchal, Preqin

The private real estate industry entered Q2 on the back of the best opening quarter in recent history. Both capital raised and deal flow were strong, and helping to drive investor appetite was the fact that distributions continued to exceed capital calls by a significant margin, demonstrating that the late cycle concerns were merely about perspective. Yes, to invest in this environment still presents significant challenges when valuations are continuing to rise, but many funds are sitting on record levels of dry powder, which means not only can they act quickly but can also effectively drive negotiations for attractive assets. For those that are ready to dispose of property, the demand is there from a wide variety of participants both locally and internationally.

So, has this momentum continued into Q2? In a nutshell, no. Both fundraising and deal flow are not only down on Q1 results but are also relatively weak compared to recent quarterly levels. Even without the level of $1bn+ fundraises we saw in Q1, the average fund size remained high – a reflection of the bifurcation of the fundraising market. Further illustrating this point – despite the decline in aggregate deal value – Blackstone were able to close a deal on Gramercy Property Trust for $7.6bn, representing 12% of the total quarterly value.

Concerns over a downturn are still evident, not only from the increase in appetite for debt funds we have seen in recent years and the downside risk protection they offer, but also from the mandates that institutional investors are putting out. Indicators appear to be moving from opportunity funds down the spectrum towards value added and core-plus vehicles, although this does not mean that the higher-risk vehicles are dead: the $1.85bn raised for Kayne Anderson's opportunistic Real Estate Partners V is evidence of experienced firms' ability to capture the attention of investors at any stage in the cycle.

As it stands, the Federal Reserve's increase in rates in June – with more planned throughout the year and into 2019 – will have an impact on how attractive the asset class will look relative to other forms of investment, traditional or alternative. However, we are at a new quarterly record of available capital which should filter down into deal markets over H2, and the fundraising market is on the cusp of some mega fund closures. As such, Q2 may just be a blip on the way to another strong year for the industry.

We hope that you find this report useful and welcome any feedback you may have. For more information, please visit www.preqin.com or contact info@preqin.com.

FUNDRAISING

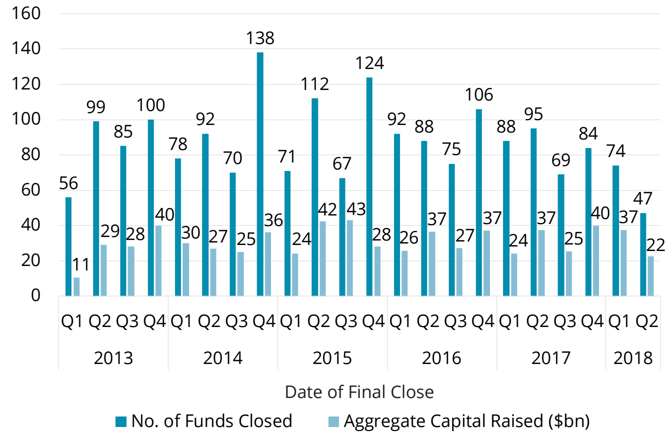
Following the fundraising market's most successful opening quarter of recent times, Q2 faced an uphill struggle to continue the early momentum. The 47 funds closed raised a combined $22bn, the lowest quarterly total since 2013 (Fig. 1). The lack of mega funds is the reason behind the decline, with Q1's two largest funds securing a combined $15bn, while Q2's largest vehicles, Landmark Real Estate Fund VIII and Kayne Anderson Real Estate Partners V, raised $5.2bn collectively.

From 2015 to 2017, 182 funds, on average, have closed in the first half of the year, securing aggregate capital of $63bn. H1 2018 is currently below average for the number of funds closed (121) and aggregate capital raised ($60bn), but as more information becomes available we do expect capital raised to match or surpass prior H1 totals, although the average number of products will lag significantly behind.

Value added and opportunistic funds accounted for two-thirds of fund closures and capital raised in Q2 (Fig. 2), in line with previous quarters. Landmark's fund closure meant that secondaries vehicles represented just 2% of products closed in Q2 but nearly 15% of total fund commitments.

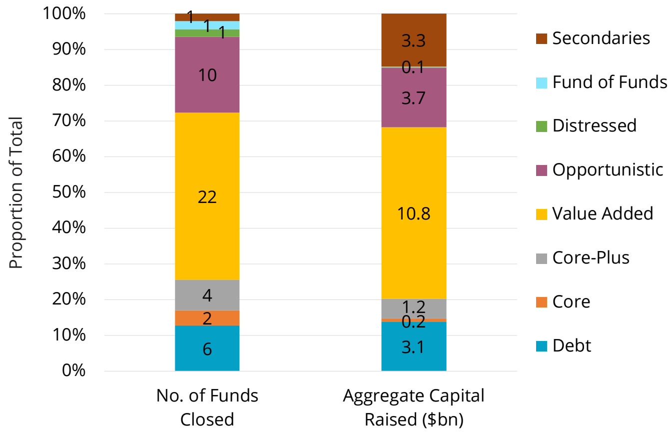
North America represented the primary focus for the majority of funds closed (32 funds and $14bn, Fig. 4). However, it is worth noting that even though there were fewer Europe- and Asia-

Fig. 1: Global Quarterly Closed-End Private Real Estate Fundraising, Q1 2013 - Q2 2018



Source: Preqin

Fig. 2: Closed-End Private Real Estate Fundraising in Q2 2018 by Primary Strategy



