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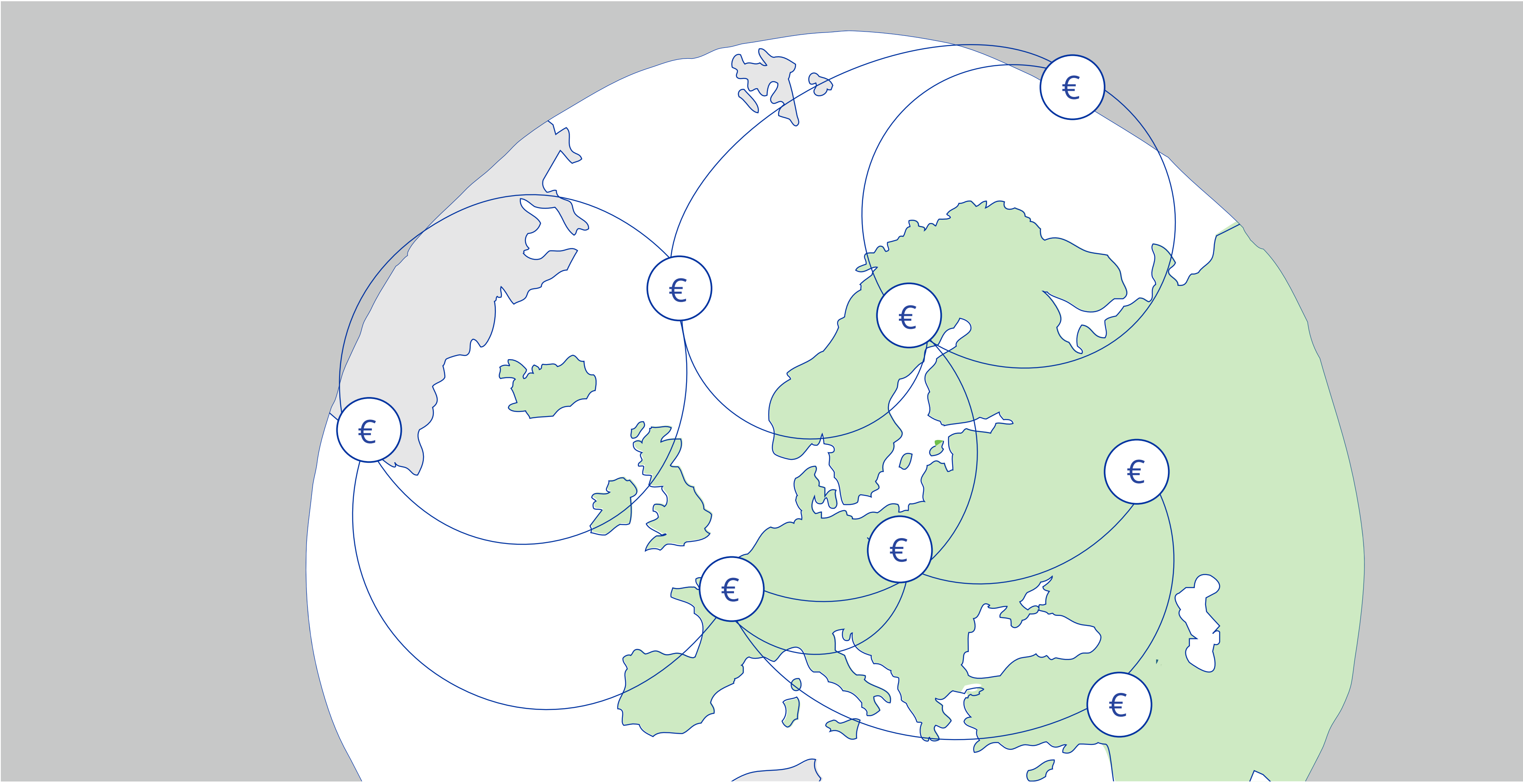


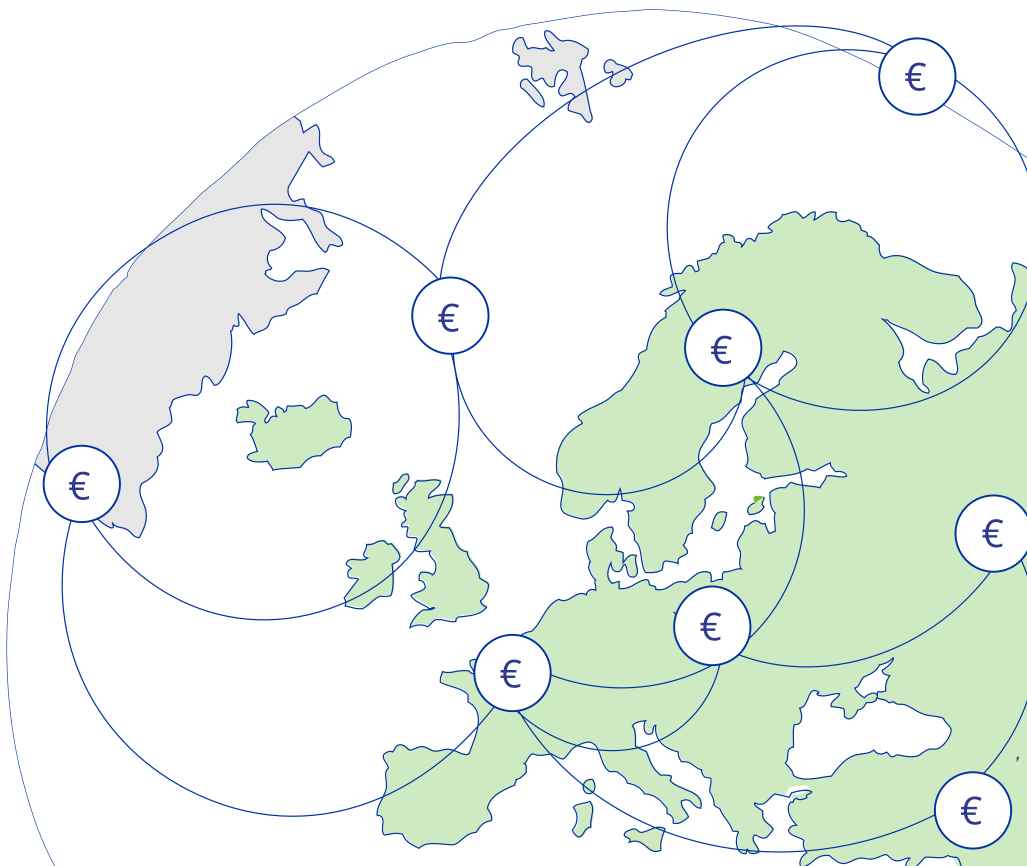
Capital Raising Survey **2018**

Research

INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. Our aim is to improve the accessibility of non-listed real estate vehicles for institutional investors by promoting greater transparency, accessibility, professionalism and standards of best practice.

As a pan European body, INREV represents an excellent platform for the sharing and dissemination of knowledge on the non-listed real estate industry.

INREV
ITO Tower, 8th floor
Gustav Mahlerplein 62
1082 MA Amsterdam, The Netherlands
+ 31 (0)20 235 8600 | research@inrev.org | www.inrev.org



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Executive summary

- In 2017, capital raising reached a record high of €152.3 billion, a 25.0% increase from the previous year
- Most capital was raised for vehicles with a European strategy
- Pension funds provide the lion share of new capital for non-listed real estate

Non-listed real estate continues to be in favour among investors of all types, attracting a record level of new equity in 2017.

Over the last decade, non-listed real estate has seen significant variation in the amount of new capital raised from year to year. But despite a minor pause in equity raising volumes in 2016 when deployment challenges surfaced, capital has continued to flow towards non-listed real estate, reaching record levels in 2017 and reinforcing the position of the sector in the real estate investment landscape.

Collectively, respondents to the survey raised €152.3 billion for non-listed real estate in 2017. Compared to 2016, this represents an increase of 25.0%. Over the last five years, the industry has seen more than €120 billion on average raised each year worldwide.

In 2017, vehicles targeting Europe raised €67.2 billion of new capital (44.1% of the total), making this the most popular regional strategy. Vehicles with North American and Asia Pacific strategies raised 28.8% (€43.9 billion) and 16.4% (€24.9 billion) of the total, respectively. Meanwhile, global strategies attracted 10.4% (€15.8 billion) in 2017. Global strategies saw the largest increase in the volume of new equity compared to 2016, (39.3% growth), just ahead of North American strategies (38.8%). The continuing popularity of Europe as an investment destination, together with the growing appetite for North American vehicles, is consistent with the findings of this year's Global Investment Intentions Survey.

By investor type, pension funds and insurance companies continue to dominate, and between them accounted for 49.0% of total capital raised in 2017. But other types of investors also played a role, in particular government institutions, high net worth individuals / family offices, funds of funds and sovereign wealth funds. In terms of capital raised by domicile, European investors were in first position, making up 40.7% (or €62.0 billion) of the total.

Finally, it is clear that global equity is targeting an ever-expanding range of non-listed real estate vehicles types. As in previous years, the largest share of capital (55.1% or €83.9 billion) was raised for non-listed real estate funds. However, all types of vehicles saw an increase in new equity in 2017, with the exception of JVs and club deals.

In 2017, €3.7 billion of new equity was raised for European debt funds. Three forms of debt proved most popular with investors: senior debt (35.4%), subordinated – a combination of junior, mezzanine and preferred equity (32.3%), and a mix of senior and subordinate debt (25.6%). Multi-country debt strategies were the most popular among investors.

Funds of funds also continued to be a notable feature of the market in 2017, with €3.3 billion of new equity raised for European funds of funds. The bulk of their new capital (91.2%) went to core vehicles, with the remaining 8.8% destined for opportunity funds. Pension funds accounted for 59.7% of the new capital raised by European funds of funds in 2017. Insurance companies were responsible for a further 14.0% of the new capital.

'In 2017 new equity was sought for almost 1000 non-listed real estate vehicles worldwide'

Section 1

Introduction

Introduction

The ANREV / INREV / NCREIF Capital Raising Survey 2018 explores capital raising activities in the non-listed real estate industry in 2017. The survey provides insights by region, vehicle type, investment strategy, and where possible presents a historical comparison based on previous studies.

This year the survey marks its 12th anniversary. Since its inception in 2006, the survey has been witness to continuing confidence in the non-listed real estate industry as an attractive asset class.

For the fourth successive year, the survey has a global reach. The study was conducted in conjunction with ANREV in Asia Pacific and NCREIF in the US, with the aim of providing a greater appreciation of trends in capital raising activities globally. The 2018 survey attracted a record number of participants, with 175 fund managers globally completing the questionnaire, an 8.0% increase compared to 2017, when 162 fund managers responded.

In total, the majority (93 or 53.1%) of fund managers were from Europe, followed by those domiciled in Asia Pacific (43 or 24.6%) and North America (39 or 22.3%). No fund managers from South America or Africa participated in the survey this year. Collectively, the respondents raised €152.3 billion for investment in non-listed real estate. The list of participants (those who gave permission for their company names to be published) can be found at the end of the report in Appendix 1.

> ‘The 2018 survey attracted a record number of participants with 175 fund managers globally’

Capital raising information was gathered in a three-step process: first, a questionnaire at manager level; second, a questionnaire at vehicle level (for debt funds and funds of funds) to capture vehicle characteristics; and third, the INREV Index dataset that serves as a proxy for capital raising into funds.

The report is structured as follows: Section 2 presents a general view of the capital raising landscape within the non-listed real estate industry. This section also discusses fund managers’ expectations for overall capital raising activity going forward and their views of the impact of regulation on capital raising activity over the next two years. Section 3 comments on the total equity raised in 2017 as well as equity raised by vehicle type, fund manager type and domicile. Section 4 discusses in greater detail the equity raised for global real estate vehicles.

From Section 5 onwards, the report focuses on the capital rising landscape for Europe. Sections 5, 6 and 7 assess total equity raised for European funds, debt funds and funds of funds, respectively. It is important to note that the sample size and composition of the survey varies by year. Furthermore, when figures were left unspecified, aggregates include those figures that were not reported, allowing the sample to remain constant throughout the report. Therefore, historical comparisons should be treated with caution.

Figures are quoted as at 31 December 2017, unless otherwise stated. ANREV, INREV and NCREIF would like to thank the fund managers for their participation in the Capital Raising Survey 2018.

Section 2

Capital raising activity

Capital raising activity

This section covers total equity raised for the non-listed real estate industry worldwide. It includes non-listed real estate funds, joint ventures and club deals, separate accounts (investing directly into real estate as well as investing into indirect vehicles) and non-listed real estate debt products.

A clear majority (76.6%) of fund managers in this global survey indicated that they raised capital for non-listed funds, separate accounts, joint ventures and club deals, funds of funds or non-listed debt funds in 2017. European fund managers reported a higher incidence of fund raising (81.7%) than their North American (74.4%) or Asia Pacific (67.4%) counterparts.

Of those that did not raise capital in 2017, none specified 'fund manager reputation', 'associated costs' or 'alignment of interest' as reasons why. The majority of respondents (80.4%) indicated 'other' as the key explanation for not raising capital. 'Track record' and 'corporate governance framework' were the second most common reasons (9.8% each) for not raising new capital.

The responses show more variation, however, when considered by fund manager domicile. While all fund managers noted 'other' as the key reason for not attracting new capital, 20.0% of Europe and 14.3% of Asia Pacific based fund managers noted 'track record' as the second most important reason.

Regarding the 'other' reasons for fund managers not raising any capital, not having an equity requirement in 2017 was the main reason given. Many were not in a capital raising period and had either closed a fund in the previous year or were planning to raise capital during 2018. Another common response was the lack of appropriate deals in the marketplace that aligned with the fund managers' strategy.

