



PREQIN QUARTERLY UPDATE: REAL ESTATE Q2 2017

Insight on the quarter from the leading provider of alternative assets data

Content includes:

- Fundraising
- Funds in Market
- Deals
- Institutional Investors
- Dry Powder
- Fund Performance



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FOREWORD - Andrew Moylan, Preqin

Figures for the second quarter of 2017 present a mixed view for participants in the asset class. The number of private real estate funds reaching a final close has declined for the second consecutive quarter, and the 45 funds closed represent the lowest quarterly total since Q1 2010. However, significant levels of capital (\$29bn) have been raised and this is expected to increase as more data becomes available. This does lead to the question: is there too much capital chasing too few opportunities?

On the one hand, fuelling concerns is the record level of dry powder waiting to be deployed: \$246bn as at June 2017. On the other, fund managers have been able to find opportunities over Q2 despite this, with 887 private equity real estate transactions completed (up 15% on Q1). However, it is a seller's market, with closed-end private real estate vehicles experiencing 26 consecutive quarters of NAV growth, which is helping private real estate portfolios perform strongly for investors in a low-return environment, delivering annualized returns of 13.8% in the three years to September 2016 (the most recent data available). Significantly, there is still residual value to be realized from older vehicles, which could yet further the high distributions investors have received in recent years.

Looking ahead, real estate firms will continue to find it challenging to raise capital; a record 557 private real estate funds are in market as at the beginning of Q3 2017, collectively targeting \$177bn in aggregate capital. As can be seen from Q2 fundraising, the trend of large players increasingly dominating the marketplace has continued as investors place their faith and capital in the deal-sourcing capabilities of the largest players. Crucially for those looking to raise vehicles, while investors are still searching for higher-risk funds, larger proportions with active fund searches and mandates on Preqin's **Real Estate Online** are now seeking core, core-plus and debt funds than at the same time last year.

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p3	Fundraising
p5	Funds in Market
p6	Deals
p9	Institutional Investors
p10	Dry Powder
p11	Fund Performance

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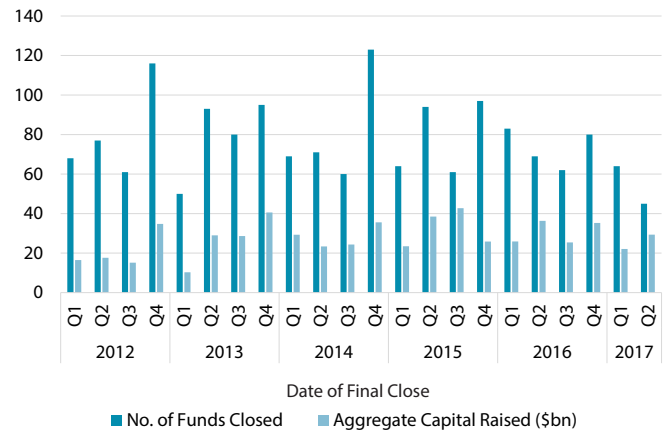


FUNDRAISING

Private real estate fundraising picked up in Q2, with 45 funds reaching a final close for \$29bn, representing a 33% increase in capital raised from Q1 2017, despite 19 fewer fund closures (Fig. 1). Fundraising for Q2 2017 is above the average raised since 2010 (\$25bn), yet capital concentration prevails, as the number of vehicles closed is at the lowest level since Q1 2010 (43).

One fund in particular – Blackstone Real Estate Partners Europe V – is responsible for a large proportion of the capital secured in the quarter, reaching a final close on €7.8bn and helping push opportunistic funds (Fig. 2) and Europe-focused funds (Fig. 3) to secure the largest proportions of capital in the quarter. Eighteen value added funds – the most funds closed for any strategy – secured \$9.2bn in Q2 2017, \$6.3bn more than in Q2 2016. Demand for higher-risk investment strategies continues as only seven core and core-plus funds closed in Q2 2017, securing just \$0.9bn.

Fig. 1: Closed-End Private Real Estate Fundraising, Q1 2012 - Q2 2017



Source: Preqin Real Estate Online

KEY FACTS



\$29bn

Amount of capital raised by closed-end private real estate funds closed during the quarter.



53%

Europe-focused funds represent over half the aggregate capital raised by funds closed in Q2 2017.



74%

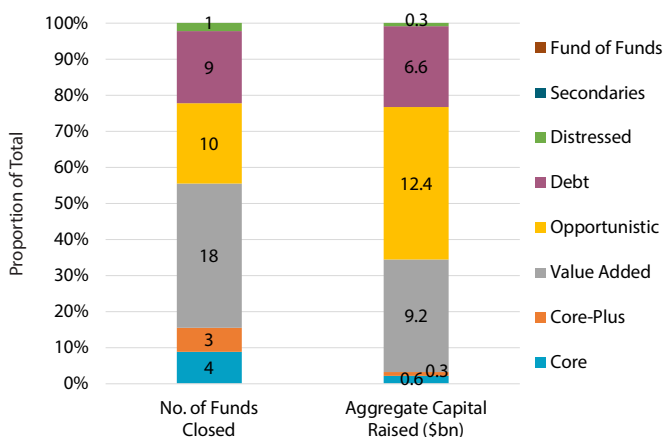
Value added and opportunistic funds accounted for almost three-quarters of total capital raised in Q2 2017.



