

Park Hill

REAL ESTATE CAPITAL RAISING ENVIRONMENT

The University of Chicago Booth School of Business

THE 10TH ANNUAL REAL ESTATE CONFERENCE: MARKET DISRUPTORS

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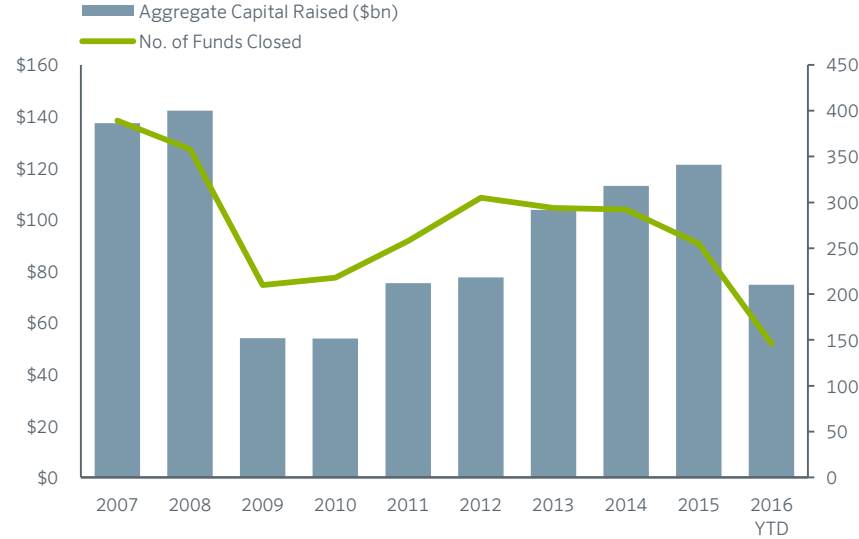
Park Hill Real Estate

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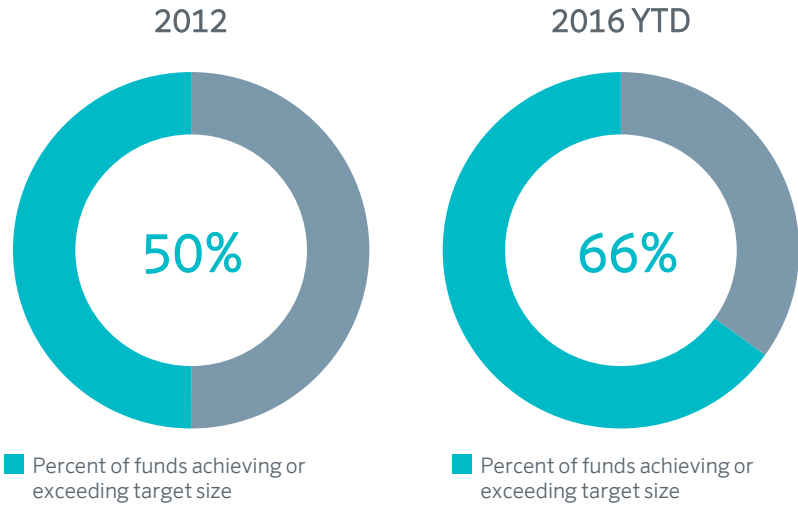
Real Estate Private Equity Fundraising Environment

Fundraising has steadily increased post GFC, though not quite back to peak levels...2016 will likely be a “down” year, with aggregate capital raised expected to amount to approximately \$100 billion

NUMBER AND VALUE OF FUNDS CLOSED⁽¹⁾
(\$USD in billions)



PROPORTION OF FUNDS ACHIEVING TARGET SIZE⁽¹⁾
(Percentages)