Figure 1: Capital raising activity

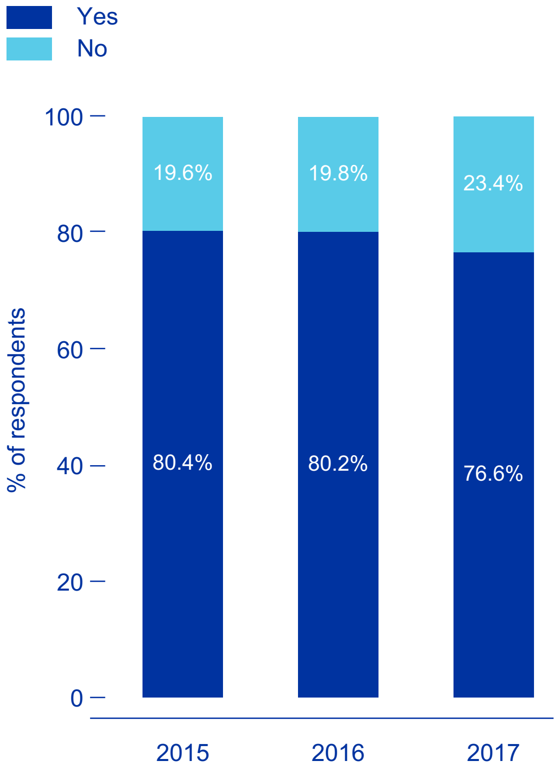
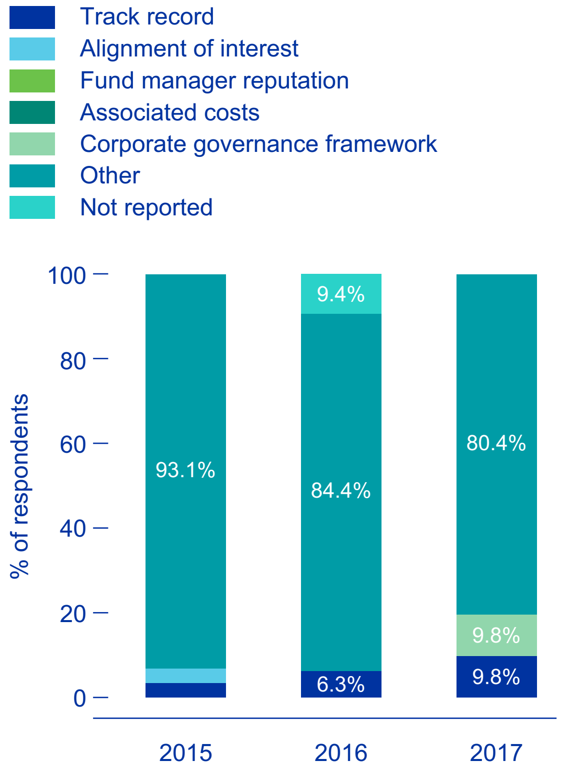


Figure 2: Reasons why no capital was raised

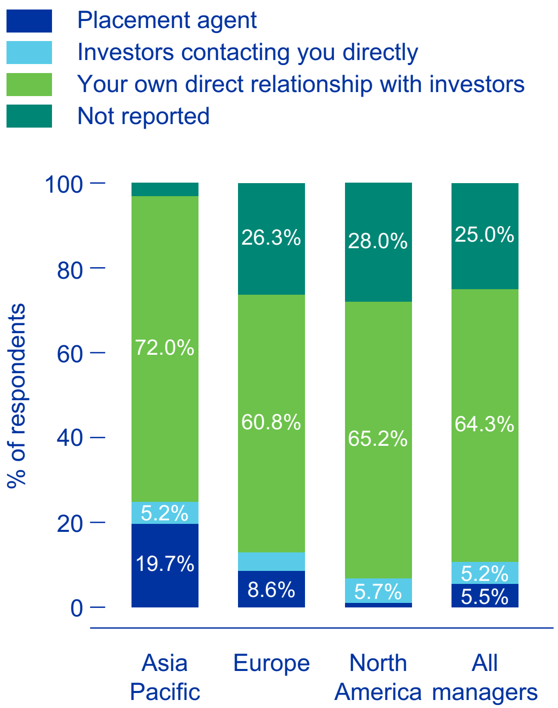


Methods of capital raising

The majority of new equity raised by fund managers in 2017 was via existing relationships with investors. This proved to be the most effective capital raising channel, translating into €97.9 billion of the new equity raised globally (64.3% of the total). Capital raised via placement agents made up 5.5% of the total, while 5.2% was raised as a result of investors contacting fund managers directly. The remaining 25.0% was left unreported

Trust and good investor relationships are important worldwide. However, there was some geographical variation in the use of existing relationships for raising capital. For Asia Pacific managers, these relationships accounted for 72.0% of total capital raised, compared to 60.8% for European managers and 65.2% for North American managers. Asia Pacific was the only region where placement agents accounted for a sizeable percentage of capital raised: €2.9 billion or 19.7% of all new equity.

Figure 3: Methods of capital raising by fund manager domicile



Expectations for capital raising activities

Overall, fund managers were optimistic in their expectations for capital raising activity over the next few years. The majority (69.1%) expected capital raising activity to continue increasing, in line with the result of the 2016 survey. At the other end of the spectrum, 10.3% thought capital raising momentum would decrease in two years' time, a larger number than the 2016 figure of 6.2%. The remaining 17.7% of respondents predicted no change to their level of capital raising activity, while the remaining 2.9% were undecided.

When queried about the impact of regulation on the capital raising landscape, over half (62.9%) of respondents believed that it is having no effect on attracting new capital into the non-listed real estate industry. This number has been increasing in recent years (55.6% in 2016 and 50.3% in 2015), suggesting the growing immunity of capital raising to regulation.

About a fifth (20.6%), however, saw regulation as a deterrent to raising new equity. Among the remaining respondents, 13.7% considered that regulation has a positive impact on capital raising, while 2.8% were undecided.

Figure 4: Expectations for capital raising activities

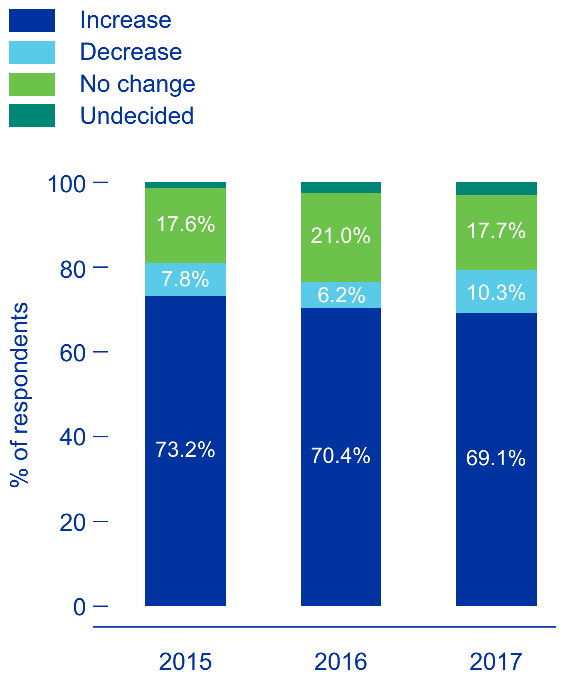
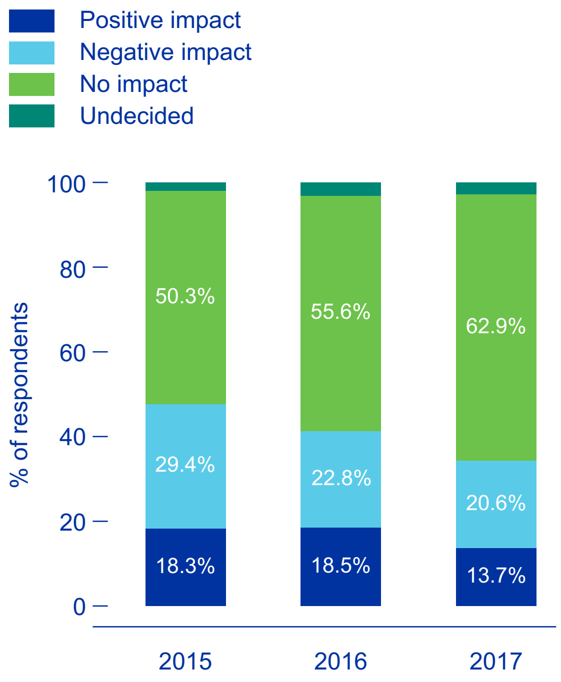


Figure 5: Impact of regulation on capital raising activities



> 'Managers are optimistic in their expectations for capital raising activity over the next few years'

Section 3

Equity raised for the non-listed real estate industry globally

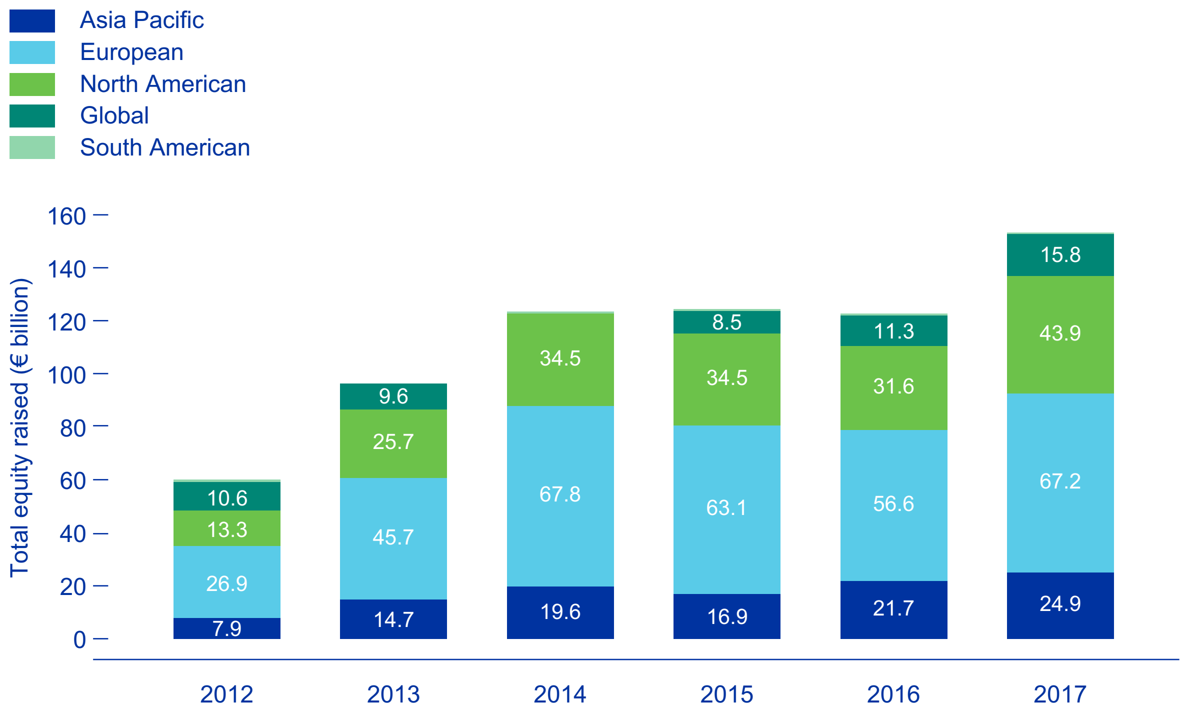
Equity raised for the non-listed real estate industry globally

During 2017, the non-listed real estate industry continued to attract significant amounts of capital. Globally, €152.3 billion of new capital was raised, an increase of 25.0% compared to last year's €121.8 billion. This total should however be considered as the minimum total raised globally, as the survey does not capture the activities of all market participants.

Overall, the distribution of capital raised for each region remains largely the same. The largest share is heading for Europe (€67.2 billion or 44.1%), exceeding the previous year's figure of €56.6 billion. This is followed by North American vehicles, which attracted 28.8% (€43.9 billion) of total new equity. North America was the region that recorded the largest monetary increase, €12.3 billion. Asia Pacific remained in third place, raising €24.9 billion in 2017. The region continued to attract new capital after a strong year in 2016.

Given the ongoing globalisation of the non-listed real estate industry, it was unsurprising that vehicles with global strategy attracted €15.8 billion (10.4%) in 2017. However, vehicles targeting South America raised only 0.3% of the total equity or €479.2 million. This was the only region which recorded a drop in capital raised.

Figure 6: Equity raised between 2012 to 2017 by regional strategy



The increasing popularity of non-listed real estate is evident from the total number of vehicles that raised capital in 2017. In total, equity was sought for 895 vehicles, a surge of 22.1% compared to the 2016 figure of 733. Vehicles with a European strategy dominate the results, numbering 498 or 55.6% of the total. This was broadly in line with the previous year, when 58.4% of all vehicles raising capital were focused on Europe.

A total of 138 vehicles raised capital with an Asia Pacific strategy (15.4% of the total), an increase of 16.9% from 2016, when 118 vehicles were raised for this region. In total, 20.1% of all vehicles (188 by number) raised capital for North American strategies. Just 5 vehicles (0.6%) targeted South America, while the remaining 66 (7.4%) have a global strategy. No capital was raised for African structures.

Comparing the amount of capital raised by region with the number of vehicles gives an indication of vehicle size. Vehicles with a European strategy comprise 55.6% of the total by number but 44.1% of new equity by value. Those with an Asia Pacific strategy represent 15.4% by number and broadly the same proportion in money terms (16.4%), while North American vehicles represent 21.0% by number but 28.8% by value. This indicates that on average vehicles targeting North America are larger than those targeting other regions.

Figure 7: Equity raised by regional strategy by value

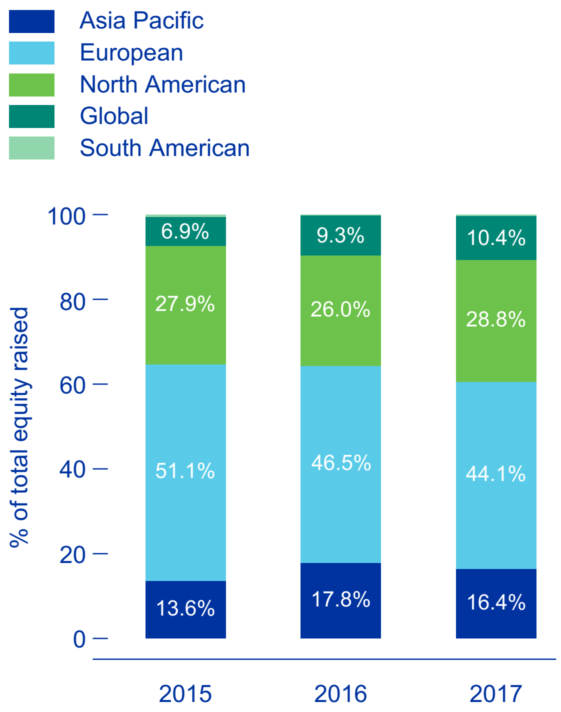
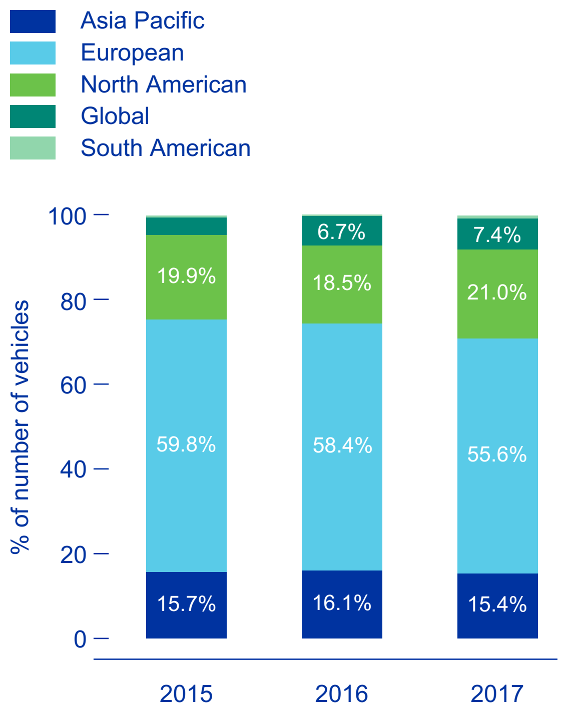


Figure 8: Equity raised by regional strategy by number of vehicles



Analysing equity raised in 2017 more deeply indicates that regardless of whether capital is targeting Asia Pacific, Europe or North America, the largest proportion is destined for domestic markets, although there are some regional variations, particularly among North American fund managers.

