

The Q1 2016 Preqin Quarterly Update

Real Estate

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

Content includes...

Fundraising

Smallest number of funds closed in a single quarter since Q1 2010.

Funds in Market

Number of funds in market at an all-time high.

Dry Powder

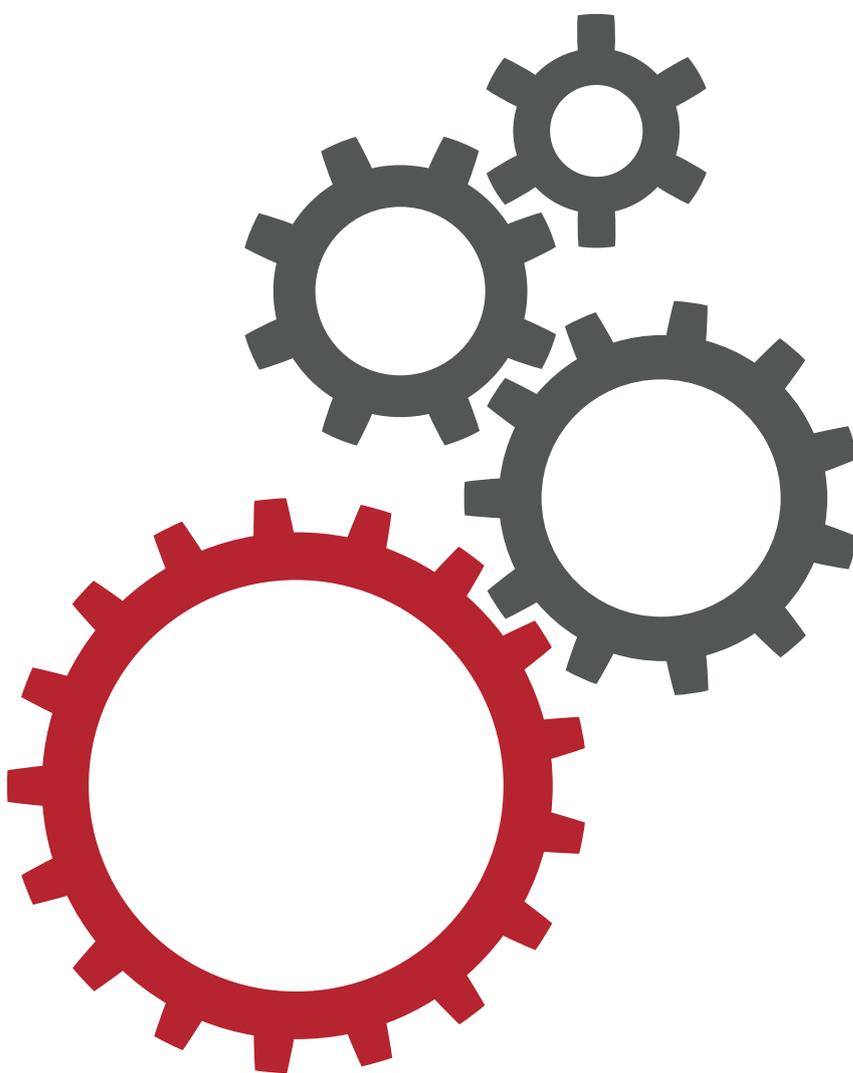
Real estate dry powder reaches a record \$230bn.

Investors in Private Real Estate

Appetite for value added strategies increases.

Fund Performance

PrEQIn Real Estate Index has seen continued growth over the past 16 quarters.





Foreword - Andy Moylan, Preqin

Fundraising remained relatively strong in Q1 2016, with 44 funds closed securing \$21bn, the same amount as was raised in Q4 2015. However, this is a 48% decrease in capital raised compared with the post-GFC high of \$41bn raised in Q3 2015. It is still the largest real estate firms that dominate the market: two-thirds of total capital raised came from the top 10 largest funds to close in Q1.

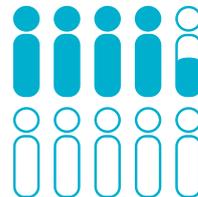
With dry powder continuing to rise to record levels (\$230bn), there are still concerns that real estate in some markets may be overpriced. With continued demand for real estate and the resulting increase in valuations, the performance of the asset class has remained strong. Closed-end private real estate funds have posted positive average changes in NAV for 21 consecutive quarters, and the PrEQIn All Real Estate Index has shown continued growth, nearing the peak seen in 2008. The fundraising slowdown seen in Q4 2015 and Q1 2016 compared with the capital raised in Q2 and Q3 2015 could be a reflection of unease among investors regarding real estate's prospects in the coming quarters. Fund managers could therefore continue to find fundraising challenging throughout 2016, with a record 492 funds currently seeking capital.