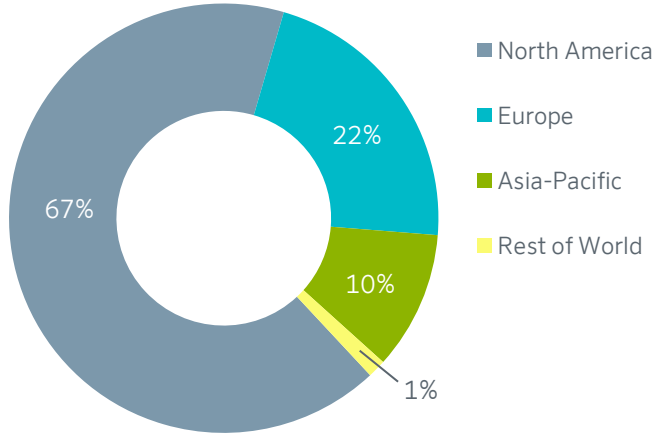
(1) Preqin. YTD represents September 2016.

Fundraising by Region & Strategy

North America continues to attract the majority of REPE fundraising globally

- > In 2015, REPE funds focused on North America strategies closed on \$71 billion in commitments, representing two-thirds of all capital raised globally
- > This trend / bias towards North America strategies will likely continue to play out over the medium term
- > However, with the U.S. real estate market now in its later innings, investors increasingly will look to diversify investments into Europe and Asia to take advantage of repricing and growth opportunities, respectively

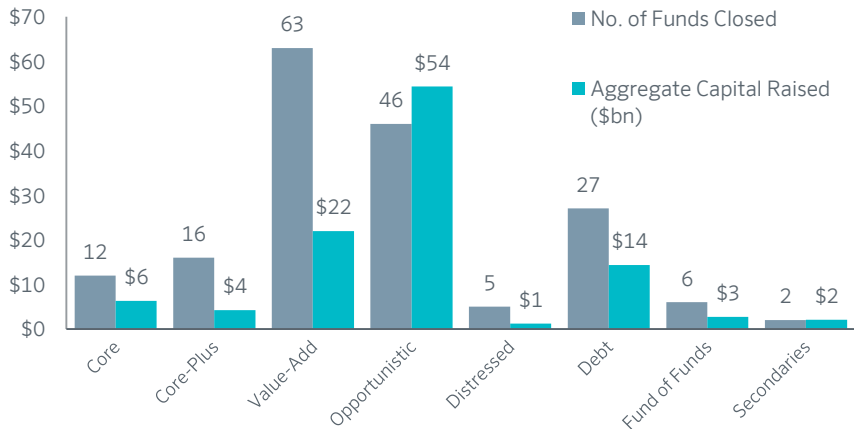
REPE FUNDRAISING BY REGION: 2015⁽¹⁾ (By Capital Raised)



Value-add and opportunistic strategies continue to garner the most institutional interest

- > In 2015, a combined \$76 billion was raised for value-add and opportunistic funds, representing more than two-thirds of all capital raised during the year
- > Value-add and opportunistic vehicles will continue to command the bulk of investor capital, though allocations to core, core-plus and debt strategies will remain steady given their conservative risk profiles and ability to deliver current yield

REPE FUNDRAISING BY STRATEGY: 2015⁽¹⁾ (USD in billions)

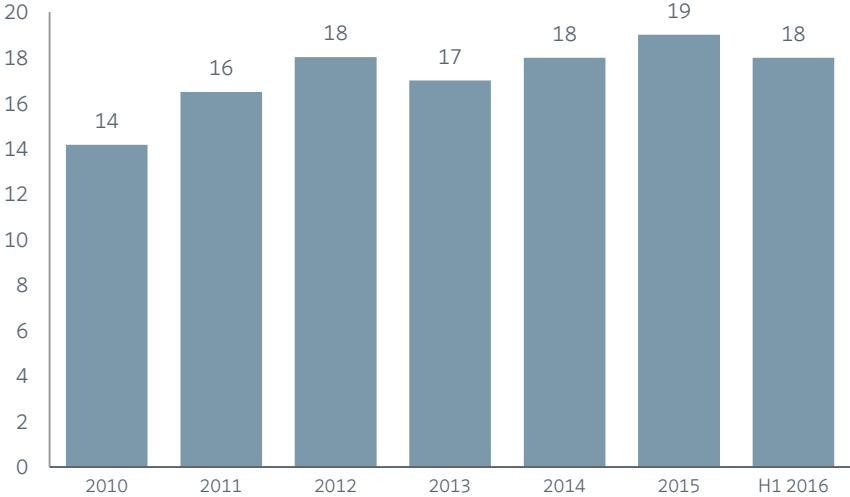


(1) Preqin.