> ‘New equity was sought for 895 vehicles in 2017’

Figure 9: Equity raised by regional strategy and fund manager domicile

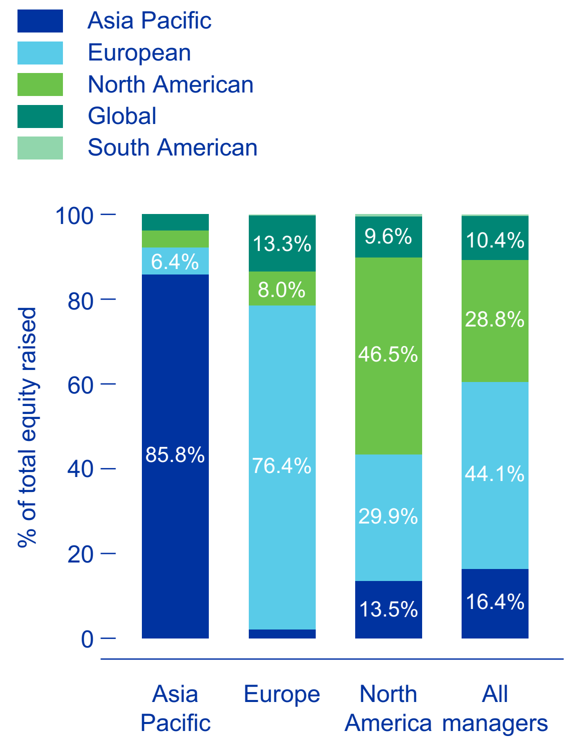
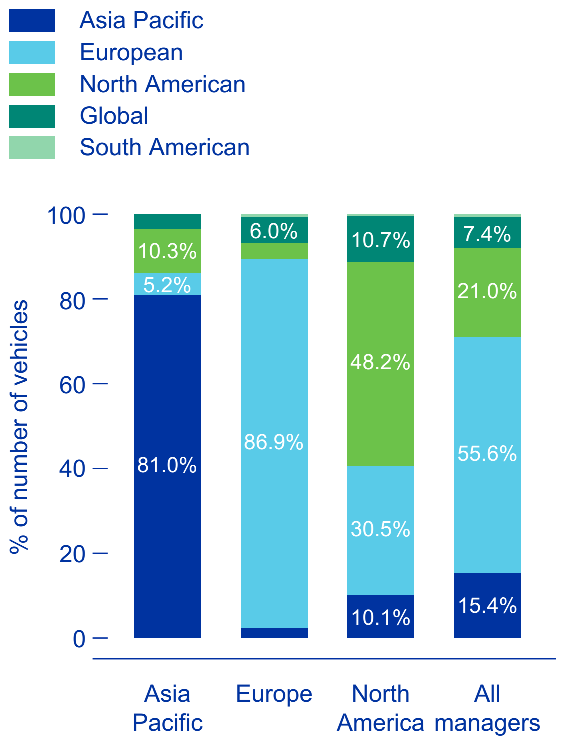


Figure 10: Equity raised by regional strategy, by fund manager domicile and by number of vehicles



Among European fund managers, 76.4% of new equity was raised for vehicles with a European strategy, with an additional 13.3% designated for Global vehicles and the remaining 10.1% split between Asia Pacific and North America (2.1% and 8.0%, respectively). Home bias also prevailed for Asia Pacific fund managers, most of whose capital (85.8%) was raised for allocation to their own region, while 6.4% went to European vehicles, 4.0% to North American vehicles and 3.8% to those with a Global strategy.

In line with the previous year's survey, North American fund managers raised equity for the widest range of strategies, with only 46.5% of capital for placement in their home market, considerably less than for their European and Asia Pacific counterparts. Most North American respondents are global fund managers with operations in each of the three regions, giving them a wider reach compared to their European and Asia Pacific peers. They allocated 29.9% of the new equity to Europe and 13.5% to Asia Pacific.

However, although home bias prevails, managers are becoming more global in their activities, leading to a decline in the proportion of capital intended for domestic markets.

The popularity of vehicles targeting domestic markets is further highlighted by reviewing the number of vehicles that capital was raised for by fund manager domicile.

Of the 328 vehicles for which North American managers raised capital last year, almost half (48.2%) have a North American strategy, while 30.5% target Europe, 10.1% target Asia Pacific, 10.7% have a global strategy and a mere 0.5% target South America. The proportions were similar for the amounts of capital raised.

The bulk of capital raised by European managers in 2017 went to European vehicles (86.9%), followed by Global, North American, Asia Pacific and South American vehicles, at 6.0%, 4.0%, 2.4% and 0.7%, respectively.

Asia Pacific fund managers raised capital for 116 vehicles in total, of which 81.0% target the Asia Pacific region. The remainder of the capital was raised for North American vehicles (10.3%), European vehicles (5.2%) and Global structures (3.5%).

Equity raised by vehicle type

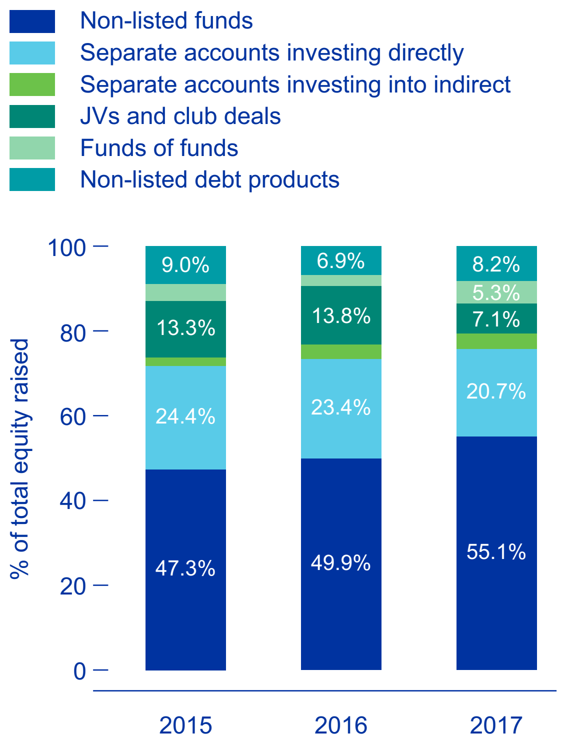
Global equity is targeting an ever-expanding range of non-listed real estate vehicles. In 2017, as in previous years, the largest share of capital was raised for non-listed real estate funds. In total, funds accounted for 55.1% (€83.9 billion) of all capital raised. Separate accounts investing directly into real estate were again the second most popular vehicle, drawing 20.7% (€31.6 billion) of all new capital. Non-listed debt products attracted 8.2% (€12.4 billion), joint ventures and club deals 7.1% (€10.8 billion), funds of funds 5.3% (€8.5 billion) and separate accounts investing into indirect vehicles 3.6% (€5.8 billion) of all capital raised in 2017.

All vehicles recorded an increase in capital raised, with the exception of joint ventures and club deals.

From the perspective of vehicle numbers, new capital was raised for 375 non-listed real estate funds in 2017, 41.6% of the total 895 vehicles.

The remaining equity was raised for 203 separate accounts investing directly into real estate (22.7%), 103 separate accounts investing into indirect real estate (11.5%), 101 joint ventures and club deals (11.3%), 66 non-listed debt products (7.3%) and 50 funds of funds (5.6%).

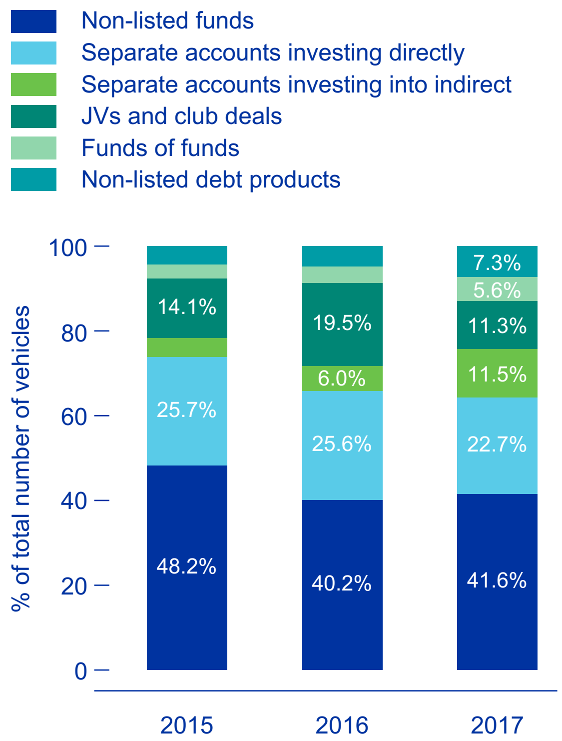
Figure 11: Equity raised by vehicle type by value



While there is clearly a growing number of separate accounts investing in indirect real estate and non-listed debt products, the total volume of equity they are raising remains largely the same.

Relating equity raised by vehicle type to its regional strategy, non-listed funds are clearly the vehicle of choice everywhere, even if there are some disparities between regions.

Figure 12: Equity raised by vehicle type by number of vehicles

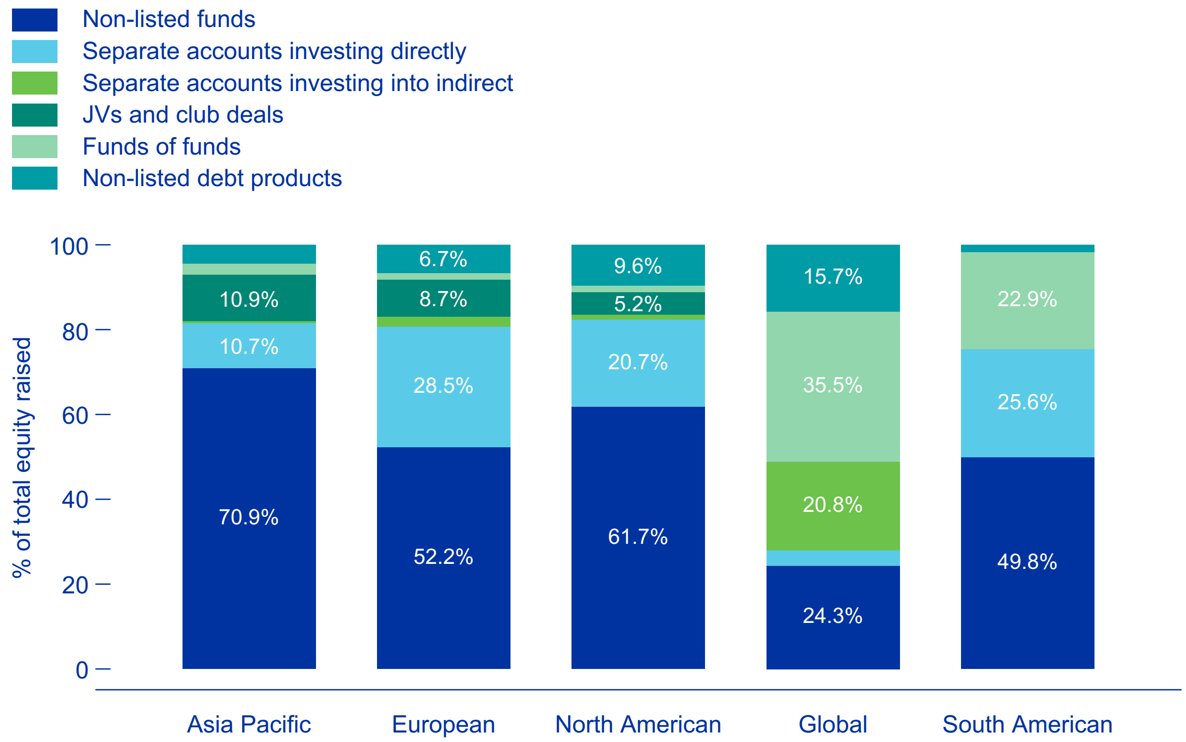


Most new equity targeting Asia Pacific in 2017 was raised for non-listed real estate funds (70.9%), followed by JVs and club deals (10.9%), separate accounts investing directly into real estate (10.7%), non-listed debt products (4.4%), funds of funds (2.7%) and separate accounts investing into indirect real estate (0.4%). This represented a shift compared to 2016, when JVs and club deals accounted for 28.8% of equity raised. Meanwhile, the market share of funds increased by nearly 20% relative to last year's 51.2%. This was in line with the findings of the ANREV / INREV / PREA Investment Intentions survey 2018 in which most investors proposed to increase their allocation to funds compared to other vehicle types. In addition, the highest proportion of funds raised for non-listed debt products by region was in Asia Pacific.

For vehicles with a European strategy, most new equity was again raised for funds (52.2%), with the remainder split between separate accounts investing directly into real estate (28.4%), JVs and club deals (8.7%), non-listed debt products (6.7%), separate accounts investing into indirect real estate (2.4%) and funds of funds (1.5%).

A similar pattern emerges for North America. Funds again attracted the largest share of capital (61.7%), followed by separate accounts investing directly (20.7%), non-listed debt products (9.6%), JVs and club deals (5.2%), funds of funds (1.6%) and separate accounts investing into indirect real estate (1.2%).

Figure 13: Equity raised by vehicle type and by regional strategy



For vehicles pursuing a global strategy in 2017, the preferred type shifted significantly toward funds of funds, which accounted for 35.5% of capital raised compared to just 8.1% the previous year. Funds of funds with a global mandate are particularly attractive to smaller investors, as they provide exposure to a range of global markets that would otherwise be difficult to access.

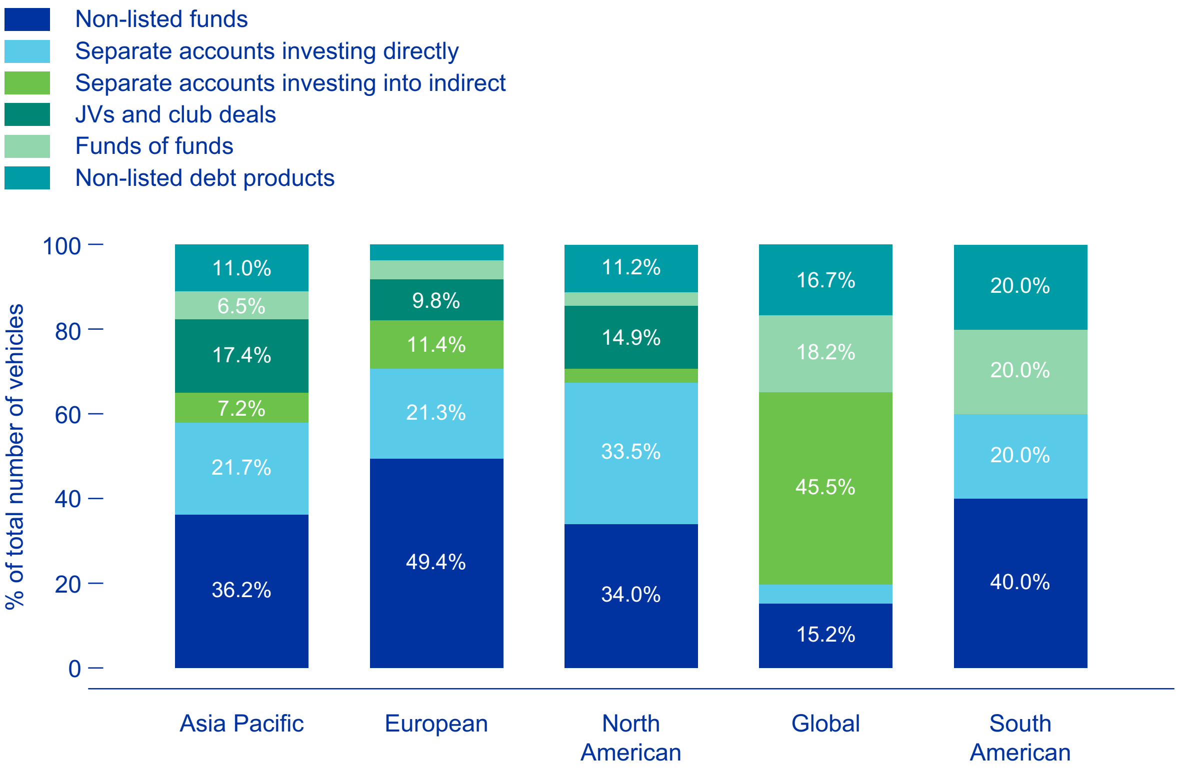
Non-listed funds moved down to second place for global strategies with 24.3% of total capital raised, followed by separate accounts investing directly into real estate (20.8%), non-listed debt products (15.7%) and separate accounts investing into indirect real estate (3.7%).

Meanwhile, 49.8% of the capital targeting South America was raised for non-listed real estate funds, followed by separate accounts investing directly into real estate (25.6%), funds of funds (22.9%) and non-listed debt products (1.7%).

