

New Private Real Estate Firms Lose Out to Experienced Managers

First-time real estate funds represent just 4% of capital raised by funds closed in 2016 YTD

Preqin data shows that in the last five years, first-time fund managers have struggled in the fundraising marketplace. Only 4% of aggregate capital raised so far this year, and 11% in 2015, was committed to first-time fund managers compared to nearly a fifth (18%) of total investor capital that they secured in 2011. In contrast, firms that have raised at least three real estate funds have increased their proportion of aggregate capital raised from 53% in 2011 to 76% in 2016 YTD, while managers that have raised six or more funds account for 63% of all capital raised so far this year.

The increased challenge for first-time funds is mirrored by a decline in appetite for first-time funds, with investors increasingly showing a preference for experienced managers. Two-thirds of investors interviewed by Preqin at the end of 2015 said that they will not invest in first-time firms, an increase of 14 percentage points from 2011. Moreover, the proportion of investors that said they would invest in first-time fund managers has dropped from 19% to 15% over the same period, with investors preferring to entrust their capital to managers with long track records.

Other Key Real Estate Facts:

- **Time on the Road:** First-time real estate fund managers managed a quicker fundraising process than their more experienced peers through 2013 and 2014, spending just 16 and 17 months in the market, on average. However, in 2015, **funds managed by first-time firms saw an increased average fundraising period of 21 months**, compared with the 18 month average of more experienced managers.
- **Fundraising Success:** **Half of funds raised by first-time real estate firms in 2015 failed to achieve their target size**, although 45% of funds closed by experienced managers also did not reach their stated fundraising target. Just 21% of first-time managers managed to surpass their target size in 2015 compared to over a third (35%) of managers who had previously raised a real estate fund.
- **Performance Record:** More investors (**39%**) cite **past performance as the most important factor** when looking for a new real estate fund manager than cite strategy (30%) or alignment of interests (2%).
- **Capital Concentration:** The largest 20 fund managers in the real estate industry by fundraising **represent a third (\$350bn) of the aggregate capital raised since 2007**, and hold 37% (\$93bn) of total industry dry powder.
- **Fundraising Levels:** In 2015, 229 private real estate funds closed, raising a total of \$118bn. **The largest 20 fund managers raised a combined \$21bn through just five vehicles**; this gives an average fund size of \$5,250mn, compared to just \$514mn for all real estate funds.

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

<https://www.preqin.com/docs/newsletters/re/Preqin-Real-Estate-Spotlight-June-2016.pdf>

Comment:

“Investor appetite and fundraising levels for first-time private real estate firms has steadily declined over the past five years, with investors looking for firms with a proven track record. Although capital continues to flow into the industry it is increasingly becoming concentrated among a smaller pool of the largest firms, which have strong track records alongside sizeable resources and access to large pools of existing investors, enabling a fast fundraising process.

Given increased investor concerns regarding the outlook for real estate, it is perhaps no surprise that investors are trusting their capital to fund managers that have track records in good and bad markets, rather than gambling on newer firms. Smaller, less experienced real estate firms will therefore have to work harder than ever in their fund marketing efforts in order to attract investor capital.”

Andrew Moylan – Head of Real Estate Products, Preqin

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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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