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Private Equity Real Estate Debt Funds Multiply in 2016

Number of funds in market grows by 25%, and aggregate target capital rises by 41% in the year to July 2016

Preqin research finds that in recent years, real estate debt fundraising has grown significantly, as fund managers globally have raised $58bn for the strategy 2013 – 2015, significantly higher than the average annual level of capital raised between 2006 and 2012 ($8bn). Moreover, 2016 looks set to continue this growth, as the $9bn secured from 18 vehicles that have reached a final close through the year so far puts 2016 on track to exceed the $15bn raised in 2015.

With institutional investors committing more money to private equity real estate debt funds in recent years, fund managers within the industry are bringing more and more debt vehicles to market to satisfy this demand. The capital targeted by real estate debt vehicles reached a record $32bn in July 2016, up from $23bn 12 months prior, while the number of debt funds targeting investor capital grew from 52 to 65 over the same period. Now, debt strategies account for 13% of all private real estate funds in market and 18% of the aggregate target capital, the largest proportion of any strategy other than opportunistic and value added funds.

Other Key Real Estate Debt Facts:

- Regional Focus: Europe-focused real estate debt funds may be set to grow in prominence; although they account for just 25% of the capital raised since 2006, **Europe-focused funds represent 34% of the aggregate capital raised in 2016 so far**, and 41% of the target capital of funds currently in market.
- Investors in RE Debt: Pension funds represent a significant proportion of institutional real estate investors with a preference for debt vehicles. However, **a third of all sovereign wealth funds globally which currently invest in real estate target debt strategies** – the largest proportion of any investor type.
- Investment Methods: Of private real estate debt funds on the road, **mezzanine is the most prevalent strategy of investment, preferred by 48% of firms**. Twenty-three percent of debt funds in market are seeking exposure to bridge loans, compared to just 5% of vehicles that closed since 2015.
- Debt Performance: **Private real estate debt strategies have largely outperformed value added and opportunistic strategies**. Since the second quarter of 2010, the PrEQIn Real Estate Debt Index recorded 18 consecutive quarters of growth to reach an Index value of 119, compared to 89 and 81 for value added and opportunistic strategies respectively.

To access further information and analysis, please see the report below:
https://www.preqin.com/docs/newsletters/re/Preqin-Real-Estate-Spotlight-August-2016.pdf

Comment:

""The diversification that debt strategies offer real estate investors and managers could be key in navigating a difficult and competitive landscape. For institutional investors, debt strategies offer the potential to deliver strong returns and reliable income in a low-return environment, while for fund managers launching debt funds offers a route to expand their businesses and to deliver more investment strategies for their clients.

With many investors yet to make their maiden investments in real estate debt, and several currently looking to enter the marketplace, the strategy looks set for further fundraising growth. Private equity real estate firms appear to have reacted to this growing investor appetite by launching a number of new debt funds in the past 12 months, with these vehicles becoming an increasingly key part of their portfolios."

Andrew Moylan – Head of Real Estate Products, Preqin

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.

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