€7.8bn

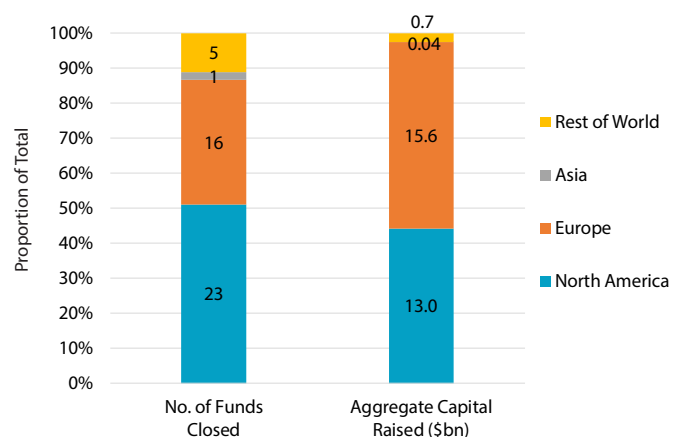
Amount of capital raised by Blackstone Real Estate Partners Europe V, the largest fund closed in the quarter.

Fig. 2: Closed-End Private Real Estate Fundraising in Q2 2017 by Primary Strategy



Source: Preqin Real Estate Online

Fig. 3: Closed-End Private Real Estate Fundraising in Q2 2017 by Primary Geographic Focus

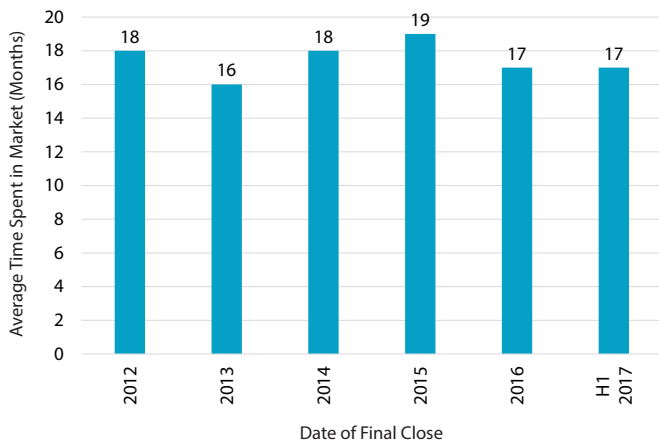


Source: Preqin Real Estate Online

In addition to the large increase in capital raised for Europe-focused funds (up from \$2.1bn in Q1 to \$16bn in Q2) the number of Europe-focused funds closed has more than doubled over this period. Conversely, the number of North America-focused funds closed has declined from Q1, although they have raised slightly more capital. Asia-focused fundraising activity has slowed over the last year, with just one fund reaching a final close in Q2 2017.

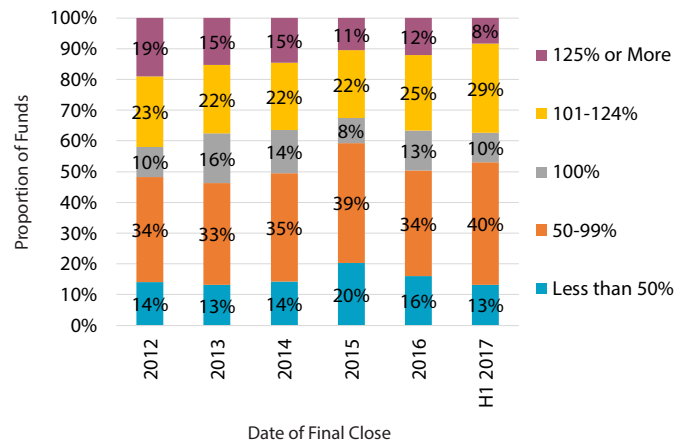
The amount of time real estate fund managers have spent marketing their offerings has remained relatively constant over the years, with an average 17 months spent on the road for funds closed in H1 2017 (Fig. 4). Funds closed continue to experience success, with almost two-fifths (37%) of funds reaching a final close in H1 2017 exceeding their target size (Fig. 5).

Fig. 4: Average Time Spent in Market by Closed-End Private Real Estate Funds, 2012 - H1 2017



Source: Preqin Real Estate Online

Fig. 5: Closed-End Private Real Estate Funds by Proportion of Target Size Achieved, 2012 - H1 2017



Source: Preqin Real Estate Online

Fig. 6: 10 Largest Private Real Estate Funds Closed in Q2 2017

Fund	Firm	Fund Size (mn)	Strategy	Geographic Focus
Blackstone Real Estate Partners Europe V	Blackstone Group	7,800 EUR	Distressed, Opportunistic	West Europe
Kildare European Partners II	Kildare Partners	1,950 USD	Debt	Europe
TCI Real Estate Partners Fund II	The Children's Investment Fund Management	1,900 USD	Debt	US, West Europe
DRA Growth & Income Fund IX	DRA Advisors	1,576 USD	Value Added	US
Walton Street Real Estate Fund VIII	Walton Street Capital	1,313 USD	Opportunistic, Value Added	US
Exeter Industrial Value Fund IV	Exeter Property Group	1,275 USD	Value Added	US
Pramerica Real Estate Capital VI	PGIM Real Estate	1,010 GBP	Debt, Value Added	West Europe
RXR Real Estate Value Added Fund III	RXR Realty	963 USD	Value Added	US
Harrison Street Real Estate Partners VI	Harrison Street Real Estate Capital	950 USD	Opportunistic	US
Europe Property Fund IV	BlackRock	764 USD	Value Added	Europe