Again, by number of vehicles non-listed real estate funds were the most attractive for all regional strategies in 2017. However, for Global strategies, separate accounts investing into indirect real estate moved increasingly into favour, making up 45.5% of the vehicles for which capital was raised.

Relating the amount of capital raised by region with the number of vehicles involved again gives an interesting perspective on the scale of vehicles. For non-listed funds, those with an Asia Pacific strategy comprised 36.2% of the number of vehicles but 70.9% of the new equity raised by value. The ratio is roughly 1:2. A similar ratio (1:1.8) is seen for funds with a North American strategy. On the other hand, the ratio is roughly 1:1 for European strategies. This suggests that on average funds targeting Asia Pacific and North America are larger than those with a European strategy.

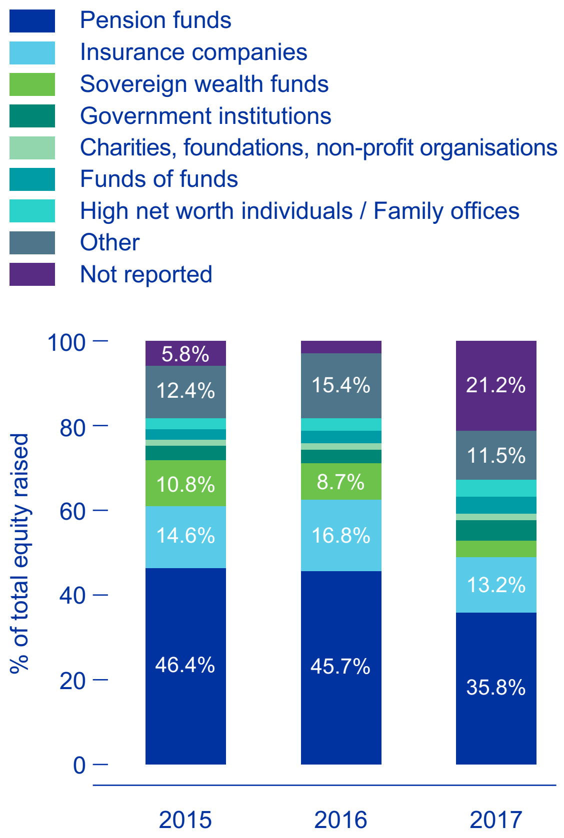
Figure 14: Equity raised by vehicle type, by regional strategy and by number of vehicles



Equity raised by investor type

Pension funds were the investor type that provided the majority of capital for the non-listed real estate industry in 2017, though their share is down on the previous year's. As a group, they contributed 35.8% or €54.5 billion of all new equity raised for the sector. The balance came from insurance companies (13.2%), government institutions (4.8%), high net worth individuals (4.1%), funds of funds (4.0%), sovereign wealth funds (3.9%), charities, foundations and non-profit organisations (1.5%) and other investors (11.5%), with the remaining 21.2% not being reported.

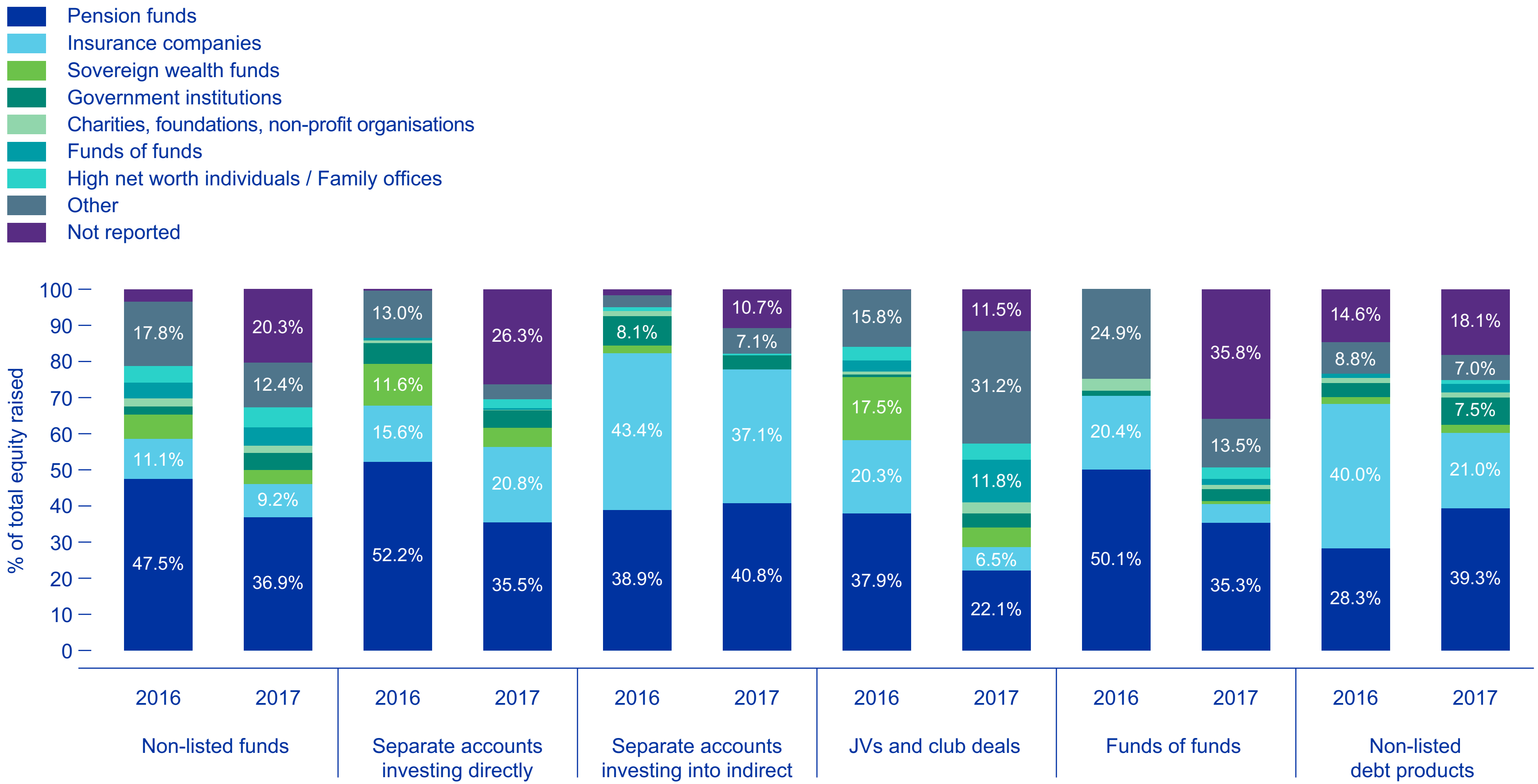
Figure 15: Equity raised by investor type and by value



> 'Pension funds provided the majority of capital for the non-listed real estate industry in 2017'

Linking equity raised by investor and vehicle type, pension funds dominate all vehicle types with the exception of JVs and club deals, where their share is just 22.1%. However, here the share of pension funds declined significantly compared to previous years, when they made up close to half of new equity raised. The share of insurance companies investing in many vehicles types also shrank, but funds of funds and high net worth individuals tended to expand their real estate commitments, albeit marginally.

Figure 16: Equity raised by investor type and by vehicle type

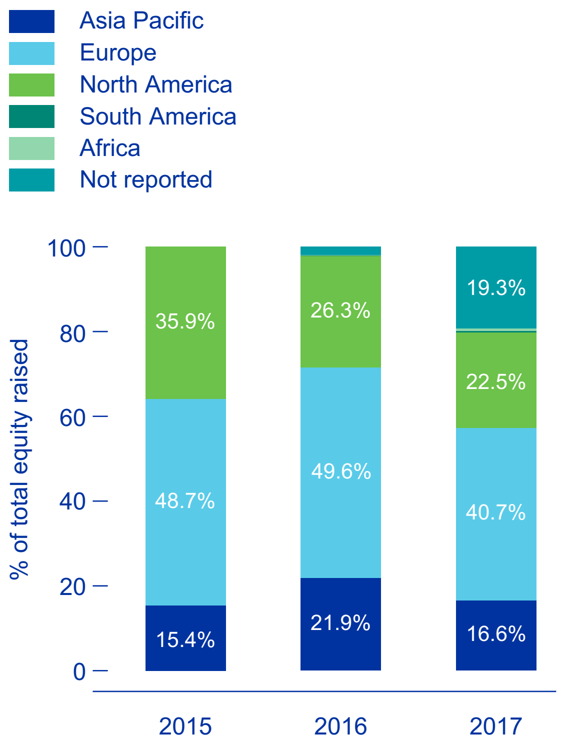


Equity raised by investor domicile

By investor domicile, European investors contributed the largest share of all new equity raised last year, with €62.0 billion (40.7%). Over one-fifth (22.5%) came from North American investors and 16.6% from Asia Pacific, while a small amount was raised from South American (0.4%) and African (0.5%) institutions. The remaining 19.3% was not reported. This distribution is similar to that seen historically.

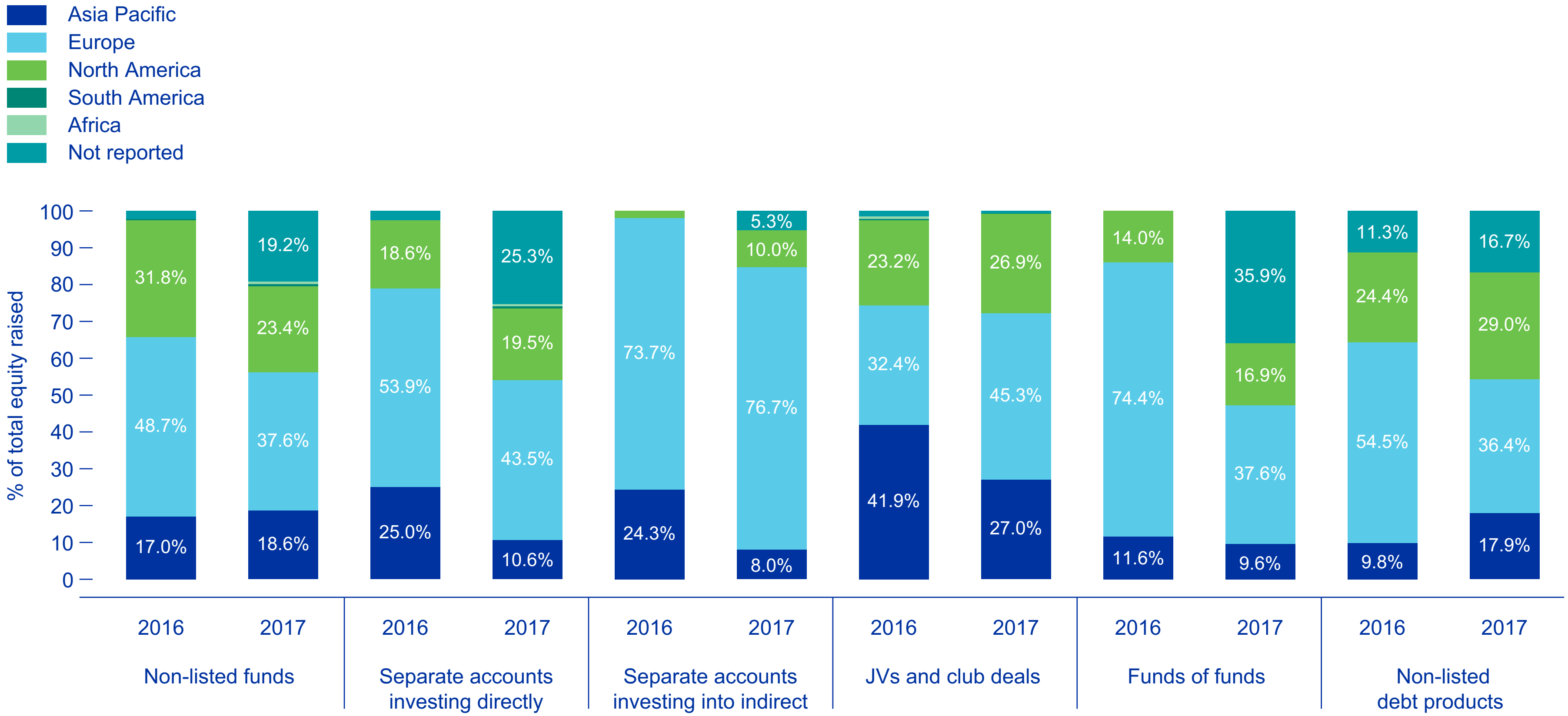
Combining investor domicile with vehicle type, European capital has been the dominant source for all vehicle types, followed by North American and Asia Pacific capital. However, Asia Pacific investing institutions tend to have a greater preference for JVs and club deals, as well as separate accounts (direct) and debt funds. North American investors also favour debt funds and JVs and club deals, as well as non-listed funds.

Figure 17: Equity raised by investor domicile by value



‘Over one-fifth of new equity came from North American investors last year’

Figure 18: Equity raised by investor domicile and by vehicle type



Section 4

Equity raised for global strategies

Equity raised for global strategies

For a vehicle to have a global strategy, no more than 90 per cent of the total GAV may be invested in a single region.

In total, vehicles with a global strategy attracted €15.8 billion or 10.4% of all new capital raised in 2017, a 39.5% increase on the 2016 figure. As in the case of capital raised for vehicles with regional strategies, the largest share was sourced from pension funds (27.7%). Insurance companies contributed the second highest amount (16.5%), followed by sovereign wealth funds (5.4%). Government institutions contributed 4.4%, followed by high net worth individuals / family offices (3.7%), non-for-profit organisations (0.9%) and funds of funds (0.5%). The balance came from other sources (6.6%), while 34.3% was not reported.