Source: Preqin

Fig. 3: Largest Private Real Estate Funds Closed in Q2 2018

Fund	Firm	Headquarters	Fund Size (mn)	Primary Strategy	Geographic Focus
Landmark Real Estate Fund VIII	Landmark Partners	US	3,300 USD	Secondaries	Global
Kayne Anderson Real Estate Partners V	Kayne Anderson Capital Advisors	US	1,850 USD	Opportunistic	US
GreenOak US III	GreenOak US	US	1,550 USD	Value Added	US
Blackstone Tactical Opportunities RI Fund	Blackstone Group	US	1,200 USD	Debt	UK
AEW Value Investors Asia III	AEW Capital Management	US	1,120 USD	Value Added	Asia
NREP Nordic Strategies Fund III	NREP	Denmark	903 EUR	Value Added	Europe
Waterton Residential Property Venture XIII	Waterton	US	910 USD	Value Added	US
AG Europe Realty Fund II	Angelo, Gordon & Co	US	843 USD	Value Added	West Europe
Tricon US Single-Family Venture	Tricon Capital Group	Canada	750 USD	Value Added	US
Brunswick Real Estate Capital II	Brunswick Real Estate	Sweden	640 EUR	Debt	Nordic

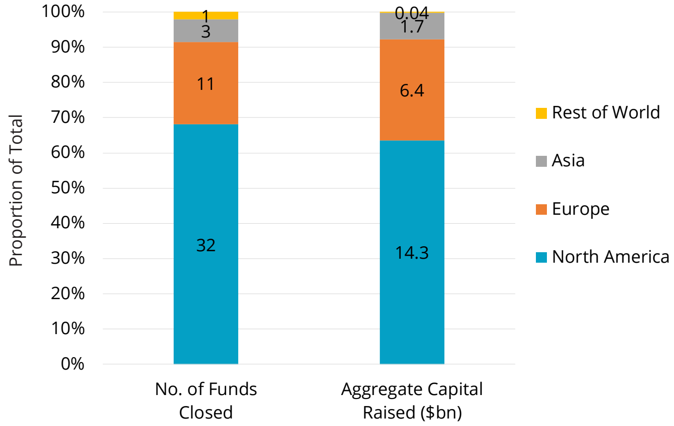
Source: Preqin

focused funds closed during the quarter, the average size of these funds was larger than those in North America. Globally, average fund size has decreased from Q1 2018, but remains nearly $100mn higher than the average fund size of Q2 2017 (Fig. 5).

> ***Funds closed in 2018 so far spent an average of 19.1 months on the road***

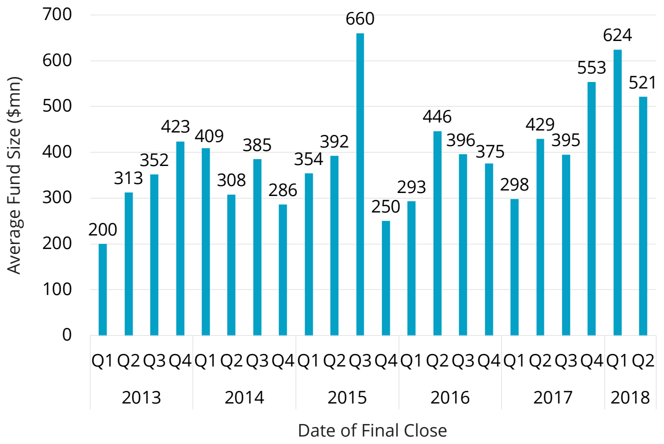
Those private funds that did reach a final close have generally been oversubscribed – nearly half (49%) of vehicles closed in Q2 surpassed their initial target size, slightly above the Q1 figure (44%, Fig. 6). Adding the 16% of funds that hit their target, Q2 was relatively successful for funds that reached a final close.

Fig. 4: Closed-End Private Real Estate Fundraising in Q2 2018 by Primary Geographic Focus



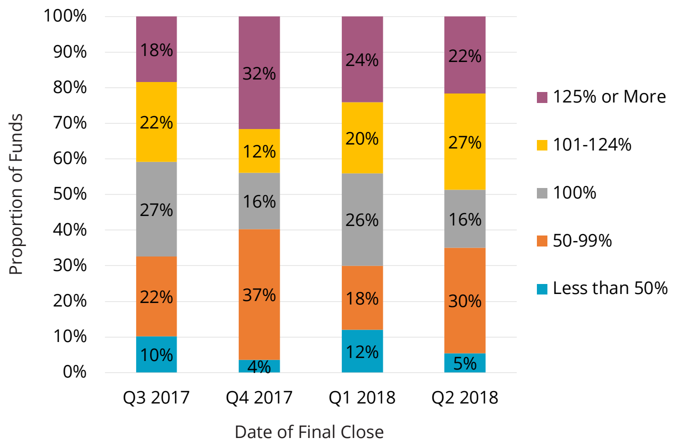
Source: Preqin

Fig. 5: Average Size of Closed-End Private Real Estate Funds, Q1 2013 - Q2 2018



Source: Preqin

Fig. 6: Proportion of Target Size Achieved by Closed-End Private Real Estate Funds, Q3 2017 - Q2 2018



Source: Preqin

PREQIN CAN HELP YOU FUNDRAISE

The real estate fundraising landscape is more competitive than ever: more than 600 funds are on the road seeking over $200bn in aggregate capital commitments. With industry-leading data and tools, Preqin can help find those investors that are the best match for your vehicle.

Preqin's award-winning real estate data covers all aspects of the asset class, including fund managers, fund performance, fundraising and institutional investors. This comprehensive platform is ideal for fund marketers and investor relations professionals focused on real estate funds.

To find out more, please visit: www.preqin.com/realestate

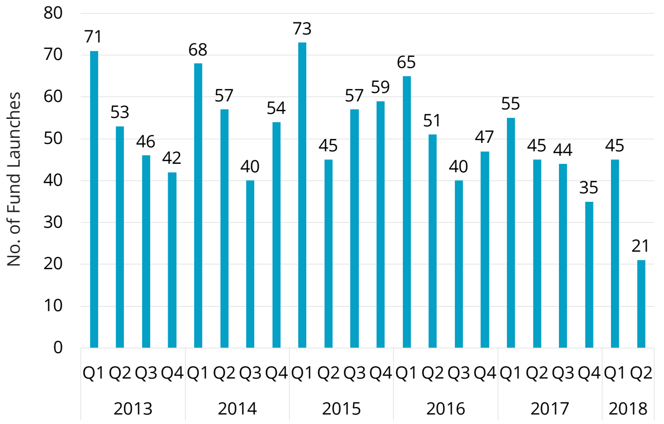
FUND LAUNCHES

Fund launches typically decline from Q1 to Q2, and the first half of 2018 has followed this trend. Notably, both H1 2017 and H1 2018 have seen the fewest fund launches in recent history (Fig. 7), likely due to the concentration of capital commitments in fewer funds and a fundraising market that has become increasingly competitive (see page 6: Funds in Market).

