Q3 2013 Fundraising Update

Pension fund commitments to managed real estate vehicles

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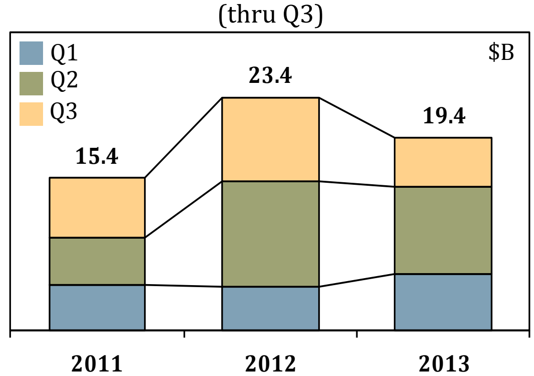
2013 Commitments Lagging Behind 2012

Public pensions have committed $19.4 billion to managed real estate vehicles thus far in 2013, representing a 17 percent decrease from volume in 2012 but still a significant increase over 2011

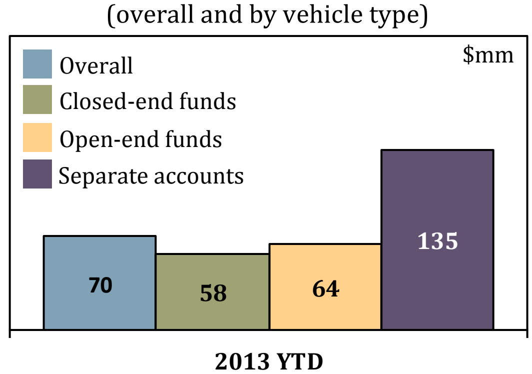
Despite a strong start to the year, commitment activity waned in the second and third quarters of 2013 resulting in YTD volume 17 percent below that of 2012, according to data tracked by FPL Consulting. Per FPL's proprietary database, pensions have committed $19.4 billion to managed real estate vehicles YTD 2013, compared to $23.4 billion through the same period in 2012. That said, commitment activity still represents a significant uptick from 2011 (up ~27%) where only $15.3 billion was tracked through September.

The average commitment size thus far in 2013 is $70 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 $135 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).

Commitments to real estate manager (thru Q3)

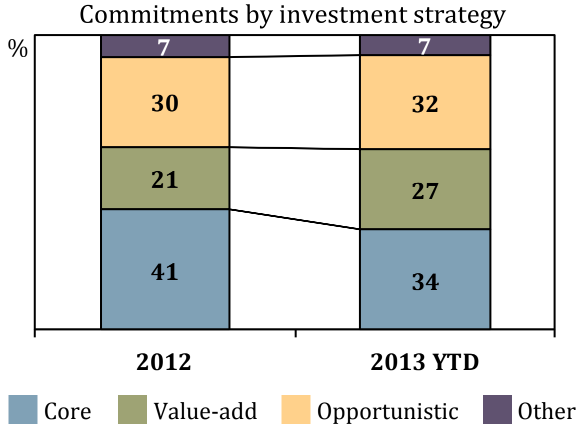


Average commitment size (overall and by vehicle type)



Investment Strategy

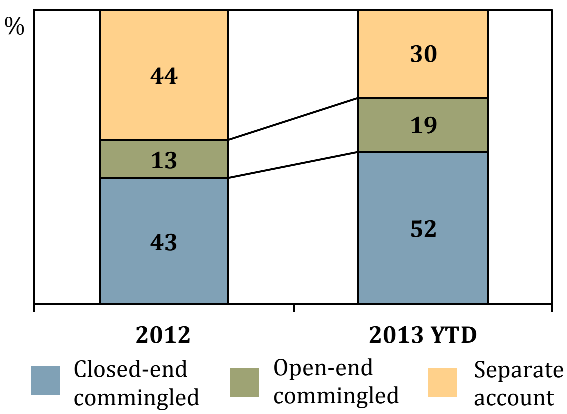
Commitments by investment strategy



High-yield (i.e. value-add and opportunistic) strategies continue to attract the majority of commitment dollars in 2013, making up 59 percent of volume YTD. This trend 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 from 2012, representing only 34 percent of commitments YTD. "Other" strategies (e.g. senior/mezzanine debt, securities, etc.) rounded out the remaining 7 percent.

