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# The Changing Landscape for Real Estate Fundraisers: Responding to the Investor Spring

May 2014

## A Shifting Landscape and Demanding Investor Base

How have investors in alternative assets changed in recent years? How are they sourcing new investment opportunities and what are they looking for from fundraisers? We explore the answers to these key questions.

## The Increasingly Competitive Fundraising Market

We examine the current real estate fundraising environment, with a breakdown of private real estate funds currently in market. How has the fundraising market evolved over recent years?

## Meeting the Challenges of the Changing Landscape

We explore how Preqin Investor Network and Enhanced Fund Listings can help private real estate fundraisers be successful in today's competitive fundraising market.





# A Shifting Landscape

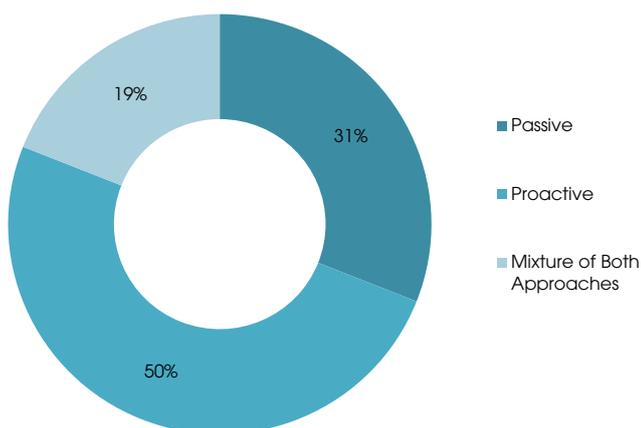
Investors are now placing greater importance on alternative assets than ever before. The alternatives landscape has shifted with alternative funds, including real estate funds, now a mainstream component of investors' portfolios. The real estate market has responded to this, with the number of real estate funds in market reaching an all-time high in recent years, presenting more investment opportunities to investors than ever before. In addition to this, and indeed partly in response to this, investors are increasingly proactive in ensuring they survey large segments of the real estate market prior to fund selection to ensure they are aware of the best opportunities in the marketplace. Passively waiting to find out about opportunities that fund managers and placement agents happen to present investors with, or relying on re-upping with the same pool of fund managers, is no longer a viable option for many investors.

**“Those that do not understand the requirements of today’s investor will find it difficult to fundraise successfully.”**

*- Stephen Marquardt, CEO  
and Head of Investor Relations, Doughty Hanson & Co.*

Real estate investors are under increasing pressure to optimize their portfolio and are therefore under increasing pressure to find the right funds. This has led to a much more proactive investor base than the one traditionally seen in the alternatives space. Investor teams are now tasked with screening all viable real estate funds, not just assessing the funds they have been passively introduced to by managers. In this report, Preqin takes a look at just how crucial it is for fund managers and placement agents to react positively to changes in investor practice, guaranteeing that their funds are visible to this new proactive model of investor.

Fig. 1: Investors’ Attitudes Towards Sourcing Alternative Asset Fund Investments



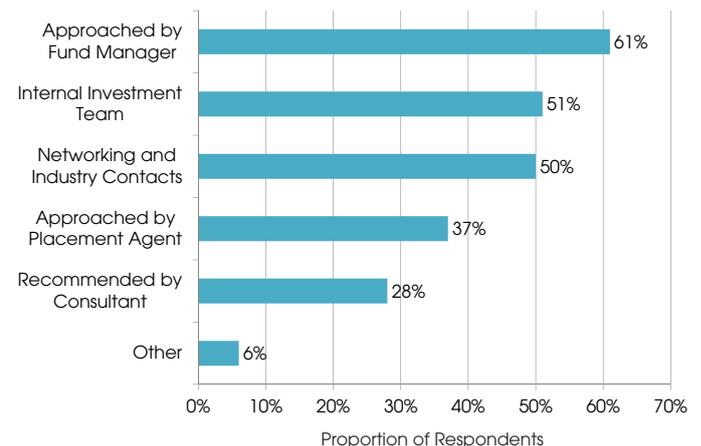
Source: 2013 Preqin Investor Network Global Alternatives Report

Fund managers and placement agents need to ensure their real estate fund information is readily available to these new proactive investors and easy to find. Fifty percent of investors in the alternatives space told Preqin that they take a proactive approach to sourcing new fund opportunities (Fig. 1), and 51% stated that they use an internal investment team as a primary source for new investments (Fig. 2). Although a significant number of investors still rely upon incoming approaches by fund managers and placement agents, fund managers can no longer afford to depend on this alone to attract investor capital. Proactive and passive investors alike have become increasingly demanding with the initial fund information that they require when reviewing investment opportunities.