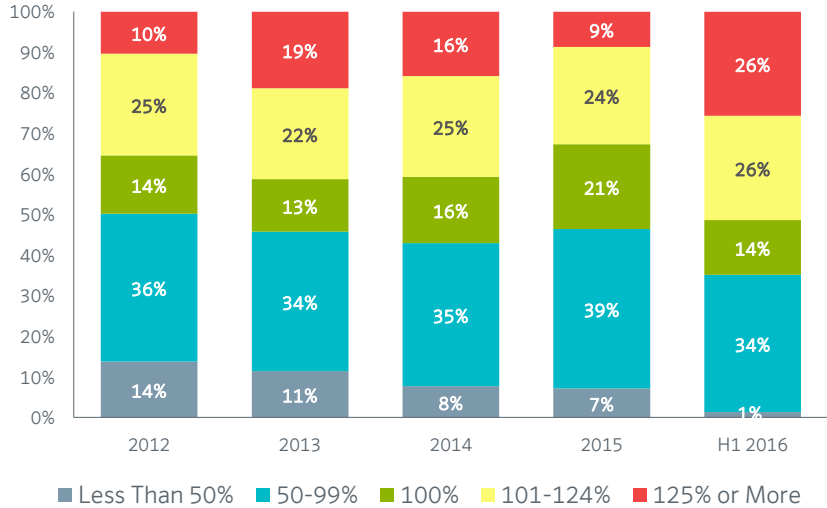
Competitive Fundraising Landscape

The fundraising process remains competitive and requires an extensive time commitment...patience has proven to be a virtue as 66% of funds achieved or exceeded their target size in the first half of the year

AVERAGE TIME FOR REPE FUNDS TO ACHIEVE FINAL CLOSE⁽¹⁾
(Months)



PROPORTION OF FUNDS ACHIEVING 100% TARGET SIZE⁽¹⁾

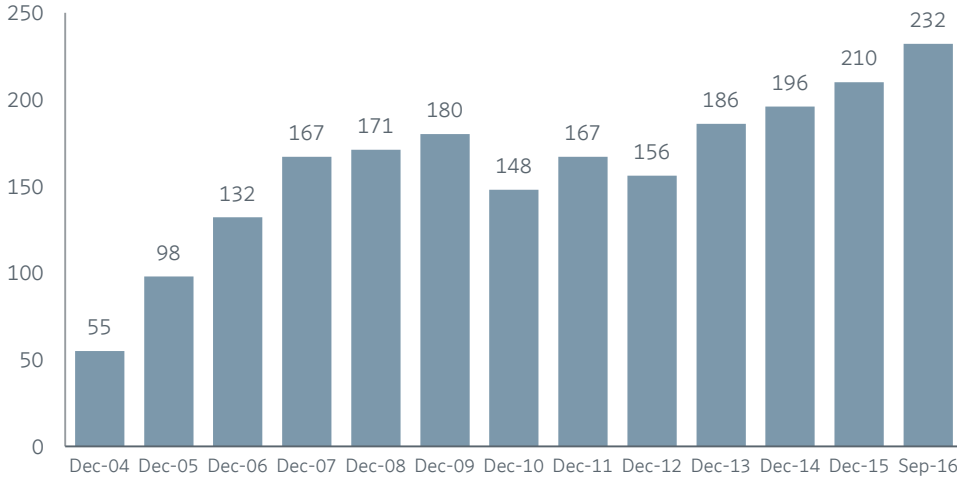


(1) Preqin.

