Q2 2013 Fundraising Update

Pension fund commitments to managed real estate vehicles

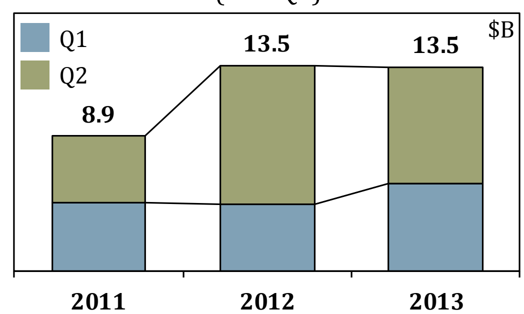
FPL Advisory Group
Ferguson Partners
FPL Associates

Pension commitments to real estate flatten in Q2

Domestic public pensions have committed $13.5 billion to managed real estate vehicles thus far in 2013, a volume highly consistent with the same period in 2012

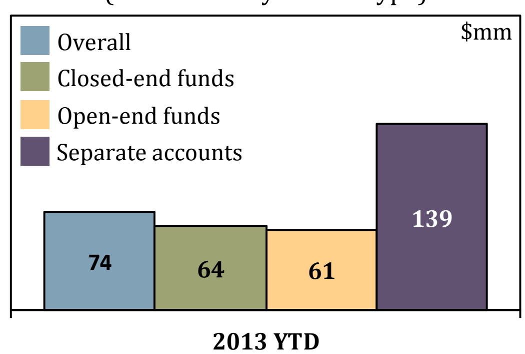
Commitments to real estate managers by U.S.-based public pensions through the first half of the year are flat versus 2012, according to data tracked by FPL Consulting. Per FPL's proprietary database, pensions committed $13.5 billion to managed real estate vehicles in the first half of 2013, mirroring capital commitments through the same period last year. Though flat compared to 2012, commitment volume still represents a significant uptick from that which was committed in 2011. Interestingly, through May, 2013 volume represented a considerable increase from last year (up 23%), but an unusually inactive June offset the gains that had been made throughout the year.

Commitments to real estate managers
(thru Q2)



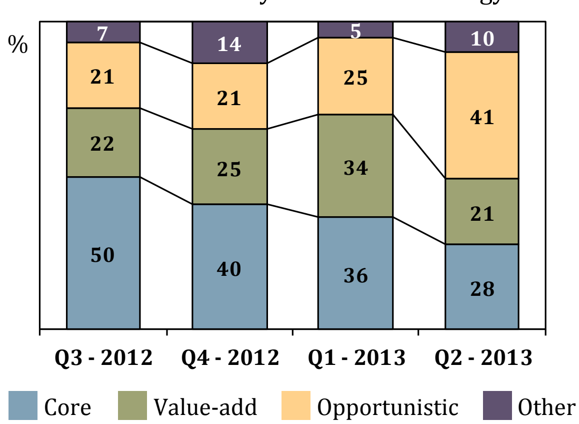
The average commitment size thus far in 2013 is $74 million, which represents a decrease from full year 2012 where the average size was $92 million. As one would expect, the average commitment to separate accounts is considerably higher at $139 million. It's important to note that this metric includes both newly formed separate accounts (which tend to be larger commitments), as well as follow-on commitments to existing separate account vehicles (which are often smaller).

Average commitment size
(overall and by vehicle type)



Investment Strategy

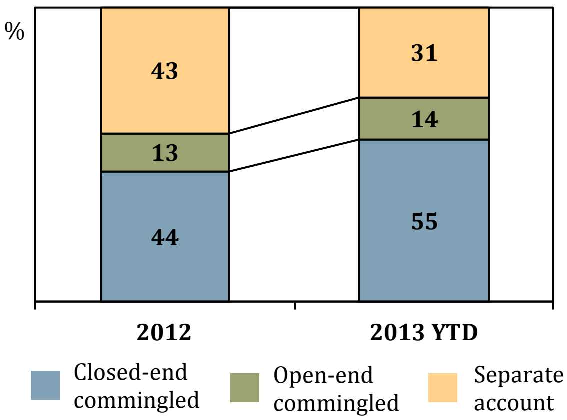
Commitments by investment strategy



High-yield (i.e. value-add and opportunistic) strategies continue to gain favor with investors in 2013, making up 62 percent of commitment volume in Q2. This resurgence reflects investors' continued search for yield, and a view that attractive returns may now be harder to come by with core assets, given compressed cap rates and high asset valuations. Accordingly, the percentage of commitments flowing to core strategies decreased for the third quarter in a row, representing only 28 percent of commitments in Q2. "Other" strategies (e.g. senior/ mezzanine debt, securities, etc.) rounded out the remaining 10 percent.

