Q2 2014 Fundraising Update

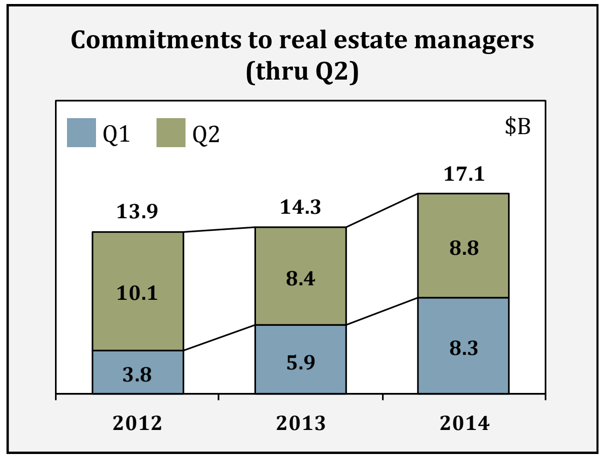
Pension fund commitments to managed real estate vehicles

FPL ADVISORY GROUP
FERGUSON PARTNERS
FPL ASSOCIATES
FPL CONSULTING

Strong commitment activity continues in 2014

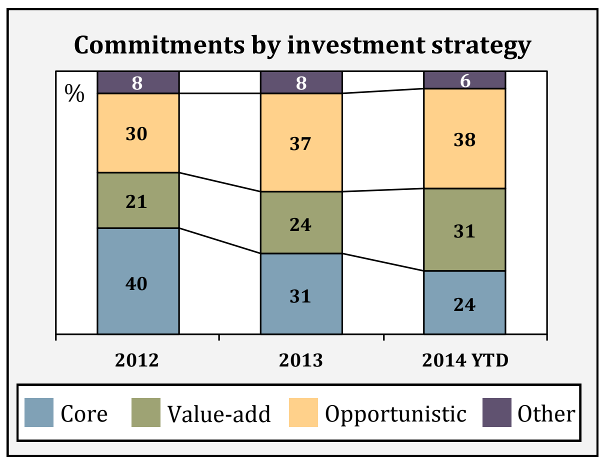
Domestic public pensions have committed $17.1 billion to managed real estate vehicles thus far in 2014, a 20 percent increase over 2013

Commitments to real estate managers by U.S.-based public pensions through the first half of 2014 are up significantly over the same period in 2013, according to data tracked by FPL Consulting. Per FPL's proprietary database, pensions committed $17.1 billion to managed real estate vehicles in H1, compared to $14.3 billion over the same period last year and $13.9 billion in H1 2012.

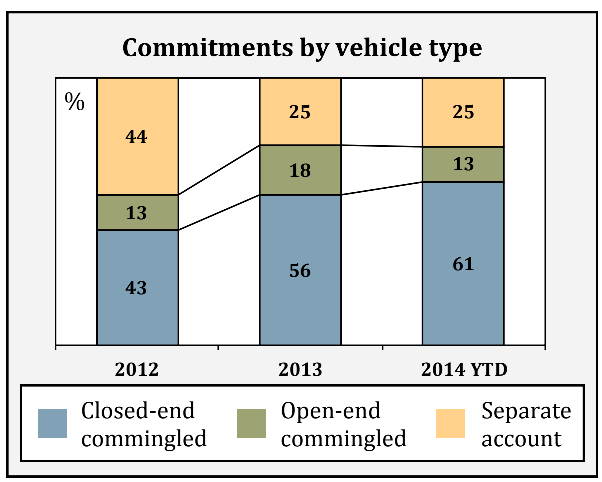


Investment Strategy and Vehicle Structure

High-yield (i.e. value-add and opportunistic) strategies continue to be in favor with investors in 2014, making up 69 percent of commitment volume YTD. This emphasis on higher yielding strategies marks the continuation of a trend that began last year, with investors demonstrating a greater willingness to take on higher levels of risk for the potential of higher returns. Conversely, core strategies have become less popular among investors over the last two years, dropping from 40 percent of commitment volume in 2012 to just 24 percent so far in 2014. This shift reflects a view among many that attractive returns on core assets may now be harder to come by given compressed cap rates and high asset valuations.

