Institutional Real Estate
FundTracker TrendWatch

Debt fund market share continues to fall

Debt-only funds account for about 15% of capital raised in past 42 months

- Funds with debt component fall from 34% to 27% of market
- Debt-only funds raise 12% of capital YTD 2017
- Majority of debt funds target North America

According to IREI's FundTracker database, the number of debt funds, as well as the amount of capital they are raising, is decreasing. But that really is no surprise — the entire fundraising market is slowing down, so it makes sense that debt fund raising would also slow.

What is more interesting is that the percentage of debt vehicles have decreased their share of the market year-over-year each year since 2013.

According to FundTracker, 459 real estate funds have held a final closing since Jan. 1, 2014. Of those, 71 funds (15 percent) were focused exclusively on debt. An additional 54 funds combined debt and equity in their mandates. All together, these debt strategies total 27 percent of the funds closed in the past three-and-a-half years.

2017 finds 11 percent of the funds closed to be debt-only, while an additional 7 percent have a debt-plus-equity mandate. This is down from 2016, when 13 percent of funds reaching their fundraising goals were debt-only, with another 9 percent combining equity with debt.

Since 2014, funds with a debt component accounted for 40 percent of all capital raised by closed funds. However, funds with a debt component only accounted for 34 percent of the capital raised in 2016. YTD 2017, that market share has dropped to 18 percent,

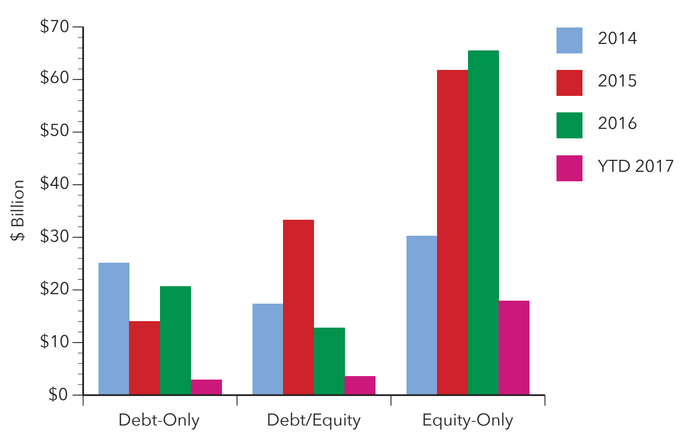
So why the decreasing interest in these funds? Interest in these investment vehicles increased significantly after the GFC. Banks in Europe greatly tightened their lending requirements. New regulations made it difficult for insurance companies to lend to anything except core. In the United States, the CMBS market collapsed, and investment banks were delevering their portfolios. Debt funds seemed to be a no-brainer for filling the gap between what banks would offer and what investors needed. The fly in the ointment, however, is that investors no longer need what they did before the crisis. Investors have become much more disciplined and are generally happy with limiting their financing to 65 percent to 70 percent LTV — and often less. Traditional financing sources are willing to lend at this level, so the need for more expensive debt-fund financing simply is not as great as originally assumed. There will undoubtedly always be a market for these funds, but it is unlikely to ever be as large as originally envisioned.

Number of closed debt funds vs. equity funds

Funds reaching final closing each year
YTD 2017 = June 1, 2017

Source: IREI FundTracker

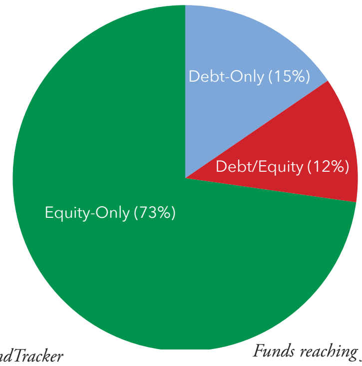
Capital raised by debt funds vs. equity funds ($B)



Funds reaching final closing each year
YTD 2017 = June 1, 2017

Source: IREI FundTracker

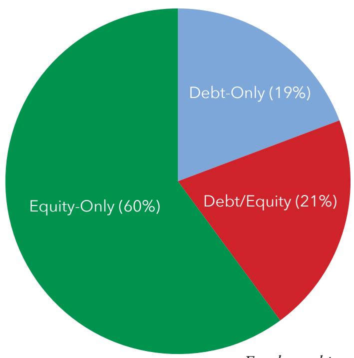
Number of closed funds — percentage debt vs. equity



Source: IREI FundTracker

Funds reaching final Jan. 1, 2014 – YTD 2017
YTD 2017 = June 1, 2017

Capital raised — percentage debt vs. equity



Source: IREI FundTracker

Funds reaching final Jan. 1, 2014 – YTD 2017
YTD 2017 = June 1, 2017

Capital raised by closed funds by region ($B)

Source: IREI FundTracker

Funds reaching final closing 2014 – YTD 2017
YTD 2017 = June 1, 2017

from the IREI NEWSLINE

- Deutsche Asset Management has launched RREEF Core Plus Industrial Fund, a global open-ended, core-plus real estate fund that will mainly invest in industrial properties.

- The Blackstone Group announces that real estate funds managed by Blackstone have agreed to sell their pan European logistics company, Logicor, to affiliates of China Investment Corp. for €12.25 billion ($13.8 billion).

- The $12.7 billion School Employees Retirement System of Ohio has committed $50 million to Carlyle Realty Partners VIII, an opportunistic real estate fund managed by The Carlyle Group.

- Institutional investors from Korea and Japan are, for the first time, investing in LaSalle Investment Management's latest U.S. value-add real estate fund, LaSalle Income & Growth Fund VII.

- The total value of real estate assets under management reached €2.4 trillion ($2.7 trillion) in 2016, up 20.1 percent on the €2 trillion ($2.2 trillion) peak achieved the previous year, based on an increase in the sample size of the global *Fund Manager Survey 2017* sponsored by INREV, ANREV and NCREIF.

- The $15.1 billion Hawaii Employees' Retirement System has committed $50 million to AG Europe Realty Fund II, a $750 million value-added real estate fund.

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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.

FundTracker TrendWatch

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Author: Sheila Hopkins

***For IREI FundTracker database subscription information, please contact Cynthia Kudren**, c.kudren@irei.com, +1 917-620-4666*

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