

FUNDTRACKER TRENDWATCH

Funds are continuing to grow

Real estate funds are growing larger and closing faster

To paraphrase Mark Twain, “The report of the investment fund’s demise has been greatly exaggerated.”

According to *FundTracker*, 646 closed-end funds have launched in the past three years, with a total target of \$356 billion. (Not all funds listed a maximum fund size, so the total target is undoubtedly higher.) During this time, 363 funds held a final closing, raising more than \$248 billion.

But not all funds are benefiting from this renewed interest. Investors are looking at their available options with a disciplined eye not seen before the financial crash. They are holding out for quality funds rather than chasing the market.

According to the recently released *Hodes Weill 2015 Allocations Monitor*, investors would rather sit on capital and be underallocated than invest with a second-choice manager.

Because investors are focused on track record and the ability of fund managers to deliver what they promise, the market is bifurcating. Managers with a proven record of

success spanning several funds are taking in more than their fair share of capital, while new managers are struggling.

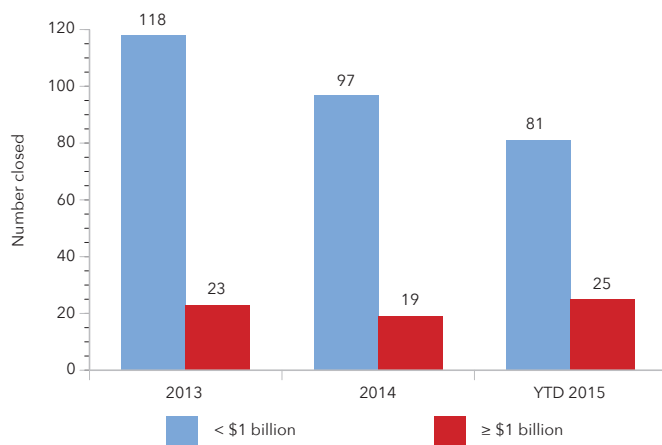
According to *FundTracker*, mega-funds — those that raise \$1 billion or more — accounted for 16 percent of the funds closed in 2013, but 42 percent of the capital raised. YTD 2015, that spread has grown even larger, with mega-funds being responsible for 24 percent of the funds reaching a final close, but 72 percent of the capital raised.

The average size of all funds is growing — increasing from \$507 million in 2013 to \$883 million YTD 2015. Much of this increase, however, is due to the increasing size of mega-funds. The average size of funds under \$1 billion grew from \$252 million in 2013 to \$326 million YTD 2015. In comparison, the average mega-fund came in at \$1.8 billion in 2013 and \$2.7 billion YTD 2015.

The attractiveness of the fund structure can also be seen in the compressing closing times. Three years ago, funds raising less than \$1 billion took 22 months on average to close. That timeframe has fallen to 19 months YTD 2015. Larger funds closed even faster. Back in 2013, they took 16 months on average to close. Today, they are taking around 14 months to raise a mega-amount of capital.

- YTD 2015 mega-funds accounted for almost one-quarter of funds closed
- YTD 2015 mega-funds accounted for almost three-quarters of capital raised