The new proactive investor paradigm can be highly advantageous to fund managers and placement agents, allowing them to generate incoming leads that would not have been explored before, but only as long as fundraisers have listened and reacted positively to the change. Fundraisers must now guarantee that their funds raising capital are visible to active surveyors of the real estate market. Furthermore, fund managers and placement agents must allow investors to review fund information most vital to them when screening the whole real estate market to seek out potential new opportunities. Fundraisers cannot ignore investors’ demands, or risk forgoing important investor commitments.

In this report, Preqin takes a look at just how proactive real estate investors have become, and as a consequence of this, how vital it now is for fund managers and placement agents to guarantee fund visibility within the marketplace. Furthermore, it presents evidence of an increasingly demanding investor base, and how Preqin can help fundraisers to ensure that clear and transparent information on their funds is available to proactive real estate investors in the most competitive fundraising market in history.

Fig. 2: Main Methods Used by Investors to Source New Real Estate Investment Opportunities



Source: Preqin Best Communication Practices for Fund Marketers Report



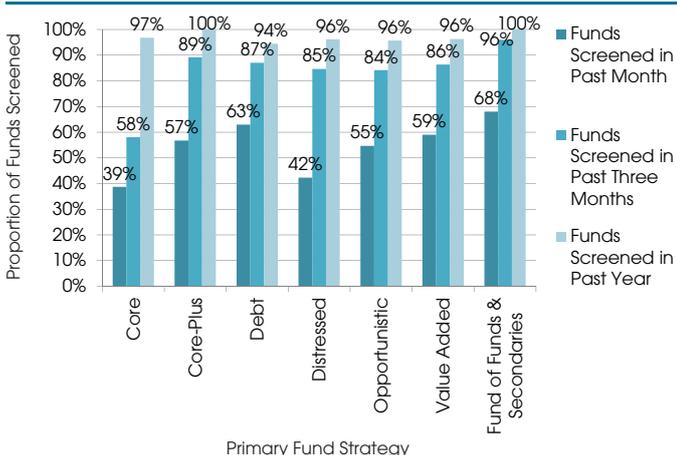
# Surveyors of the Market

Investors in the real estate space, as across the wider alternatives industry, are becoming more and more proactive in researching and seeking out new potential investment opportunities. Although the number of real estate funds in market has not increased as rapidly as witnessed across other alternative asset classes, it has remained at a steady high level across the past few years. With 473 closed-end real estate vehicles currently on the road, allocators have a large number and variety of investment options available to them. Investors want to survey the wider market place to ensure that they have discovered the most suitable investments, before honing in on particularly suitable funds. Preqin Investor Network reveals just how actively investors are surveying the real estate market in order to seek out the best opportunities. The Network is used by accredited investors to review fund overview information for fund strategy and size, fund manager details including contact information, and performance track record data.

The extent of investors' navigation of the real estate industry can be clearly observed through the frequent and thorough use of Preqin Investor Network. Over the past year, 96% of all real estate funds in market have been surveyed by investors on the Network, and 56% of these vehicles have been screened in the past month alone. Encouragingly for first-time fund managers, investors are not just interested in surveying funds being raised by more experienced fundraisers. Despite a notable difference in the fund screenings of first-time and non-first-time funds in the short term, with 44% and 60% of funds screened respectively in the past month, over the past year, 96% of first-time and 97% of non-first-time funds were reviewed by allocators. First-time fund managers can be confident that their funds will be actively surveyed by investors, despite their lack of track record.

