

FUNDTRACKER TRENDWATCH

Q3/17 first look

Softly drifting lower

Third quarter 2017 saw real estate investment funds continuing their slow decline. This is certainly not a crash — as a group, these funds are performing very well. They just are not raising the amount of capital that they did three years ago. Investors are not pulling back from real estate so much as they are simply taking a breather while they decide where the market is going. In addition, as competition in the markets has heated up, some funds have had trouble deploying capital. This leaves investors with uncalled allocations and no incentive to make additional investments.

Funds reaching a final close in third quarter 2017 raised a total of \$14.8 billion compared to \$19.2 billion raised during the same period in 2016. This increases the growing gap between capital raised in 2017 and that raised in previous years during the first three quarters. About \$90.2 billion was raised by funds closing in the first three quarters of 2015, while 2016 saw \$73.2 billion raised during that period, and the total in 2017 has fallen to just \$60.5 billion. 2015 looks to

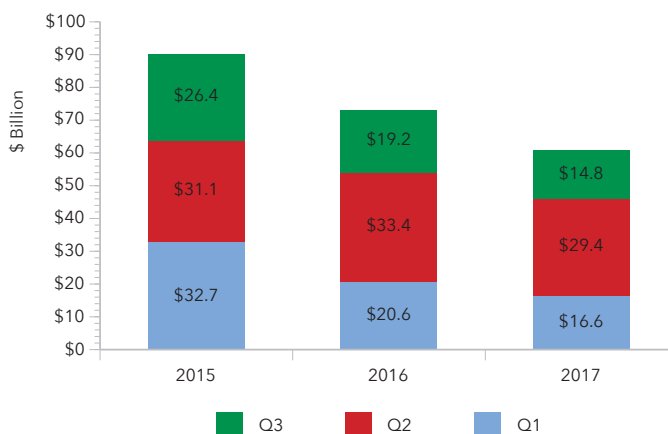
be cementing its claim to being the peak of the current cycle with every passing quarter.

Third quarter 2017 funds closed a bit faster than third quarter 2016 funds, with those closing in third quarter last year taking 17.5 months to reach a final close compared to this year's 17.2 months. The more interesting finding, however is the diminished gap between mega-funds and those smaller than \$1 billion. In third quarter 2015, the gap was about 10 months, with the mega-funds closing faster. Last year the gap had fallen to 5.5 months, with mega-funds still reaching their targets faster than non-mega-funds. Third quarter 2017 finds non-mega-funds closing one month faster, on average, than their larger brethren.

Fund size is also trending downward. Looking at the size of funds closed in the first three quarters, we see the 2015 and 2016 trimmed mean coming in at \$640.5 million and \$640.4 million, respectively, while that of 2017 has fallen to \$615.8 million.

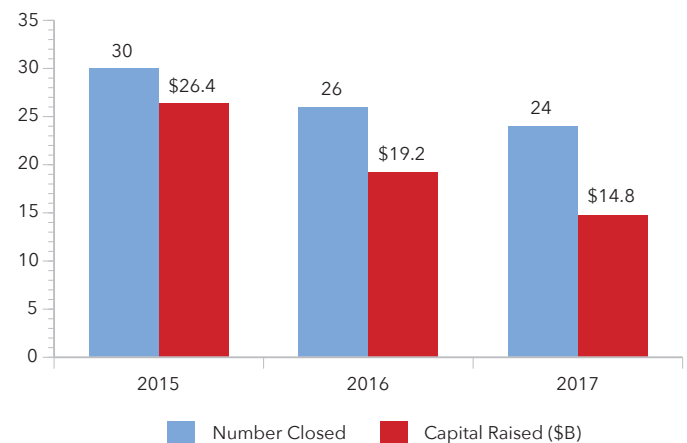
The third quarter 2017 data used in this report will likely change as additional fund closings are announced, but it is safe to say that fewer funds are closing compared to last year, and less capital is being raised. Watching to see how fourth quarter 2017 completes the picture.

Capital raised by funds closing by quarter (\$B)



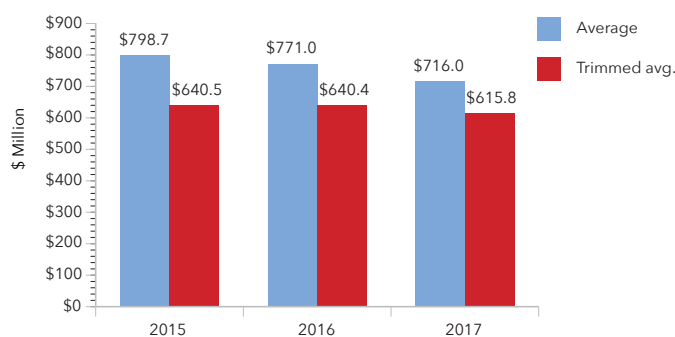
Source: IREI FundTracker

Capital raised by funds closing in third quarter (\$B)



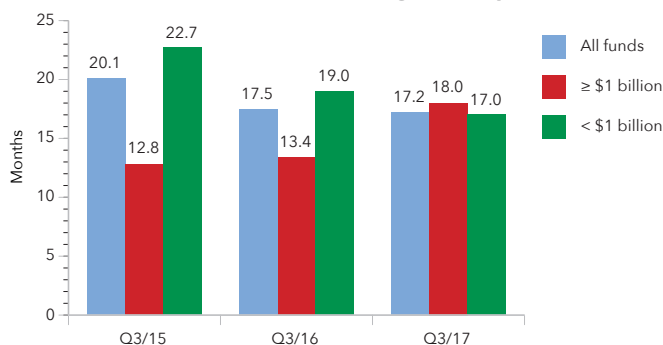
Source: IREI FundTracker

Average size of funds closed in first three quarters



Source: IREI FundTracker

Time in market for funds closing third quarter



Source: IREI FundTracker

Largest funds closed Q3/17

Fund Name	Total Raised	Region
Bridge Debt Strategies Fund II	\$1.90 billion	U.S.
Secured Capital Real Estate Partners VI (SCREP VI)	\$1.90 billion	U.S.
Commercial Real Estate Senior 10 (CRE Senior 10)	\$1.80 billion	Europe
H/2 Special Opportunities IV	\$1.59 billion	U.S.
DivcoWest Fund V	\$1.59 billion	Asia Pacific

Source: IREI FundTracker

from the IREI NEWLINE

- [Royal London Asset Management](#) has announced the largest ever launch of a U.K. property fund, worth more than £2.7 billion (\$3.6 billion).
- The \$16.1 billion [Arkansas Teacher Retirement System](#) has committed \$30 million to U.S. Real Estate Credit Offshore Fund III, a closed-ended, value-added real estate fund managed by managed by Calmwater Asset Management that invests in commercial real estate mortgages.
- The [U.S. CMBS delinquency rate](#) dropped to 5.40 percent in September, a decrease of 4 basis points from August, making September the third consecutive month in which it has decreased.
- The \$330 billion [California Public Employees' Retirement System](#) has approved \$600 million in commitments to multifamily and industrial investments.
- To bring its real estate portfolio in line with long-term targets, the \$52.7 billion [Pennsylvania Public School Employees' Retirement System](#) is lowering its allocation to real estate to 11 percent from its previous 12 percent.
- The \$18 billion [Kansas Public Employees Retirement System](#) is searching for qualified firms to provide pension fund general investment consulting services.

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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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