

# Fundraising Outlook - Emerging Managers in the US

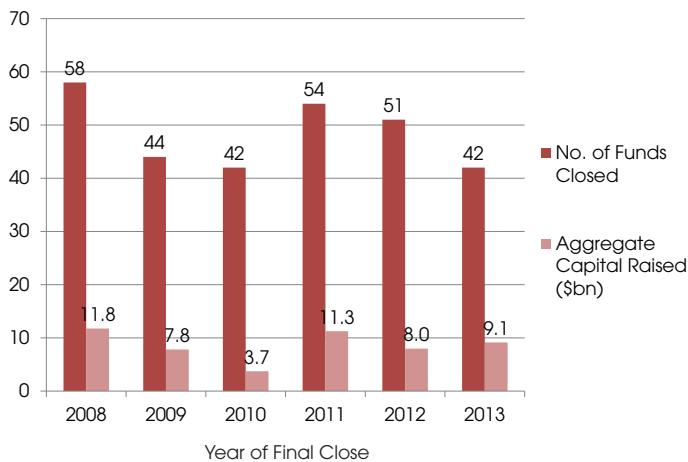
The fundraising environment for US-focused emerging managers (defined by Preqin as those that are first- or second-time fund managers) has become more challenging than ever in recent years, with the number of US-focused funds raised by these managers declining for the last three years consecutively (Fig. 1). Forty-two US-focused funds raised by emerging managers reached a final close in 2013, raising an aggregate \$9.1bn. Although this is relatively positive, a combined \$3.5bn of this was raised by Kohlberg Kravis Roberts, AllianceBernstein and Lennar Corporation subsidiary, Rialto Capital Management. For newly created firms, fundraising remains extremely difficult.

The increasingly challenging fundraising environment for emerging managers is revealed in Fig. 2, which shows that the

capital raised by emerging managers amounted to only 17% of the total capital raised by all US-focused private real estate funds in 2013, with managers which have raised eight or more funds accounting for the majority (57%) of the total capital raised. Additionally, data from Preqin's **Real Estate Online** reveals that emerging managers have consistently accounted for the majority of funds placed on hold or abandoned from 2010 to 2013 (Fig. 3), with first- or second-time managers accounting for 53% of the funds abandoned or placed on hold in 2013.

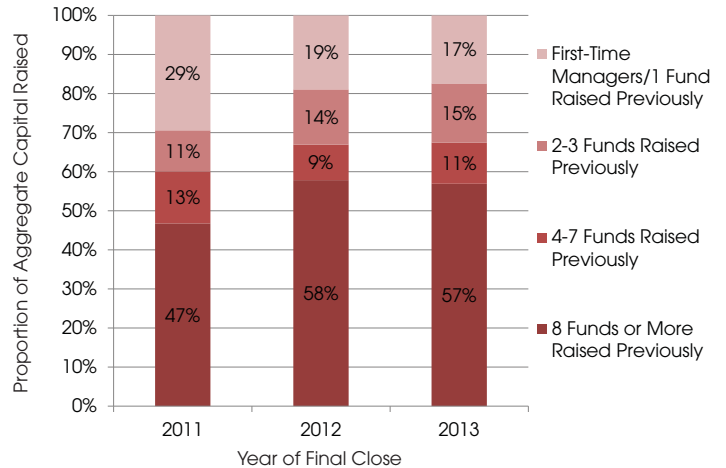
On a more positive note however, for those emerging managers which do successfully achieve a final close, the average time spent fundraising is often less than for more experienced managers, as revealed in Fig. 4. US-focused emerging manager

**Fig. 1:** Annual US-Focused Closed End Private Real Estate Fundraising by First- or Second-Time Fund Managers, 2008 - 2013



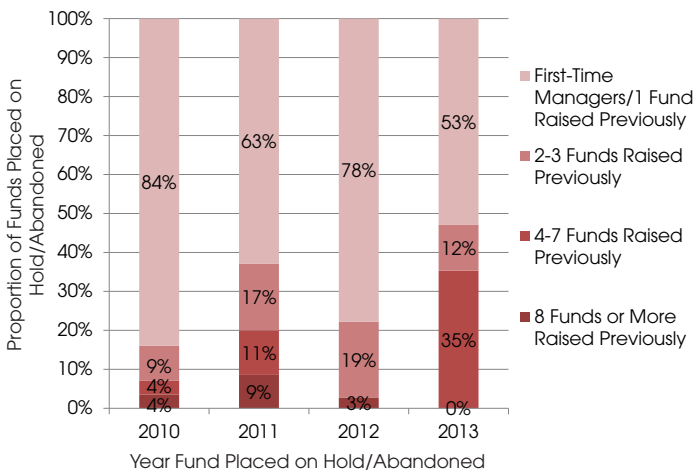
Source: Preqin Real Estate Online

**Fig. 2:** Breakdown of Capital Raised by US-Focused Closed-End Private Real Estate Funds by Number of Funds Raised Previously, Funds Closed 2011 - 2013