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Key Facts: Q1 2016

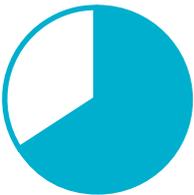


Number of private real estate funds currently in market, an all-time high.



46%

Proportion of investors planning to commit \$100mn or more to private real estate funds in the next 12 months.



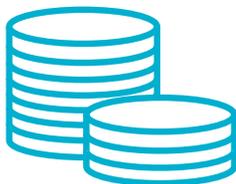
66%

Proportion of total capital raised by the top 10 largest private real estate funds closed this quarter.



\$230bn

Amount of dry powder held in private real estate funds, an all-time high.



\$3.3bn

Amount of capital raised by Rockpoint Real Estate Fund V, the largest private real estate fund to close in Q1 2016.



Number of North America-focused private real estate funds closed in Q1, compared with 14 in Europe and seven in Asia.

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Data Source:

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Fundraising in Q1 2016

While Q1 2016 saw the smallest number (44) of funds closed in a single quarter since Q1 2010, the \$21bn raised is the same amount as was secured in Q4 2015 (Fig. 1). Indicative of capital concentration among the largest real estate firms, the 10 largest funds to reach a final close this quarter accounted for two-thirds (\$14bn) of the total capital raised; consequently, the average size of the remaining 34 funds was only \$220mn.

North America-focused vehicles have continued to dominate fundraising, with 48% of funds closed and over half the capital raised in Q1 targeting the region (Fig. 2). Europe-focused funds have raised \$1.6bn more than in Q4 2015, representing 35% of the aggregate capital raised globally in Q1 2016. There

continues to be strong demand for higher risk strategies, with 82% of the capital raised directed to value added and opportunistic funds (Fig. 3).

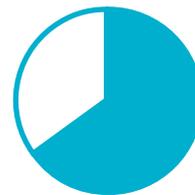
The average time taken for funds to reach a final close in Q1 2016 remained the same as in 2015, at 18 months (Fig. 4). Despite the limited number of funds closing, fund managers have been more successful in achieving or surpassing their targets in Q1 2016 compared with the past few years, with just under two-thirds of funds closing at or above their target size (Fig. 5). Additionally, no funds closed in Q1 raised less than half of their initial target.

Key Fundraising Facts: Q1 2016



\$21bn

Amount of capital raised by closed-end private real estate funds.



65%

Proportion of funds closed that reached or exceeded their initial target size.



18 Months

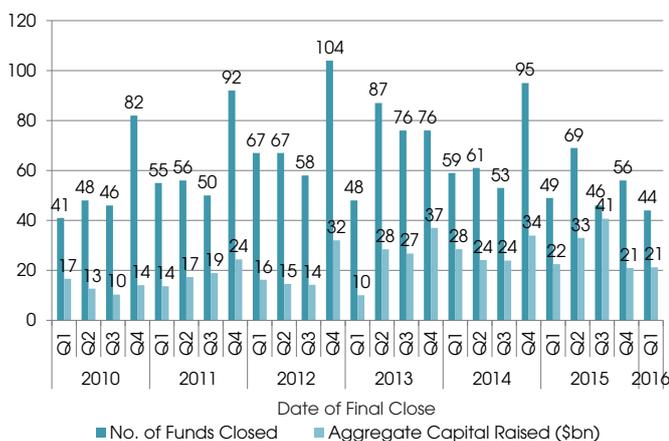
Average time spent in market by funds closed in Q1 2016.



\$3.3bn

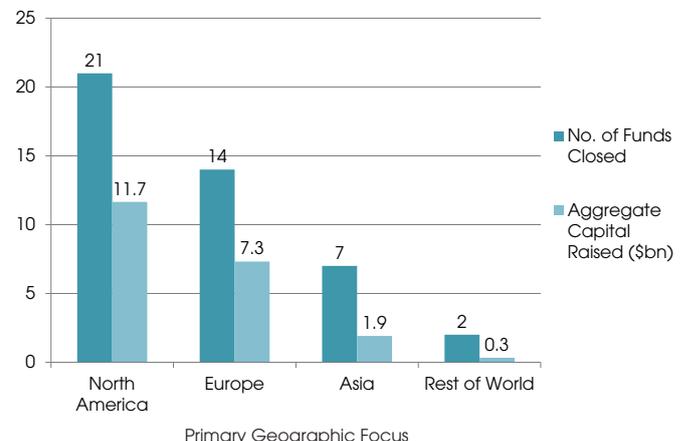
Capital raised by Rockpoint Real Estate Fund V, the largest fund to close in the quarter.