There has been no real shift in where launch activity is coming from: North America remains the epicentre of private real estate activity and, as such, managers based in the region represented nearly two-thirds of launches in Q2 (Fig. 8). Unsurprisingly, this is reflected in the primary geographic focus of funds launched, with 57% of funds launched in Q2 targeting investment in the region (Fig. 9).

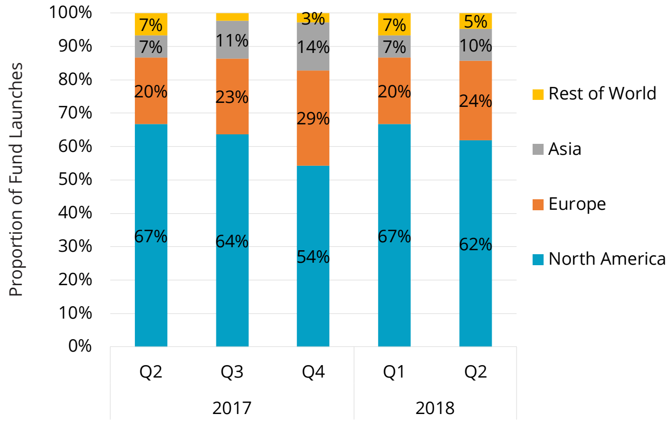
While value added and opportunistic funds have historically dominated quarterly launches, Q2 has seen value added funds represent a smaller share of launch activity than the strategy has done over the previous half year (Fig. 10). This is despite the large proportion of investor searches including a value added mandate in Q2 (see page 9: Institutional Investors).

Fig. 7: Quarterly Closed-End Private Real Estate Fund Launches, Q1 2013 - Q2 2018



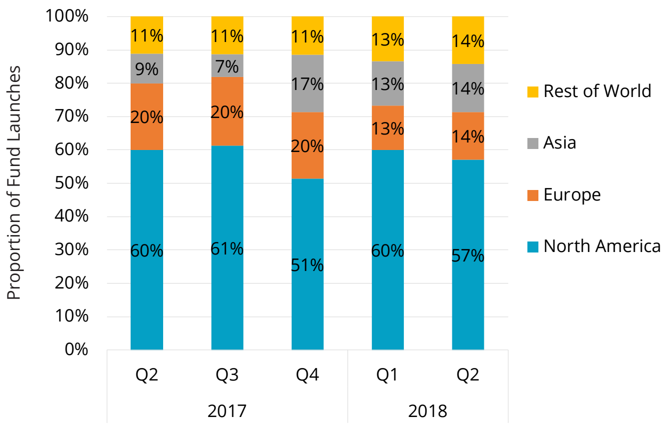
Source: Preqin

Fig. 8: Closed-End Private Real Estate Fund Launches by Fund Manager Headquarters, Q2 2017 - Q2 2018



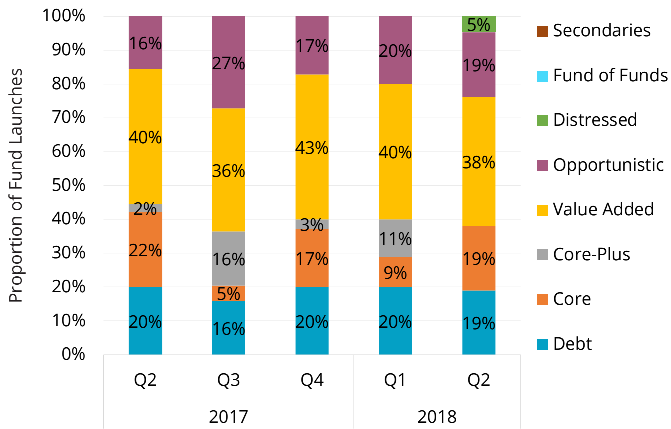
Source: Preqin

Fig. 9: Closed-End Private Real Estate Fund Launches by Primary Geographic Focus, Q2 2017 - Q2 2018



Source: Preqin

Fig. 10: Closed-End Private Real Estate Fund Launches by Primary Strategy, Q2 2017 - Q2 2018



Source: Preqin

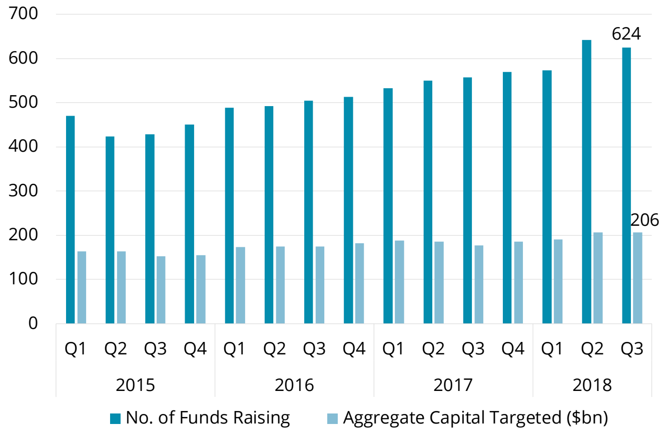
FUNDS IN MARKET

At the beginning of Q3 2018, there are 624 closed-end private real estate funds in market targeting an aggregate $206bn in investor capital (Fig. 11). This represents the first quarterly decline in the number of products available to investors in over two years, and comes in the wake of concerns that the market is oversaturated with opportunities at present.