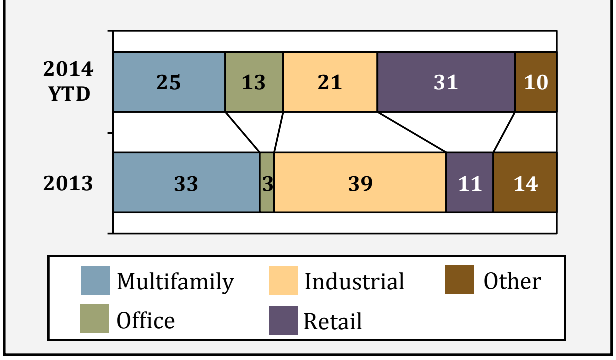


The shift evident in investor appetite for risk is mirrored in commitment flows by vehicle type. There was a significant transition away from separate account structures and towards closed-end commingled funds in 2013, a trend which has continued, and even grown stronger, in 2014. Closed-end commingled funds have accounted for 61 percent of commitments YTD, compared to just 25 percent for separate accounts. 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. Open-end fund commitments have dropped slightly from 2013, representing 13 percent of volume so far in 2014.



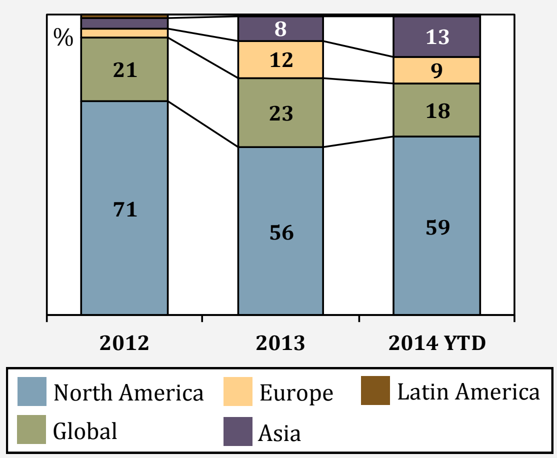
Property Type

Vehicles dedicated to a single property type have attracted 26 percent of commitment dollars so far in 2014, a figure highly consistent with 2013. While multifamily and industrial properties were the most prevalent among these focused vehicles in 2013, commitments through the first half of 2014 illustrate a much more balanced industry. Multifamily and industrial strategies are still attracting 20+ percent of commitments to single asset focused vehicles each, but both retail and office have shown increasing popularity this year, representing 31 and 13 percent of commitments to focused vehicles respectively.



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

Geography

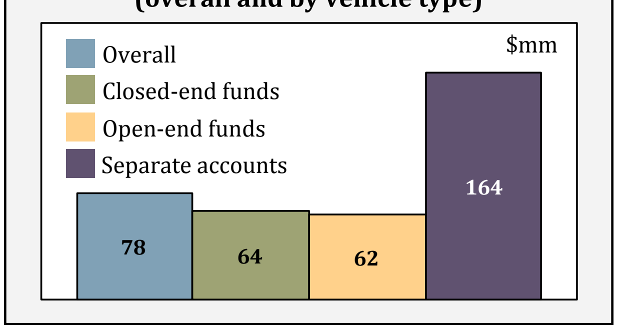


Breakdown of commitments by geography

The majority of commitment capital (59%) continues to flow to vehicles focused on North America. That said, Asia-focused strategies have gained significant traction with institutional investors over the past two years, accounting for 13 percent of commitments YTD. This represents an increase over 2013, where 8 percent of commitments flowed to Asia-focused vehicles, and an even larger increase over 2012, where only 4 percent of commitments went to such vehicles. Global and Europe-focused vehicles rounded out the commitment tally, representing 18 and 9 percent of commitment volume respectively. Both figures represent a slight decrease from full year 2013.

Average Commitment Size

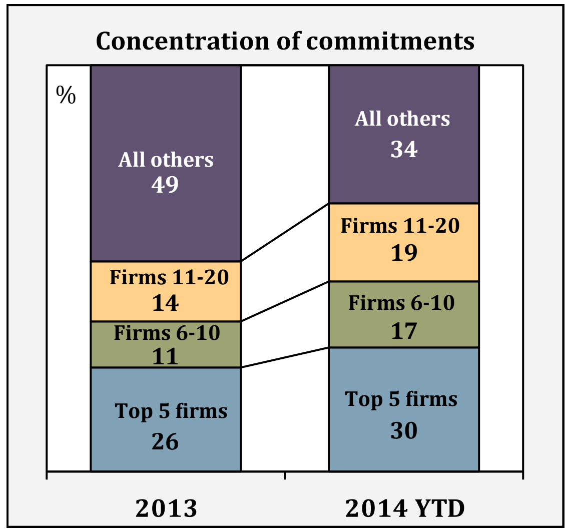
The average commitment size thus far in 2014 is $78 million, which is consistent with the 2013 average of $72 million. As one would expect, the average commitment to separate accounts is considerably higher at $164 million. It's important to note that this metric includes both newly formed separate accounts (which tend to be larger commitments), as well as follow-on commitments to existing separate account vehicles (which are often smaller).