Fig. 3 demonstrates the proportions of real estate funds in market surveyed by investors on Preqin Investor Network by primary fund strategy

Fig. 3: Proportion of Real Estate Funds Screened by Investors on Preqin Investor Network by Primary Fund Strategy (As of April 2014)



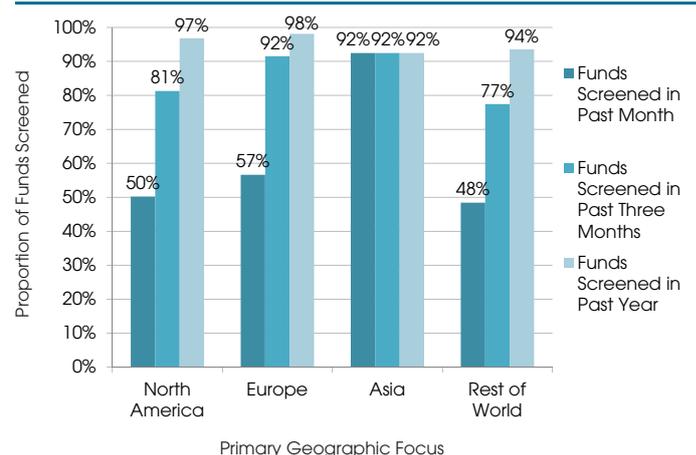
Source: Preqin Investor Network

strategy. Fund of funds and secondaries funds and debt funds were those that investors were the most keen to find material on, with 68% and 63% of funds reviewed in past month respectively. Although the smallest proportion of funds screened in the past month were core funds, with 39% of such funds surveyed, 97% of all funds with a core strategy were reviewed in the past year. Investors are eager to review a wide variety of fund opportunities before narrowing down their fund searches.

Analysing investor activity by fund primary geographic focus again demonstrates how actively investors survey the whole real estate space. A significant 92% of all Asian real estate funds were reviewed in the past month alone, and a notable 57% of Europe-focused funds were surveyed across the same period, as shown in Fig. 4. Half (50%) of all North America-focused vehicles were reviewed in the past month, a significant proportion considering the number of funds in market, with 283 vehicles on the road focused on the region.

Preqin's data demonstrates just how actively investors survey the market, and that investors' navigation of the real estate market is not limited to funds being raised by highly experienced managers, or to just funds of a particular region or a specific strategy. Today's proactive investor navigates the entire real estate market in order to seek out the best opportunities available, before determining the best fund opportunities for them. Fund managers and placement agents must guarantee that their funds are clearly visible to the investor community, or risk missing out on investor commitments to funds more identifiable to allocators. Fund managers and placement agents can utilize Preqin Investor Network to ensure that the 6,000 accredited investors using the Network to find and review investment opportunities can quickly discover their fund offering.

Fig. 4: Proportion of Real Estate Funds Screened by Investors on Preqin Investor Network by Primary Geographic Focus (As of April 2014)



Source: Preqin Investor Network



# A Demanding Investor Base

Today's investor is not only more proactive in discovering funds across the real estate market, but also in obtaining clear and detailed information on potential funds at the earliest possible stage of fund research. Investors have cited a number of problems that they face when evaluating potential investment opportunities using PPMs and other traditional marketing material, causing them to dismiss funds at the earliest stage. Even funds well-suited to an investor may instantly be dismissed due to a lack of information or clarity of fund information. Fund managers and placement agents alike must take note of these problems to ensure that their funds are not dismissed at the very beginning of the fundraising process.