North America-focused funds on the road continue to dominate the fundraising landscape: 388 funds are seeking a combined $125bn in capital commitments, representing 61% of targeted capital (Fig. 12). All six of the largest closed-end private real estate funds in market have exposure to the region, including TPG Real Estate Fund III which solely focuses on investments in the US.

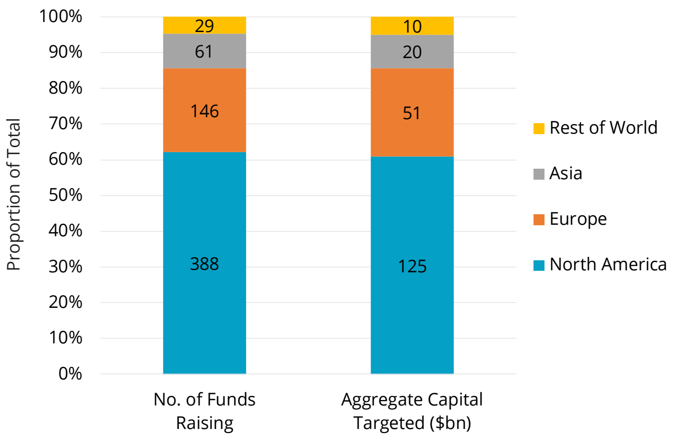
While value added and opportunistic funds together constitute the majority (58%) of funds in market, seeking $119bn in aggregate capital, real estate debt funds are also gaining traction (Fig. 13). There are nearly as many debt funds open to investment as there are core and core-plus vehicles, while the capital targeted by these vehicles is now only $3bn less than for opportunistic funds. Competition for higher-risk/return assets could be playing a part in the shift (more details available in **Preqin Special Report: Real Estate Fund Manager Outlook, H1 2018**), as could the move to greater downside risk protection required in institutional portfolios – a product of late cycle concerns. Three of the six largest funds in market include a debt component (Fig. 14), including TCI Real Estate Partners Fund III which is solely focusing on debt through the provision of secured lending on prime real estate assets in the US and Western Europe.

Fig. 11: Closed-End Private Real Estate Funds in Market over Time, Q1 2015 - Q3 2018 (As at July 2018)



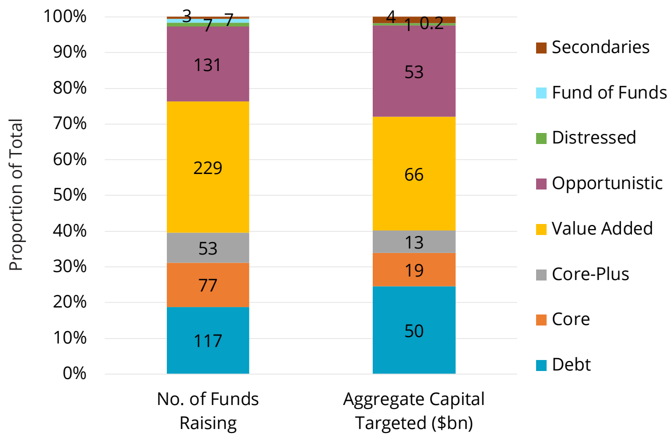
Source: Preqin

Fig. 12: Closed-End Private Real Estate Funds in Market by Primary Geographic Focus (As at July 2018)



Source: Preqin

Fig. 13: Closed-End Private Real Estate Funds in Market by Primary Strategy (As at July 2018)



Source: Preqin

Fig. 14: Largest Closed-End Private Real Estate Funds in Market (As at July 2018)

Fund	Firm	Target Size (mn)	Strategy	Geographic Focus
Brookfield Strategic Real Estate Partners III	Brookfield Property Group	10,000 USD	Debt, Opportunistic, Value Added	Global
Cerberus Global NPL Fund	Cerberus Real Estate Capital Management	4,000 USD	Debt, Distressed	Global
CIM Fund IX	CIM Group	3,000 USD	Opportunistic	North America
Digital Colony Partners	Colony NorthStar	3,000 USD	Opportunistic, Value Added	Global
TCI Real Estate Partners Fund III	TCI Real Estate Partners	3,000 USD	Debt	Europe, North America
TPG Real Estate Fund III	TPG Real Estate	3,000 USD	Opportunistic, Value Added	US

Source: Preqin

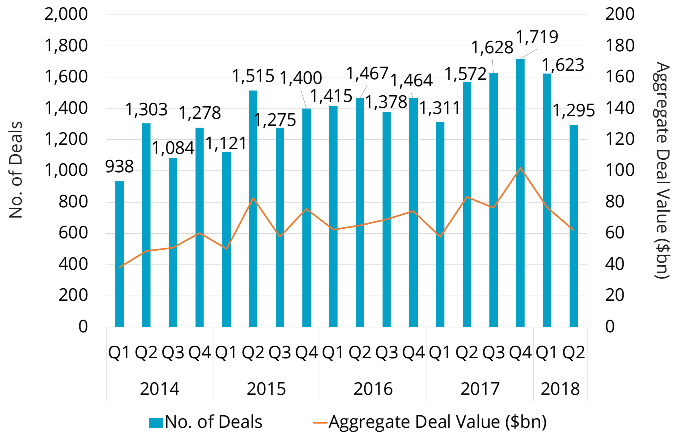
DEALS

In the second quarter of 2018, there was a reduction in both the number and value of private equity real estate (PERE) deals from Q1, with 1,295 transactions completed for $62bn. With these figures down one-fifth from the previous quarter, Q2 2018 represents the second consecutive quarterly decline in deal activity.

The slowdown can be attributed to rising prices for assets, 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% one year prior. This does not mean large transactions did not occur – Blackstone Group's $7.6bn acquisition of Gramercy Property Trust in May makes it one of the largest real estate deals of recent times. As a result, the proportion of deals by asset type has skewed in favour of operating companies (Fig. 16). Though, having said this, there has been an increase in the proportion of value attributed to residential deals (15% in Q2 2017 to 27% in Q2 2018), to the detriment of office transactions, which fell from 36% to 28%.