Source: Preqin Real Estate Online



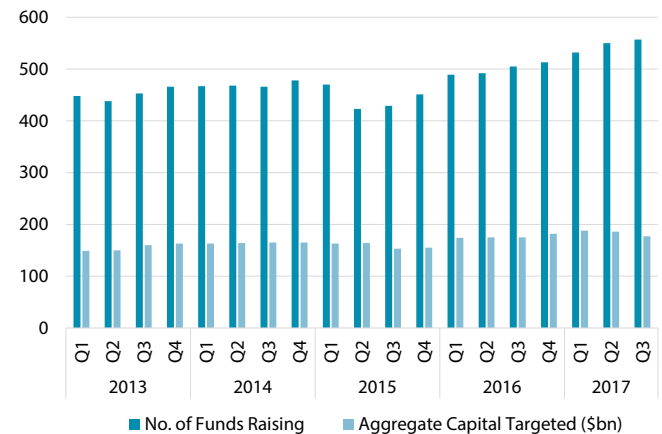
FUNDS IN MARKET

The number of private real estate funds on the road continues to reach new heights, with a record 557 funds in market at the beginning of Q3 2017 (Fig. 7). Despite this, these vehicles are collectively targeting only \$177bn in capital commitments, 6% less than the amount targeted at the start of 2017. Fifty-nine percent of funds currently in market have held at least one interim close, raising \$61bn towards their respective targets.

The majority (58%) of funds in market will primarily target North America; these funds are seeking \$107bn in institutional capital, 51% more than the total amount targeted by funds focused on other regions (\$71bn, Fig. 8). While the aggregate capital targeted by North America-focused funds has increased by \$7bn since Q2 2016, the corresponding figure for Europe-focused funds has dropped over the same period by \$5bn.

With large numbers of funds in market, raising capital has become more competitive, and many funds therefore spend a long time marketing their vehicles. Forty-four percent of funds in market have spent more than a year and half raising capital, including 29% that have spent two years or more in market. These figures increase to 53% and 36% respectively for funds that have held one interim close.

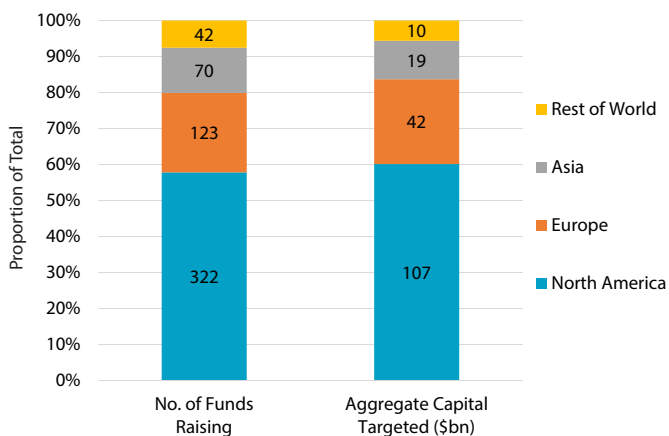
Fig. 7: Closed-End Private Real Estate Funds in Market over Time, Q1 2013 - Q3 2017



Source: Preqin Real Estate Online

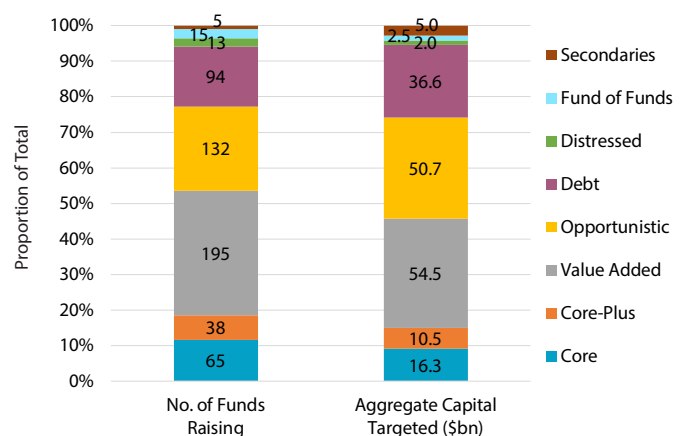
Value added and opportunistic funds represent the largest proportions (35% and 24% respectively) of funds in market and collectively account for 59% of aggregate target capital (Fig. 9). Opportunistic funds make up four of the five largest funds in market, including the largest, Starwood Global Opportunity Fund XI (Fig. 10). The fund will look to invest equally across the US and Europe, seeking investments in a range of property types.