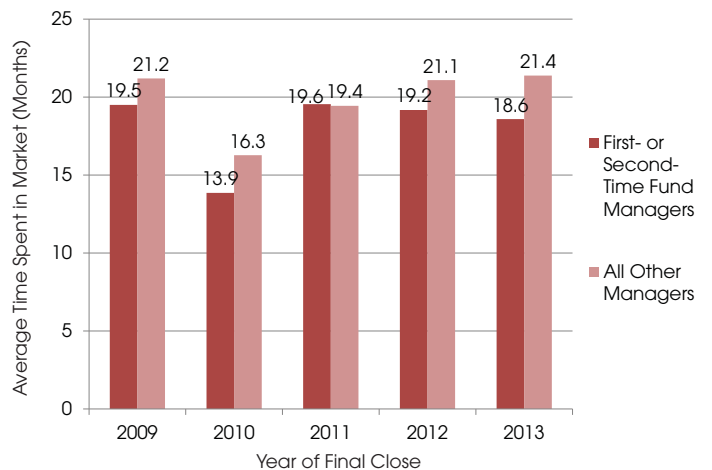
Source: Preqin Real Estate Online

**Fig. 3:** Breakdown of US-Focused Funds Placed on Hold/Abandoned by Number of Funds Raised Previously, Funds Placed on Hold/Abandoned in 2010 - 2013



Source: Preqin Real Estate Online

**Fig. 4:** Average Time Taken for US-Focused Closed-End Private Real Estate Funds to Achieve a Final Close, Funds Closed 2009 - 2013: Emerging Managers vs. All Other Managers



Source: Preqin Real Estate Online

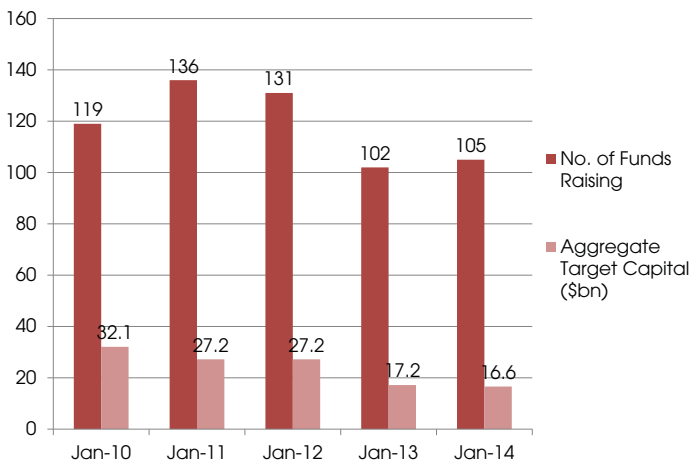
funds closed in 2013 took, on average, 18.6 months to reach a final close, considerably less than the average of 21.4 months taken by all other fund managers. While fundraising is still a long process for most, those emerging managers that are able to stand out from the crowd are often able to reach a final close quickly, with many raising significant amounts of investor capital in the process.

Nonetheless, the declining number of funds being brought to market by emerging managers (Fig. 5) further demonstrates the difficult fundraising market with fewer firms believing they will be able successfully close a new fund. From January 2010 to January 2014, the number of US-focused emerging manager funds on the road has declined from 119 to 105, with the aggregate capital sought almost halving from \$32.1bn to \$16.6bn. As shown in Fig. 6, the capital sought by these funds amounts to 23% of the total capital sought by all US-focused private real estate funds on the road.

With profiles for over 4,200 active investors in private real estate funds, Preqin's **Real Estate Online** service is a vital tool for firms raising or planning new real estate funds. The powerful service contains detailed profiles, with key contact information for institutional investors, family offices and wealth managers which will invest with emerging managers. As demonstrated in Fig. 7, US-based investors are the most receptive to investment in these funds when compared to investors based elsewhere, with 33% willing to invest in first-time funds or to consider doing so; as a result, emerging managers raising funds focusing on the US will have a significant source of potential capital from these investors.

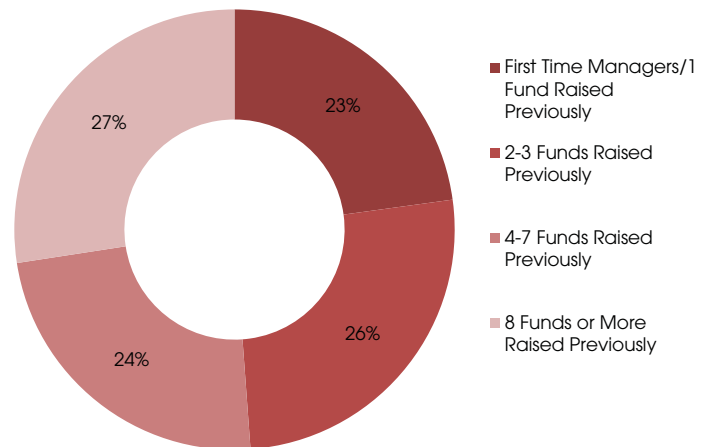
The huge range of investor types based in the US that will consider emerging managers is shown in Fig. 8. This reveals that real estate fund of funds managers are particularly interested in first-time funds, with 78% willing to invest in these funds, and only 11% stating that they will not. Wealth managers can be crucial sources of capital for newly established firms, with Fig. 8 confirming why this is the case. Forty-four percent