Following the increase in lower-value transactions, there has been a two-percentage-point increase from Q2 2017 in the proportion of PERE deals completed for assets smaller than 100,000ft². These smaller deals also represent an increased proportion of total deal value, up nine percentage points in Q2 2018 from 8% in Q2 2017.

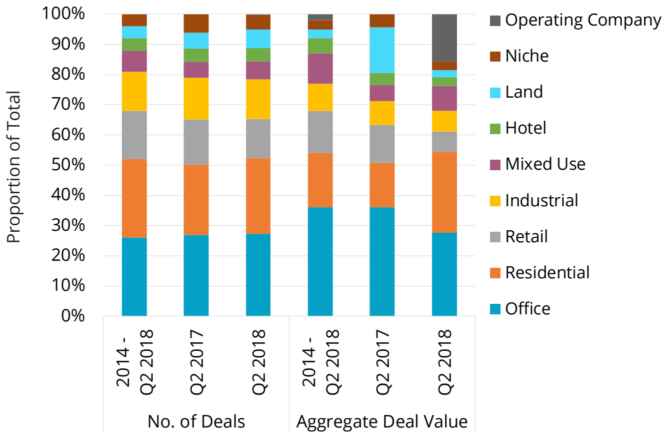
Fig. 15: Quarterly PERE Deals, Q1 2014 - Q2 2018



Source: Preqin

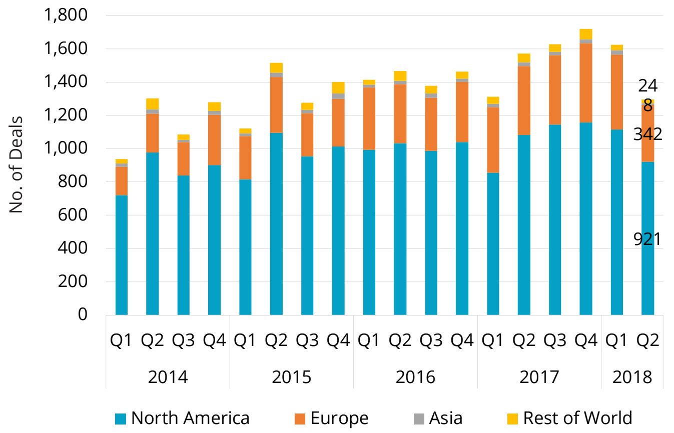
The make-up of deals by transaction type in Q2 2018 has remained relatively similar to Q2 2017, with the differences being the number of single-asset deals increasing by three percentage points and the aggregate value of those single-asset deals increasing by two percentage points from Q2 2017.

Fig. 16: PERE Deals by Primary Asset Type, 2014 - Q2 2018



Source: Preqin

Fig. 17: Quarterly PERE Deal Flow by Region, Q1 2014 - Q2 2018



Source: Preqin

Fig. 18: Largest PERE Deals in North America in Q2 2018

Asset(s)	Buyer(s)	Seller(s)	Location	Asset Type	Deal Size (mn)	Deal Date
Gramercy Property Trust	Blackstone Group	Gramercy Property Trust	US	Operating Company	7,600 USD	May-18
US, Multifamily Portfolio	Brookfield Property Group	Carmel Partners	Ewa Beach, US, Glendale, US, Los Angeles, US, New York, US, Northridge, US, Pleasanton, US	Residential	1,900 USD	May-18
Starrett City	Brooksville Company, Rockpoint Group	Unidentified Seller(s)	New York, US	Residential	905 USD	May-18
1745 Broadway	Invesco Real Estate	Ivanhoé Cambridge, SL Green Realty	New York, US	Office	633 USD	Apr-18
US, Residential Portfolio	Related Companies	Apartment Investment and Management Company	San Francisco, US	Residential	590 USD	Apr-18

Source: Preqin

Fig. 19: Largest PERE Deals in Europe in Q2 2018

Asset(s)	Buyer(s)	Seller(s)	Location	Asset Type	Deal Size (mn)	Deal Date
Netherlands, Diversified Portfolio	Vesteda Group	NN Group	Netherlands	Mixed Use	1,500 EUR	Jun-18
Ropemaker Place	Ho Bee Land	AXA Investment Managers – Real Assets, Gingko Tree Investment, Hanwha Group	London	Office	650 GBP	May-18
Devonshire Square	PFA Pension, TH Real Estate, WeWork	Blackstone Group	London	Mixed Use	600 GBP	Apr-18
Amsterdam, Netherlands, Diversified Portfolio	HighBrook Investors	Breevast	Amsterdam	Mixed Use	615 EUR	Apr-18
114 Av. des Champs-Élysées	Hines, Universal-Investment	EPI Group	Paris, France	Retail	600 EUR	Apr-18

Source: Preqin

Fig. 20: Largest PERE Deals in Asia in Q2 2018

Asset(s)	Buyer(s)	Seller(s)	Location	Asset Type	Deal Size (mn)	Deal Date
Mumbai, India, Office Portfolio	Ascendas-Singbridge	Unidentified Seller(s)	Mumbai, India	Office	9,300 INR	May-18
Japan, Diversified Portfolio	Nomura Real Estate Asset Management	Unidentified Seller(s)	Kawasaki, Japan, Tokyo, Japan	Residential	14,496 JPY	Apr-18
Osaka, Japan, Hotel Portfolio	Ascendas-Singbridge	Unidentified Seller(s)	Osaka, Japan	Mixed Use	10,000 JPY	Jun-18
Logiport Icheon	Deutsche Asset Management	Unidentified Seller(s)	Gyeonggi-do, South Korea	Industrial	61,200 KRW	Apr-18
Kumho Asiana Main Tower	CPP Investment Board, GIC	Kumho Asiana Group	Seoul, South Korea	Office	4,180 KRW	May-18

