

Competition for Assets and Investor Capital Intensifies for Private Real Estate Fund Managers

Over 70% of real estate firms surveyed by Preqin at the end of 2014 felt competition for both investment opportunities and sources of capital had increased over the past year

The improving fortunes of the private real estate industry in recent years – the industry now manages an all-time high of \$742bn in assets and generated annualized returns of 16.7% over the last three years – has created an environment of stiff competition. Pricing for prime assets is a concern for many in the industry, and 75% of fund managers feel there is more competition for core real estate assets than a year ago, with a similar proportion feeling the same about value added and opportunistic assets.

The fundraising market is also becoming ever more competitive: 182 private real estate funds reached a final close in 2014, 59 fewer than in 2013 and 79 fewer than in 2012. Of the 119 managers that Preqin spoke with in November, 72% said they have seen an increase in competition for investor capital compared to 12 months ago.

Other Private Real Estate Fund Manager Facts & Views on 2015:

- **Investment plans for 2015:** 64% of firms surveyed at the end of 2014 said they would **invest more capital over the coming year**. Real estate firms currently have \$217bn available in dry powder (uncalled capital commitments) for new investments.
- **Finding Investment Opportunities:** A significant majority (66%) of fund managers feel it is more **difficult to source attractive investment opportunities** in the current environment compared to a year ago.
- **Investor Appetite:** Institutional investors appear to remain very committed to the asset class, with 83% of real estate firms witnessing an **increase in investor appetite** over the past year.
- **Alternative Investment Structures:** With sophisticated institutional investors increasingly looking at alternatives to blind pool fund commitments, 54% of fund managers are planning on **offering more separate accounts** to investors in 2015, and 57% are planning on **offering more co-investment opportunities**.
- **Regulatory Impact:** 31% of firms believe regulation will **affect the real estate landscape for the worse** in 2015, compared to 16% that feel it will be for the better.

The full results and analysis from Preqin's latest fund manager survey can be found in the 2015 Global Real Estate Report

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Comment:

"There are many challenges currently facing both fund managers and investors active in the private real estate space. For fund managers, high pricing makes finding attractive investment opportunities difficult, while the fundraising market is more competitive than ever. Institutional investors are receiving high levels of distributions from their existing commitments and strong returns on average from their real estate portfolios, but they must find the best opportunities to put this capital back to work.

Nevertheless, there is a great deal of institutional confidence in the real estate asset class and its ability to meet portfolio objectives. Fund managers are confident in their ability to invest the high levels of dry powder they have at their disposal, with the majority looking to invest greater levels of capital in 2015. Fundraising will remain extremely difficult over the coming year, but for those managers that can differentiate themselves from the rest, there is certainly the investor appetite for them to be very successful."

Andrew Moylan, Head of Real Assets Products

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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