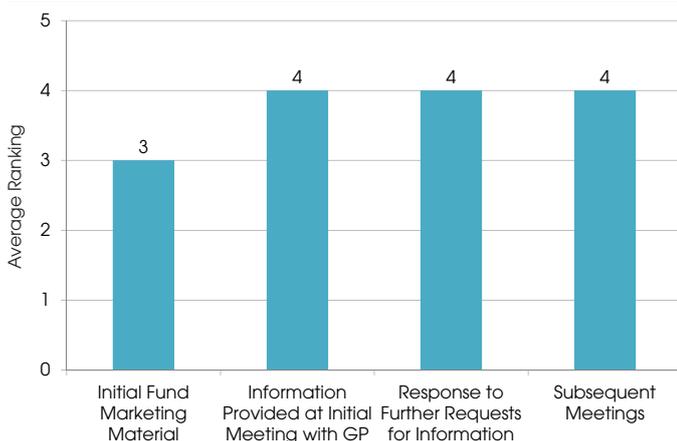
**“Whether a household name with a celebrated track record or a first-time fund, opening communication channels to investors across the globe is of paramount importance.”**

*- Stephen Marquardt, CEO and Head of Investor Relations, Doughty Hanson & Co.*

Investors want to be able to review clear and precise information on fund strategy, terms and conditions, track record data and investment team details from the very beginning of the due diligence process. With the average investor receiving 35 unsolicited documents every quarter, and the largest investors receiving more than 100, fund managers and placement agents must provide investors with the information that they want in a preferable format to ensure that they do not lose out to more responsive fundraisers.

A Preqin investor survey exposed the areas of initial fund marketing material that investors are satisfied with, as well as

Fig. 5: Investor Satisfaction with Information Provided by Fund Marketers Throughout the Fundraising Process (5 - Most Satisfied; 1 - Least Satisfied)

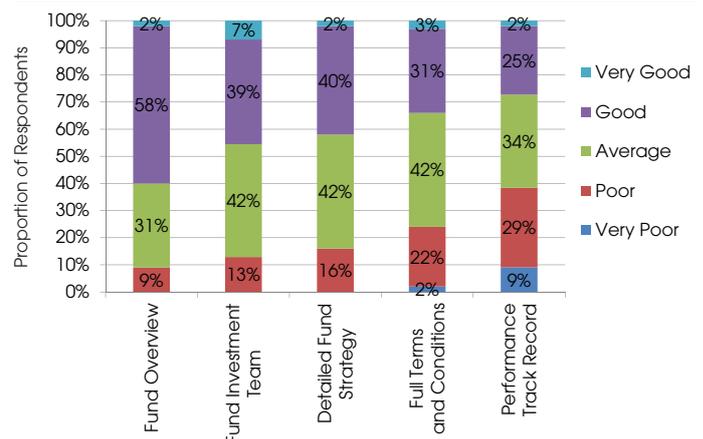


Source: Preqin Best Communication Practices for Fund Marketers Report

those which are deemed to be less satisfactory. Investors are generally pleased with the fund overview information provided to them, but are less satisfied with other sections of marketing material; full fund terms and conditions information and track record data are considered to be the worst represented sections of PPMs. Sixty-six percent of investors ranked initial fund terms and conditions information as average or worse, and 72% of investors stated the same ranking for performance track record data, as shown in Fig. 6. Investors stated that they want clearer and more transparent information provided to them at the earliest possible stage, including net performance figures and clearly specified fund terms information so that opportunities can be properly reviewed. Additionally, today's more proactive investor places greater importance on the need for standardized fund information, allowing them to actively compare a number of real estate investment opportunities, to thereby determine the best investments available to them.

Fund managers and placement agents must ensure that they do not forgo potential investments in their real estate funds because they are not providing investors with desired information at the initial stage of fund communication. The real estate fundraising market remains competitive, and failure to provide the required fund material to allocators can mean missing out on fund investments to those more diligent fund managers. Not only does the right information need to be provided to investors, but this must also be presented in a clear, easy to find format to ensure that funds are not immediately dismissed even if they are a good fit for an investor's portfolio. Fundraisers can ensure that accurate and up-to-date information on their funds is accessible to investors by providing this material on Preqin Investor Network. The Network allows fund managers and placement agents to provide clear and concise fund details in a standardised format to proactive investors looking to discover and research fund opportunities.