Vehicle Structure

Commitments by vehicle type

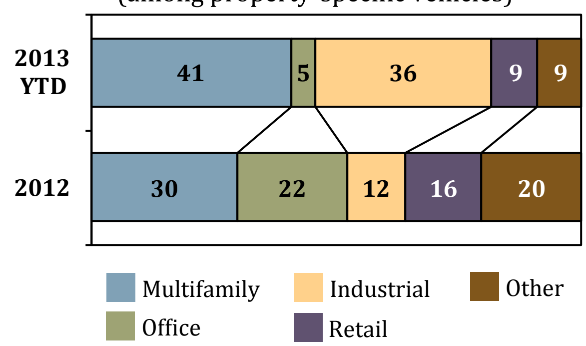


There has been a notable shift away from separate account structures and towards commingled funds in 2013, with the latter representing 70 percent of commitment volume. Both open– and closed-end vehicles have gained favor with investors so far this year, with closed-end funds attracting 52 percent of YTD volume as opposed to 43 percent in 2012, and open-end funds attracting 19 percent of YTD volume versus 13 percent in 2012. 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.

Property Type

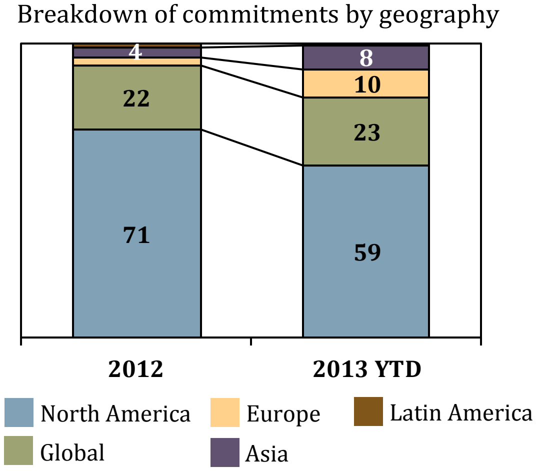
Vehicles dedicated to a particular property type have attracted only 25 percent of commitment dollars so far in 2013, down from 36 percent in 2012. Among these focused vehicles, multifamily continues to be the most popular property type, representing 41 percent of aggregate commitments. Industrial-focused funds have shown a considerable increase in popularity relative to other property types this year, attracting 36 percent of property-specific volume in 2013 versus only 12 percent last year. Conversely, office-focused vehicles have seen a material decline.

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



Geography

Breakdown of commitments by geography

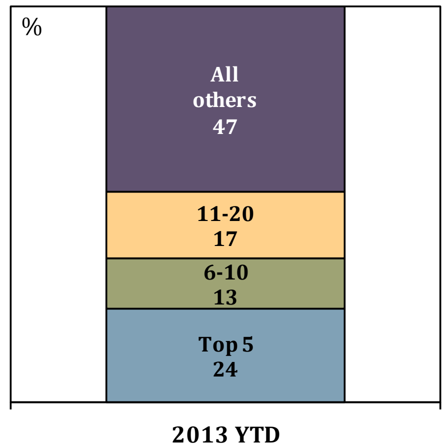


The majority of commitment capital continues to flow to vehicles focused on North America (59%), or those with a global reach (23%). That said, perhaps the most interesting geographic trends year-to-date pertain to vehicles investing in Europe and Asia. While there were few commitments made to European-focused vehicles in 2011 or 2012, such funds/accounts have attracted 10 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 18 percent of aggregate commitment flows through the first three quarters of 2013, compared to just 7 percent through full year 2012.

Manager Concentration

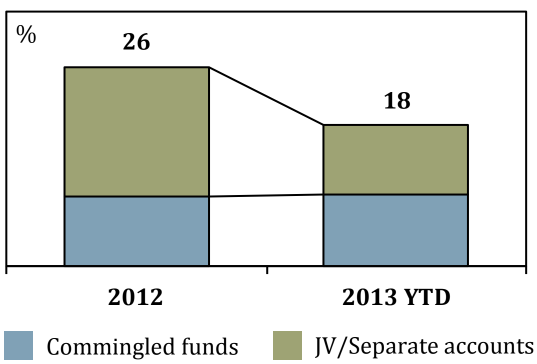
The commercial real estate industry's prominent players continue to attract a disproportionate share of commitment volume, underscoring the bifurcation between 'haves' and 'have nots'. The top 20 firms (by aggregate fundraising dollars over the period) represent 53 percent of volume through the first three quarters of 2013, while the other 80+ 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 that 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)



Vertically integrated managers have received only 18 percent of commitment dollars in 2013, compared to 26 percent through full-year 2012. This decline mirrors that of commitments to single property-focused vehicles, which are often sponsored by vertically integrated firms.

Contact

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