'Funds of funds are the most popular vehicles for global strategies'

Figure 19: Global strategy: equity raised by investor type

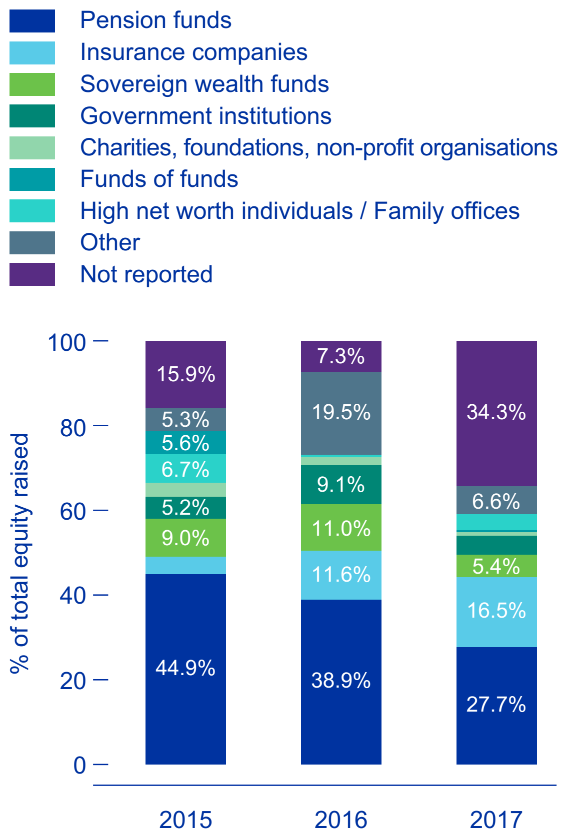
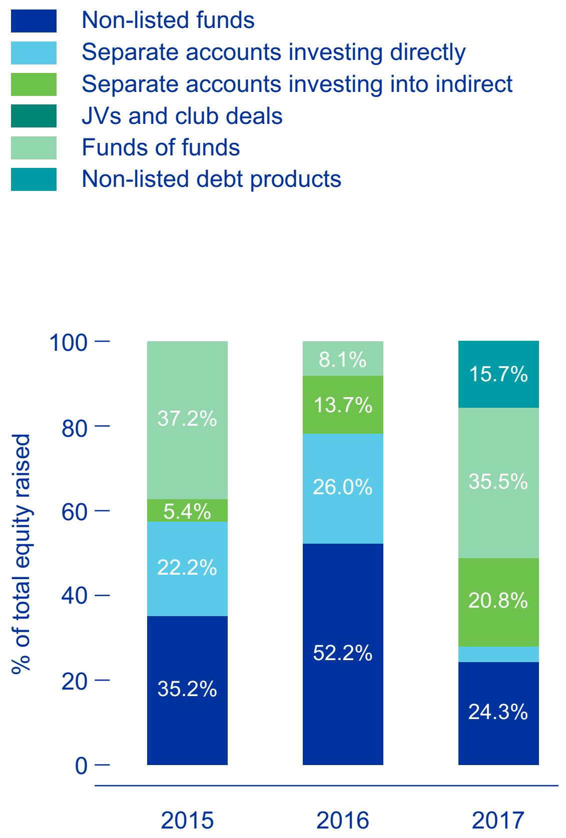


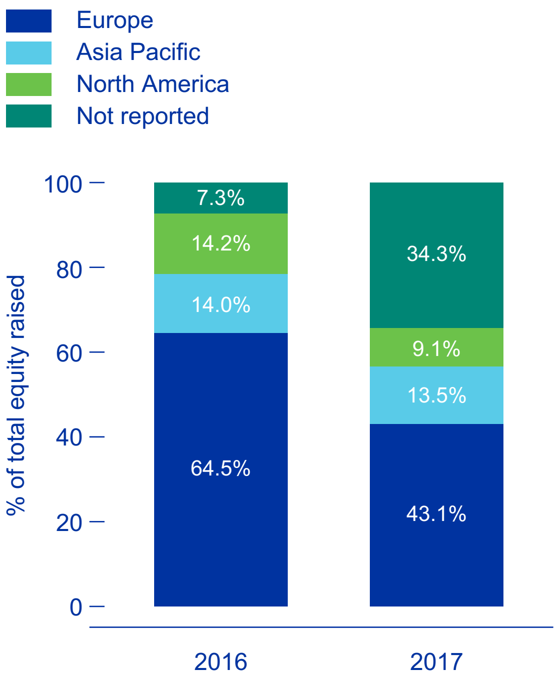
Figure 20: Global strategy: equity raised by vehicle type



Real estate funds of funds were the most popular vehicle for global strategies, attracting 35.5% of the total capital raised in 2017. Non-listed funds attracted the second largest amount of capital (24.3%), followed closely by separate accounts (indirect) (20.8%). Non-listed debt products comprised 15.7%, 3.7% went to separate accounts (direct).

Regarding investor domicile, European investors represent the largest source of equity for vehicles with a global strategy – €6.8 billion or 43.1%. Asia Pacific and North American investors added 13.5% and 9.1% of the equity raised, respectively. The remaining 34.3% was not reported.

Figure 21: Global strategy: equity raised by investor domicile



'European investors represent the largest source of equity for vehicles with a global strategy'

Section 5

Equity raised for European strategy

Equity raised for European strategy

The following sections only focus on capital raising for vehicles with a European strategy.

In total, vehicles with a European strategy attracted €67.2 billion or 44.1% of all new capital raised in 2017, an increase of 18.8% on the 2016 figure of €56.6 billion.

Sources of capital for non-listed real estate vehicles targeting Europe in 2017 were dominated by pension funds and insurance companies. Pension funds were the biggest single contributor, accounting for 29.8% of the total capital raised last year.

Insurance companies were the second largest contributor, accounting for 14.7% of the total. Together, pension funds and insurance companies accounted for 44.5% of total capital raised in 2017 for European strategies.

Their share has however declined recently. In 2016, these two investor groups together accounted for 63.0% of capital raised for European strategies. In 2015, the figure was 69.7%.

Interestingly, other sources of capital than those specifically identified contributed 12.3% of capital raised for European strategies last year. After pension funds and insurance companies, this category has been the largest source of capital for European strategies over the last three years.

Figure 22: European strategy: equity raised by investor type

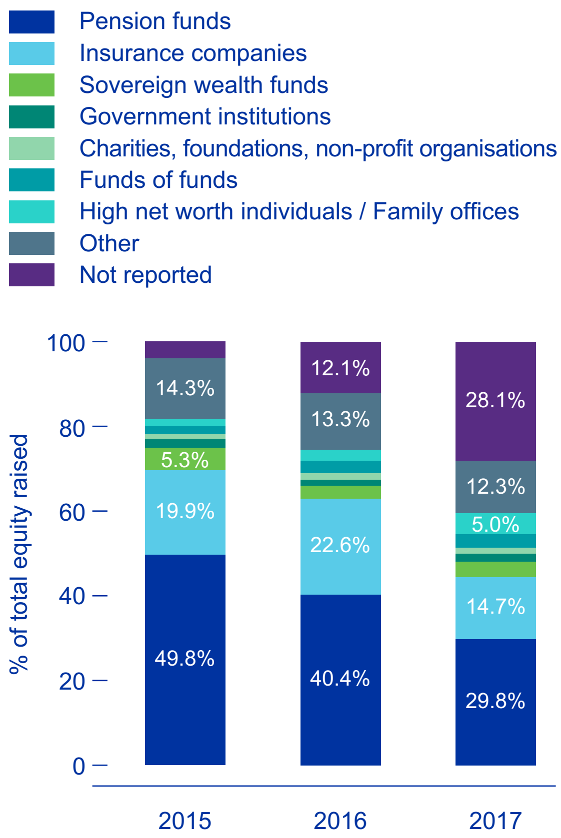
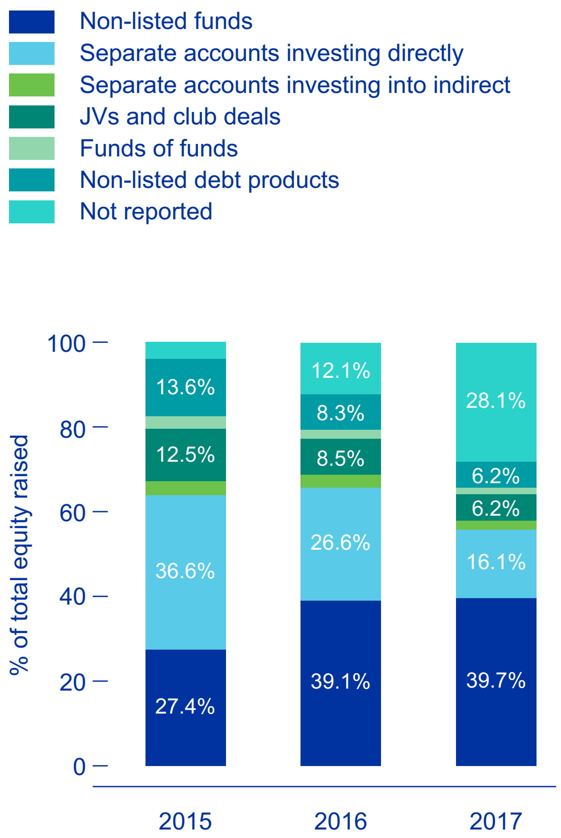


Figure 23: European strategy: equity raised by vehicle type



High net worth individuals / family offices made up 5.0% of the capital raised in 2017, sovereign wealth funds 3.6%, funds of funds 3.2%, government institutions 1.9%, and charities and foundations 1.4%, respectively. The source was not reported for the remaining 28.1% of capital raised.

In terms of the vehicle type for which capital was raised, non-listed real estate funds were the most popular. In total, 39.7% of capital was raised for funds, a similar level to the previous year.

> 'Much of the capital for European funds of funds came from other sources'

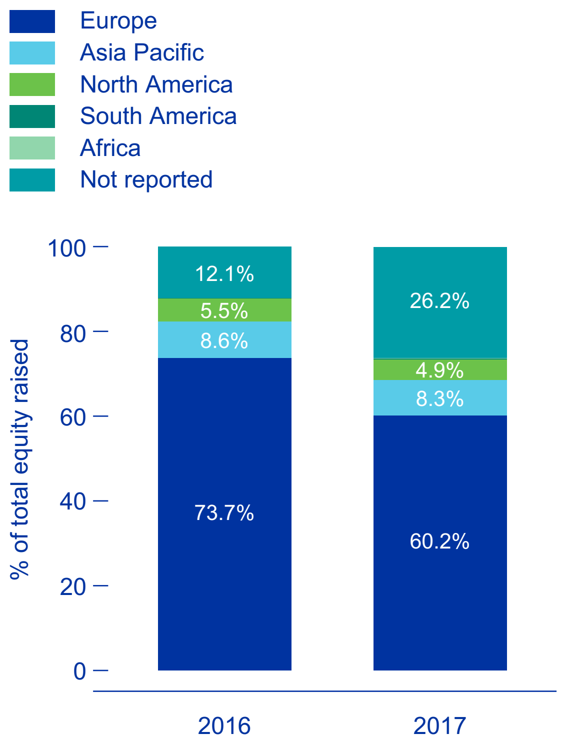
Separate accounts investing directly came second (16.1%), followed by JVs & club deals and debt funds (6.2% each), separate accounts investing into indirect vehicles (2.2%) and funds of funds (1.5%). Of the total equity raised for a European strategy, 28.1% remained unreported by vehicle type.

The popularity of funds is in line with the most recent findings of the [Investment Intentions Survey 2018](), in which funds were noted as the most preferred vehicle type among investors as a whole.

The sources of capital for non-listed real estate vehicles in 2017 were not only diverse in terms of investor type, but also in terms of investor domicile. Most of the capital raised last year for European strategies came from Europe (60.2%).

Asia Pacific-based investors were responsible for a further 8.3% and North American investors 4.9%. South American investors were barely present, contributing just 0.2%, while 0.1% of capital came from African investors. The remaining 26.2% of capital raised for European vehicles was not attributed to an investor domicile.

Figure 24: European strategy: equity raised by investor domicile

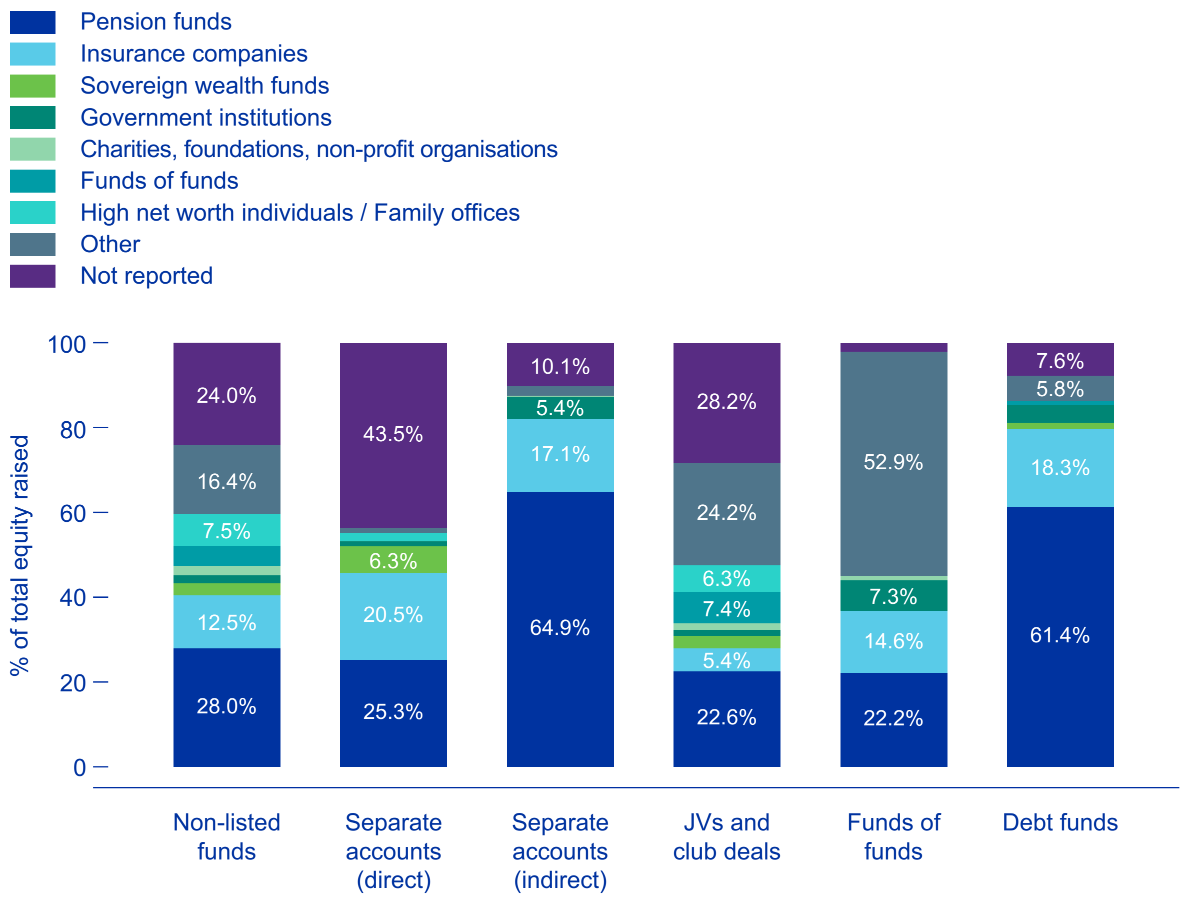


Analysing equity raised by investor type versus vehicle type, it was clear that pension funds were the dominant source of capital for separate accounts (indirect), representing 64.9% of the total, and also for debt funds (61.4%). Pension funds were also the primary source of capital for non-listed real estate funds, for separate accounts investing directly and for JVs and club deals.

Insurance companies played an important role providing capital for separate accounts (direct) (20.5% of the total), debt funds (18.3%), separate accounts (indirect) (17.1%), funds of funds (14.6%) and funds (12.5%). They did not however make a big contribution to JVs and club deals last year (5.4%).

It is interesting to note that the bulk (52.9%) of the capital for European funds of funds came from other sources of capital, a similar proportion to 2016 (47.5%). Other sources of capital also played a significant role in JVs and club deals (24.2%), as was the case the previous year.

