

FUNDTRACKER TRENDWATCH

Casting a wide net

Majority of real estate funds are diversified

According to the Pension Real Estate Association *Consensus Forecast Survey* of the NCREIF Property Index Q3 2015, industry participants expect real estate returns to begin trending down during the next few years, though the highest-returning sectors remain the same.

- Industrial sector expected to provide highest returns
- 47% of capital raised is by diversified funds
- Residential funds make up largest sector-specific category

Respondents expect all property types to return a total average of 11.5 percent by the end of 2015. Industrial looks the best with an expected 12.4 percent return, followed by retail at 12.1 percent and office at 11.6 percent. Apartments trail the group with a 10.1 percent expected annual return. Going into next year, annual expected returns drop to 8.5 percent and then drop further in 2017 to 7.2

percent. Optimism prevails in 2018, when overall expected returns rise slightly to 7.8 percent.

Throughout the downward trend, industrial keeps its front-runner status, although expected returns fall to 9.1 percent and 7.7 percent in 2016 and 2017, respectively. Expected apartment returns continue to trail, falling to 6.8 percent by 2017.

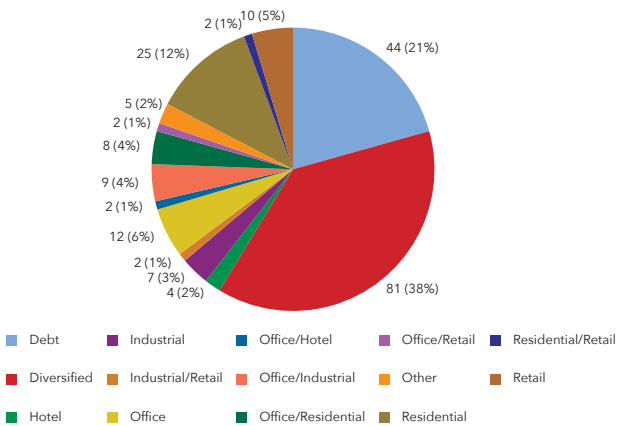
Given this sentiment, industrial and retail funds should be dominating the fund landscape. But that does not seem to be the case.

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. Nearly 16 percent of new fund offerings (59 funds) is focused on residential. Only nine new funds are focused on industrial.

Since Jan. 1, 2014, 81 diversified funds have closed, raising a total of \$80.9 billion. During that same period, 25 residential funds closed, raising an aggregate of \$9.2 billion. Twelve office funds closed (\$5.8 billion), 10 retail funds closed (\$3.3 billion), seven industrial funds closed (\$7.3 billion), and four hotel funds completed fundraising (\$3.5 billion).

Few funds, either closed or new, are truly focused. Of the 97 closed since Jan. 1, 2014, only 58 are sector-specific. Of the 375 funds launched in that time period, only 131 are sector-specific.

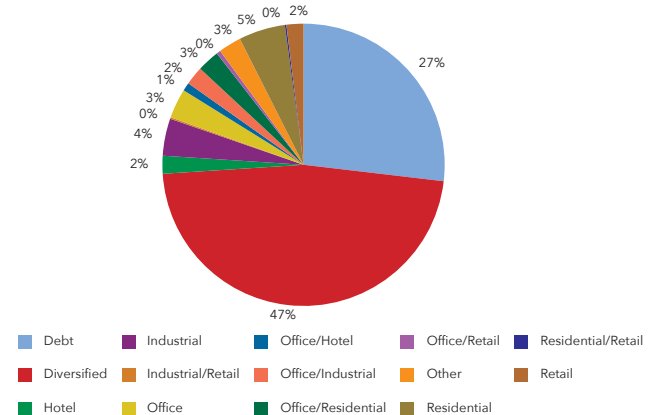
Percentage of closed funds by property focus