Fig. 8: Closed-End Private Real Estate Funds in Market by Primary Geographic Focus



Source: Preqin Real Estate Online

Fig. 9: Closed-End Private Real Estate Funds in Market by Primary Strategy



Source: Preqin Real Estate Online

Fig. 10: Five Largest Closed-End Private Real Estate Funds in Market

Fund	Firm	Target Size (\$bn)	Strategy	Geographic Focus
Starwood Global Opportunity Fund XI	Starwood Capital Group	6.0	Debt, Distressed, Opportunistic, Value Added	US, Europe
Carlyle Realty Partners VIII	Carlyle Group	5.0	Opportunistic	US
Brookfield Strategic Real Estate Partners III	Brookfield Property Group	4.0	Opportunistic, Value Added	Global
PIMCO Bravo Fund III	PIMCO	3.5	Debt, Distressed, Opportunistic	Global
Brookfield Real Estate Finance Fund V	Brookfield Property Group	3.0	Debt	US

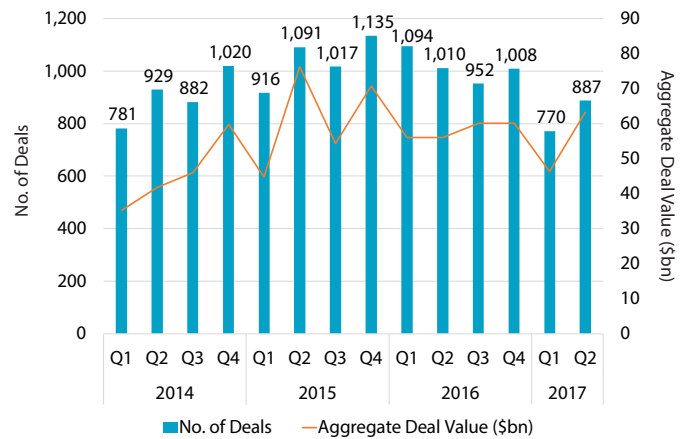
Source: Preqin Real Estate Online

DEALS

Private equity real estate (PERE) deal flow has shown signs of recovery following the slow activity witnessed in Q1 2017 (Fig. 11). A total of 887 deals were completed in Q2 2017 for \$63bn, 15% and 36% higher than Q1 2017 totals, respectively. Potentially as a result of the rising valuations of assets in PERE deals, 52% of the deals completed were valued at less than \$50mn, which is the smallest figure for this size bracket in the period examined (Fig. 12).

The largest proportion (32%) of completed deals in Q2 were for office assets, in line with previous quarters (Fig. 13). While the proportion of retail acquisitions declined by four percentage points between Q2 2016 and Q2 2017, the proportion of aggregate deal value they represent has remained level over the period. Residential transactions were less prominent in Q2, representing just under a fifth of PERE transactions in the quarter (from 26% in Q4 2016); the proportion of aggregate value they represent also halved from Q4 2016 to 10%.

Fig. 11: Private Equity Real Estate Deals, Q1 2014 - Q2 2017



Source: Preqin Real Estate Online

KEY FACTS



\$63bn

Aggregate value of the 887 private equity real estate deals completed in Q2 2017.



44%

of aggregate deal value in Q2 2017 was accounted for by portfolio deals, up from 28% in Q2 2016.



55%

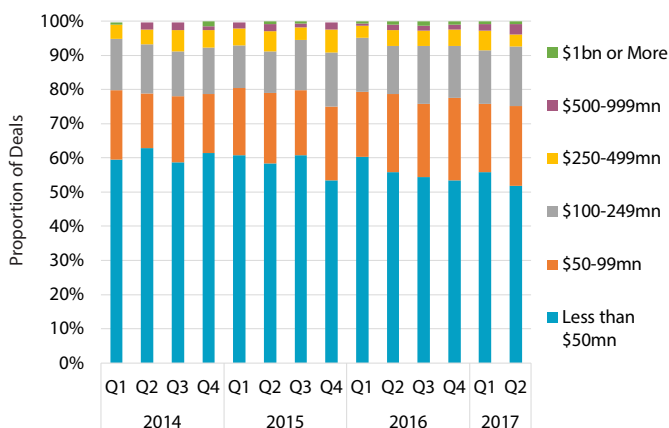
of the total value of deals in Q2 was for assets of 500,000ft² or more in size.



CNY 55bn

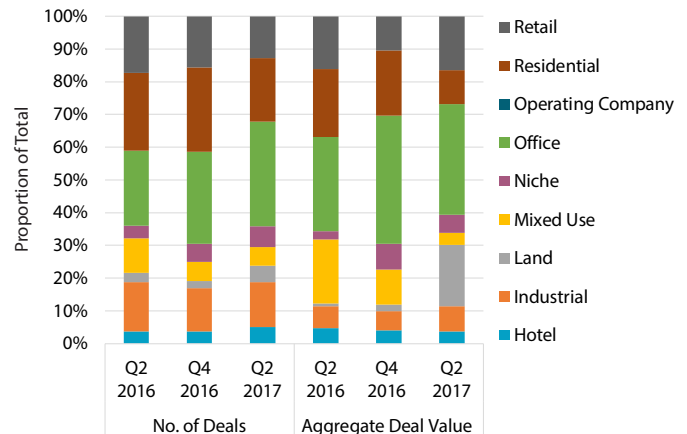
Value of Vanke's acquisition of 16 land development sites from Guangdong International Trust and Investment in June 2017.

