Real Estate Performance Update

Olivia Harmsworth looks at the latest private real estate performance figures using data from the recently launched Preqin 2013 Private Equity Performance Monitor.

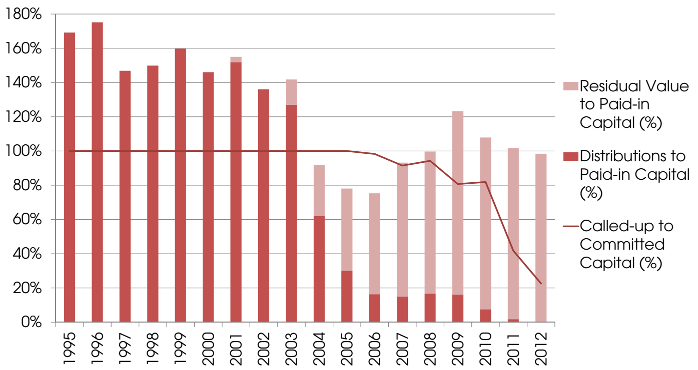
Fig. 1 shows the median called-up, distributed and residual value ratios by vintage year for closed-end private real estate funds. Funds of 2005 and 2006 vintage years have a significant proportion of residual value to paid-in capital that has not yet been distributed to investors, despite almost all capital having been called up.

Funds of vintage years 2005 and 2006 also have the lowest median net IRRs of any of the vintage years shown in Fig. 2, with the median IRR of 2005 vintage funds standing at -1.5% and 2006 vintage funds standing at -0.4%. However, funds of more recent vintage years have shown significant improvement in performance, with the median net IRR of 2009 and 2010 vintage funds standing at 16.0% and 12.9% respectively, a particularly positive indicator for the performance of the private real estate asset class.

The median net multiple demonstrates investors' gain on a fund investment in relation to their net contribution to the fund. The median net multiple of value added and opportunistic funds by vintage year is shown in Fig. 3. The chart reveals that the median net multiples of both strategies for vintage years prior to 2004 exceeds 1.3 times investors' paid-in capital, decreasing for more recent vintages. Value added funds of vintage year 2006 and vintage 2005 opportunistic funds have the lowest multiple of each strategy, at 0.73 and 0.95 respectively.

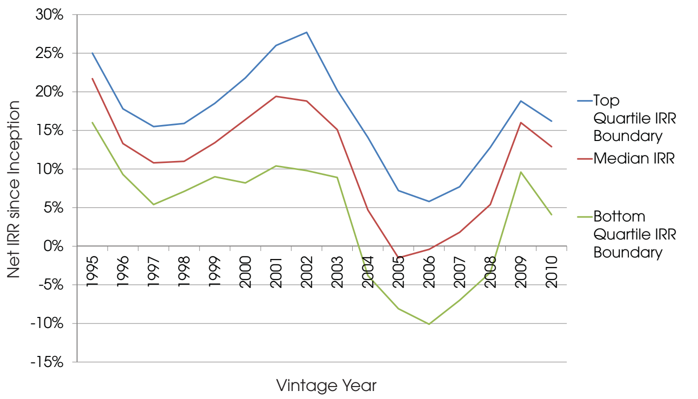
Fig. 4 compares the average quarterly change in NAV of real estate funds with that of private equity funds during 2012. Although real estate funds saw a less dramatic increase than private equity funds in the first quarter of 2012, the average change in NAV exceeded that of private equity in Q2 and Q4 2012, while matching it in the third quarter of the year.

Fig. 1: Real Estate - Median Called-up, Distributed and Residual Value Ratios by Vintage Year



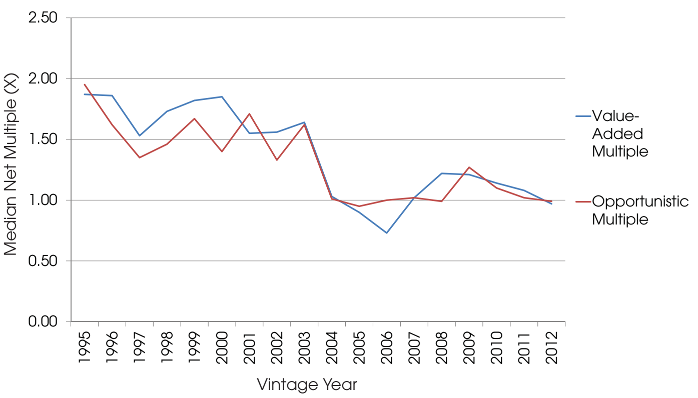
Source: 2013 Preqin Private Equity Performance Monitor

