

FUNDTRACKER TRENDWATCH

Variety is the spice of life

Diversified real estate investment funds dominate market

According to the Pension Real Estate Association *Consensus Forecast Survey* of the NCREIF Property Index Q2 2016, industry participants expect real estate returns to begin trending down during the next few years.

Survey respondents expect all property types to return an aggregate average of 8.4 percent by the end of 2016. Industrial looks to be the best performer, with an expected 9.6 percent return, followed by retail at 8.9 percent. Office and apartments each have a expected annual return of 8.1 percent. Going into next year, annual expected returns for all property types drop to 6.8 percent and then drop further in 2018 to 5.7 percent.

Throughout the downward trend, industrial keeps its front-runner status, although expected returns fall from 9.6 percent in 2016 to 6.1 percent by 2018. According to the survey respondents, retail should be the second-best performing sector over this period, going from 8.9 percent in 2016 to 5.7 percent in 2018.

Given this sentiment, industrial and retail funds should be dominating the fund landscape. But that does not seem to be the case.

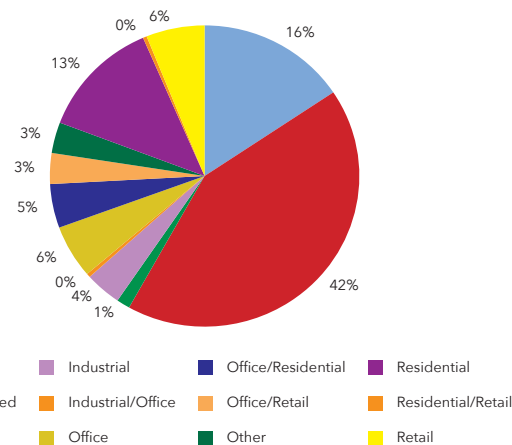
According to *FundTracker*, the vast majority of both new offerings and closed funds has featured a diversified strategy, followed by funds focused on debt. Because diversified funds can invest across several sectors, they might very well be allocating capital to industrial and retail assets, but sector-specific funds seem to prefer residential strategies, despite the sector's lagging returns. Nine percent of new fund offerings (59 funds) is focused on residential. Only 18 new funds are focused on the industrial sector.

Since Jan. 1, 2015, 90 diversified funds have closed, raising a total of \$91.8 billion. During that same period, 27 residential funds closed, raising an aggregate of \$9.2 billion. Thirteen retail funds closed (\$5.2 billion), 12 office funds closed (\$5.4 billion), eight industrial funds closed (\$5.4 billion), and three hotel funds completed fundraising (\$3.1 billion).

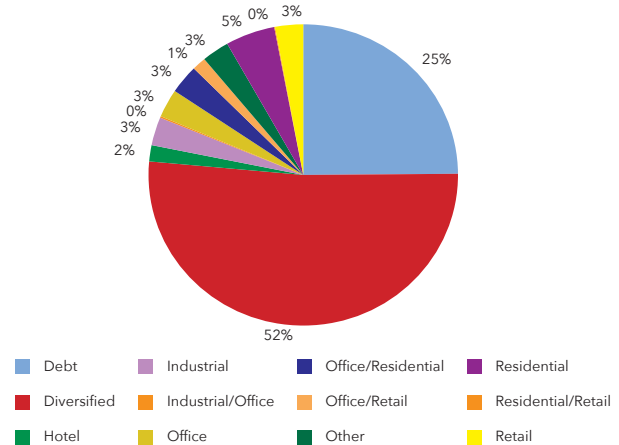
Few funds, either closed or new, are truly focused. Of the 212 funds closed since Jan. 1, 2015, only 63 are single-sector specific. Of the 365 funds launched in that time period, only 126 are single-sector specific.