Fig. 1: Global Quarterly Closed-End Private Real Estate Fundraising, Q1 2010 - Q1 2016



Source: Preqin Real Estate Online

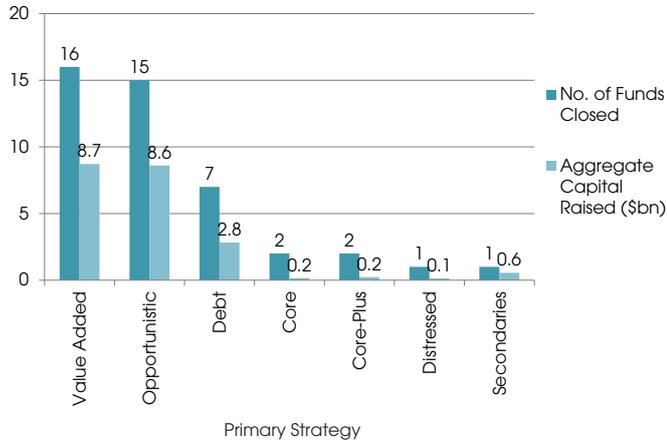
Fig. 2: Closed-End Private Real Estate Fundraising in Q1 2016 by Primary Geographic Focus



Source: Preqin Real Estate Online



Fig. 3: Closed-End Private Real Estate Fundraising in Q1 2016 by Primary Strategy



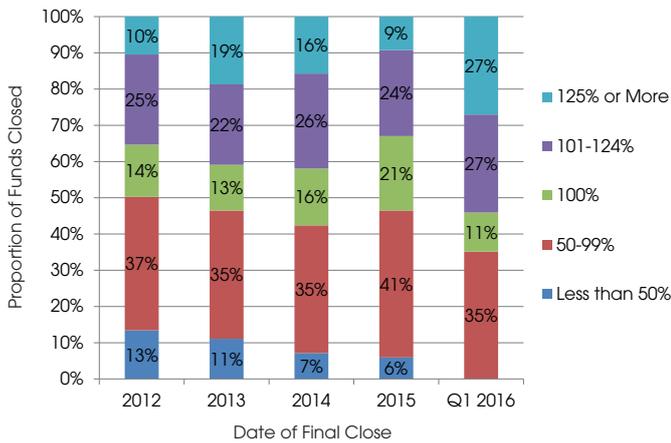
Source: Preqin Real Estate Online

Fig. 4: Average Time Taken for Closed-End Private Real Estate Funds to Achieve Final Close, 2010 - Q1 2016



Source: Preqin Real Estate Online

Fig. 5: Closed-End Private Real Estate Funds by Proportion of Target Size Achieved, 2012 - Q1 2016



Source: Preqin Real Estate Online

Data Source:

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Fig. 6: 10 Largest Closed-End Private Real Estate Funds Closed in Q1 2016

Fund	Firm	Fund Size (mn)	Strategy	Geographic Focus
Rockpoint Real Estate Fund V	Rockpoint Group	3,300 USD	Distressed, Opportunistic, Value Added	US, UK
Westbrook Real Estate Fund X	Westbrook Partners	2,850 USD	Value Added	Global
PW Real Estate Fund III	PW Real Assets	1,500 EUR	Opportunistic	West Europe
AgFe Real Estate Senior Debt Floating Rate Fund	AgFe	910 GBP	Debt	UK
Brockton Capital III	Brockton Capital	860 GBP	Opportunistic, Value Added	UK
CBRE GIP European Value-Add Fund	CBRE Global Investment Partners	840 USD	Value Added	Europe
Cheyne Real Estate Credit Holdings III	Cheyne Capital Management	770 USD	Core and Debt	Europe
Invesco Real Estate Fund IV	Invesco Real Estate	750 USD	Value Added	US
GreenOak Asia II	GreenOak Japan	650 USD	Opportunistic, Value Added	Japan
IMT Capital Fund IV	IMT Capital	630 USD	Value Added	US

