

Private Equity Real Estate Firms Seek Smaller Assets in Challenging Deals Market

Fund managers also shift strategies to more complex portfolio deals in search of value

Preqin today launches its inaugural report on global deals involving private equity real estate fund managers, and finds that increases in dry powder have resulted in fund managers competing more for investment opportunities, and valuations for prospective assets rising. This has led to concerns in some quarters that it is becoming more difficult to find assets that offer real value; two-thirds (67%) of real estate managers surveyed by Preqin stated that it is harder to find attractive assets compared to 12 months ago, and over half (56%) see it as the biggest challenge facing them at present.

Consequently, fund managers are changing their investment strategies to find assets that represent value for money. Smaller properties account for a growing proportion of transactions and comprise 26% of all deals in 2016 YTD, an increase of four percentage points from 2015 and up from 17% in 2014. At the same time, there has been a rise in the number of portfolio transactions compared to single asset purchases; in 2016 so far, portfolio transactions comprise 22% of the total number of private real estate deals and a third of the aggregate value. This is a sharp increase from 2015, when portfolio transactions accounted for just 12% of all deals.

Other Key Real Estate Deals Facts:

- **Property Types:** Deals for office properties have been less common in 2016 YTD, accounting for 28% of all deals, down from 38% in 2015. Mixed use properties, meanwhile, represent 20% of aggregate deal value so far this year, twice the proportion seen the year before.
- **US States:** Although New York accounts for just 11% of private equity real estate deals in North America, **the state represents more than a quarter (27%) of the total deal value for the region.** The highest proportion of deals (21%) occur in California, accounting for 13% of the aggregate deal value.
- **European Assets:** Office and retail assets account for the majority of deals (65%) and aggregate deal value (62%) in Europe. **Residential assets represent just 3% of all deals, and 5% of the combined deal value in Europe,** in contrast to 29% and 28%, in North America respectively.
- **Asia-Pacific Deals:** **Australia accounts for the majority of all Asia-Pacific private equity real estate deals (57%) and total deal value (56%),** as well as three of the five largest single asset deals transacted since 2015. Assets in Japan make up 17% of the aggregate deal value, and include the largest deal since 2015.

To access further information and analysis, please see the report below:

<https://www.preqin.com/docs/reports/Preqin-Special-Report-Real-Estate-Deals-June-2016.pdf>

Comment:

“The private equity real estate market in recent years has been characterized by strong returns, buoyed investor appetite, and strong fundraising. However, this has led to a build-up of capital and there are concerns over pricing and the prospects for the asset class in the coming years. In particular, many managers report increased competition for assets, and this makes finding value in the current market a challenging prospect.

In response to these market conditions, fund managers are implementing increasingly flexible investment strategies, and relying on their expertise and contacts to find good value assets that might be overlooked by other buyers. This has resulted in a trend away from larger acquisitions and towards more complex portfolio transactions or smaller assets. It remains to be seen if these acquisitions will generate the same strong returns which have made the asset class so attractive to investors in recent years.”

Andrew Moylan – Head of Real Estate Products, Preqin

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Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q', the company name being an amalgamation of the former name, Private Equity Intelligence.

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

Preqin has built a reputation in the alternative assets industry for providing the most comprehensive and extensive information possible. Leading alternative assets professionals from around the world rely on Preqin's services daily, and its data and statistics are regularly quoted by the financial press. For more information, please visit: www.preqin.com

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