- Diversified funds made up 42% of closed funds
- Diversified funds made up 49% of new funds
- Debt funds made up 16% of closed funds

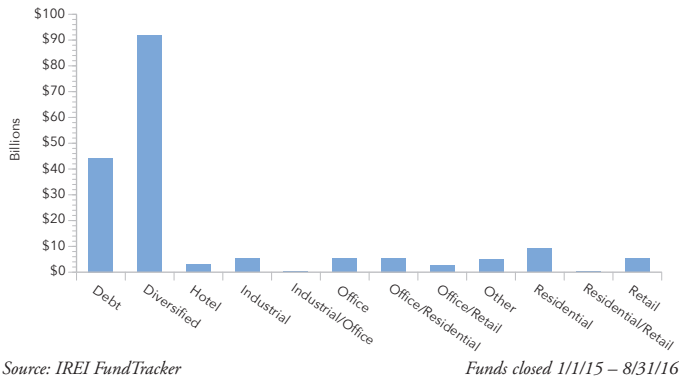
Percentage of closed funds by property focus



Capital raised by closed funds by property focus



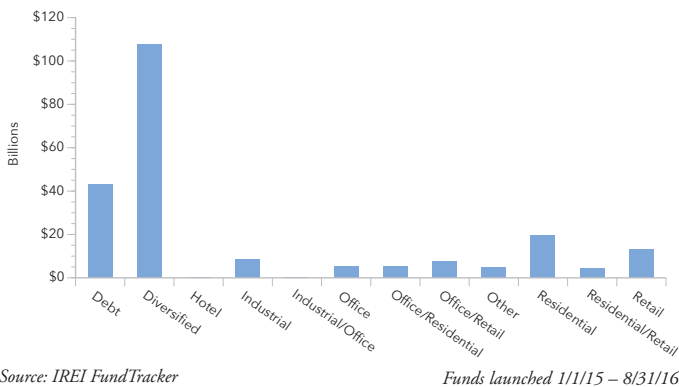
Capital raised by closed funds by property focus (\$B)



Source: IREI FundTracker

Funds closed 1/1/15 – 8/31/16

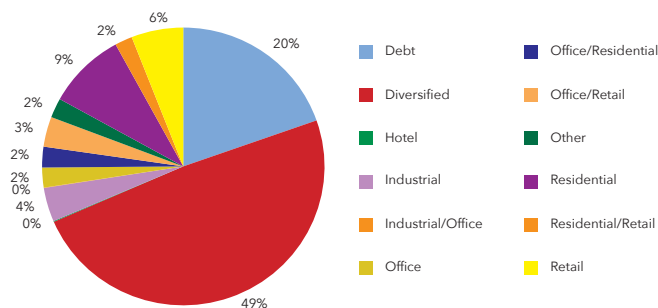
Capital targeted by new funds by property focus (\$B)



Source: IREI FundTracker

Funds launched 1/1/15 – 8/31/16

Percentage of capital targeted by new funds by property focus



Source: IREI FundTracker

Funds launched 1/1/15 – 8/31/16

from the IREI NEWS CLOUD

- German retail real estate specialist [ILG Group](#) has launched its first fund for institutional investors via ILG Capital – the open-ended special AIF - ILG Einkaufen Deutschland I - which plans to invest approximately €400 million (\$450 million) in large-scale German retail properties.
- [Segro Plc](#) (SGRO.L), Britain's largest listed industrial property developer, shook off wider Brexit concerns on Friday, raising £325 million (\$433 million) to develop new logistics warehouses as e-retailing grows across Europe.
- [PCCP](#) held a \$601 million final close for PCCP Equity VII on Aug. 31, surpassing its \$500 million equity fundraising target.
- [Bentall Kennedy](#) has been selected to represent AustralianSuper as its real estate investment adviser in Canada with a mandate to pursue commercial real estate investment opportunities nationwide.
- The \$14 billion [Los Angeles City Employees' Retirement System](#) has committed \$20 million in Asana Partners Fund I, a \$400 million value-added private real estate fund focused on investing in high street retail properties.
- The \$34.7 billion [Illinois Municipal Retirement Fund](#) committed a total of €125 million (\$140 million) to three European open-end core real estate funds.

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Information in this report has been drawn from IREI's proprietary FundTracker database. Online subscriptions are available. Click [here](#) for more information.

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