Source: Preqin Real Estate Online



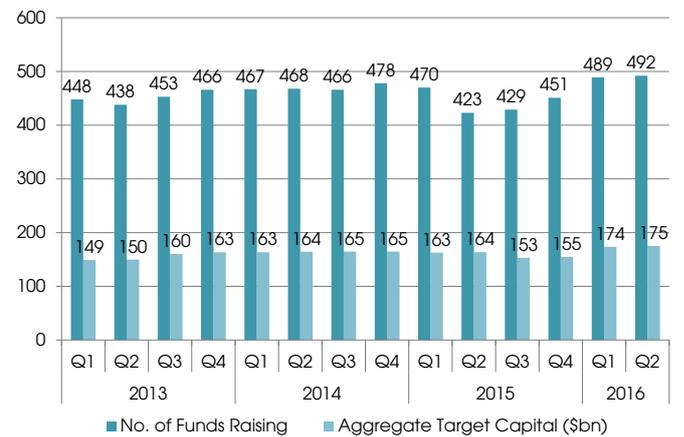
Funds in Market

Indicative of a competitive fundraising environment, the number of closed-end private real estate funds in market has reached a new record high in Q2 2016, with 492 vehicles looking to raise \$175bn (Fig. 1). The majority (59%) of funds in market are primarily targeting North America, with the region also representing 54% of the total targeted capital (Fig. 2). Europe-focused vehicles account for a fifth of funds in market, followed by those targeting Asia (12%), with funds focused outside the aforementioned regions accounting for 9% of vehicles seeking capital.

As seen in Fig. 3, 61% of funds in market have been raising capital for over a year, up from 53% in Q1 2015, further illustrating the competitiveness of the fundraising market. Over a quarter (28%) of funds that have yet to hold an interim close have launched in the past six months, while 73% of vehicles that have held at least one interim close have been on the road for over a year.

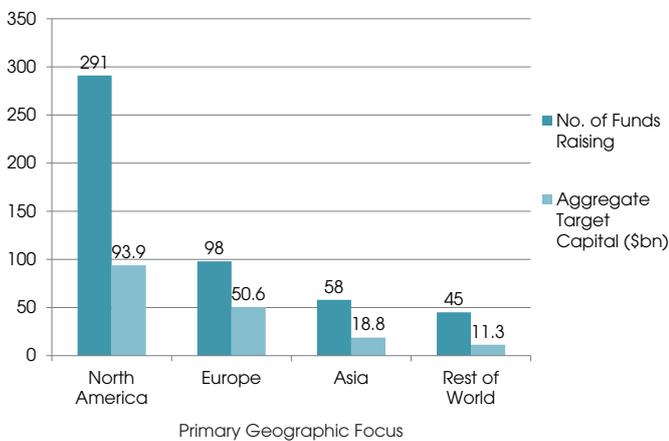
Blackstone Real Estate Partners Europe V, launched at the beginning of 2016, is the largest fund in market at present, targeting €7bn for investment in distressed and opportunistic opportunities across Western Europe (Fig. 4).

Fig. 1: Closed-End Private Real Estate Funds in Market over Time, Q1 2013 - Q2 2016



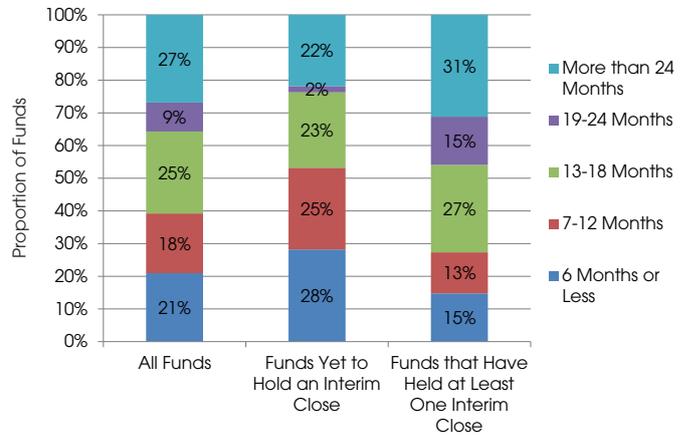
Source: Preqin Real Estate Online

Fig. 2: Closed-End Private Real Estate Funds in Market by Primary Geographic Focus