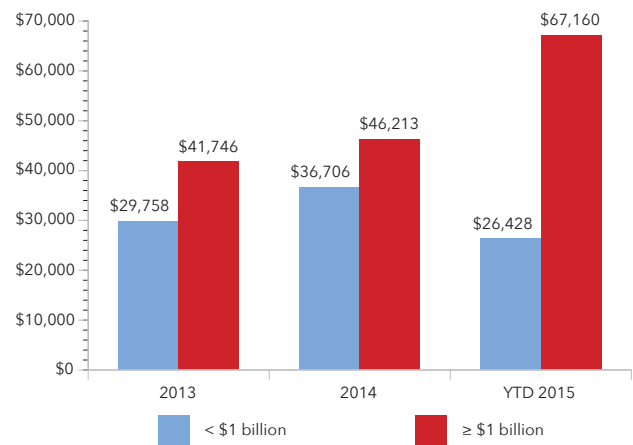
Number of funds closed by size



Source: IREI FundTracker

Funds closed 1/01/13–12/15/15

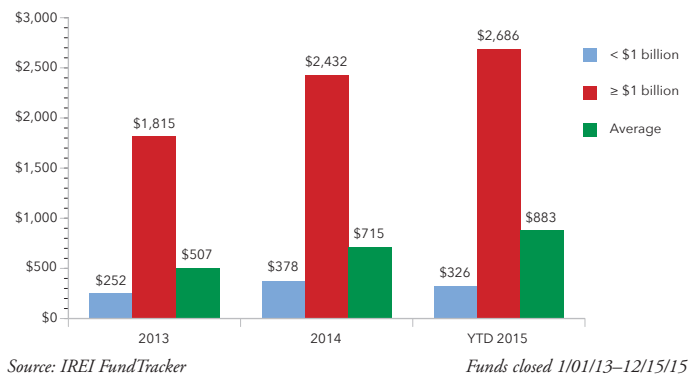
Capital raised by funds closed by size (\$M)



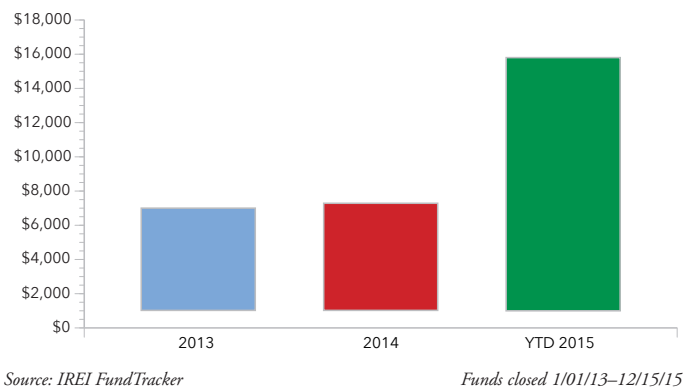
Source: IREI FundTracker

Funds closed 1/01/13–12/15/15

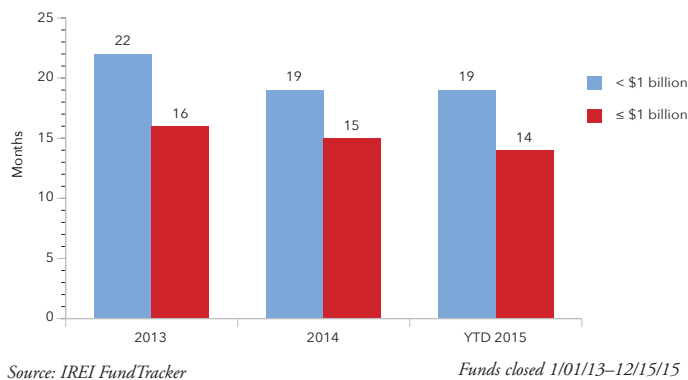
Average closed fund size by year (\$M)



Range of mega-fund sizes by year (\$M)



Average time to final close by size



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- ▶ The \$45.8 billion [Teachers' Retirement System of Illinois](#) has committed \$50 million to Oak Street Real Estate Capital Fund III.
- ▶ The \$2.5 billion [San Joaquin County \(Calif.\) Employees' Retirement Association](#) has committed \$50 million to two real estate managers.
- ▶ [Asian capital](#) into European hotels has increased 393 percent since 2007.
- ▶ [Related Cos.](#) has announced the final closing of its opportunity fund, Related Real Estate Fund II, with equity commitments of more than \$1 billion, exceeding its \$850 million fundraising target.
- ▶ [City Developments Ltd.](#), via its second profit participation securities, has agreed to create a S\$1.1 billion (\$780 million) joint Singapore office investment platform with Alpha Investment Partners, through Alpha Asia Macro Trends Fund II.
- ▶ The \$51.2 billion [Pennsylvania Public School Employees' Retirement System](#) has committed up to \$100 million to Blackstone Real Estate Debt Strategies III.
- ▶ [Standard Life Investments](#) has held a final close for its second European real estate club fund, European Real Estate Club II, raising more than €391 million (\$431 million) of equity from 10 investment groups from five countries across three continents.

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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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