Fig. 12: Private Equity Real Estate Deals by Size, Q1 2014 - Q2 2017



Source: Preqin Real Estate Online

Fig. 13: Private Equity Real Estate Deals by Primary Asset Type, Q2 2016 - Q2 2017

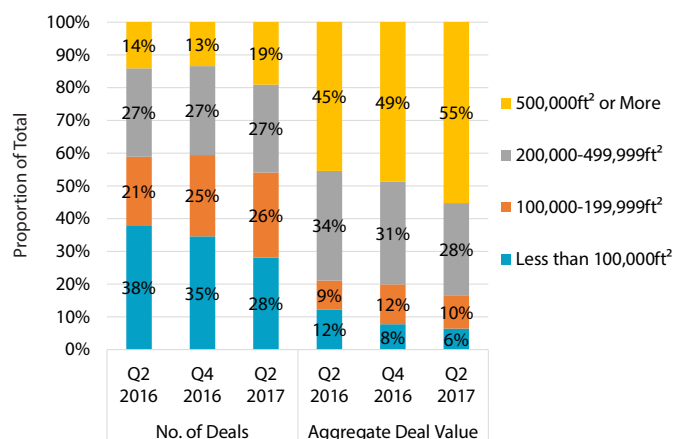


Source: Preqin Real Estate Online



There were also fewer transactions for smaller properties (those less than 100,000ft² in size), with their share of total PERE deals falling from 38% in Q2 2016 to 28% in Q2 2017; correspondingly, their proportion of deal value has fallen from 12% to 6% over the same period (Fig. 14). At the other end of the market, the largest properties (500,000ft² or more) are growing their market share, and now just 19% of transactions in Q2 represent 55% of the aggregate value of deals.

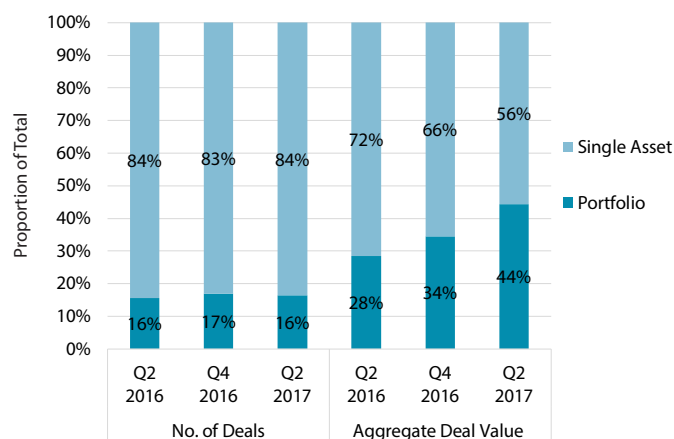
Fig. 14: Private Equity Real Estate Deals by Asset Size, Q2 2016 - Q2 2017



Source: Preqin Real Estate Online

The proportional increase in aggregate value for portfolio deals can be attributed to some large multi-asset transactions completed in Q2, including the largest portfolio deal of 2017, the CNY 55bn acquisition of land development sites from Guangdong International Trust and Investment (Fig. 17).

Fig. 15: Private Equity Real Estate Deals by Transaction Type, Q2 2016 - Q2 2017



Source: Preqin Real Estate Online

Fig. 16: Five Largest Single-Asset Private Equity Real Estate Deals Completed in Q2 2017

Asset	Asset Type	Buyer(s)	Seller(s)	Deal Size (mn)	Location	Deal Date
Kam Sheung Road Station Site	Land	China Overseas Land & Investment, K. Wah International, Sino Land Company Limited	Unidentified Seller(s)	8,330 HKD	Hong Kong	May-17
Elizabeth House	Office	HB Reavis Group	Chelsfield Partners, London and Regional Properties	600 GBP	London	May-17
85 Broad Street	Office	Callahan Capital Properties, Ivanhoe Cambridge	Beacon Capital Partners, MetLife Real Estate Investors	650 USD	New York	May-17
375 Hudson Street	Office	Trinity Real Estate, Norges Bank Investment Management	Tishman Speyer	615 USD	New York	May-17
Cannon Place	Office	Deka Immobilien Investment, West Invest	Hines	485 GBP	London	Apr-17

Source: Preqin Real Estate Online

Fig. 17: Five Largest Portfolio Private Equity Real Estate Deals Completed in Q2 2017

Asset	Asset Type(s)	Buyer	Seller	Deal Size (mn)	Location(s)	Deal Date
Guangzhou, China, Land Development Portfolio	Development Site	Vanke	Guangdong International Trust and Investment	55,100 CNY	China	Jun-17
US, Retail Portfolio	Regional Center, Mall, Retail	QIC Global Real Estate	Forest City Realty Trust	4,000 USD	US	May-17
US & Canada, Diversified Portfolio	Multi-Family, Niche, Residential, Senior Home, Student Housing	Mapletree Investments	Kayne Anderson Capital Advisors	1,600 USD	US, Canada	Jun-17
European Logistics Portfolio	Industrial, Logistics, Office, Office Showroom, Retail	AXA Investment Managers – Real Assets	Gramercy Property Trust	1,000 EUR	France, Germany, Netherlands, Poland, UK	May-17
US, Diversified Portfolio	Industrial, Office	Brookfield Property Group	TA Realty	855 USD	US	Apr-17