Vehicle Structure

Commitments by vehicle type

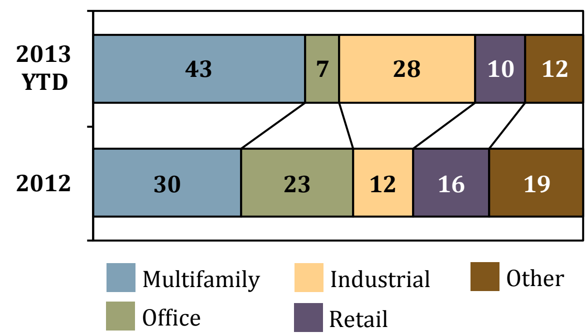


The shift evident in investor appetite for risk is mirrored in commitment flows by vehicle type. There has been a material transition away from separate account structures and towards closed-end commingled funds in 2013, with the latter attracting 55 percent of commitment volume through the first half and the former attracting only 31 percent. This change can be at least partially attributed to the fact that closed-end funds tend to be more high-yield oriented and thus are more in line with current investor preferences. Commitments to open-end commingled funds have stayed fairly consistent in 2013, representing 14 percent of commitment volume through Q2.

Property Type

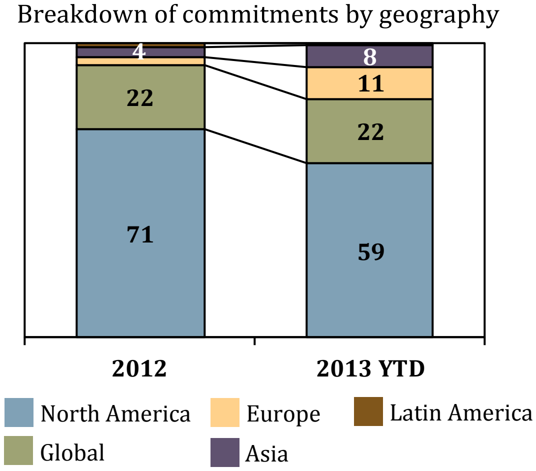
Vehicles dedicated to a particular property type have attracted 25 percent of commitment dollars so far in 2013, down from 35 percent in 2012, but up from 22 percent in 2011. Among these focused vehicles, multifamily continues to be the most popular property type, representing 43 percent of aggregate commitments. Industrial has also been in favor with investors, representing another 28 percent of commitment volume. Conversely, office-focused vehicles have seen a considerable decline from 2012, accounting for only 7 percent of commitments to focused vehicles.

Breakdown of commitments by property type (among property-specific vehicles)



Geography

Breakdown of commitments by geography

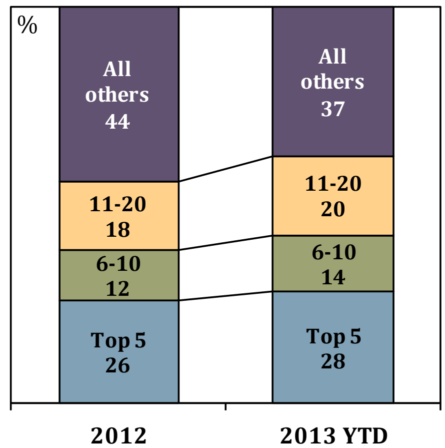


The majority of commitment capital continues to flow to vehicles focused on North America (59%), or those with a global reach (22%). That said, perhaps the most interesting geographic trends year-to-date pertain to vehicles investing in Europe and Asia. While there were few commitments made to European-focused vehicles in 2011 or 2012, such funds/accounts have attracted 11 percent of commitments in 2013. Likewise, Asian-focused vehicles continue to fare well with investors, representing another 8 percent of commitments. Combined, these two geographies represent 19 percent of aggregate commitment flows through the first half, compared to just 7 percent through full year 2012.

Manager Concentration

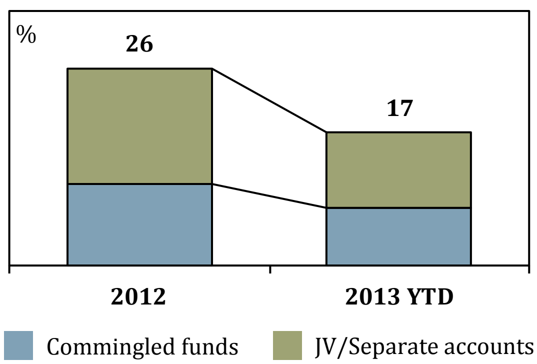
The commercial real estate industry's prominent players continue to attract a disproportionate share of commitment volume, underscoring the bifurcation between 'haves' and 'have nots'. The top 20 firms (by aggregate fundraising dollars over the period) represent 63 percent of volume through the first half of 2013, while the other 60+ firms who have raised capital from public pensions in 2013 represent just 37 percent. The bifurcation is even more pronounced when considering the significant number of firms who are actively trying to raise capital, but have been unable to do so.

Concentration of commitments among managers



Vertical Integration

Commitments to vertically integrated managers (as % of total commitments)



In a reversal of recent trends, vertically integrated managers have received only 17 percent of commitment dollars in 2013, compared to 26 percent through full-year 2012. This decline may be partially attributed to investors' increased interest in opportunistic strategies of late, as most vertically integrated managers employ core or value-add strategies.

Contact

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