Source: Preqin Real Estate Online

Fig. 3: Closed-End Private Real Estate Funds in Market by Time Spent on the Road



Source: Preqin Real Estate Online

Fig. 4: Five Largest Closed-End Private Real Estate Funds Currently in Market

Fund	Firm	Fund Size (mn)	Strategy	Geographic Focus
Blackstone Real Estate Partners Europe V	Blackstone Group	7,000 EUR	Distressed, Opportunistic	Western Europe
Brookfield Strategic Real Estate Partners II	Brookfield Asset Management	7,000 USD	Opportunistic	Global
Oaktree Real Estate Opportunities Fund VII	Oaktree Capital Management	3,000 USD	Debt, Distressed, Opportunistic	Global
Hermes Real Estate Senior Debt Fund	Hermes Real Estate	1,500 GBP	Debt	UK
Cerberus Institutional Real Estate Partners IV	Cerberus Real Estate Capital Management	1,500 USD	CMBS, Distressed	North America, Western Europe

Source: Preqin Real Estate Online



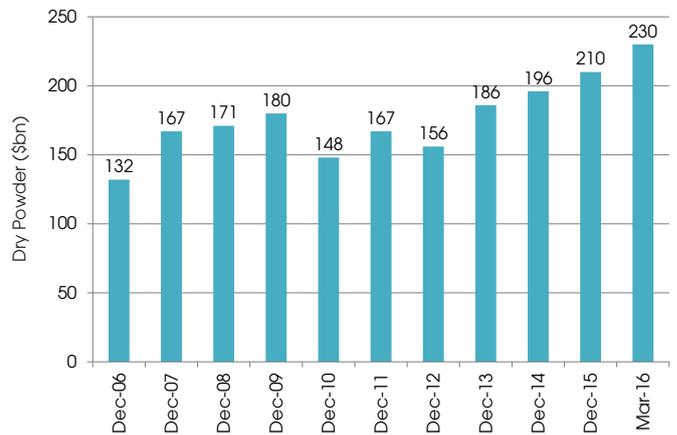
Dry Powder

Real estate dry powder continued to rise during Q1 of this year and now stands at a record \$230bn, having increased by approximately \$20bn since the end of 2015 (Fig. 1).

As seen in Fig. 2, funds primarily focused on investments in North America have the largest proportion (58%) of capital available and have witnessed faster growth than funds focused on any other region in recent years; dry powder has increased by 30% since December 2014, more than Europe-focused (+5%) and Asia-focused (+4%) funds and funds focused elsewhere (-9%). Europe-focused funds currently hold \$59bn (26% of estimated global real estate dry powder), while \$28bn (12%) is available for opportunities in Asia and \$10bn (4%) is held by funds focused outside the aforementioned regions.

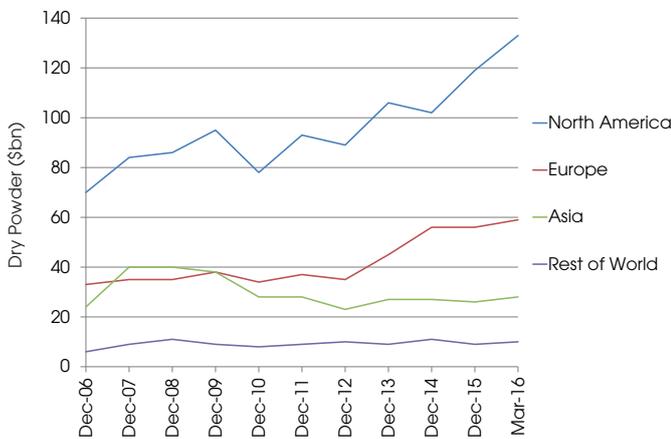
All private real estate strategies, with the exception of distressed real estate, have seen an increase in dry powder since the end of 2015, with higher risk funds holding the majority (66%) of available capital (Fig. 3). Opportunistic vehicles have the highest amount of capital available at \$97bn, followed by value added funds (\$55bn). These amounts are significantly higher than the lower risk strategies; closed-end core and core-plus vehicles hold \$22bn and \$12bn respectively.

