

# Private Equity Real Estate Managers Reduce Targeted Returns Due to Asset Valuations

## Surge in asset pricing drives 51% of firms to reduce targeted returns of funds in market

Preqin's survey of 191 private equity real estate fund managers finds that asset valuations remain the chief concern for firms, with 49% seeing it as the biggest challenge over the next year. An equal proportion noted an increase in competition for assets compared to 12 months ago, while the majority of respondents (58%) think that it has become harder to find attractive real estate assets over the past year. As demand increasingly outstrips supply for attractive investment opportunities, 63% of real estate managers have seen an increase in asset pricing, and over a third (35%) believe they have risen significantly.

Due to these challenging buy-side conditions, the majority (51%) of private equity real estate fund managers surveyed have reduced the targeted returns of their funds in market, with just 11% increasing their performance objectives. Mid-market managers are seeing the greatest pressure on returns; 67% of firms with assets of \$500-999mn have reduced their targeted returns, while just 5% have raised their performance objectives. Larger real estate fund managers (AUM of \$1bn or more) are the most likely of any size group to maintain their targeted returns, with 53% either maintaining or increasing their performance goals regardless of asset valuations or competition.

### Other Real Estate Fund Manager Facts:

- **Capital Levels:** Nearly two-thirds (63%) of private equity real estate fund managers plan to deploy more capital in the coming 12 months, compared to last year. Thirty-five percent of firms will look to deploy significantly more, while just 12% anticipate decreasing their level of investment.
- **Investor Appetite:** While 64% of fund managers have seen an increase in investor appetite for real estate, the experience varies for differing firm sizes. **Eighty percent of managers larger than \$5bn stated investor appetite had increased**, following the trend of the largest firms securing a growing proportion of investor capital.
- **Fundraising Competition:** With a record number of funds being marketed, **nearly three-quarters (73%) of real estate firms have seen an increase in competition for investor capital**, compared to the last twelve months. In contrast, just 5% of fund managers believe that there is now less competition when fundraising.
- **Differentiation:** **Twenty-six percent of real estate firms believe that their network is the most important factor in differentiating themselves** from competitors. Beyond that, transparency (15%) and offering alternative fund structures (11%) are the most common ways fund managers seek to stand out.
- **ESG Factors:** **Thirty-one percent of all real estate fund managers consider ESG factors in all of their deals**, although this varies by region. Just 22% and 37% of managers based in North America and Europe respectively, always consider ESG factors, compared to 59% of firms based outside these regions.

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

<https://www.preqin.com/docs/reports/Preqin-Special-Report-Real-Estate-Fund-Manager-Outlook-July-2016.pdf>

### Comment:

"The private real estate market remains highly competitive, both in terms of obtaining investor capital and securing attractive assets. Record levels of dry powder and institutional investors increasingly looking to use their sophistication to invest directly within the asset class, rather than through fund managers, have seen nearly half of all surveyed real estate firms state that there is more competition in the market for deals than last year.

This evolution of the industry is consistently moving in the favour of those firms with the resources and manpower to override market competition. Smaller and less experienced fund managers, however, face a trickier fundraising process while they also struggle to participate in such a costly marketplace, which has forced many mid- and small-market managers to downgrade their targeted returns."

### Andrew Moylan – Head of Real Estate Products, Preqin

New York	London	Singapore	San Francisco	Hong Kong	Manila
+1 212 350 0100	+44 20 3207 0200	+65 6305 2200	+1 415 316 0580	+852 3958 2819	

[www.preqin.com](http://www.preqin.com) / [info@preqin.com](mailto:info@preqin.com)

**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](http://www.preqin.com)

For more information, please contact: Andrew Moylan +44 (0)20 3207 0330 or [amoylan@preqin.com](mailto:amoylan@preqin.com)  
For general press enquiries, please contact: William Clarke +44 (0)20 3207 0265 or [press@preqin.com](mailto:press@preqin.com)