Source: Preqin Real Estate Online

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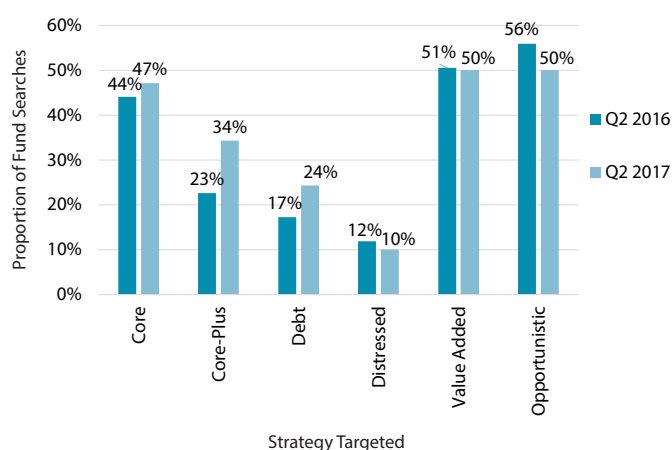
While institutional investors still favour higher-risk strategies over lower-risk funds, there has been a shift in fund searches issued since Q2 2016: investor interest in core and core-plus fund searches has increased, while fewer investors are targeting opportunistic and value added vehicles (Fig. 18). This shift could be a result of higher levels of dry powder being held for higher returning funds, which has contributed to rising asset valuations in recent times. Debt funds have grown in prominence over the course of the year as investors seek to further diversify their real estate portfolios.

Investors' regional preferences have not shifted as significantly, however, with most investors still targeting North America-, Europe- and global-focused vehicles in the year ahead (Fig. 19). However, the proportion (27%) of investors targeting Asia-Pacific-

focused funds has increased by six percentage points since Q2 2016 – this could be the result of a rapidly growing real estate market in the region, as well as investors looking for attractive opportunities outside Europe and North America, where prime real estate is in increasingly short supply.

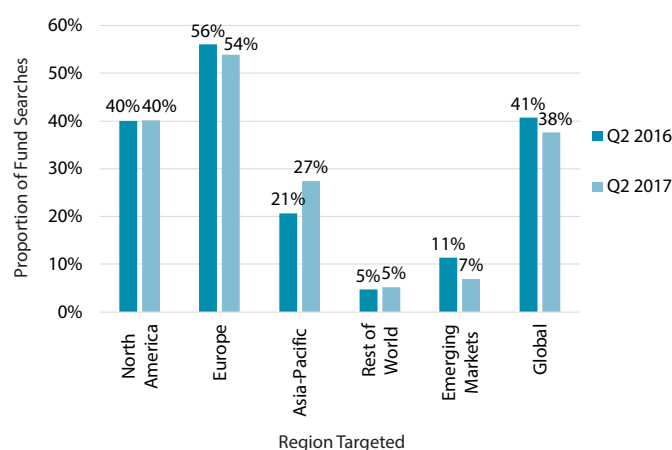
Q2 2017 has seen a rise in the proportion of fund searches issued for commitments of less than \$50mn, from 37% in Q2 2016 to 45% (Fig. 20). However, there has been little variation in the number of funds targeted in the year ahead, as seen in Fig. 21.

Fig. 18: Strategies Targeted by Private Real Estate Investors in the Next 12 Months, Q2 2016 vs. Q2 2017



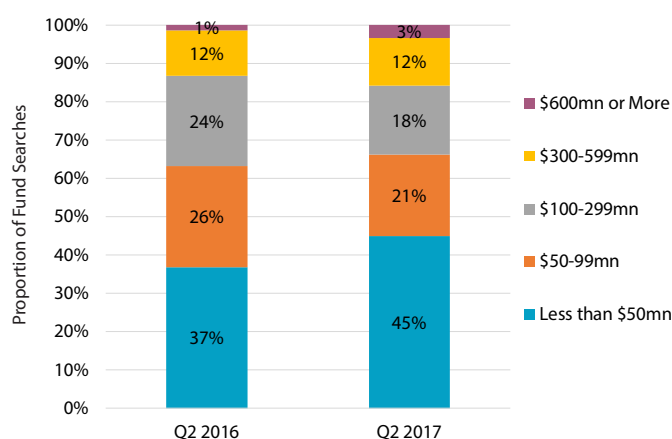
Source: Preqin Real Estate Online

Fig. 19: Regions Targeted by Private Real Estate Investors in the Next 12 Months, Q2 2016 vs. Q2 2017



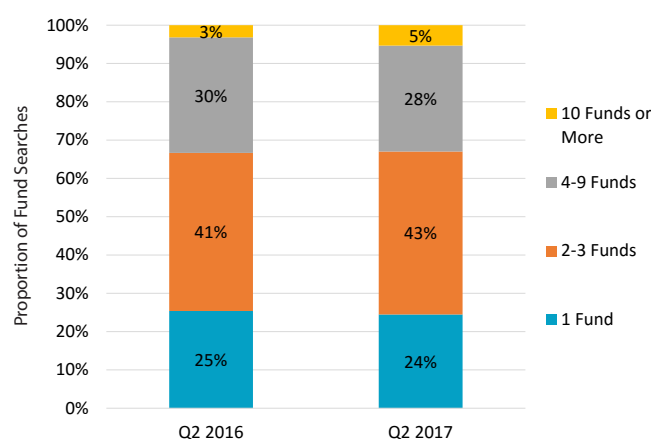
Source: Preqin Real Estate Online

Fig. 20: Amount of Capital Investors Plan to Commit to Private Real Estate Funds in the Next 12 Months, Q2 2016 vs. Q2 2017



Source: Preqin Real Estate Online

Fig. 21: Number of Private Real Estate Funds Investors Plan to Commit to in the Next 12 Months, Q2 2016 vs. Q2 2017