Fig. 2: Real Estate - Median Net IRRs and Quartile Boundaries by Vintage Year



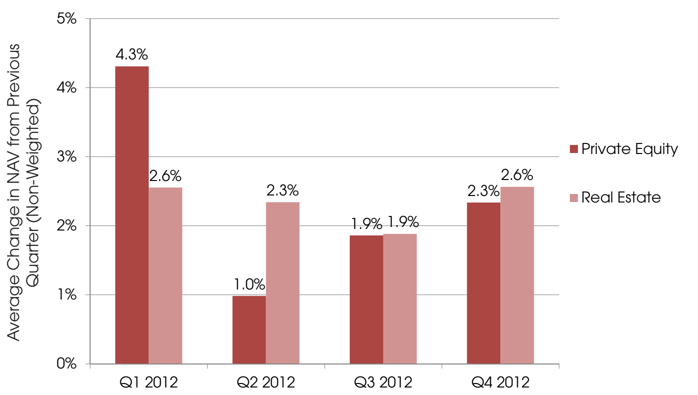
Source: 2013 Preqin Private Equity Performance Monitor

Fig. 3: Real Estate - Median Net Multiple: Value Added vs. Opportunistic Funds



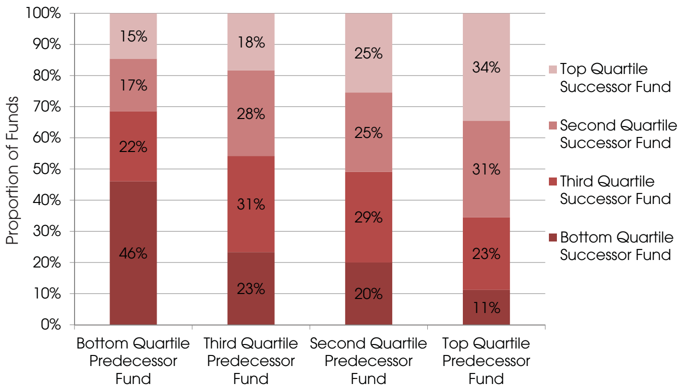
Source: 2013 Preqin Private Equity Performance Monitor

Fig. 4: Quarterly Change in NAV: Real Estate vs. Private Equity



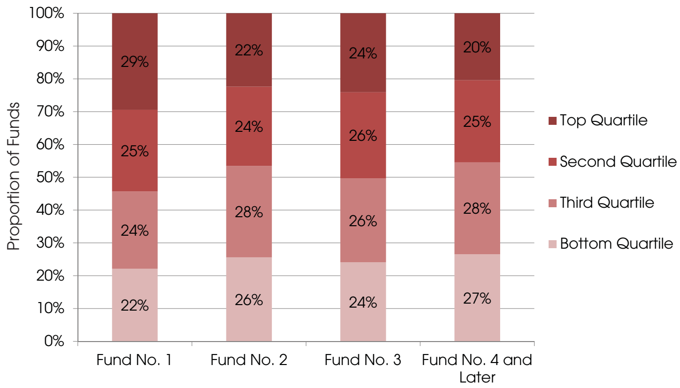
Source: 2013 Preqin Private Equity Performance Monitor

Fig. 5: Real Estate - Relationship between Predecessor and Successor Fund Quartiles



Source: 2013 Preqin Private Equity Performance Monitor

Fig. 6: Real Estate - Quartile Ranking by Fund Series Number



Source: 2013 Preqin Private Equity Performance Monitor

With a large number of funds on the road and many investors not currently planning commitments to new private real estate funds, it is now more competitive than ever for fund managers attempting to secure investor commitments. An established track record is one of the most important factors investors consider when searching for new managers. Fig. 5 looks at the relationship between the successive funds raised by the same firm. A large proportion of managers (46%) with a fund ranked as a bottom quartile predecessor fund then go on to manage a successor fund which is also ranked in the bottom quartile. The converse is true of top quartile funds, with 34% of managers of a top quartile predecessor fund going on to manage another top quartile offering.

However, when looking at whether the series number of a fund affects its quartile ranking, Fig. 6 reveals that the first fund in a series is more likely to be a stronger performer, with 55% of funds which are the first offering in a series being ranked as first or second quartile. Comparatively, only 45% of funds which are at least the fourth fund in a series are ranked as first or second quartile. As a consequence, although past performance is a strong indicator of the potential for future success, on average less experienced teams are more likely to raise a first or second quartile fund; this may result from earlier funds in a series being smaller and more agile, as well as the fund management team being newer and more hungry to prove their worth.

Data Source:

This article uses data from the 2013 Preqin Private Equity Performance Monitor, which features extensive analysis on private equity and real estate returns, including dry powder and assets under management, risk and return by vintage year and net cash flow charts alongside net-to-LP returns data for over 6,300 separate private equity vehicles, including 1,128 real estate funds.

Also in the 2013 Preqin Private Equity Performance Monitor are listings for 164 consistent performing fund managers across different fund types, of which 25 are real estate fund managers.

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