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Press Release

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Private Real Estate Fund Managers Adapt to Competition

Record dry powder and high asset pricing lead firms to adjust their targeted returns

Preqin's *H2 2017 Real Estate Fund Manager Outlook** finds that firms are adapting their approach in response to increased pressure on the global dealmaking environment. Globally, six out of ten fund managers report that the competition for assets is fiercer than it was 12 months ago, and almost seven out of ten report that asset pricing is higher. As a result, three-quarters of fund managers say it is more difficult to find attractive investment opportunities compared to the previous year, and over a third are reviewing more opportunities. Given these pressures, it is perhaps unsurprising that asset pricing and deal flow rank as the biggest challenges facing managers over the next 12 months.

For more information and analysis, see the full *H2 2017 Real Estate Fund Manager Outlook* report here:
https://www.preqin.com/docs/reports/Preqin-Special-Report-Real-Estate-Fund-Manager-Outlook-H2-2017.pdf

Key Real Estate Fund Manager Facts:

- **Sixty percent of fund managers think there is more competition for assets than there was a year ago**. However, there is regional variation: 76% of Europe-based respondents feel competition has increased, compared to 49% of those in North America.
- At the same time, **industry dry powder is at a record high of $255bn** as at July 2017, an 8% increase since the start of the year.
- This is putting upwards pressure on asset pricing, with **68% of firms reporting that assets are more expensive than they were 12 months ago**, and just 12% saying they are cheaper.
- As a result, **three-quarters (75%) of fund managers report that it is harder to find attractive investment opportunities** than it was 12 months ago, while just 2% believe it is easier.
- In response, **39% of fund managers are looking to review a greater number of opportunities** than they did the previous year, while just 9% will review fewer opportunities.
- **Forty-two percent of firms are reducing the targeted returns of funds currently in market**. However, 55% of the largest firms with $5bn or more in AUM are reducing their targets, while a fifth of fund managers with $250-499mn in AUM are raising them.
- Given these circumstances, it is unsurprising that **62% of fund managers cited asset pricing as a key challenge facing them in the next 12 months**, while 43% said the same of deal flow. Fundraising and performance, by contrast, were each identified by just 18% of respondents.

Oliver Senchal, Head of Real Estate Products:

"The private real estate industry has seen great recent success, with strong performance and record distributions returned to investors. This has spurred many to re-commit significant capital to the asset class, causing a build-up of dry powder, which now stands at more than a quarter of a trillion dollars. At the same time, the expansion of the industry in recent years has seen more fund managers established, increasing competition for attractive investment opportunities.

In the face of these challenges, fund managers have adopted a range of responses. Many are reviewing more investment opportunities than previously, seeking to identify assets missed by others. A number are also looking to target markets or strategies beyond their previous activity in order to gain exposure to a greater range of opportunities. A significant proportion are also lowering their targeted returns on their latest funds. However, the environment is a boon to some managers, as high asset pricing may promote increased exit activity and offer higher returns on exited assets. The key challenge for firms over the next 12 months is to deploy their capital effectively in the face of a competitive and expensive market."

**** Results are based on a survey of 96 respondents conducted by Preqin in June 2017.***

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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