Fig. 1: Closed-End Private Real Estate Dry Powder, December 2006 - March 2016



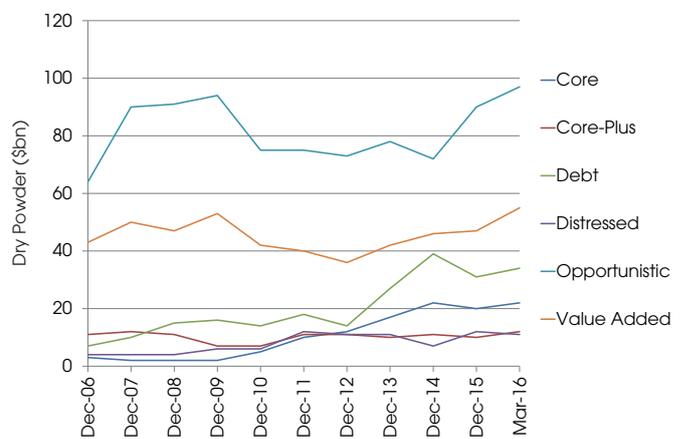
Source: Preqin Real Estate Online

Fig. 2: Closed-End Private Real Estate Dry Powder by Fund Primary Geographic Focus, December 2006 - March 2016



Source: Preqin Real Estate Online

Fig. 3: Closed-End Private Real Estate Dry Powder by Strategy, December 2006 - March 2016



Source: Preqin Real Estate Online

Data Source:

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Institutional Investors in Private Real Estate

Exposure to value added strategies is widely targeted by institutional investors, with the majority (61%) of investors seeking new commitments to private real estate funds in the next 12 months targeting such vehicles – a 10 percentage point increase from Q1 2015 (Fig. 1). Additionally, half of investors are looking to commit to opportunistic vehicles in the next 12 months, a similar proportion to the previous year. Indicative of investors' preference for higher risk funds over the next year, appetite for core vehicles has dropped 15 percentage points compared with Q1 2015.

There is strong demand for European real estate, with Europe surpassing North America as the preferred region for investment in the year ahead, having increased by 15 percentage points since Q1 2015 (Fig. 2). North America remains a target for 46% of investors, and just over a third of investors are looking to invest in the asset class globally in the coming year.

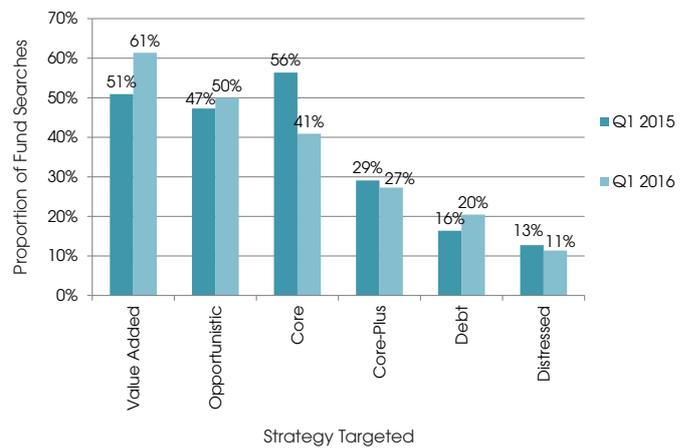
In the next 12 months, over a third (36%) of investors committing to private real estate funds are planning to commit less than \$50mn (Fig. 3). However, a significant proportion (46%) of institutions expect to commit \$100mn or more, including 13% looking to invest \$300mn or more. Encouragingly, the majority (59%) of investors plan to make at least four commitments in the next 12 months (Fig. 4).

Preqin Investor Outlook: Real Estate, H1 2016

For more in-depth analysis on real estate investors, please see our **Investor Outlook: Real Estate, H1 2016**, which contains detailed information on investors' portfolios, future plans, confidence in different asset classes, concerns for the future and more.

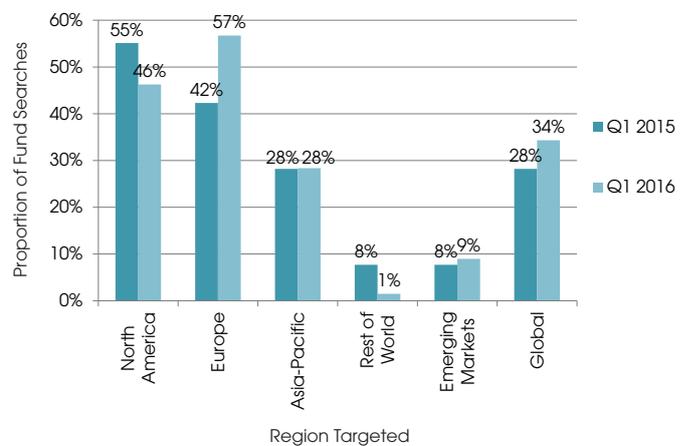
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Fig. 1: Strategies Targeted by Private Real Estate Investors in the Next 12 Months, Q1 2015 vs. Q1 2016