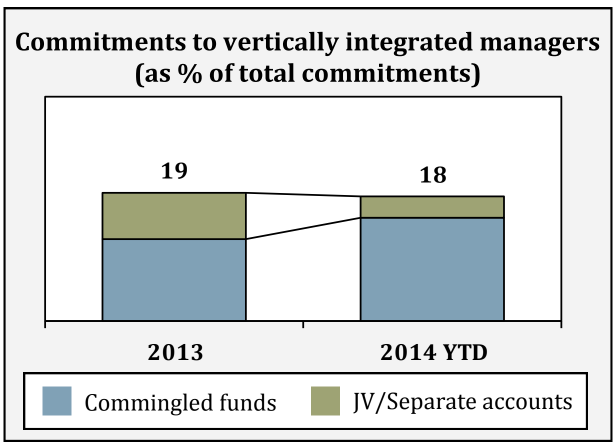
Average commitment size (overall and by vehicle type)

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 5 firms (by aggregate fundraising dollars over the period) represent 30 percent of volume through the first half of 2014, while the other 80+ firms that have raised capital from public pensions in H1 represent just 70 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.



Vertical Integration



Vertically integrated managers have received 18 percent of commitment dollars in 2014, compared to 19 percent through full-year 2013. It is worth noting, however, that this figure is considerably higher when limited to value-add strategies—47% of capital committed to vehicles employing value-add strategies went to vertically integrated managers. This is an increase from full year 2013, where 39% of value-add commitment dollars went to vehicles sponsored by vertically integrated managers.

Contact

For more information, please contact:

Timothy Kessler
Principal
tkessler@fplassociates.com

FPL ADVISORY GROUP
FERGUSON PARTNERS
FPL ASSOCIATES
FPL CONSULTING

Executive Search	Compensation	Management Consulting
Chairmen/Chief Executive Officers/ Presidents	Benchmarking	Strategic Planning
Board of Directors/Trustees	Program Design	Organization Design
Senior Management/ Corporate Infrastructure	Contractual & Policy Arrangements	Corporate Finance
	Surveys	Succession Planning & Leadership
		Specialized Research
Ferguson Partners	**FPL Associates**	**FPL Consulting**

About FPL Advisory Group

FPL Advisory Group ("FPL") is a global professional services firm that specializes in providing executive search, compensation, and management consulting solutions to a select group of related industries. Our committed senior partners bring a wealth of expertise and category-specific knowledge to leaders across the real estate, asset and wealth management, hospitality and leisure, and healthcare sectors.

FPL is comprised of three primary operating companies that work together to serve a common client base. **Ferguson Partners** provides executive and director recruitment services, **FPL Associates** provides compensation consulting services, and **FPL Consulting** provides a range of management consulting services. Through our complementary practice areas, we work with our clients to develop the right talent, leadership, structures, and strategies for success in today's intensely competitive marketplace. From Boston, Chicago, Hong Kong, London, New York, San Francisco, Singapore, Tokyo, and Toronto, we serve clients across the globe.

Our Industry Practices

FPL serves clients in a select group of related sectors:

Real Estate
Investment Managers, Public & Private Owners/Developers, Service Firms, Commercial Mortgage Investment/Finance, Residential Mortgage Investment/Finance, Homebuilders, Engineering/Construction/Infrastructure

Asset & Wealth Management
Global & Specialty Money Managers, Endowments/Foundations/Pensions, Private Wealth Managers, Family Offices, Fund of Funds, Hedge Funds, Private Equity

Hospitality & Leisure
Lodging, Gaming Resorts & Casinos, Restaurants & Cafes, Sports & Recreation, Amusement Parks & Attractions

Healthcare
Seniors Housing, Hospitals