Source: Preqin

Fig. 21: Largest PERE Deals in Rest of World in Q2 2018

Asset(s)	Buyer(s)	Seller(s)	Location	Asset Type	Deal Size (mn)	Deal Date
Westpac Place	Mirvac Funds Management	Blackstone Group	Sydney, Australia	Office	722 AUD	Jun-18
VXV Office Portfolio	Blackstone Group	GIC, Goodman	New Zealand	Office	635 NZD	May-18
Grand Plaza	Invesco Real Estate	CPP Investment Board, Future Fund	Brisbane, Australia	Retail	215 AUD	Apr-18
80 Grenfell Street	Centuria Property Funds, Lederer Group	Blackstone Group	Adelaide, Australia	Office	185 AUD	May-18
117 Clarence Street	Investa Property Group	Roxy-Pacific Holdings Limited, Unidentified Seller(s)	Sydney, Australia	Office	153 AUD	Jun-18

Source: Preqin

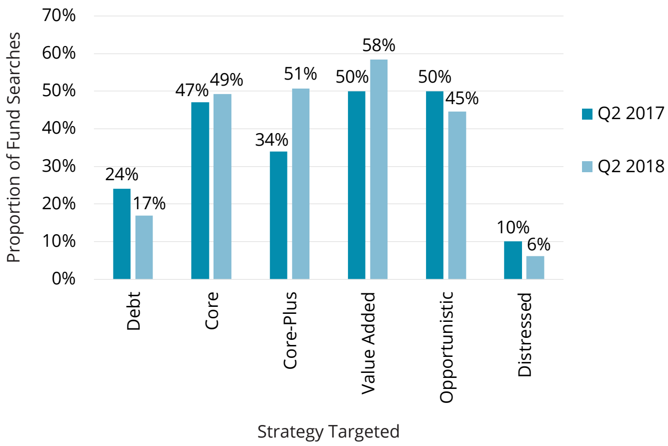
INSTITUTIONAL INVESTORS

Investors seeking new private real estate fund commitments in the next 12 months are largely looking for exposure to value added (58%), core-plus (51%) and core (49%) strategies (Fig. 22). The increase in the proportion of fund searches issued for both value added and core-plus funds, and away from opportunistic funds, is representative of an industry where investors are increasingly seeking to de-risk portfolios in light of the current market conditions.

Europe remains the most targeted region among institutional investors: 65% of fund searches issued in Q2 included a European mandate (Fig. 23). With no real shift in priorities over the coming year when compared to historical investor mandates, North America remains a key target in the year ahead, along with global opportunities.

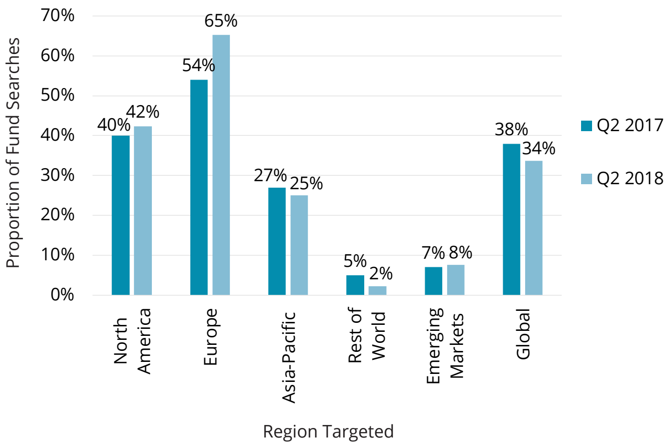
Institutions are typically planning to make larger commitments than a year ago, with the proportion seeking to invest $100mn or more in the next 12 months increasing from 34% to 42%, and those seeking to commit more than $600mn to private real estate funds increasing from 3% to 11% (Fig. 24). However, this capital is likely to be deployed across fewer funds, with 37% of investors planning just one commitment in the year ahead, compared to 24% a year ago (Fig. 25).

Fig. 22: Strategies Targeted by Private Real Estate Investors in the Next 12 Months, Q2 2017 vs. Q2 2018



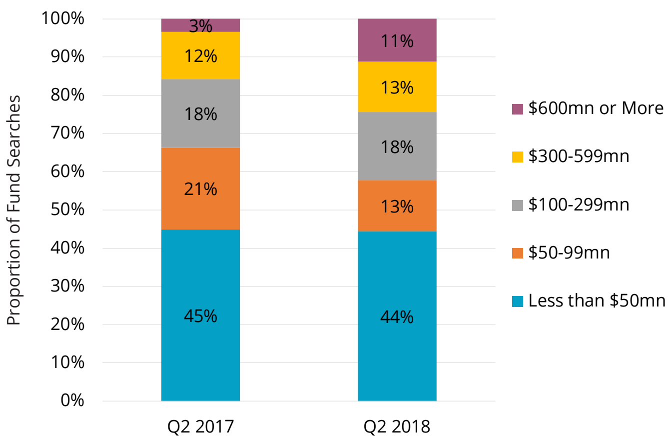
Source: Preqin

Fig. 23: Regions Targeted by Private Real Estate Investors in the Next 12 Months, Q2 2017 vs. Q2 2018



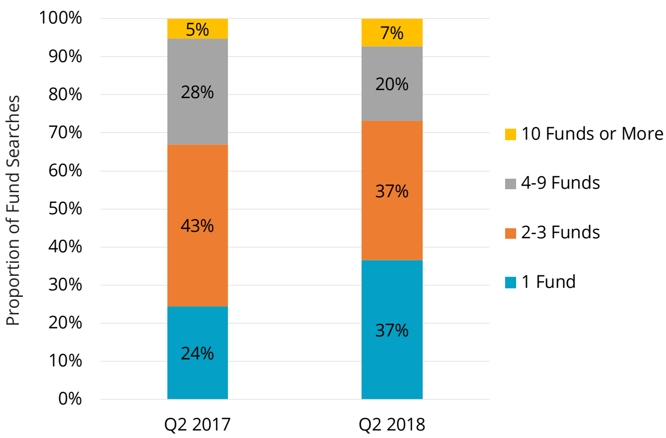
Source: Preqin

Fig. 24: Amount of Capital Investors Plan to Committed to Private Real Estate Funds in the Next 12 Months, Q2 2017 vs. Q2 2018