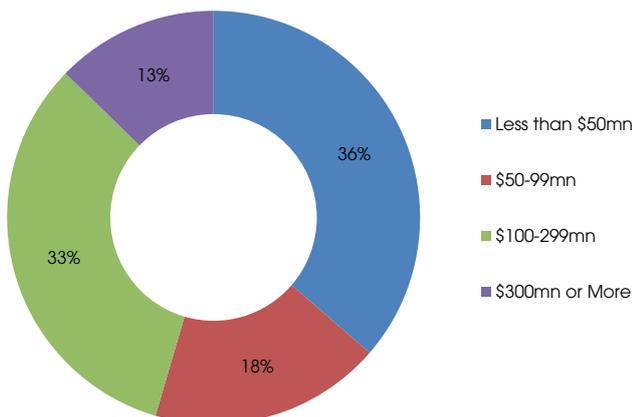
Source: Preqin Real Estate Online

Fig. 2: Regions Targeted by Private Real Estate Investors in the Next 12 Months, Q1 2015 vs. Q1 2016



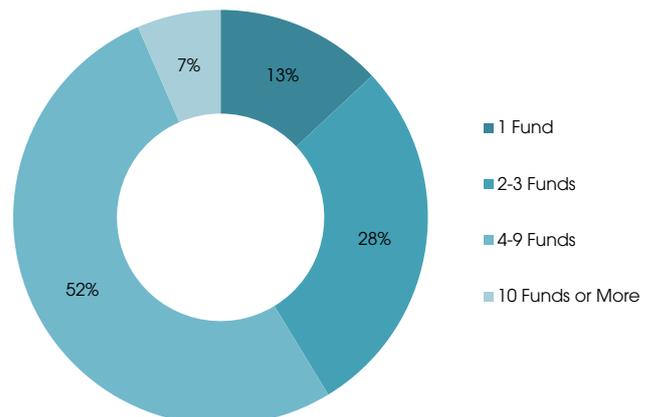
Source: Preqin Real Estate Online

Fig. 3: Amount of Capital Investors Plan to Commit to Private Real Estate Funds in the Next 12 Months



Source: Preqin Real Estate Online

Fig. 4: Number of Private Real Estate Funds Investors Plan to Commit to in the Next 12 Months



Source: Preqin Real Estate Online

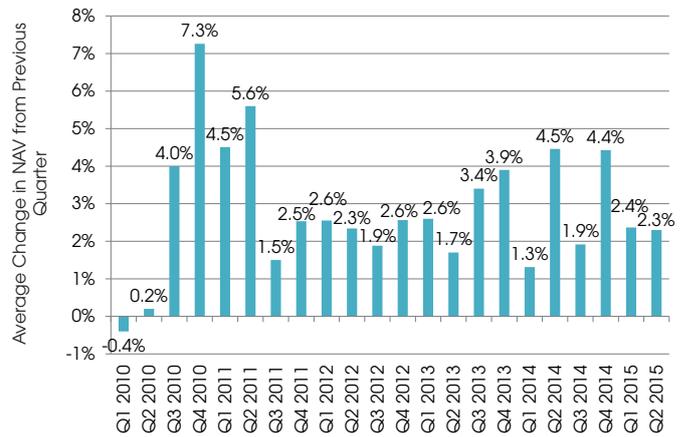


Fund Performance

Closed-end private real estate funds have experienced positive average changes in NAV for every quarter over the past five years (Fig. 1). Furthermore, the PrEQIn Real Estate Index, which currently stands at 95.5 (rebased to 100 as of 31 December 2007), has seen continued growth over the past 16 quarters (Fig. 2). With the exception of vintage years 2005 and 2006, more capital has been paid out or remains in fund portfolios than was initially invested (Fig. 3). It will be interesting to see whether funds investing at the time of the subprime mortgage crisis, which are nearing the end of their lifespans, will be able to distribute capital back to investors to the extent the median RVPI ratios suggest.

