# Q3 2014 Fundraising Update

## Pension fund commitments to managed real estate vehicles

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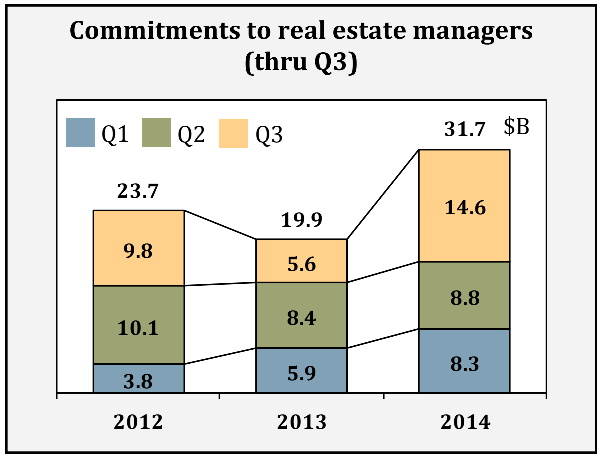
# Commitment activity significantly up through Q3

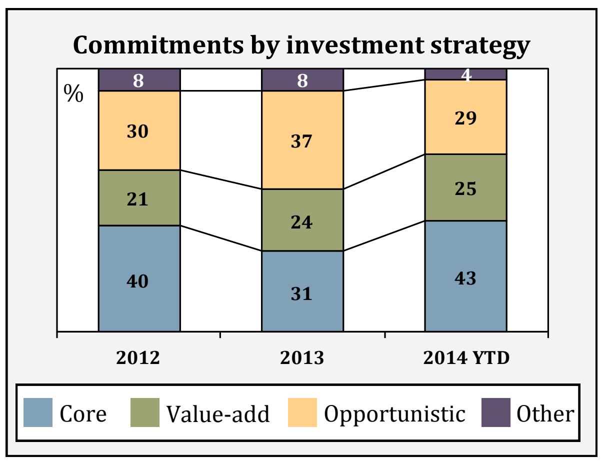
## Domestic public pensions have committed $31.7 billion to managed real estate vehicles thus far in 2014, a 60 percent increase over 2013

Commitments to real estate managers by U.S.-based public pensions through Q3 2014 are up significantly over the same period in 2013, according to data tracked by FPL Consulting. Per FPL's proprietary database, pensions committed $31.7 billion to managed real estate vehicles through Q3, compared to $19.9 billion over the same period last year and $23.7 billion in 2012. This surge was partially driven by CalPERS, which committed over $6.5 billion to real estate in the third quarter. Strong activity from investors like CalSTRS, North Carolina, and OPERS also bolstered results.

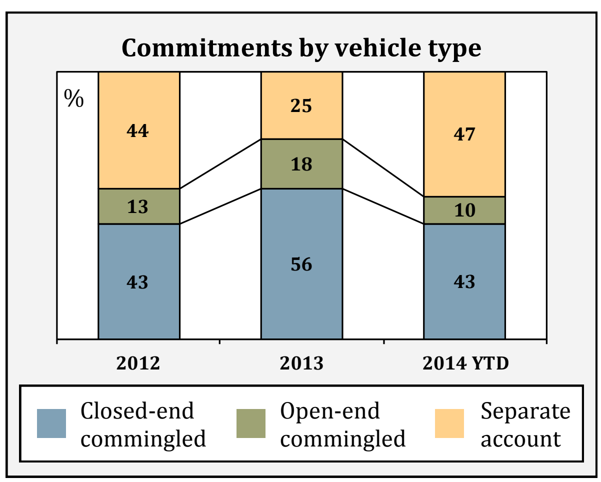

Commitments to real estate managers (thru Q3)


### 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 slightly more than half of commitment dollars. 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. However, core strategies saw a resurgence in the third quarter, largely driven by major commitments from CalPERS, now representing 43 percent of commitments YTD.

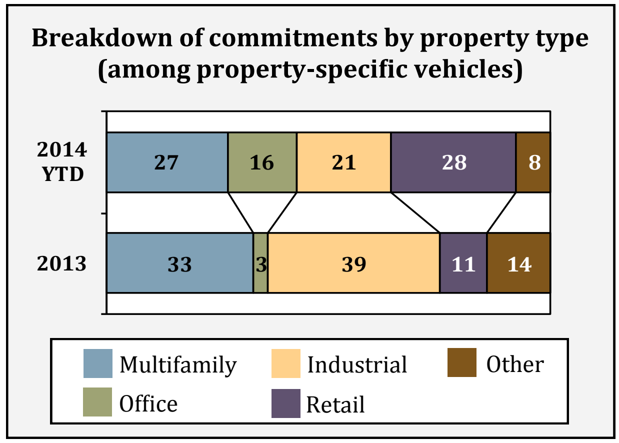

Commitments by investment strategy


As with investment strategy, the landscape of commitments by vehicle type shifted in the third quarter. While closed-end commingled funds had been dominating commitments through H1, the significant level of separate account commitments in Q3 shifted the balance and separate accounts now represent 47 percent of commitments YTD in 2014, versus 42 percent for closed-end funds. It will be interesting to note if this is indeed a shift back to the separate account structure, or simply an anomaly resulting from a handful of major commitments.