Source: Preqin

Fig. 25: Number of Private Real Estate Funds Investors Plan to Commit to in the Next 12 Months, Q2 2017 vs. Q2 2018



Source: Preqin

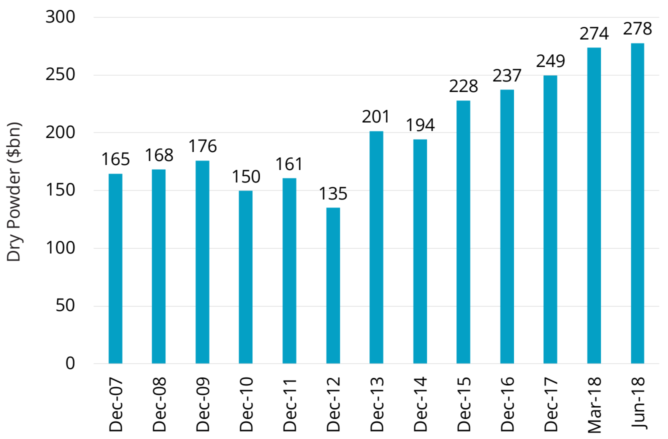
DRY POWDER

Fundraising has remained robust throughout the first half of 2018, as has the amount of capital available for deployment. Dry powder held by real estate firms stands at $278bn as at June 2018 (Fig. 26), although this does mark the first decline in the monthly figure since the end of 2017 (Fig. 27).

North America-focused dry powder totals dwarf those of other regions, with the $176bn held at the beginning of H2 2018 representing 63% of available capital globally (Fig. 28). Furthermore, dry powder totals for the region have grown faster than any others over the quarter, with Europe up 2%, Asia down 6% and all other regions combined up 1%.

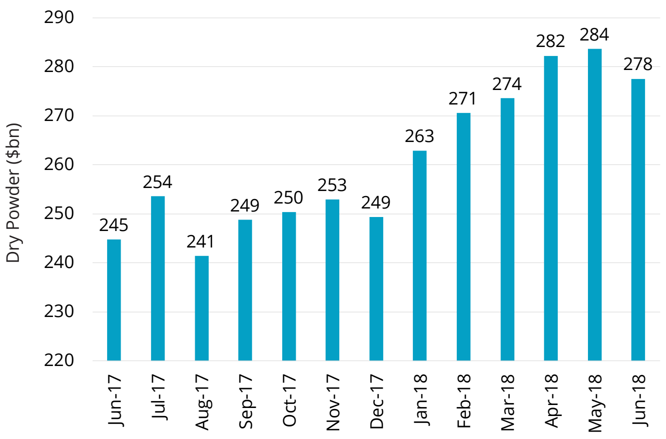
There has been no change in the share of dry powder held across real estate strategies over the quarter. Debt dry powder continues to climb, with capital ready to be deployed sitting at $53bn as at June, up 6% from March – the fastest growth of any top-level strategy (Fig. 29). As such, debt continues to catch up with the higher-risk equity strategies, with value added dry powder up 5% over the quarter to $69bn and opportunistic dry powder down 3% to $108bn.

Fig. 26: Closed-End Private Real Estate Dry Powder, 2007 - 2018



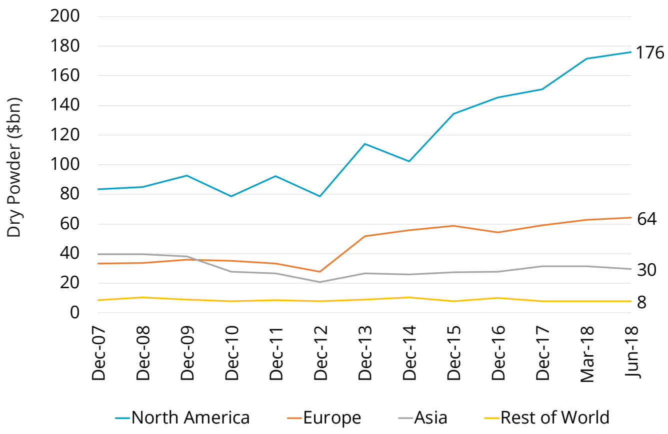
Source: Preqin

Fig. 27: Monthly Closed-End Private Real Estate Dry Powder, 2017 - 2018



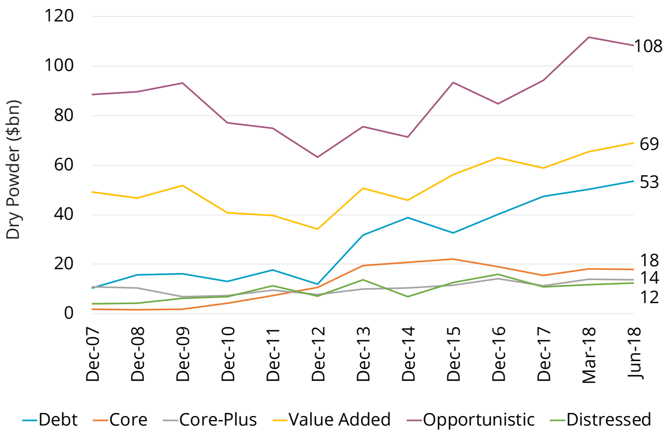
Source: Preqin

Fig. 28: Closed-End Private Real Estate Dry Powder by Fund Primary Geographic Focus, 2007 - 2018



Source: Preqin

Fig. 29: Closed-End Private Real Estate Dry Powder by Primary Strategy, 2007 - 2018



