Institutional Real Estate
FundTracker TrendWatch

Fundraising times inch downward

The real estate fundraising climate is disciplined but doable

- Average fundraising closing times have fallen to 18.0 months
- North American funds closed faster than all others
- Mega-funds still rule, closing in 17.2 months

The U.S. expansion is getting long in the tooth, and investors are working to position their portfolios ahead of the expected downturn — or correction if you prefer more positive language. But this defensive stance does not mean they are out of the market. It simply means they are being disciplined, and they would rather be underallocated than commit to a fund they are not happy with. The increase in core and core-plus funds, as well as debt funds, shows that managers are listening and providing products that meet the industry's needs. Because of this response, the time funds are on offer has continued to creep down.

The mean time for funds to be in the market has steadily fallen since 2013, with only a couple of relatively small blips. In 2013, the average fund was marketing for 21.3 months. Funds holding a final close in 2014 and 2015 had been marketing 18.7 months, on average. Those closing in 2016 had been open for 19.0 months. And those holding a final close in 2017 took 18.0 months to reach that point.

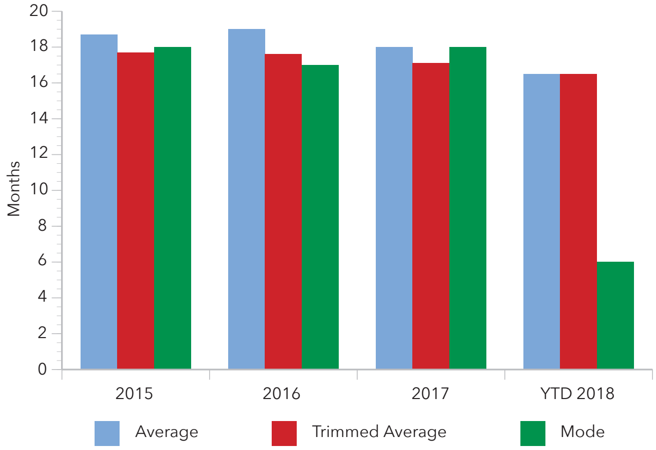
While these averages give us a good look at the trend line, comparisons between years is better served using a trimmed average, which drops the upper 2.5 percent and lower 2.5 percent of funds — in other words, the outliers.

Using a trimmed average, we get the same trend, but the decline is not as steep. Trimmed average closing times come in at 17.5 months, 17.7 months, 17.6 months and 17.1 months for 2014, 2015, 2016 and 2017, respectively. Funds reaching a final close so far in 2018 have averaged 16.5 months in the market, but we need to add many more funds to determine if timeframes are still shrinking.

In 2017, North American funds boasted the shortest closing time, coming in at 16.8 months, followed by global strategies at 18.0 months. Lower-return strategies (core/core-plus) took more than 21.4 months to close, while higher-return and mid-return strategies averaged 18.0 months and 17.5 months, respectively.

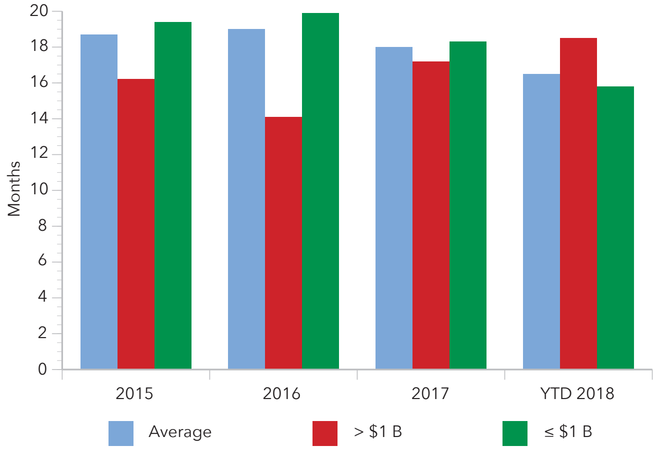
Funds closing in 2017 and raising $1 billion or more reached a final close in 17.2 months, while those raising less than $1 billion averaged 18.3 months to close. Although mega-funds are still closing slightly faster than non-megas, the delta between the two is compressing. The gap was three months in 2015 and five months in 2016.

