Q3 2018 Fundraising Update

Pension fund commitments to managed real estate vehicles

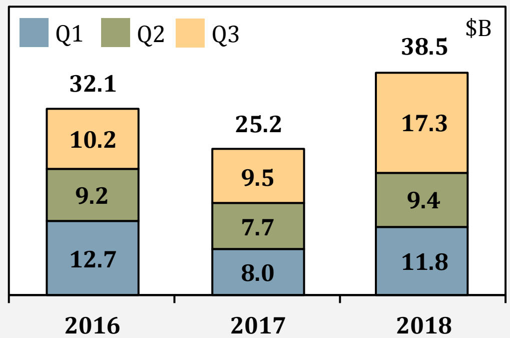
FPL Associates

Q3 commitments reach post-recession high

Public pensions committed $38.5 billion to real estate managers through Q3 2018, a 53 percent increase over 2017 volume

Commitments to real estate managers by U.S.-based public pensions through Q3 2018 are up dramatically over the same period in 2017, according to data tracked by FPL Associates. Per FPL's proprietary database, pensions committed $38.5 billion to managed real estate vehicles through the first three quarters of the year, compared to $25.2 billion over the same period last year and $32.1 billion in 2016. The Q3 total of $17.3 billion represents the largest quarterly commitment volume since FPL began tracking commitments in Q1 2011. The significant commitment volume was largely driven by approximately $9 billion in commitments reported by two major pension funds — CalPERs and CalSTRS. On an annualized basis, 2018 is on track to eclipse 2015 as the year with the largest total commitment volume since the inception of FPL's database.

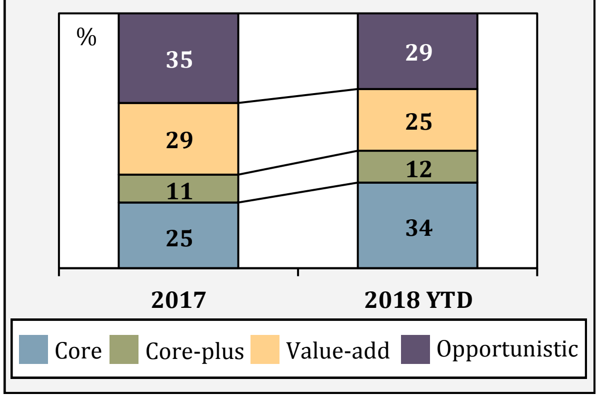
Commitments to real estate managers (thru Q3)



Investment Strategy and Vehicle Structure

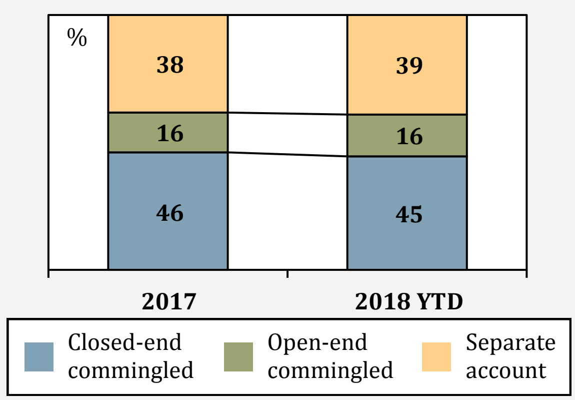
While high-yield (i.e. value-add and opportunistic) strategies continue to make up the majority of commitment volume in 2018 (54 percent), the percentage of commitment dollars flowing to such strategies has fallen notably from 2017 (64 percent). This decline is driven by a surge of commitments to core and core-plus strategies which now represent over 45 percent of all commitments in 2018. This shift is due in part to a number of large commitments to lower-risk strategies — in Q3 alone there were 13 commitments of over $200mm to core and core-plus strategies from four managers accounting for over $6.5 billion in capital.