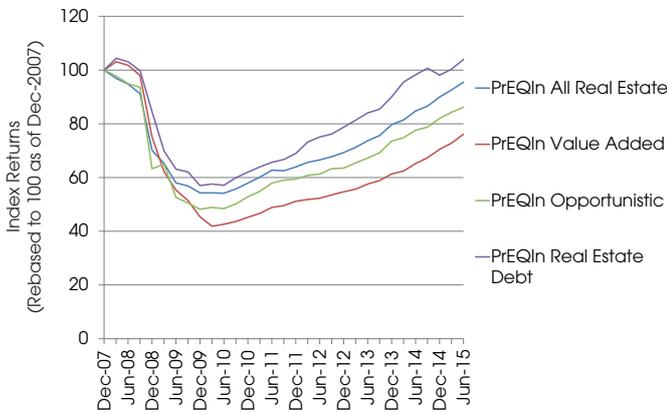
Real estate was the worst performing strategy compared with other private capital strategies across the three-year periods between March 2012 and March 2013; however, in the three years to June 2015 the horizon IRR for real estate was 15.9%, compared to buyout (+18.5%), venture capital (+17.0%) and mezzanine (+12.8%). Funds of vintage years 2008-2013 are posting relatively strong returns; however, they are still yet to exceed those of earlier vintages (Fig. 5).

Fig. 1: Closed-End Private Real Estate Quarterly Average Change in NAV, Q1 2010 - Q2 2015



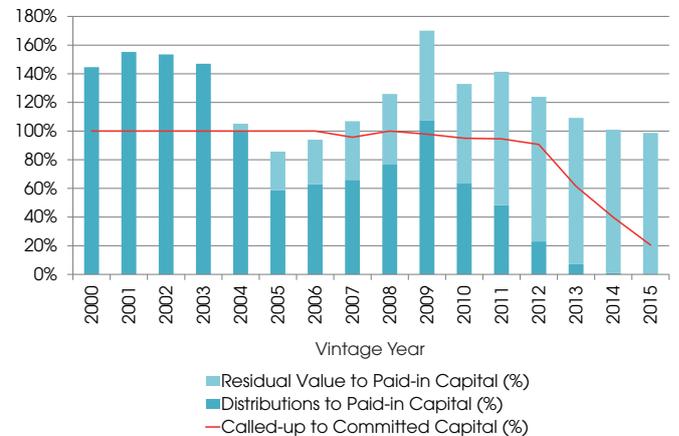
Source: Preqin Real Estate Online

Fig. 2: PrEQIn Index: Real Estate by Strategy



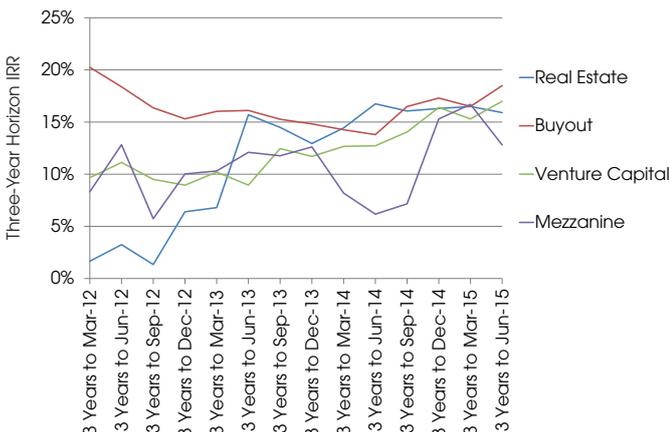
Source: Preqin Real Estate Online

Fig. 3: Closed-End Private Real Estate Funds: Median Called-up, Distributed and Residual Value Ratios by Vintage Year



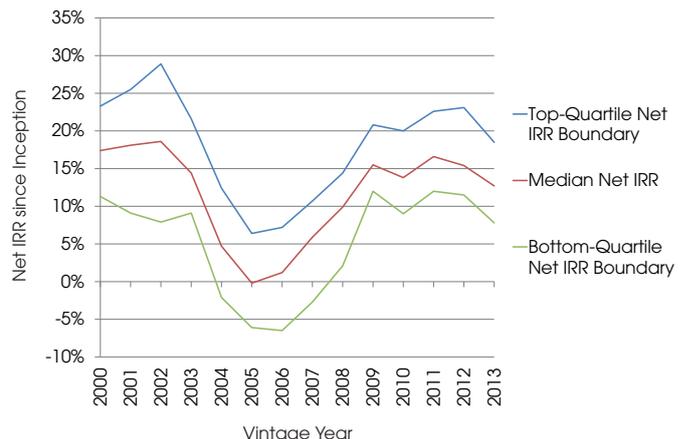
Source: Preqin Real Estate Online

Fig. 4: Three-Year Rolling Horizon IRRs, March 2012 - June 2015



Source: Preqin Real Estate Online

Fig. 5: Closed-End Private Real Estate: Median Net IRRs and Quartile Boundaries by Vintage Year



Source: Preqin Real Estate Online



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