Figure 25: European strategy: equity raised by investor type and vehicle type



Equity raised for European non-listed real estate funds

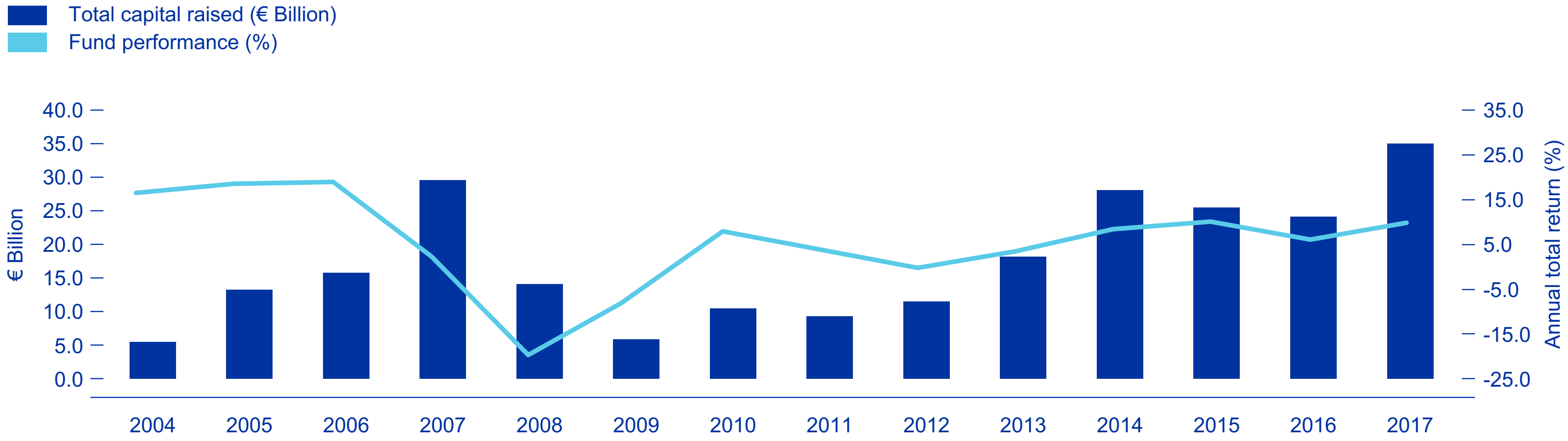
In 2017, €67.2 billion was raised for European non-listed real estate as a whole – that is, across all vehicle types. This section of the survey focuses on capital raising activities for European non-listed real estate funds alone. In 2017, the total amount of capital raised was €35.1 billion, significantly higher than the corresponding figure for 2016, € 24.2 billion, making it the best year for European non-listed funds to raise capital. Comparable levels were only seen in 2007 and 2014. In total, 246 European funds received new capital last year (175 in 2016).

The high capital raising volumes were in line with strong fund performance. According to the results of the INREV Quarterly Index Q4 2017, European non-listed real estate funds delivered a strong end to 2017. Returns in the last quarter of the year stood at 2.75%, bringing yearly performance up to 9.6%.

It would be naïve to attribute the level of capital raising to fund performance alone. Still, strong relative performance does affect investor confidence in the sector and often helps boost capital raising.

‘High capital raising volumes were in line with strong fund performance’

Figure 26: Equity raised for European non-listed real estate funds



Source: INREV Annual Index for 2004 to 2016, INREV Quarterly Index Q4 2017 for 2017

Equity raised for European non-listed real estate funds by style

For open end funds, core was the dominant investment style in 2017, accounting for the overwhelming majority of capital raised (99.7%), with value added making up just 0.3%. Open end structures do not easily accommodate the opportunity style. Thus, no capital was raised for this style of open end funds in 2017, the same as in the previous two years.

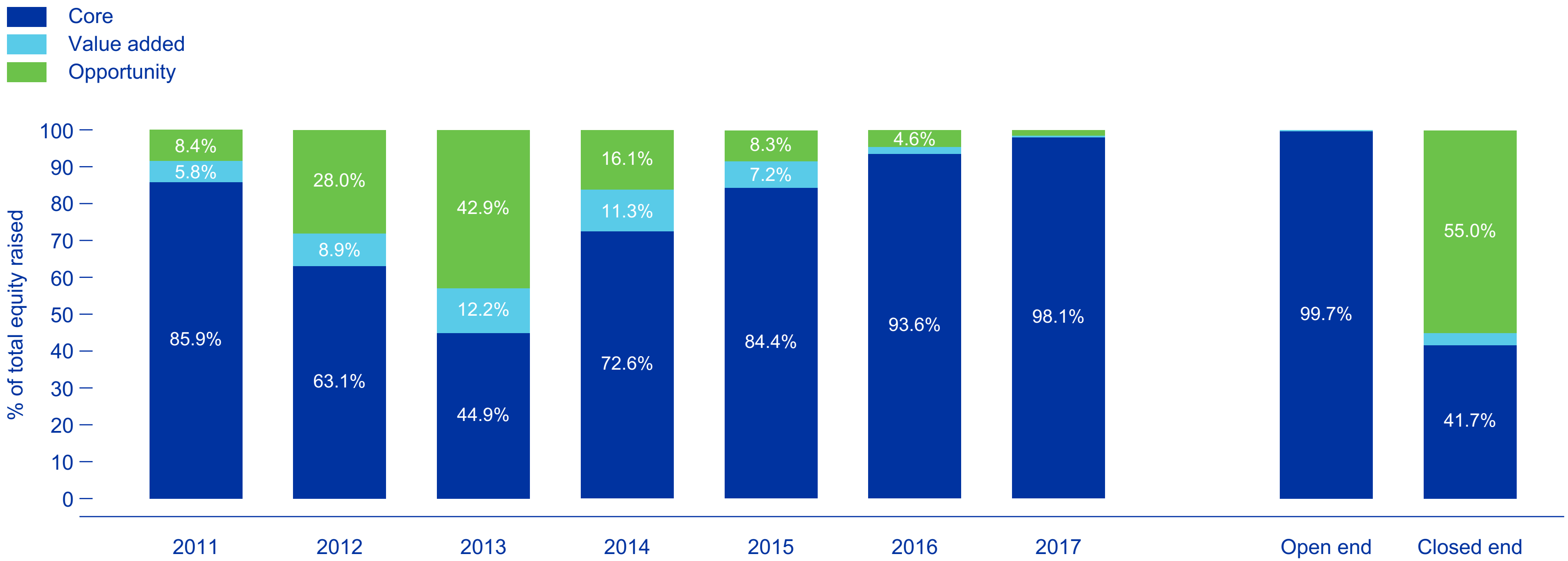
For closed end funds, the style breakdown is somewhat different. Here all three main styles attracted capital in 2017, although opportunity funds proved most popular, accounting for more than half the total of capital raised (55.0%). Core was not far behind (41.7%), meaning that value added was easily the least popular style for closed end funds (3.2%).

These proportions were similar to 2016, when core funds comprised 49.7% of capital raised, opportunity 41.1% and the remaining 9.2% went to value added.

The limited popularity of value added funds is not a recent phenomenon. It has been by far the least preferred style since 2011, with its share of raised capital ranging from a high of 12.2% in 2013 to a low of 0.4% in 2017.

> ‘Core is the dominant style for open end funds’

Figure 27: Equity raised for European non-listed real estate funds by style



Equity raised for European non-listed real estate funds by vintage year

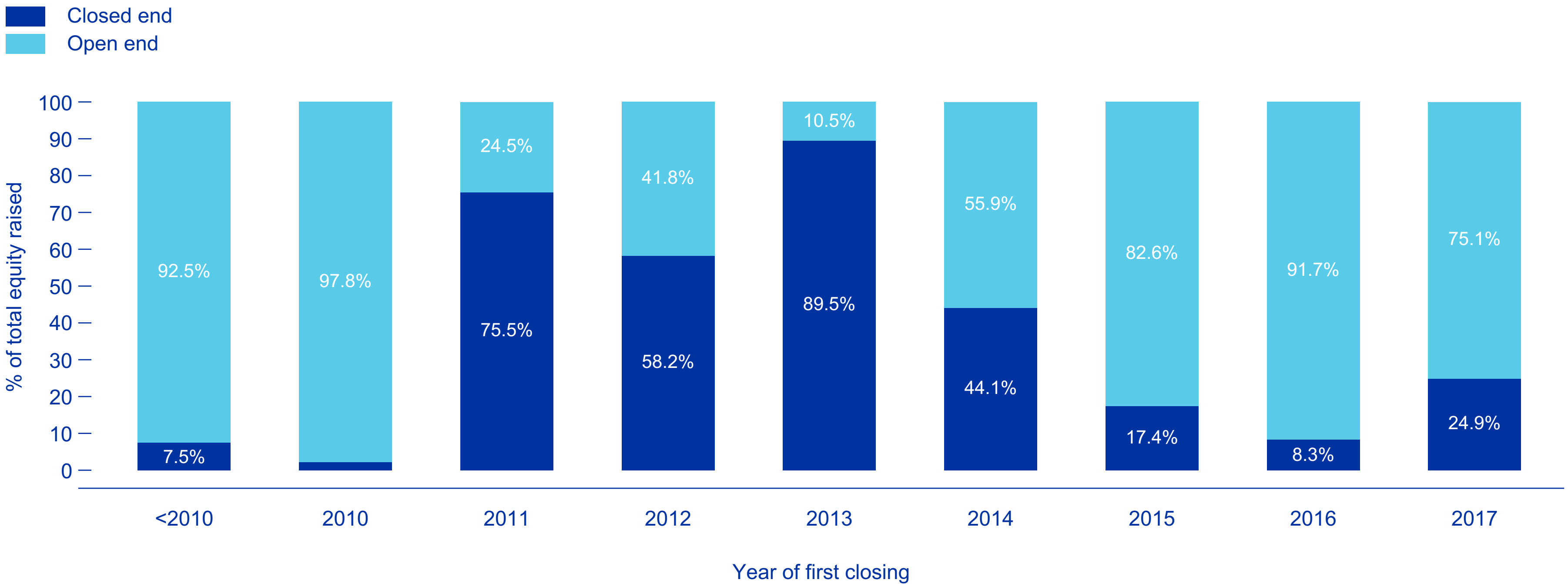
This section looks at capital raising by type of fund structure from the perspective of vintage year, that is, the year of first closing. Here vintage years from 2010 to 2017 individually are examined. The analysis also refers to the group of funds with first closings prior to 2010.

There are significant differences in fund structure between vintage years. Open end funds were the preferred structure for vehicles launched up to and including 2010, and from 2014 onwards. The period from 2011 to 2013 was dominated by closed end fund launches, the most extreme case being 2013, when they accounted for 89.5% of total equity raised.

In 2017, the trend reversed somewhat. Although three-quarters of new equity went to open end vehicles, closed end funds saw a significant rise compared to 2016, receiving 24.9% of new equity.

> ‘Closed end funds saw an uplift in equity raised in 2017’

Figure 28: Equity raised for European non-listed real estate funds by vintage year and by structure



Equity raised for European non-listed real estate funds by country strategy

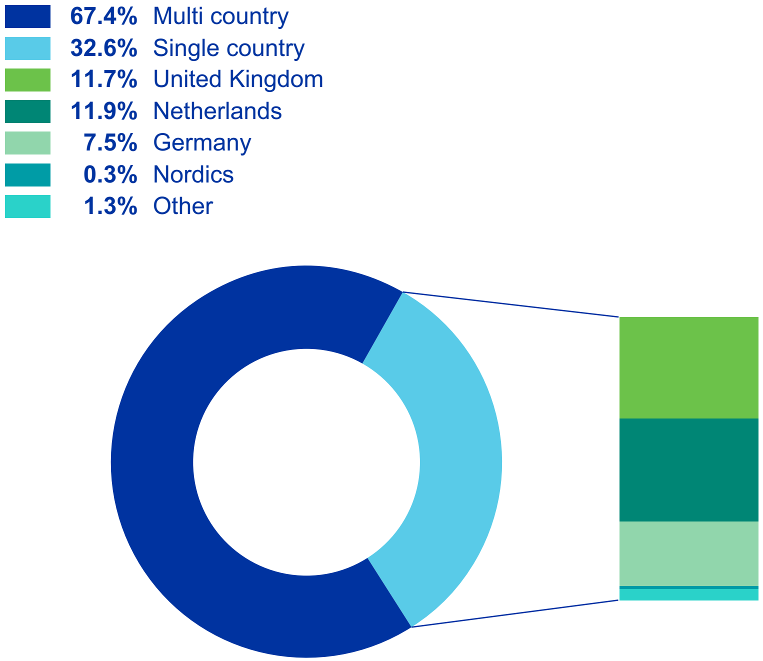
This part of the report considers the equity raised for non-listed real estate funds from the perspective of country strategy.

Two-thirds (67.4%) of the capital raised for non-listed funds was for those with a multi-country strategy. The remaining 32.6% went to single-country funds. This was similar to 2016, when multi-country vehicles received 65.5% of new capital.

From the viewpoint of individual countries, the Netherlands (11.9%) and the UK (11.7%) accounted for the largest share of capital raised among single country strategy funds. Next came Germany, accounting for 7.5% of the total capital raised. This was a notable change from 2016, when Germany was the most preferred location for investing in single country strategies. Nordic countries taken together made up just 0.3% of capital raising while other European countries accounted for the remaining 1.3%.

‘The Netherlands and the UK accounted for the largest share of capital raised for single country strategy funds in 2017’

Figure 29: Equity raised for European non-listed real estate funds by country strategy



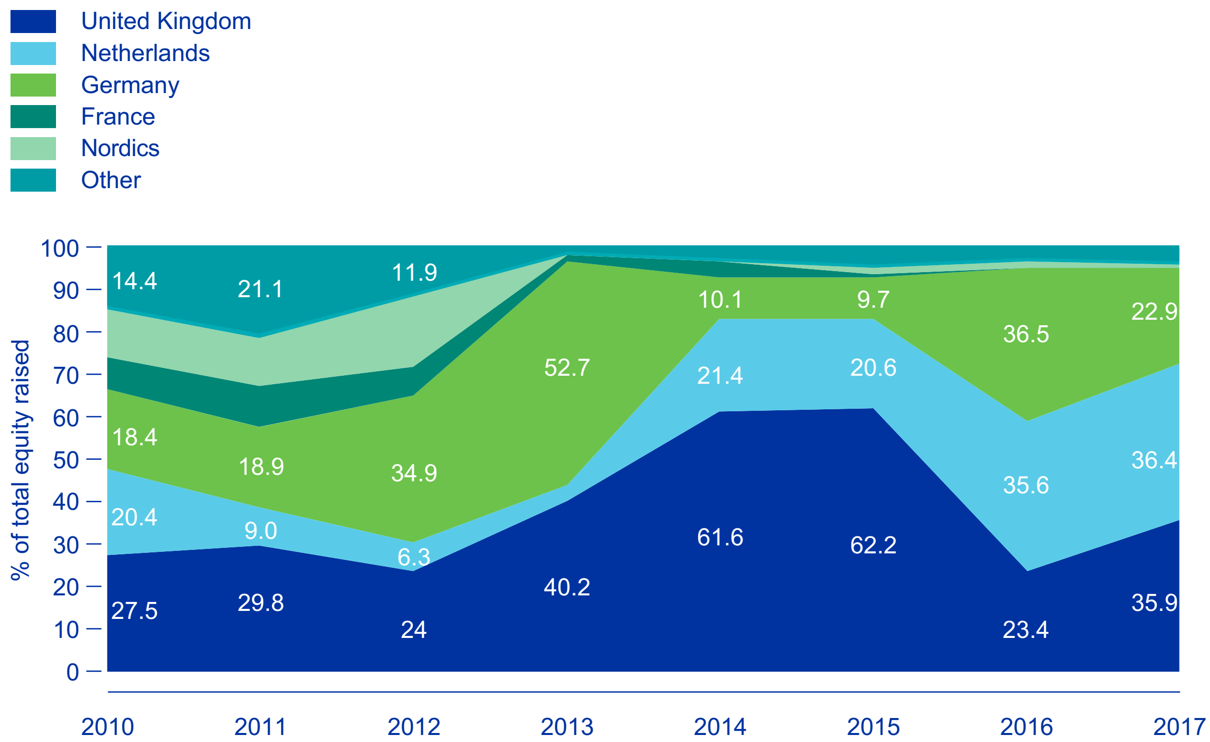
There have been some significant changes in single country capital raisings in recent years. Dutch funds have seen a substantial uplift in their share of single country equity raising over the last three years. This contrasts with the early 2010s, when their popularity was somewhat muted.

Conversely, UK funds have recently lost some of their appeal for investors. Accounting for more than 60% of single country equity raised in 2014 and 2015, their share dropped by more than half in 2016.

Similarly, German funds have seen their popularity swing from vogue status between 2011 and 2013 to relative unpopularity, though the trend reversed in the last two years as German funds saw more capital flow their way.