Commitments by investment strategy



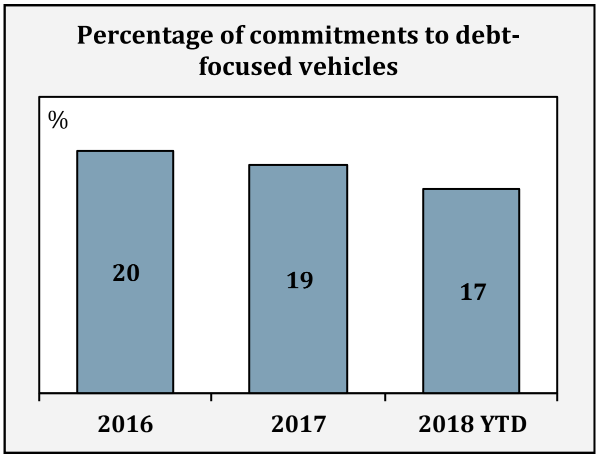
With respect to vehicle type, the mix is consistent with what was seen in 2017. Closed-end commingled funds continue to be the vehicle of choice for investors. However, separate accounts are not far behind, now accounting for almost 40 percent of commitment volume. Open-end commingled funds remain the least utilized investment vehicle, representing just 16 percent of all commitments thus far in 2018.

Commitments by vehicle type



FPL FPL Associates

Vehicle Focus

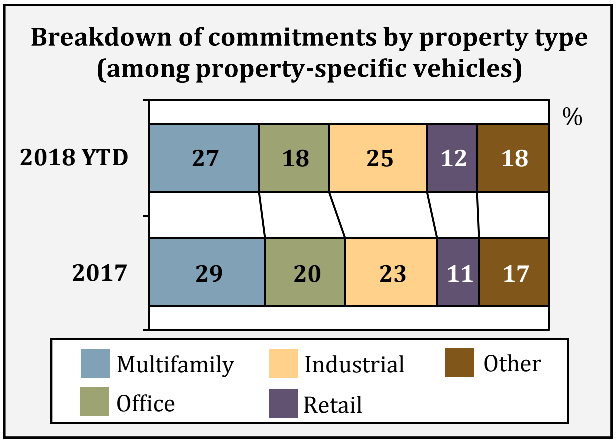


Percentage of commitments to debt-focused vehicles

Over the past few years investors have viewed debt-focused vehicles more favorably, and as a natural alternative to traditional equity-focused funds and accounts. This sentiment is reflected in the commitment dollars now flowing into the sector. Through the first three quarters of 2018, 17 percent of commitment dollars have gone to debt-focused vehicles. While the 2018 percentage of total commitment volume represents a slight decrease compared to 2016 and 2017, commitment levels to debt vehicles remain well above 2015 levels, when debt-vehicles accounted for only 10 percent of total commitments.

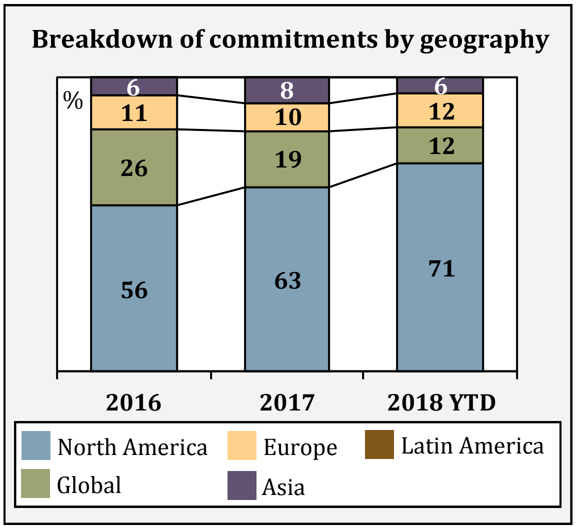
Property Type

Vehicles dedicated to a single property type have attracted 42 percent of commitment dollars so far in 2018, a figure significantly higher than the totals from 2017 (27%) and 2016 (17%). Among these vehicles, the 2018 property mix is largely consistent with the mix in 2017. Commitments with a multifamily or industrial focus continue to be the most prevalent. After multifamily and industrial, office and "other/niche" property types (which include commitments to hotels, healthcare, self-storage, data centers, student housing, and senior housing strategies) account for the next largest shares of volume.