**Fig. 5:** Emerging Manager US-Focused Closed-End Private Real Estate Funds in Market over Time, January 2010 - January 2014



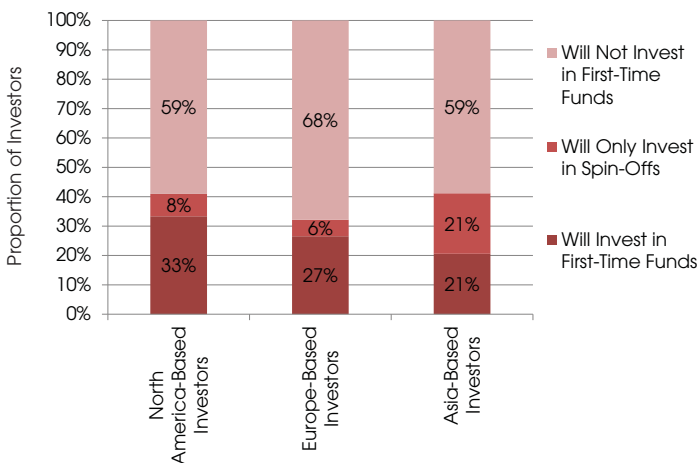
Source: Preqin Real Estate Online

**Fig. 6:** Breakdown of Aggregate Capital Targeted by US-Focused Closed-End Private Real Estate Funds on the Road by Number of Funds Raised Previously



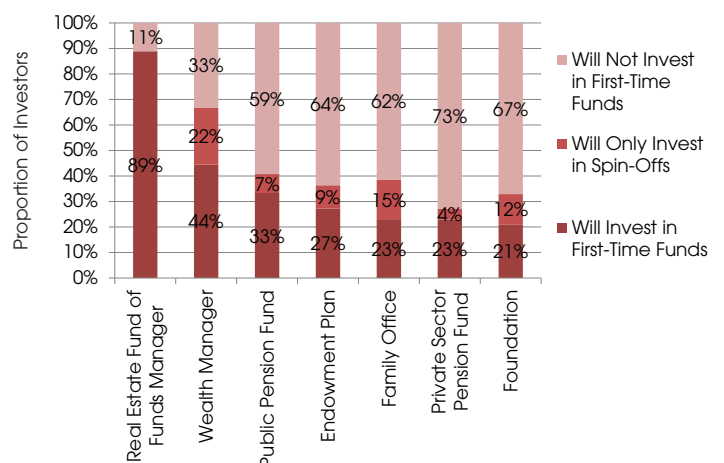
Source: Preqin Real Estate Online

**Fig. 7:** Breakdown of Investors' Preferences for First-Time Funds by Investor Location



Source: Preqin Real Estate Online

**Fig. 8:** Breakdown of US-Based Investors' Preferences for First-Time Funds by Investor Type



Source: Preqin Real Estate Online

of US-based wealth managers are willing to invest with first-time fund managers. Emerging managers should not ignore larger institutional investors however, with one-third of public pension funds prepared to commit capital to new managers. These investors represent a significant source of potential capital for emerging managers and securing a commitment from just one major pension fund could be the difference between the success and failure of a new firm.

#### Looking for More Information on Investors in First-Time Funds?

Preqin's **Real Estate Online** service contains extensive profiles of over 4,200 active investors in private real estate. This powerful tool contains vital information such as strategy preferences, expected capital commitments and key contact details for institutional investors, family offices, wealth managers and many more looking to invest in emerging managers.

For more information please visit: [www.preqin.com/reo](http://www.preqin.com/reo)

**Fig. 9:** Sample Investors in Recent Funds Raised by Emerging Managers

Fund	Firm	Final Close Size (\$mn)	Sample Investors
CapRocq Core Real Estate Fund	CapRocq Core	56	USABLE Life, Delta Dental Plan of Arkansas
Oak Street Real Estate Capital Fund II	Oak Street Real Estate Capital	136	Mendota Insurance Company
PRG Multifamily Development Fund I	Pritzker Realty Group	200	Virginia Retirement System
RREP Recovery Partners	Ranieri Real Estate Partners	191	Penn Mutual Life Insurance Company
Sterling Value Add Partners	Sterling Organization	125	University of Michigan Endowment
Stonelake Opportunity Partners II	Stonelake Capital Partners	100	Rees-Jones Foundation
TerraCap Partners II	TerraCap Management Corp	105	Partners Group, University of Florida Investment Corporation, Holyoke Retirement Board
WHI Real Estate Partners II	WHI Real Estate Partners	102	Irving Harris Foundation

Source: Preqin Real Estate Online

#### Did You Know?

Preqin's **Real Estate Online** includes full contact information for key decision makers at these investors, along with hundreds of other institutions which invest with emerging managers.

Arrange a free demonstration today!

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