

FUNDTRACKER TRENDWATCH

Ease on down the road

Investors are putting their capital in higher-return/higher-risk funds

Survey after survey has reached the same conclusion — real estate investors are willing to move further out on the risk spectrum to get the returns they need. Data from *FundTracker* indicates that investors are

not just saying they are willing to take on more risk; they are actually doing it.

According to *FundTracker*, higher-return funds — opportunistic funds or value-added/opportunistic hybrid funds — have increased their share of market every year since 2013.

Three years ago, approximately 64 percent of capital raised by closed funds was slotted for higher-return strategies. Year-to-date 2015, more than 74 percent of the capital raised by funds

holding a final closing this year was for higher-return strategies. In total during the past three years, higher-return funds have accounted for 68 percent of the capital raised but only 49 percent of the total number of funds closed.

Although lower-return strategies (core and core-plus) have seen a decrease in interest as higher-return strategies have grown — lower-

return funds fell from 5 percent of the market in 2013 to 3 percent in 2015 — mid-range funds (value-added and core-plus/value-added hybrid funds) saw an even greater loss of market share, falling from 31 percent of the capital raised in 2013 to 20 percent YTD 2015. Although much of the core investment is done via open-end funds or direct and, therefore, not included in this report, it is obvious investors are again looking for real estate to boost returns.

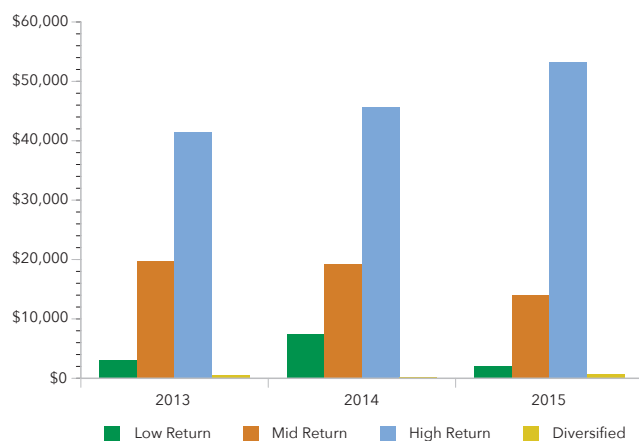
Investors are overwhelmingly backing focused funds that incorporate a single strategy. Of the 302 funds listed in *FundTracker* that have closed since Jan. 1, 2013, and list an investment strategy (359 funds actually closed but not all list a strategy), value-added and opportunistic funds each account for about one-third of the total. Diversified funds (those that can invest using three or more risk strategies) account for about 2 percent of the funds closed, and less than 1 percent of the capital raised.

Lower-return funds favor Europe more than other regions. North America is a favorite for mid-return and higher-return funds.

The average fund size for lower-return and mid-return funds is about \$445 million, but higher-return funds are more than twice as big, coming in on average at \$942 million.

- Higher-return funds account for 68 percent of capital raised
- Lower-return funds favor Europe
- Higher-return investing has grown every year since 2013

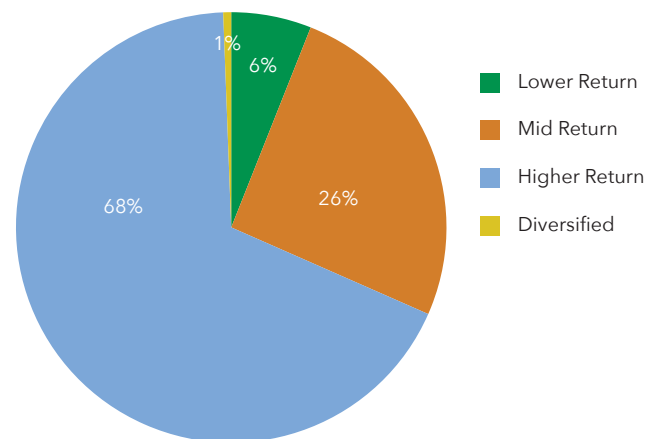
Capital raised by closed funds by year by strategy