Time in the market for closed funds



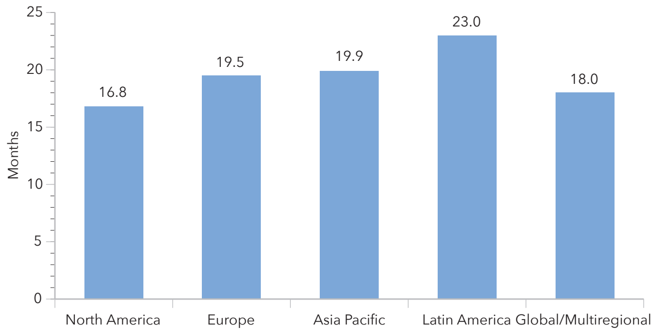
Source: IREI FundTracker

Average time in the market for closed funds by size



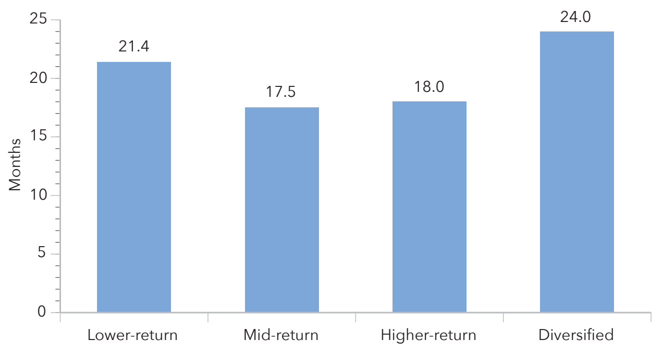
Source: IREI FundTracker

Average time in market by region (closed 2017)



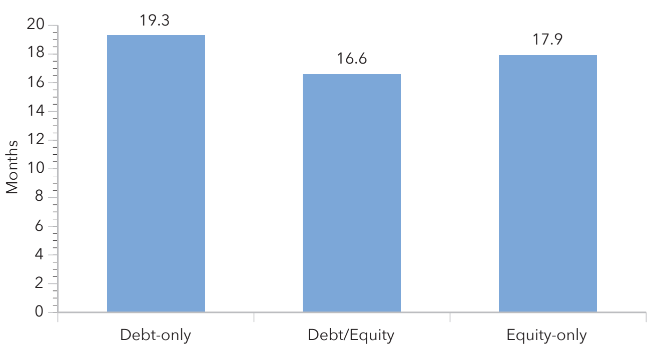
Source: IREI FundTracker *Funds closed Jan. 1 – Dec. 31, 2017*

Average time in market by strategy (closed 2017)



Source: IREI FundTracker *Funds closed Jan. 1 – Dec. 31, 2017*

Average time in market: debt vs. equity (closed 2017)



Source: IREI FundTracker *Funds closed Jan. 1 – Dec. 31, 2017*

from the IREI NEWSLINE

➤ The Boston Retirement System is soliciting proposals for a diversified noncore, closed-end fund(s), as well as a low-cost core open-end fund, to complement the system's $4.9 billion defined benefit pension fund's existing real estate commitments.

➤ Europa Capital, a real estate fund management group operating across Europe, has raised €716 million ($893 million) for its fifth flagship pan-European value-add fund and associated co-investment vehicles, exceeding its prior value-add fundraise.

➤ The $12.4 billion San Diego County Employees Retirement Association has approved a $100 million commitment to Brookfield Senior Mezzanine Real Estate Finance Fund, which will invest in debt secured by U.S. properties in strategic locations.

➤ Europe's commercial real estate market had the third most-active year on record for investment in 2017 as a result of large portfolio transactions and corporate mergers and acquisitions, research by Real Capital Analytics (RCA) shows.

➤ Berlin, Amsterdam, Frankfurt and Madrid continue to be the most attractive European cities for commercial property investors, according to the latest *RICS Commercial Property Monitor.*

➤ The $77.5 billion New Jersey Division of Investment has hired Hamilton Lane as its new real estate consultant.

To view the latest real estate, infrastructure and real assets headlines, go to the IREI Newsline.

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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