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

Geography

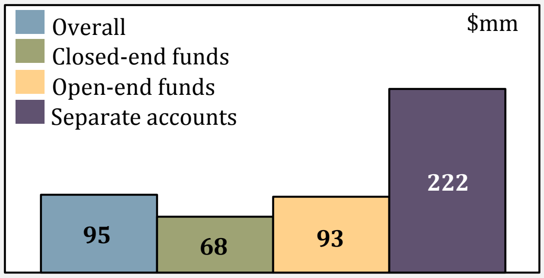


Breakdown of commitments by geography

The overwhelming majority of committed capital from domestic public pensions continues to flow to vehicles focused on North America, totaling 71 percent through the first three quarters of 2018. Driving this increase was over $7.5 billion in Q3 commitments to North American-focused vehicles by CalPERs and CalSTRS. Commitments to global strategies have fallen, now accounting for only 12 percent of commitment volume thus far this year. Alternatively, European-focused strategies have gained traction in 2018 and have attracted 12 percent of commitments YTD, up slightly from 2017. Finally, Asian strategies have accounted for six percent of commitments year-to-date, roughly consistent with prior years.

Average Commitment Size

Average commitment size (overall and by vehicle type)

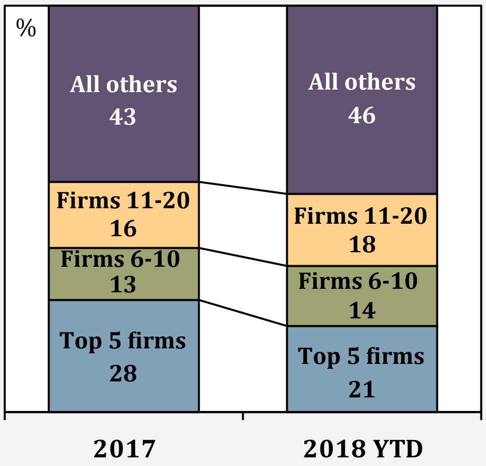


The average commitment size thus far in 2018 is $95 million, up seven percent from the 2017 average of $89 million. As we have seen in the past, the average commitment to separate accounts is considerably higher at $222 million, which is roughly consistent with the 2017 separate account average ($218 million). It is also 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

Manager Concentration

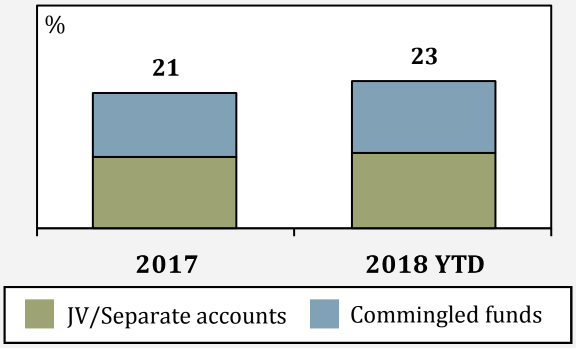
The consolidation trend persists in 2018, though at a less pronounced level than in 2017. The industry's prominent managers continue attracting a disproportionate share of commitment volume, underscoring the bifurcation between managers in the industry. So far in 2018, the top five firms (by aggregate fundraising dollars over the period) represent 21 percent of volume YTD, while the top 20 represent 54 percent. Based on historical trends in our data, these concentration metrics tend to decline over the course of the year. For reference, in Q1 2017 the top 20 firms accounted for 78 percent of commitment dollars, while at year-end the concentration among these firms dropped to 57 percent.

Concentration of commitments



Vertical Integration

Commitments to vertically integrated managers



Vertically integrated managers have attracted 23 percent of commitment capital in 2018, up from 21 percent in 2017. Through the first three quarters of 2018 it has been most common for commitments to separate accounts and/or core strategies to go to vertically integrated managers: 24 percent of all commitments to separate accounts went to vertically integrated managers and the same is true for 36 percent of commitments to core strategies.

Contact

For more information please contact: Erin Green, Senior Director, egreen@fplassociates.com

FPL FPL ASSOCIATES