> 'Dutch funds have seen a significant boost in capital raised over the last three years'

Figure 30: Equity raised for European non-listed real estate funds by single country strategy



Equity raised for European non-listed real estate funds by sector strategy

This part of the report looks at the equity raised for non-listed real estate funds from the perspective of sector strategy.

Almost two-thirds (63.1%) of the capital raised for non-listed funds in 2017 was for funds with a multi-sector strategy. The remaining 36.9% went to single sector funds. The proportions were very similar to 2016, when multi-sector vehicles received 64.3% of new capital, with the remaining 35.7% destined for single sector funds.

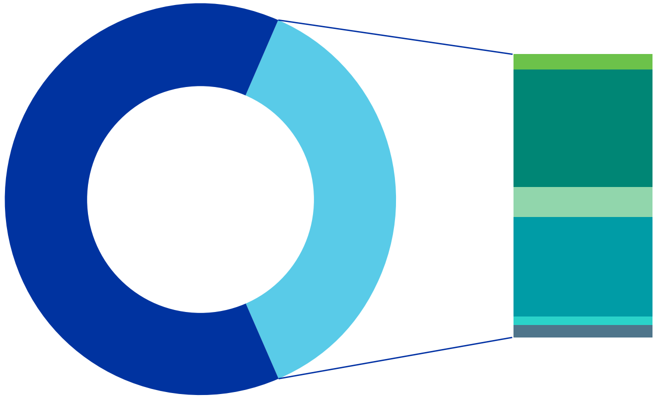
Among single sector funds, industrial / logistics funds dominated in 2017, accounting for 15.3% of the equity raised, almost half the total in the single sector category. This contrasted with 2016, when retail single sector funds dominated the sample.

Residential was second most popular accounting for 13.0% of new equity raised for single sector funds in 2017, followed by retail (3.9%), office (2.0%) and hotel (1.1%).

The fact that logistics and residential funds are clearly in vogue matches the latest findings of the Investment Intentions Survey 2018, where both sectors were among the most preferred by investors.

Figure 31: Equity raised for European non-listed real estate funds by sector strategy

63.1%	Multi-sector
36.9%	Single sector
2.0%	Office
15.3%	Industrial / logistics
3.9%	Retail
13.0%	Residential
1.1%	Hotel
1.6%	Other



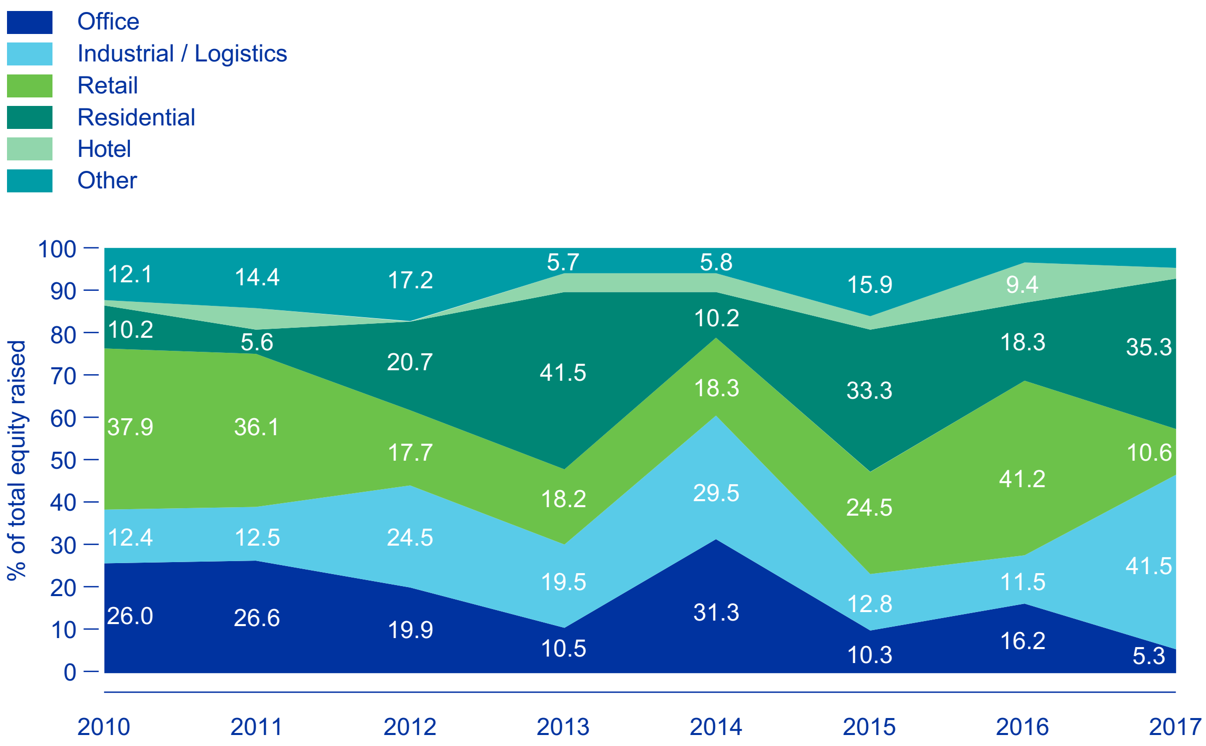
‘Logistics and residential funds are clearly in vogue’

Taking a longer term perspective from 2010 to 2017, there has been a notable revival in the popularity of the residential sector, which made up just above 10% of total equity raised in 2014 but represented 33.3% in 2015, although it moderated to 18.3% the following year. In 2017 residential accounted for more than a third of new equity raised for single sector funds.

Industrial / logistics funds generally absorbed around 10-20% of new equity over the 2010 to 2016 period, but their share took off last year when they amassed 41.5% of new single country funds' equity.

In contrast, the retail sector, which saw the largest influx of new equity in 2016 (41.1%), gained only a fraction of that in 2017 (10.6%).

Figure 32: Equity raised for European non-listed real estate funds by single sector strategy



'Industrial / logistics funds amassed 41.5% of new single country funds' equity in 2017'

Equity raised for European non-listed funds by leverage

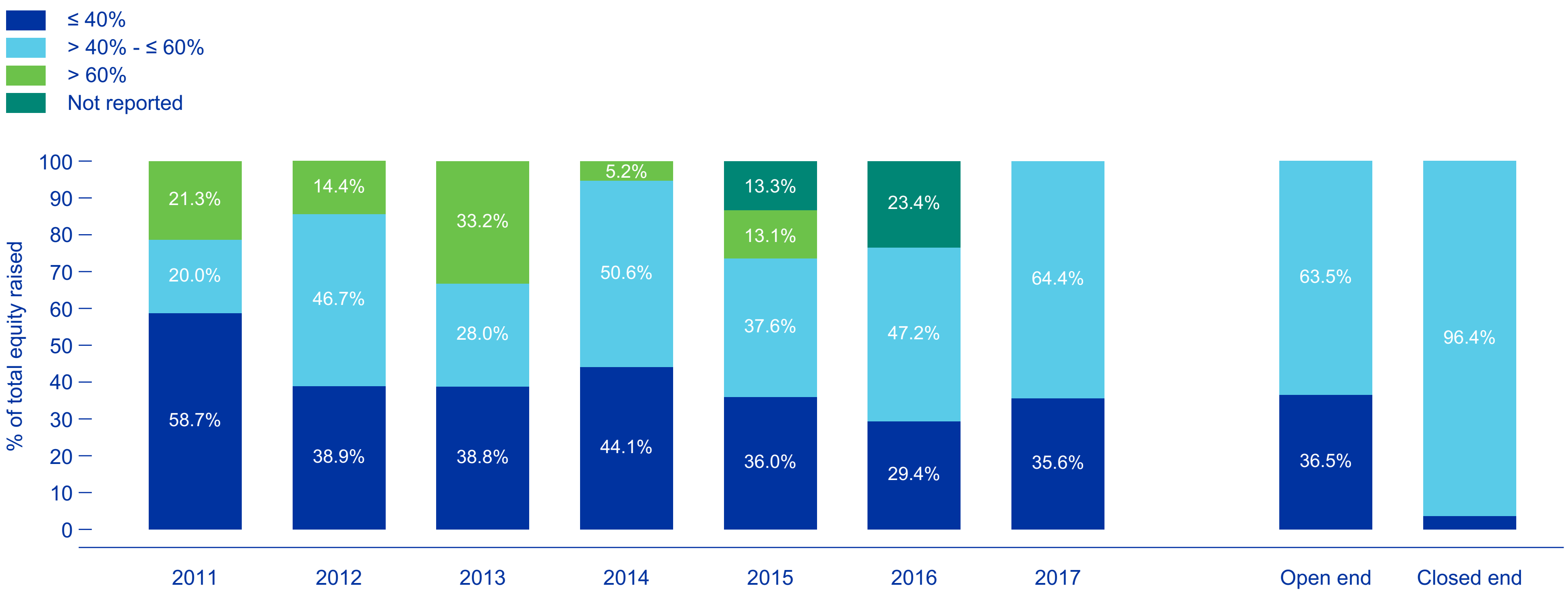
This part of the report looks at the equity raised for non-listed real estate funds by leverage levels.

Just over a third (35.6%) of the new capital raised in 2017 was for funds with leverage levels of 40% or less. The remaining 64.4% was for funds with leverage between 40% and 60%. Higher than 60% leverage levels did not attract any capital in 2017, making it the second year where no capital was raised for the above 60% leverage level.

There were some differences in leverage levels between open end funds and closed end funds in 2017. For open end funds, levels of leverage between 40% and 60% were most popular, accounting for 63.5% of new capital. The remaining third (36.5%) went to funds with leverage of 40% or less. For closed end funds, those with 40-60% gearing levels were even more dominant, taking up 96.4% of the new capital.

> ‘Higher than 60% leverage levels did not attract any capital in 2017’

Figure 33: Equity raised for European non-listed real estate funds by leverage



Section 6

Equity raised for European debt funds

Equity raised for European debt funds

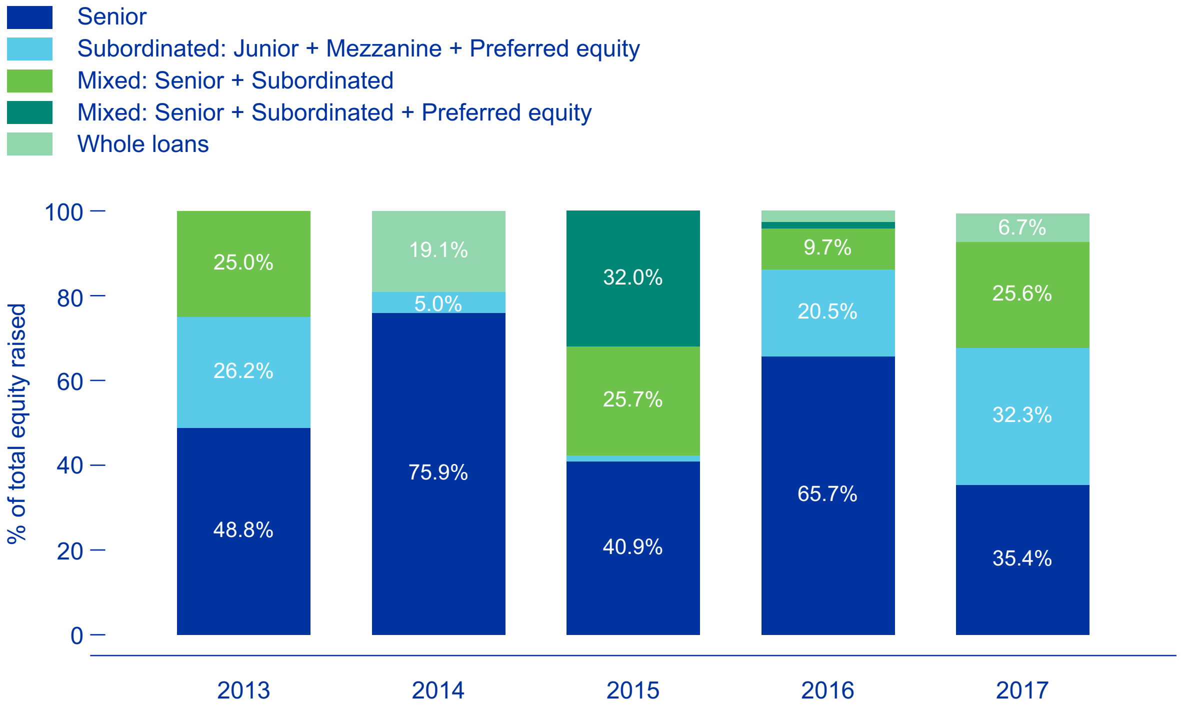
This part of the report considers equity raised for non-listed European real estate debt funds.

The number of funds in the INREV Debt Funds Universe (published in October 2017) currently stands at 59, with a target gross asset value (GAV) of €30.2 billion. Funds with a senior loan strategy (25 of the 59 vehicles) make up 42.4% of the number of funds but 59.6% of target GAV, indicating that these funds are on average larger than those with other strategies. By number, 30.5% of the funds are domiciled in the UK and 27.1% in Luxembourg. By target GAV, 46.3% are domiciled in Luxembourg and 17.7% in the UK. Multi-country and single country funds are almost evenly split by number: 30 and 26 vehicles respectively. Although, multi-country funds are much larger than single country funds, and represent 65.8% of target GAV.

In 2017, €3.7 billion of new equity was raised for European debt funds. Three forms of debt proved most popular with investors, based on the amount of capital raised. First was senior debt (35.4%), the most secure. Second came subordinated – a combination of junior, mezzanine and preferred equity (32.3%). Third was a mix of senior and subordinate debt, which accounted for 25.6% of new equity last year. The remaining 6.7% was destined for whole loans.

Over recent years, senior loan strategies have reduced their lead over other debt strategies in terms of their popularity among investors.

Figure 34: Equity raised for European non-listed real estate debt funds by loan strategy



‘Senior loan strategies have seen a reduction in their lead as the preferred loan strategy’

In regional terms, investors tend to prefer multi-country debt strategies. Debt funds targeting Western Europe amassed 47.0% of all new equity raised in 2017. One third (32.3%) was directed toward pan-European vehicles, while just 0.5% went to the Nordic region. The only single country vehicles to attract capital were those targeting the UK. No capital went to funds that target Southern Europe, CEE and other single European countries.

Last year, the UK dominated single country strategies as well, accounting for 23.9% of the new equity injected into European debt funds. Just a small share (1.9%) went to other single countries.

In terms of vintage year, unsurprisingly most of the equity was raised for the youngest funds. Vehicles launched in 2017 received 34.0% of the new equity, while those dating from 2016 gained 23.0% and those launched in 2015 took 8.5%. Together, these funds absorbed two-thirds of all new equity raised for European debt funds in 2017. Interestingly, however, vehicles of 2013 vintage accounted for 32.3% of new equity. Older funds took the remaining 2.2%. In 2016 a larger share of new capital (74.1%) had gone to funds dating from the most recent three years.