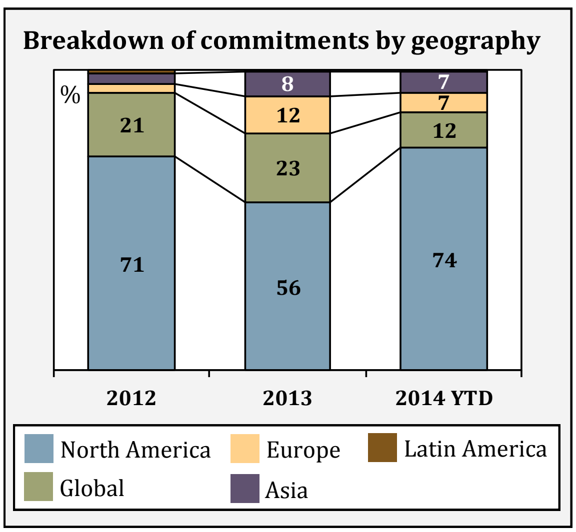

Commitments by vehicle type

## Property Type

Vehicles dedicated to a single property type have attracted 44 percent of commitment dollars so far in 2014, a figure well above that of 2013 but again driven by CalPERS' Q3 activity. While multifamily and industrial properties were the most prevalent among these focused vehicles in 2013, commitments through Q3 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 28 and 16 percent of commitments to focused vehicles respectively.



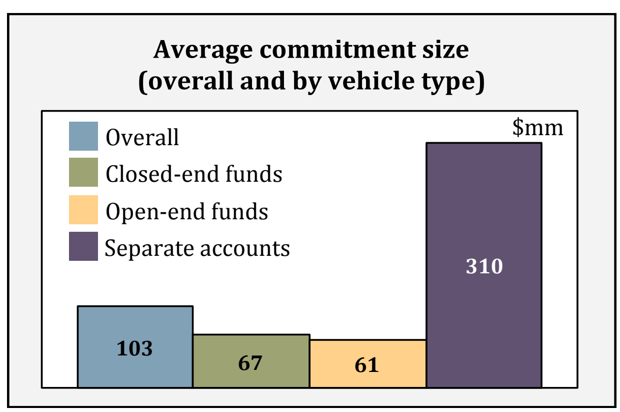

## Geography




The majority of commitment capital (74%) continues to flow to vehicles focused on North America. That said, Europe and Asia-focused strategies continue to have traction with institutional investors, accounting for significantly more commitment volume in 2014 and 2013 than in 2012. Both European and Asian focused strategies have attracted about 7 percent of commitments YTD. Global vehicles meanwhile, have attracted 12 percent of commitments, representing a decrease from their popularity in 2012 and 2013.

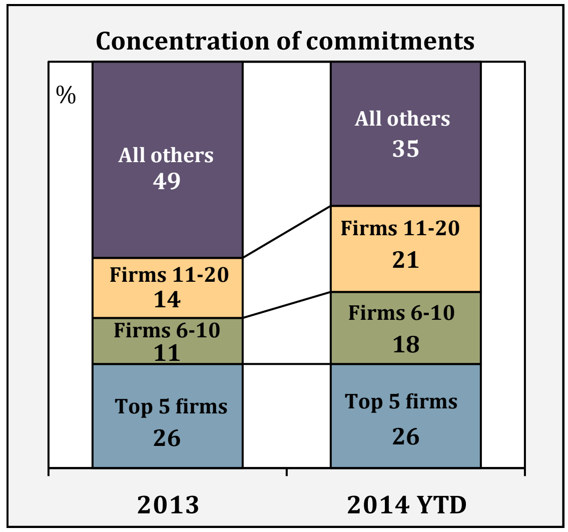
## Average Commitment Size

The average commitment size thus far in 2014 is $103 million, which is up over the 2013 average of $72 million. As one would expect, the average commitment to separate accounts is considerably higher at $310 million, driven by a handful of $1 billion plus commitments. 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).

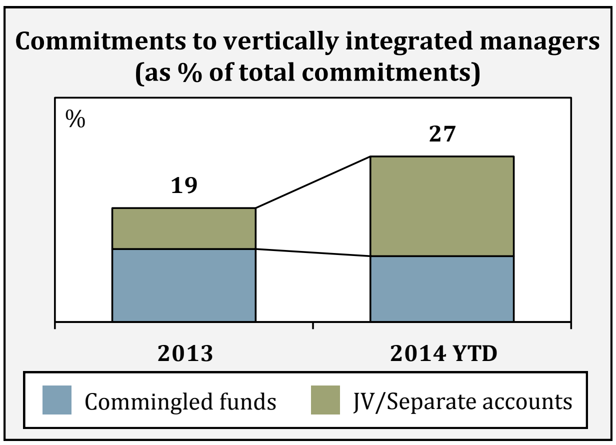


## Manager Concentration

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 26 percent of volume through Q3 2014, while the top 20 represent 65 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 27 percent of commitment dollars in 2014, compared to 19 percent through full-year 2013. Like many of the metrics presented, this statistic too changed significantly in Q3 after the addition of several major commitments to vertically integrated managers. It is also worth noting that this figure is considerably higher when limited to core and value-add strategies where 43 percent and 39 percent of commitment volume respectively has flowed to vertically integrated managers.

## Contact

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