Source: Preqin Real Estate Online



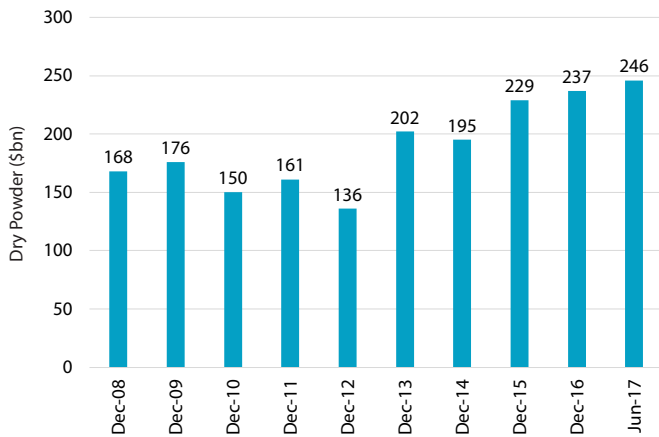
DRY POWDER

Private real estate dry powder levels continue to rise and remain above the end-of-year 2016 figure of \$237bn, reaching \$246bn as at June 2017 (Fig. 22). This marks an increase of 81% from the \$136bn held by private real estate funds in December 2012, which has contributed to the concern over rising valuations.

North America-focused funds continue to account for the majority (59%) of global dry powder, with \$145bn as at June 2017, increasing from \$133bn in December 2016 (Fig. 23). Dry powder levels across all other regions remain relatively static when compared with the end-of-year 2016 figures.

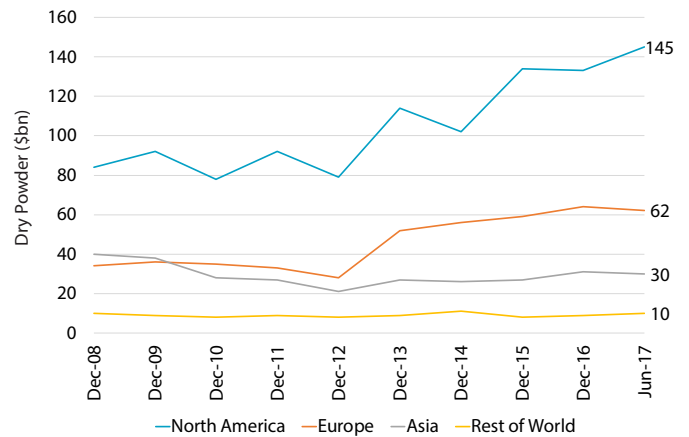
Opportunistic and value added funds remain the predominant strategies securing capital over time, and hence have the most dry powder to date (\$102bn and \$60bn respectively, Fig. 24). However, recent years have seen the emergence of real estate debt vehicles, for which dry powder levels rose from \$13bn in December 2012 to \$42bn in June 2017. Real estate debt witnessed the greatest increase in dry powder (+\$7bn) of any strategy since the end of 2016.

Fig. 22: Closed-End Private Real Estate Dry Powder, 2008 - 2017



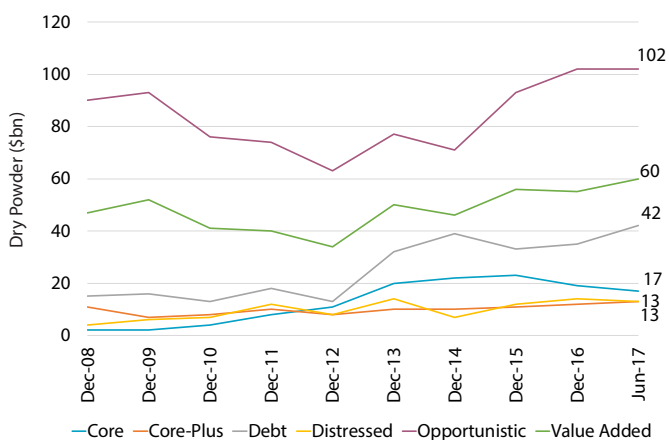
Source: Preqin Real Estate Online

Fig. 23: Closed-End Private Real Estate Dry Powder by Fund Primary Geographic Focus, 2008 - 2017



Source: Preqin Real Estate Online

Fig. 24: Closed-End Private Real Estate Dry Powder by Strategy, 2008 - 2017



Source: Preqin Real Estate Online

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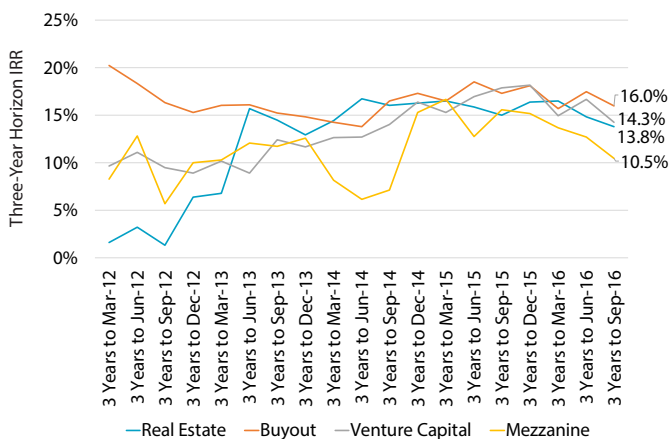
FUND PERFORMANCE

Rising valuations for property has helped push the net asset value (NAV) of closed-end private real estate funds up by 2.6% in Q3 2016 (the most recent quarter of data available) marking its 26th consecutive quarterly increase (Fig. 25). This has contributed to the strong performance of the asset class over recent years, with private real estate funds generating an annualized return of 13.8% in the three years to September 2016 (Fig. 26).

