

## Emerging Managers Successfully Raising Private Real Estate Funds Dropped to 10 Year Low in 2013

Only 63 funds raised by emerging private real estate managers closed in 2013, compared to 90 in 2012 and 126 in 2008

Emerging private real estate managers (defined by Preqin as raising their first or second real estate fund) face an extremely challenging fundraising environment. Emerging real estate managers accounted for just 18% of capital raised globally by real estate funds closed in 2013, compared to 21% in 2012 and 34% in 2011.

However, investor appetite for emerging real estate funds is finally beginning to show signs of improvement, following year-on-year declines since 2009. Preqin's regular conversations with institutional investors in real estate reveal that 30% of investors will invest in first-time funds, up from 25% in December 2012.

### Other Key Facts:

- An aggregate \$14bn was raised by the 63 emerging private real estate funds that reached a final close in 2013, the lowest number to close in any year since 2003 when 52 such funds reached a final close.
- 64% of private real estate funds placed on hold or abandoned in 2013 were being raised by emerging managers, the same proportion as in 2012 and up from 60% in 2011.
- Despite typically raising smaller funds, emerging managers spend almost the same amount of time on the road as experienced firms; emerging managers took an average of 18.9 months to reach a final close in 2012, compared to 19.1 months for all other real estate funds.
- Funds raised by emerging managers can offer the potential for higher returns; 55% of real estate funds that are the first in a series beat the median benchmark, compared to 45% of funds that are fund number four or later in a series.
- Geographically, North America-focused emerging manager funds accounted for 67% of total capital raised by emerging managers in 2013, up from 57% in 2012, while Europe-focused funds make up 23% in 2013 compared to 12% the previous year.
- Higher-risk strategies such as opportunistic or value added funds account for the majority (63%) of funds managed by new firms that closed in 2013 and represented 58% of capital raised.
- Real estate debt funds raised by emerging managers have grown in prominence, accounting for 21% of capital raised by new firms in 2013, compared to just 5% in 2012.
- Of all investors, fund of funds managers are most open to investing in first-time funds, with 79% willing to do so. 38% of superannuation schemes and 37% of insurance companies are open to investing with emerging managers.

**For more information and analysis, please see**

[https://www.preqin.com/docs/newsletters/re/Preqin\\_Real\\_Estate\\_Spotlight\\_March\\_2014.pdf](https://www.preqin.com/docs/newsletters/re/Preqin_Real_Estate_Spotlight_March_2014.pdf)

### Comment:

"Fundraising is always a particularly challenging prospect for newly established firms, and in a very crowded market with investors increasingly focusing on managers with a long track record, it is only becoming more difficult. The majority of funds abandoned or placed on hold in 2013 were being marketed by emerging managers and these firms are accounting for a smaller proportion of all private real estate fundraising, while a few of largest managers are able to secure the bulk of the capital being raised.

Nevertheless, if emerging managers can present a clear and compelling investment case and are able to effectively reach out to, and communicate with, the wide range of institutional investors that will consider new firms, they have the potential to be very successful. First-time funds are more likely to be above average performers and many sophisticated investors are keen to gain exposure to the most promising of new firms, which have the potential to be the next generation of leading private equity real estate managers."

### Andrew Moylan, Head of Real Assets Products

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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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