

Private Equity Real Estate Deal Activity Stays Strong in Q3

PERE-backed deal flow increases further from Q2, but deal value sees drawback

Following a relatively slow opening quarter of the year, private equity real estate deal activity has accelerated through the subsequent two quarters. Q3 2017 saw 1,170 PERE deals announced globally, worth a combined \$56bn: Preqin expects these figures to rise by around 5% as more information becomes available. This represents a continued uptick in deal volumes from Q2, surpassing the 1,147 deals seen in that quarter, but overall deal values fell from \$68bn. Smaller single-asset deals drove activity, as the quarter recorded fewer large portfolio deals than Q2. Residential and hotel assets saw significant increases in their share of deal values, while industrial and retail assets continued to diminish.

For more information and analysis, see the full *Preqin Quarterly Update: Real Estate Q2 2017* here: <https://www.preqin.com/docs/quarterly/RE/Preqin-Quarterly-Real-Estate-Update-Q3-2017.pdf>

Key Private Real Estate Deals Facts:

- **Q3 2017 saw 1,170 private real estate deals announced, worth a total of \$56bn.** This is a decrease in deal value from \$68bn in Q2, but a slight increase in deal flow from 1,147 deals.
- **Almost three-quarters (73%) of capital was invested in single-asset PERE deals,** and they accounted for 86% of the number of deals. In both cases, this is a record high over the past five quarters.
- **Q3 saw just three PERE-backed deals announced worth more than \$1bn.** The smallest category, deals worth less than \$50mn, accounted for 60% of the number of deals announced, up from 56% last quarter.
- **Deals in office assets made up the largest proportion of PERE deals,** accounting for 28% of deal numbers, and 32% of deal value.
- **Deals in residential assets, meanwhile, saw the biggest jump in proportion of deal value,** from 12% in Q2 to 28% in Q3. Hotel assets similarly increased from 4% to 10% of deal value across the two quarters.
- However, **27% of residential deal value is attributed to two deals:** Greystar Real Estate Partners' acquisition of Monogram Residential Trust, and Starlight Investments' acquisition of a US residential portfolio.
- **PERE deals where the asset is smaller than 100,000ft² saw an increase in proportion of total deal value** from 10% in Q3 2016 to 14% in Q3 2017.

Oliver Senchal, Head of Real Estate Products:

"Despite sluggish activity in Q1, robust deal making in Q2 and Q3 have put 2017 on course to match the activity seen last year. The year so far has seen a total of 3,304 deals worth \$174bn, approaching the 3,618 deals worth \$185bn seen in the first three quarters of 2016. This seems to indicate that private equity real estate firms have been unaffected by talk of whether we have reached the peak of the market and are continuing to do deals. However, concerns over valuations and the ability to find attractive opportunities may have led firms to pursue the lower end of the market over the quarter in a bid to find more value.

What is notable is the long-term shift in the types of assets acquired in PERE-backed deals. Office assets have long constituted the largest part of the deal making market, but in Q3 have seen their share of quarterly deal value decline for the third consecutive quarter. Retail and industrial assets are also falling in prominence, while assets such as residential property, land and hotels are becoming larger elements of the market."

Preqin is the leading source of information for the alternative assets industry, providing insight and analysis gathered by its global teams of dedicated researchers. Founded in 2003, the company is a frequent source of intelligence used in the global financial press, through its online databases, regular publications and bespoke data requests.

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