Fig. 6: Investors' Ratings of Typical Sections of Initial Fund Marketing Documentation



Source: Preqin Best Communication Practices for Fund Marketers Report



# The Competitive Fundraising Market

The number of real estate funds in market has remained consistently high across a number of years with competition between fund managers for investor capital therefore remaining high. Competition can present difficulties to fund managers and placement agents wanting their funds to stand out from the rest. As of May 2014, there are 473 real estate vehicles seeking capital, very similar to the high numbers of funds in market seen at the same point in 2013 and 2012, with 471 and 475 funds raising capital, respectively, as shown in Fig. 7. Real estate funds are targeting the largest amount of capital seen since 2009, with an aggregate target of \$170bn in investor commitments. The number of private real estate funds in market, although varying only very slightly over the past few years, represents a notable increase from the 410 vehicles raising capital in May 2010. The high competition in the real estate fundraising market makes it vital for fund managers and placement agents to ensure that their funds are being seen by proactive investors and that no mistakes are made with initial fund communication.

**“The number of private real estate funds in market, although varying only very slightly over the past few years, represents a notable increase from the 410 vehicles raising capital in May 2010.”**

Fig. 8 shows the number of funds in market over time broken down by primary geographic region. Competition for North America focused fund managers has increased over time, making the most saturated market even more competitive than in the past. The proportion of real estate vehicles targeting North American investments has increased from 52% of funds in 2009 to 60% of funds in 2014. In May 2009 there were 217 real estate funds primarily targeting US markets. As of May 2014, there were 283 North American focused real estate funds in market.

The funds in market targeting Asia and Rest of World have generally seen a slight decrease in numbers over recent years. Nevertheless, it is important for fund managers and placement agents to ensure that their funds are available for surveying by proactive investors, regardless of the primary geographic focus of their vehicles. Funds being raised with a North American focus have greater competition than before against funds with a similar focus, but equally those investing in a less prevalent region must make sure that their funds are still being reviewed and considered by proactive investors. With 92% of Asia-focused funds surveyed in the past quarter, and 77% of Rest of World-focused funds screened in the same period by investors on Preqin Investor Network, fundraisers raising Asia- or Rest of World-focused funds can rest assured that investors will be keen to review material on their funds.

Preqin Investor Network provides fund information on all 473 real estate vehicles in market to accredited investors, allowing them to actively survey the whole real estate market. The Network can be used by fund managers and placement agents to ensure that accurate and up-to-date information is being reviewed by these real estate investors.

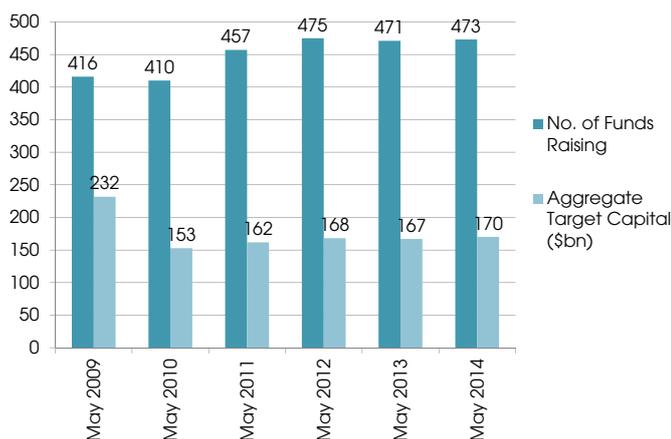
## Connect with Investors on Preqin Investor Network

Over 6,000 investment professionals looking to make new commitments use **Preqin Investor Network** to access detailed information on alternative investment funds open for investment. Share data with Preqin at no cost and make sure investors can find information on your fund.

For more information, please visit:

[www.preqin.com/efl](http://www.preqin.com/efl)

Fig. 7: Real Estate Funds in Market over Time, May 2009 - May 2014



Source: Preqin Real Estate Online

Fig. 8: Real Estate Funds in Market over Time by Primary Geographic Focus, May 2009 - May 2014



Source: Preqin Real Estate Online



# Meeting the Challenges of the Changing Landscape Head-on: Preqin Investor Network and Enhanced Fund Listings

In this report, Preqin has demonstrated just how proactive investors have become in seeking out new investment opportunities in the real estate market, rather than just waiting for possible fund options to come to them. Furthermore, it has highlighted how proactive (and even passive) investors have stated the need for accurate performance and fund terms and conditions information, along with detailed information on fund strategy and fund investment teams, in a clear and concise format during the initial stages of fund communication. It is highly beneficial to investment professionals to review fund information in a standardized format, to enable them to accurately compare potential investment opportunities. What is beneficial to investors may prove beneficial to fundraisers if they can heed the expressed requirements of allocators to real estate funds when assessing fund documentation.