Figure 35: Equity raised for European non-listed real estate debt funds by target European country strategy

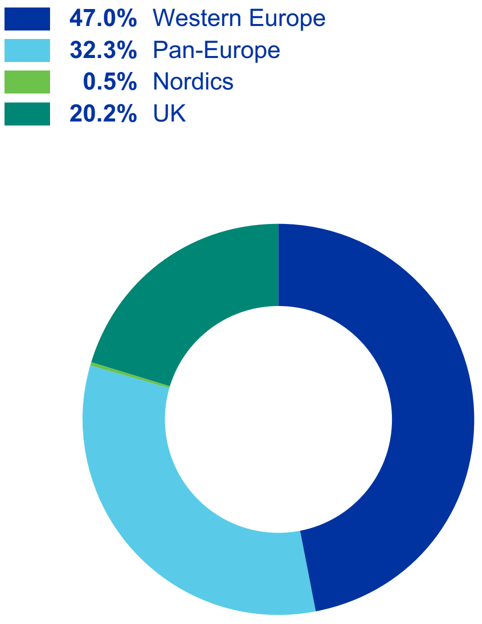
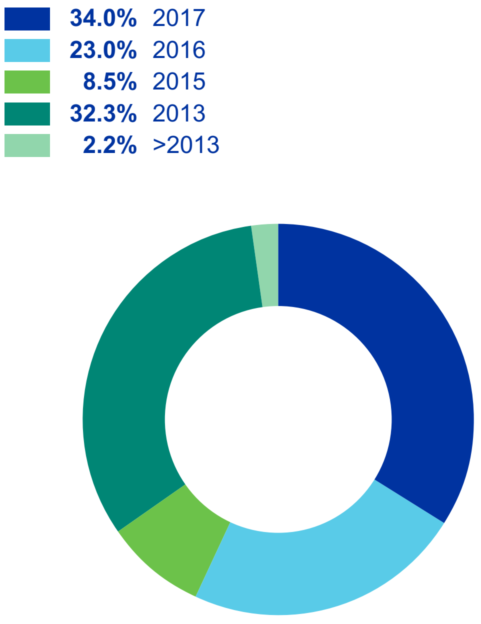
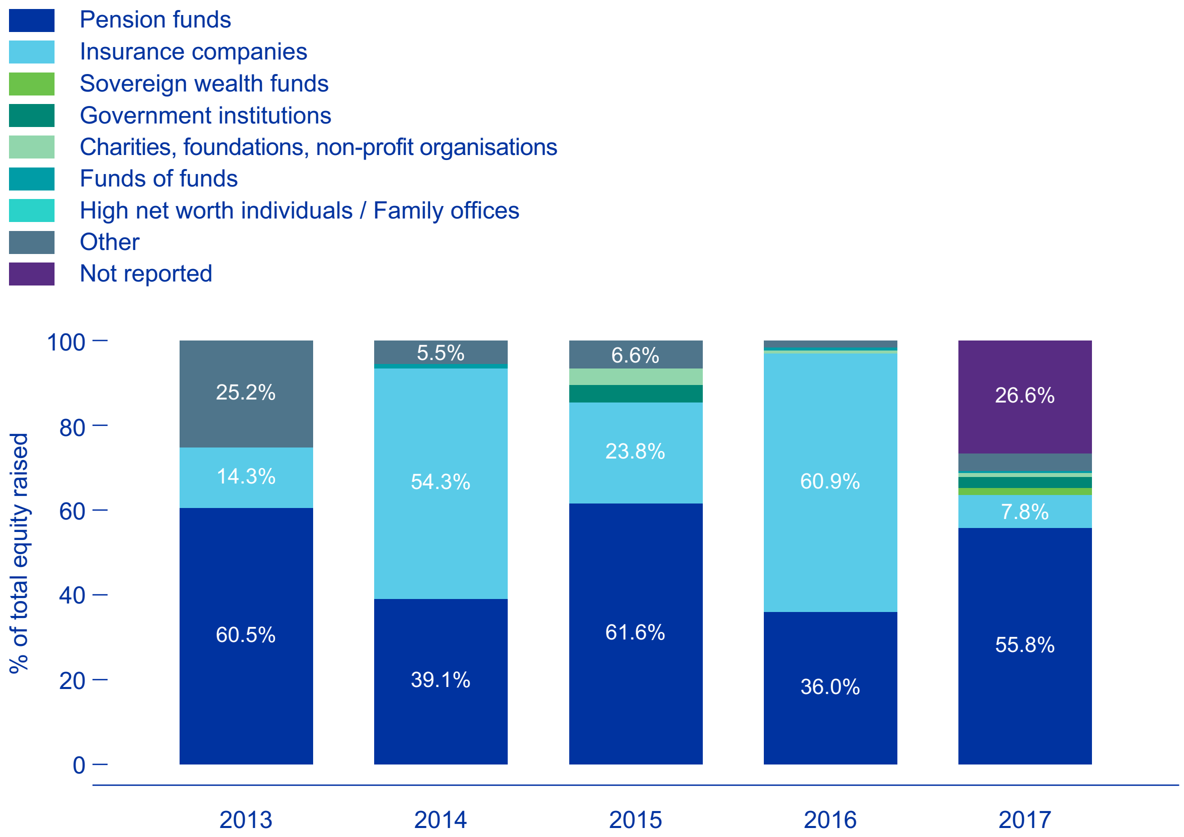


Figure 36: Equity raised for European non-listed real estate debt funds by vintage



In 2017, pension funds overtook insurance companies as the type of investor contributing most new equity for non-listed European real estate debt funds, with more than half of the total (55.8%). Insurance companies had dominated in 2016, with most of the remaining capital coming from pension funds. In 2017 capital was raised from a more diverse group of investors for European real estate debt funds.

Figure 37: Equity raised for European non-listed real estate debt funds by investor type



Section 7

Equity raised for European funds of funds

Equity raised for European funds of funds

This part of the report looks at the equity raised for non-listed European real estate funds of funds.

The number of funds of funds in the INREV Fund of Funds Universe (as presented in the ANREV / INREV Fund of Funds Study 2017) stands at 58 vehicles, which are managed by 24 managers. Collectively these vehicles represent a total Net Asset Value (NAV) of €12.2 billion. According to the ANREV / INREV / NCREIF Fund Manager Survey 2017, globally funds of funds account for €24.9 billion or 1.0% of the gross asset value (GAV) of non-listed real estate AUM worldwide, indicating that funds of funds remain an important conduit for capital in the non-listed real estate industry.

In 2017, €3.3 billion of new equity was raised for European funds of funds, a level broadly similar to that for debt funds. This was somewhat lower than in 2016, when €3.8 billion was raised for European funds of funds.

The amount of equity raised in 2017 amounted to 13.3% of total AUM, a substantial figure. It is likely that the new equity being allocated to funds of funds stemmed from their strong performance over the last few years. According to the ANREV / INREV Fund of Funds Study 2017, as a group, funds of funds returned 7.7% to their investors in 2016, making it the fifth best year since 2004 and fourth consecutive year of positive returns.

The predominant style preference for funds of funds reflects the risk preferences seen more widely in capital raising for funds in 2017. Of the €3.3 billion that was raised for European funds of funds, 91.2% went to core vehicles, with the remaining 8.8% destined for opportunity funds. No new capital was raised for value added funds of funds last year.

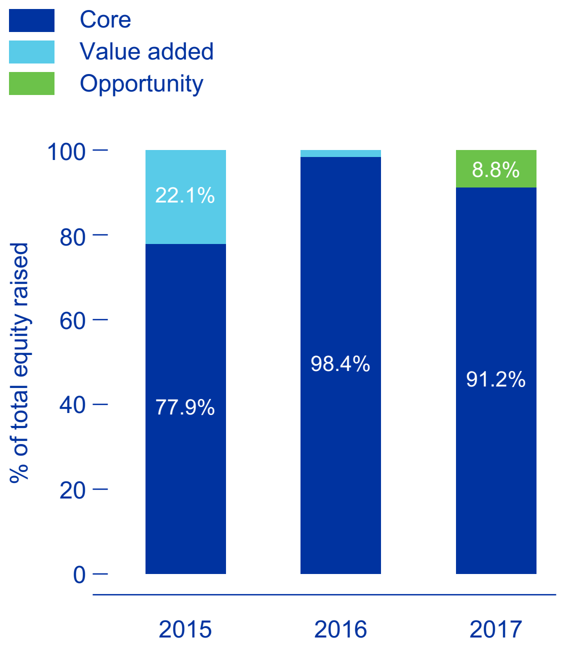
Comparing these style preferences with those for 2015, core funds of funds have gained greater traction relative to their value added peers.

Looking at capital raised by fund of funds vintage (the year of the vehicle's first close), those with a first close in 2017 took a relatively small proportion of total equity, 12.0%, while those launched in 2010 attracted 31.7%. Those that closed before 2010 gained just 0.4%. Vintage was not reported for the remaining 53.8% of capital raised, due to the amalgamation of vehicles of varying vintages.

By investor type, pension funds dominate real estate funds of funds. In total, pension funds injected 59.7% of the new capital destined for European funds of funds in 2017, a similar degree of dominance as in the European debt funds landscape.

Insurance companies were responsible for a further 14.0% of the new capital, while high net worth individuals / family offices and other investors were each responsible for 7.6%. Government institutions, charities and non-profits, and sovereign wealth funds respectively made up 6.7%, 2.3% and 1.5% of the total.

Figure 38: Equity raised for European funds of funds by style and structure



By regional domicile, European investors led the pack in equity raised for European funds of funds. European institutions committed 74.1% of the new capital in 2017, with North American investors next representing 14.7% of the total and Asia Pacific investors the remaining 11.2%. Capital was not raised from African and South American investors for European funds of funds last year; their share has always been very limited.

> ‘Funds of funds with a first close in 2010 took a large proportion of total new equity’

Figure 39: Equity raised for European funds of funds by vintage

2.1% 2016
31.7% 2010
0.4% Pre-2010
53.8% Not reported

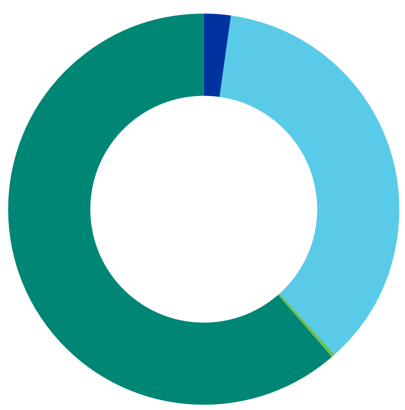


Figure 40: Equity raised for European funds of funds by investor type

Pension funds
Insurance companies
Sovereign wealth funds
Government institutions
Charities, foundations, non-profit organisations
Funds of funds
High net worth individuals / Family offices
Other

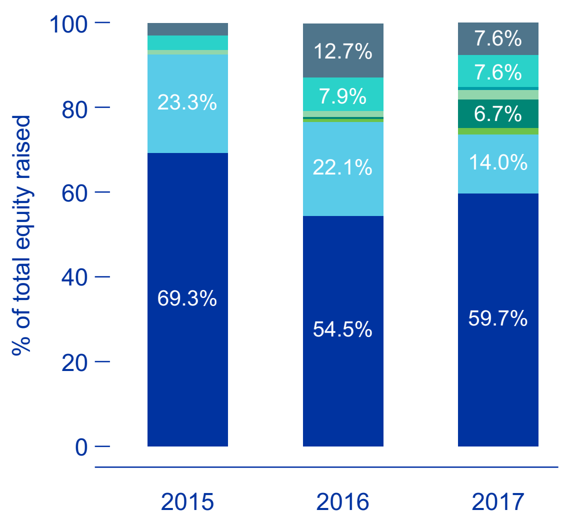
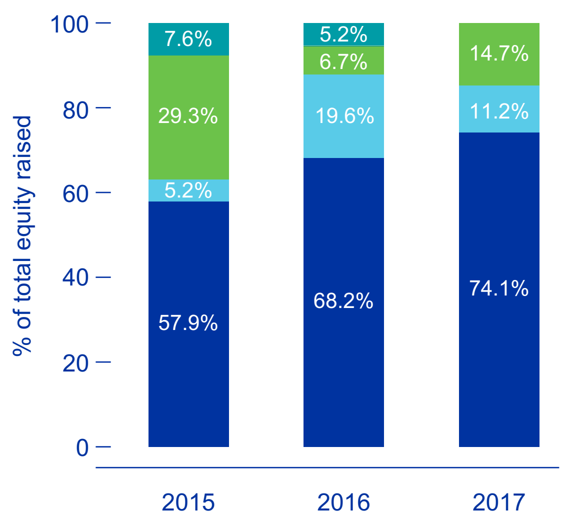


Figure 41: Equity raised for European funds of funds by investor domicile

Europe
Asia Pacific
North America
South America
Africa
Not reported



Appendix

List of participants

List of participants

The following list of fund managers, fund of funds managers and debt fund managers participated in the Capital Raising Survey 2018 and gave permission for their company names to be published. This survey was undertaken in conjunction with ANREV in Asia Pacific and NCREIF in the US.

ActivumSG
AEP Investment Management
AEW
AHF GP Hong Kong
AINA Hospitality
Alma Property Partners
Altamar Real Estate
Altera Vastgoed NV
AmCap Incorporated
American Realty Advisors
Amundi Real Estate
Amvest
Aquila Capital
Ardstone Capital
Areim
ASB Real Estate Investments
Ascendas
ASR Real Estate
Aventus
AXA IM real assets
Barings LLC
BEOS AG
BlackRock
Blue Vista Capital Management
BNP Paribas REIM
Bouwinvest
CAERUS Debt Investments AG
Caisson Investment Management
Canada Life Investments
Capbridge Investors K.K.
CapitaLand
CapMan Rea Estate Limited
Castello SGR SPA
Catalyst Capital LLP
Catella
CBRE Global Investment Partners
CBRE Global Investors
Charter Hall
Chelsfield Asia (Hong Kong) Limited
CITIC Capital Holdings Limited
Clarion Partners
Clearbell Capital LLP
COIMA SGR
Cottonwood Partners
Credit Suisse
Crow Holdings Capital Partners, L.L.C.
DC Values Investment Management
Deka Immobilien GmbH
Deutsche Finance Group
Dexus
DNB Life /DNB REIM
DRC Capital LLP
ECE Real Estate Partners S.à r.l.
EG Funds Management
Equity Estate
Fabrica SGR
Fidelity International
Fokus Asset Management
Foncière Atland
Franklin Templeton
Garbe Industrial Real Estate GmbH
GEG German Estate Group AG
GID Investment Advisors
GLL Real Estate Partners
Global Student Accommodation Group
Grosvenor
GTIS Partners
Hahn Group
Hart Realty Advisers, LLC
Hearthstone Investments plc
Heitman
Helaba Invest
Hines
Hunter REIM
ICECAPITAL REAM Oy
ICG-Longbow
IGIS Assest Management
Intercontinental Real Estate Corp.
Invesco Real Estate
IPUT plc
ispt
J.P. Morgan Asset Management
Jamestown
Jensen Group
KaiLong Investments
La Française
LaSalle Investment Management
LBO France
LGIM Real Assets
Lincoln Advisors
Lothbury Investment Management Ltd
M&G Real Estate
M7 Real Estate Limited
Meyer Bergman
Mitsubishi UFJ Trust and Banking Corporation
Mitsui Fudosan Investment Advisors, Inc.
MOMENI Investment Management GmbH
Morgan Stanley Real Estate Investing
Northern Horizon Capital
Nuveen / TH Real Estate
OP Real Estate Asset Management Ltd
Orchard Street Investment Management
Orion Partners Real Estate Group
Pamfleet
PATRIZIA Immobilien AG
Patrizia Multi Managers

PGIM Real Estate
PNC
Pradera
Prologis
Propertylink Group
Proprium Capital Partners, L.P.
RREEF Spezial Invest GmbH
Sarofim Realty Advisors Co.
SC Capital Partners Pte Ltd
Sentinel Real Estate Corporation
Seven Seas Advisors Co., LTD.
Sirius Capital Partners
sonae sierra
STAM Europe
Steen & Strøm AS
Swiss Life Asset Managers
Syntrus Achmea Real Estate & Finance
The Blackstone Group L.P.
The GPT Group
Tokyo Tatemono Investment Advisors Co., Ltd.
Tokyu Land Capital Management Inc.
Tristan Capital Partners
UBS Asset Management
Union Investment Real Estate GmbH
Vesteda
Warburg-HIH Invest Real Estate
Waterton
Westport Capital Partners UK
White Peak Real Estate Investment

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