Source: IREI FundTracker

Funds closed 1/01/14–11/05/15

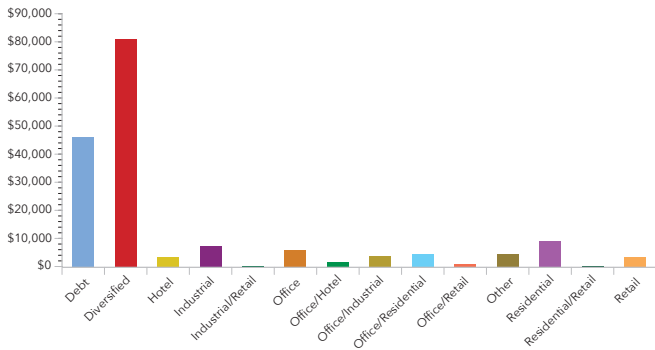
Capital raised by closed funds by property type



Source: IREI FundTracker

Funds closed 1/01/14–11/05/15

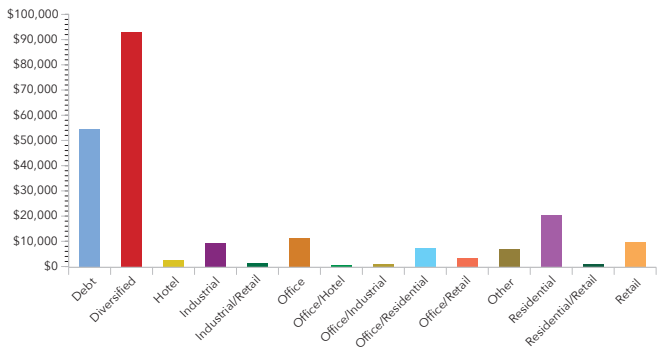
Capital raised by closed funds by property type (\$M)



Source: IREI FundTracker

Funds closed 1/01/14–11/05/15

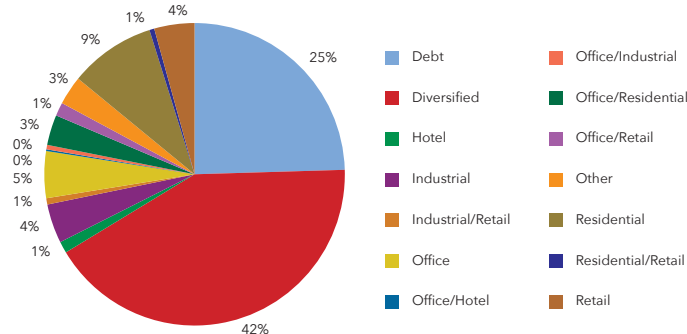
Capital targeted by new funds by property type (\$M)



Source: IREI FundTracker

Funds opened 1/01/14–11/05/15

Percentage of capital targeted by new funds by property type



Source: IREI FundTracker

Funds opened 1/01/14–11/05/15

from the IREI NEWS CLOUD

- ▶ [M7 Real Estate](#) has raised more than €40 million (\$43 million) of equity and loan note issuance for its second continental European real estate fund.
- ▶ Toronto-based [Conundrum Capital](#) has held a final close of C\$243 million (\$183 million) for its Q Residential Property Income Fund IV.
- ▶ Canyon Partners Real Estate and Citi Community Capital have announced the formation of a second fund in their [Canyon Multifamily Impact Fund](#) strategy.
- ▶ The \$4.5 [Fresno County \(Calif.\) Employees' Retirement Association](#) has committed \$50 million to two real estate funds.
- ▶ The \$34.8 billion [Swiss Federal Social Security Funds](#) is searching for a manager to handle \$35 million to \$50 million in a core/core-plus Asia Pacific real estate fund.
- ▶ The [Dallas/Fort Worth International Airport Board](#) has committed \$55 million to three real estate and energy funds on behalf of its pension funds.
- ▶ The \$184.5 billion [New York State Common Retirement Fund](#) has committed \$950 million to two 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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