The PrEQIn Real Estate Index stands at 106.3 index points as at September 2016 (rebased to 100 as of 31 December 2007), with all strategies rising between Q2 and Q3 2016 (Fig. 28). Despite a small decline from March to June 2016 (-0.6 points), the Real Estate Debt Index experienced the most growth (+3.2%) in the quarter and now stands at 126.0 points.

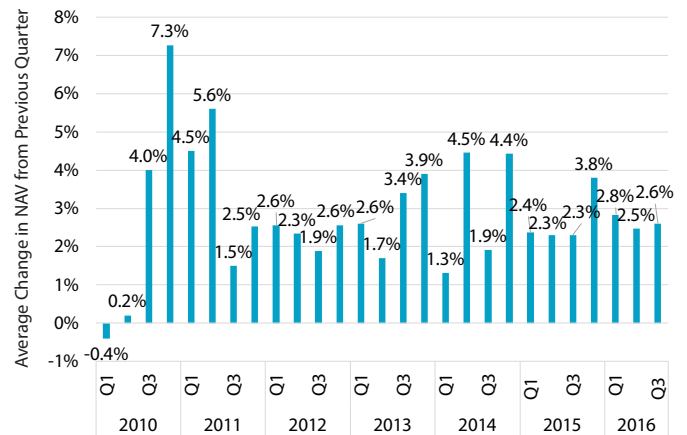
Fig. 29 shows that there is still significant value to be realized from older private real estate funds, indicating the potential for the high distributions seen in recent years to continue in the future.

Fig. 26: Three-Year Rolling Horizon IRRs, 2012 - 2016



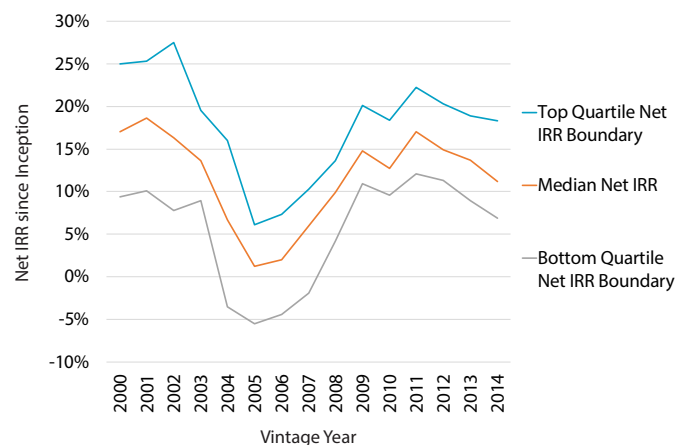
Source: Preqin Real Estate Online

Fig. 25: Closed-End Private Real Estate Quarterly Change in NAV, Q1 2010 - Q3 2016



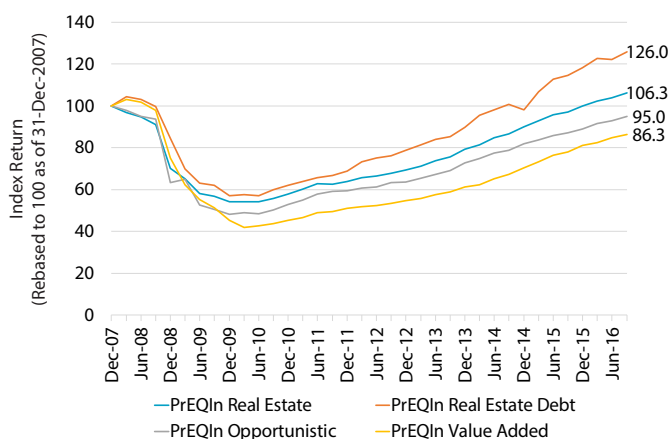
Source: Preqin Real Estate Online

Fig. 27: Median Net IRRs and Quartile Boundaries for Closed-End Private Real Estate Funds by Vintage Year



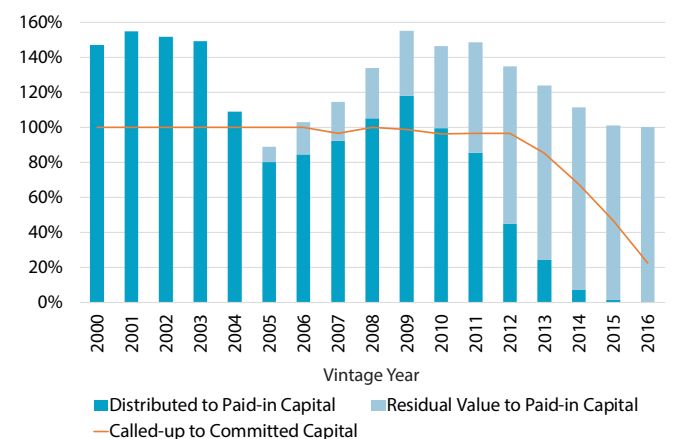
Source: Preqin Real Estate Online

Fig. 28: PrEQIn Real Estate Index by Strategy, 2007 - 2016



Source: Preqin Real Estate Online

Fig. 29: Closed-End Private Real Estate – Median Called-up, Distributed and Residual Value Ratios by Vintage Year



Source: Preqin Real Estate Online



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