Preqin provides real estate fund managers and placement agents with the means to ensure fund visibility to investors navigating the market, and to provide material on their funds to investors in the format that they require to make accurate and informed investment decisions.

Preqin Investor Network allows fund managers and placement agents to display key information on their real estate funds in market, enabling accredited investors to review clear and concise material on their vehicles. Fifty-six percent of all real estate funds were reviewed by investors on the Network in the past month alone, increasing to 85% for the past quarter, and 96% of all funds screened in the past year, highlighting just how actively investors survey the market using the Network. Fund managers

and placement agents can use the Investor Network to ensure that their funds are visible to the 6,000 proactive investors using the service, allowing them to review key information regarding their funds in a succinct and uniform format.

Furthermore, Preqin Investor Network allows fund managers and placement agents to not only guarantee that their funds are visible to proactive investors, but also to generate new leads through Preqin's complimentary Enhanced Fund Listings service. The service enables fund managers and placement agents to receive incoming requests from accredited investors for confidential fund information usually found in PPMs and other marketing material. Fundraisers are then able to decide whether or not to grant access to these investors. More than 10% of private equity, real estate and infrastructure funds in market have already signed up to Enhanced Fund Listings, and over 800 requests have already been submitted by investors directly to fund managers and placement agents for confidential information on their funds, with many more requests being made every day. Preqin's Enhanced Fund Listings supports real estate investor relations and business development teams globally, helping them to provide required fund information in the clear and efficient way that investors need, and giving them full control over which investors can review their confidential fund information.

## Free Exposure to the Most Active Network of Accredited Investors

Get your fund in front of over **6,000 investment professionals** looking to make new alternative investments by listing your fund for **free** on [Preqin Investor Network](#). Use a listing to:

▶ **Generate incoming leads** from investors searching for investment opportunities.

▶ **Manage the flow of fund information** to viable investing institutions.

To list your fund for **free** on [Preqin Investor Network](#), or to find out more information, please visit:

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May 2014

## Preqin Investor Network

**Preqin Investor Network** is a complimentary online service available to accredited investors focused on alternative investments: real estate, private equity, hedge funds and infrastructure.

The service provides investors with access to data, tools and intelligence to assist them with:

- Sourcing new fund investment opportunities
- Conducting due diligence on potential investments
- Making asset allocation decisions

Preqin Investor Network provides overview information on over 2,100 private equity, real estate and infrastructure funds and more than 11,000 hedge funds are listed on Preqin Investor Network. Over 6,000 investment professionals are using the service to proactively survey the market.

### Enhanced Fund Listings: Incoming Leads from Proactive Investors Globally

Since November 2013, 225 funds, targeting a total of \$70bn, have already begun directly engaging approaches from accredited investors on Preqin Investor Network through Enhanced Fund Listings, accounting for more than 10% of funds being raised.

An Enhanced Fund Listing on Preqin Investor Network is free, and can help fund managers provide proactive investors with the information they are looking for. Enhanced Fund Listings complement and work alongside your existing investor relations and business development practices, and as all requests for information are incoming this raises no regulatory issues. An Enhanced Fund Listing on Preqin Investor Network offers a number of additional benefits:

- New leads from investors globally.
- An easy way for investors to request the most important information typically found in PPMs.
- A preferential rank in investors' searches of funds in market.
- Your fund key details remains in focus - added to approved\* investors' portals and available to view every time an investor logs in.

\*You choose whether to approve or reject each investor, thereby retaining full control over who sees confidential data on your fund.

To find out more about **Preqin Investor Network** and **Enhanced Fund Listings** and how they can help you, please visit:

[www.preqin.com/efl](http://www.preqin.com/efl)

If you want any further information, or would like to request a demo of our products, please contact us:

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