Source: Preqin

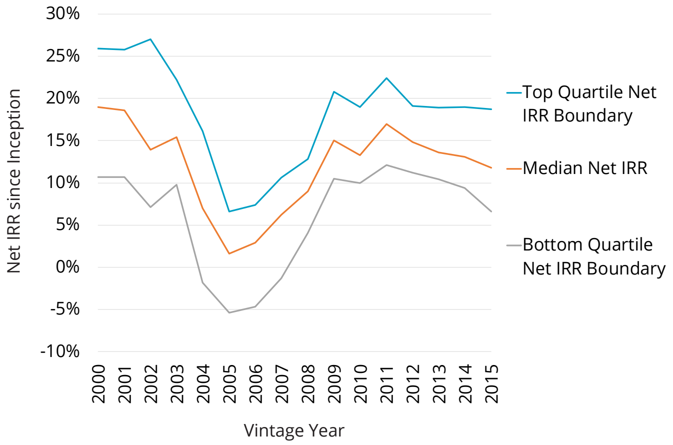
FUND PERFORMANCE

Closed-end private real estate funds of recent vintages have median returns typically within the low- to mid-teens bracket, although 2015 vintage funds posted a median net IRR of 11.8% (Fig. 30). While these vehicles are still early on in their lifespan, encouragingly, median returns have not deviated substantially from the average seen in post-crisis years. Top-quartile fund performance remains robust, with managers needing to deliver 19% to reach this barrier achieved by top performers for funds of vintage 2012 and beyond. The spread between top and bottom quartiles remains wide (c.100bps in post-crisis vintages) and highlights the challenge for allocators in identifying opportunities.

The inherent characteristics of debt vehicles have produced less volatile returns of around the 10% mark for recent vintages, whereas for equity strategies, the same can be said of core and core-plus funds relative to their peers across all vintages (Fig. 31). Opportunistic and value-added funds have produced the highest median net IRRs for fund vintages since 2009, at around 16% and 15% respectively.

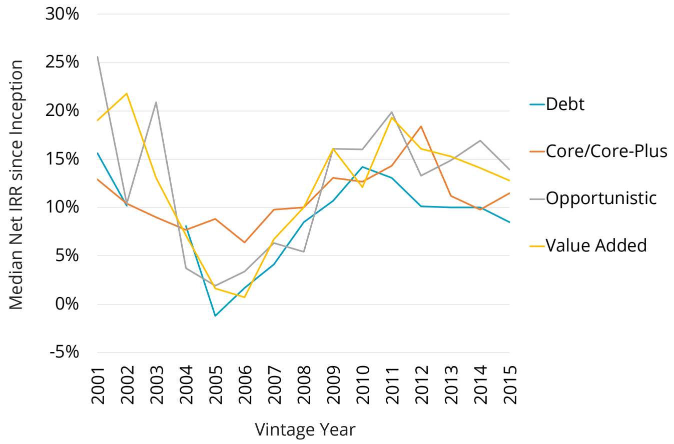
Not only have fund managers produced high returns for investors in recent years, but they have also been effective at redistributing this capital. The latest data shows that although full-year 2017 distributions have failed to match the record levels seen in 2016, the $194bn returned is still substantial relative to the prior years (Fig. 33). Furthermore, the difference between capital calls and distributions (net cash flow to LPs) remains positive at $69bn, and in line with totals seen in 2014 and 2015. The net result is that investors in real estate are becoming more liquid, and are having to deploy more capital to remain in line with target allocations. These factors – strong performance, distributions and investor liquidity – are the main drivers behind fund managers' success in raising their vehicles in recent years.

Fig. 30: Closed-End Private Real Estate: Median Net IRRs and Quartile Boundaries by Vintage Year



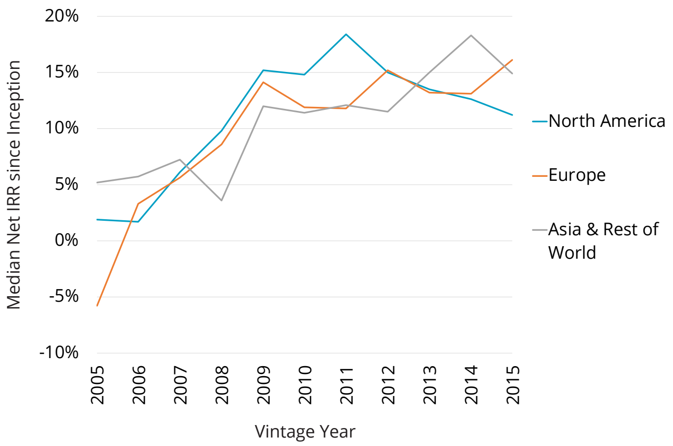
Source: Preqin

Fig. 31: Closed-End Private Real Estate: Median Net IRRs by Fund Type



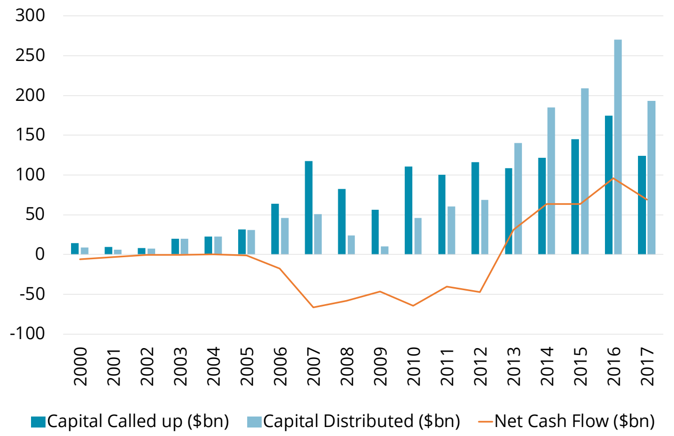
Source: Preqin

Fig. 32: Closed-End Private Real Estate: Median Net IRRs by Geographic Focus and Vintage Year



Source: Preqin

Fig. 33: Closed-End Private Real Estate: Annual Amount Called up, Distributed and Net Cash Flow, 2000 - Q3 2017



Source: Preqin

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