Source: IREI FundTracker

Funds closed 1/01/13–11/27/15

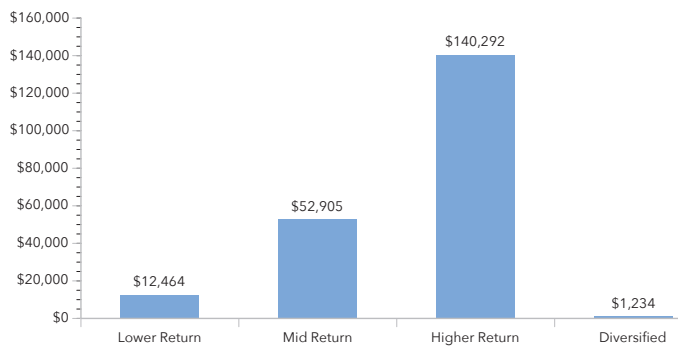
Capital raised by closed funds by strategy



Source: IREI FundTracker

Funds closed 1/01/13–11/27/15

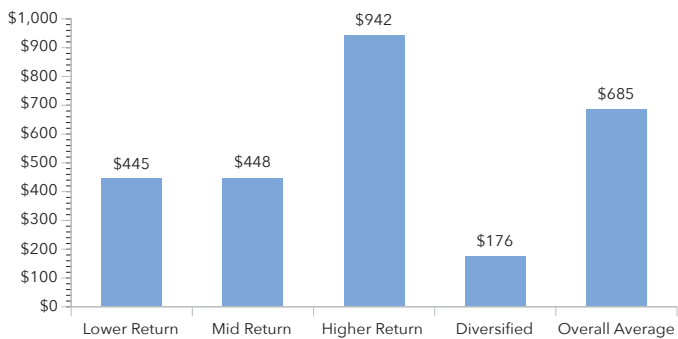
Capital raised by closed funds by strategy (\$m)



Source: IREI FundTracker

Funds closed 1/01/13–11/27/15

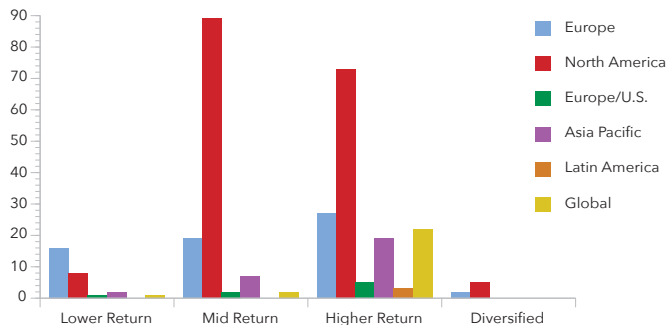
Average size of closed funds by strategy (\$m)



Source: IREI FundTracker

Funds closed 1/01/13–11/27/15

Closed funds by region by strategy



Source: IREI FundTracker

Funds closed 1/01/13–11/27/15

from the IREI NEWS CLOUD

- [Walton Street Capital](#) has raised \$689 million in an initial closing for Walton Street Real Estate Fund VIII, a value-added/opportunistic fund targeting \$1.5 billion for investment in major U.S. markets.
- The [Blackstone Group](#) is launching a new European real estate fund. Blackstone Real Estate Partners Europe V is seeking to raise €7 billion (\$7.5 billion) and will target office, industrial, residential, retail and hospitality properties.
- [AEW Europe](#) has announced the launch of the AEW Europe City Retail Fund, which aims to raise €400 million (\$429 million) for a total investment capacity of up to €800 million.
- The \$12.14 billion [School Employees Retirement System of Ohio](#) has committed \$117.4 million to two real estate funds.
- The [Lancashire County Pension Fund](#), a U.K. pension scheme, has committed £25 million (\$38 million) to a healthcare fund managed by Kames Capital.
- The [Texas State Board of Education](#) has committed \$75 million to Mesa West Real Estate Income Fund IV on behalf of the \$37.7 billion Texas Permanent School Fund.
- New York City-based [JEN Partners](#) has raised \$122.9 million for its newest fund, JEN V.

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Information in this report has been drawn from IREI's proprietary FundTracker database. Online subscriptions are available. Click [here](#) for more information.

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