Abundant Dry Powder

DRY POWDER: CLOSED-END REPE FUNDS⁽¹⁾

(\$USD in billions)

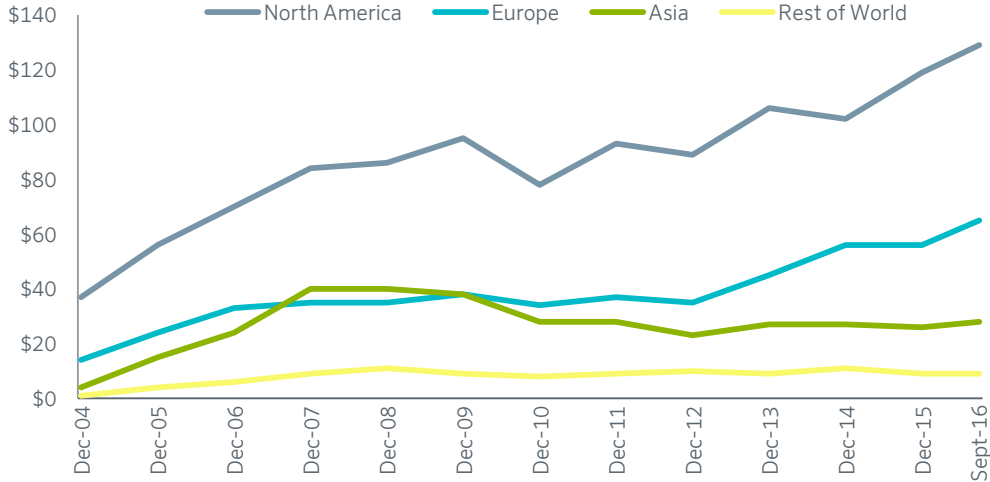


Improved fundraising in recent years has contributed to REPE funds having the largest amount of dry powder in history

- > Coupled with more institutional investors seeking direct investment opportunities, the abundance of dry powder has led to a rise in competition for assets
- > Despite increasing competition (and pricing), most fund managers remain confident they can successfully execute their strategy and deploy substantial capital in the coming year

DRY POWDER: CLOSED-END REPE FUNDS BY REGION⁽¹⁾

(\$USD in billions)



North America-focused strategies hold the largest portion of the war chest globally (56%), and have witnessed the fastest growth in dry powder by region

- > Dry powder for North America REPE strategies has increased by more than 50% since the end of 2010
- > Europe- and Asia-focused REPE funds currently hold \$65 billion (28%) and \$28 billion (12%) of estimated real estate dry powder, respectively

(1) Preqin.

Where is the Money Flowing?

Manager consolidation towards larger sponsors, coupled with the longer-term trend of investors continuing to seek targeted, alpha-generating strategies, has led to a barbell effect to REPE allocations

- > **GP consolidation by investors** has been a function of: (i) investment performance, (ii) staffing and (iii) sponsors' ability to offer a suite of products (i.e., bringing investors under one roof)
- > The biggest REPE fund managers account for an ever-growing percentage of the aggregate capital raised across the industry
 - > The top 50 REPE firms amassed \$271 billion of capital over the past five years; of that amount, the **top 10 firms represented 55% (\$150 billion)**⁽¹⁾
 - > Blackstone alone represents 20% of capital raised by the top 50 firms over the past five years, and 36% of capital raised year to date among the top 10
 - > The percentage of fundraising **volume claimed by the top 10 firms has increased** over the past three years... 49% in 2013, 52% in 2014 and 55% last year
 - > Year to date, the top 10 largest REPE funds have collected nearly 50% of capital commitments
- > In the **short term**, there is more pressure for investors to consolidate manager relationships than to add new ones; this has led to increased capital flows to larger sponsors / “mega funds” (**beta**)
- > In the **long term**, investors will continue to trend towards targeted, specialized real estate sponsors that have a sector- or market-specific focus and clear operating advantages (**alpha**)
- > The above juxtaposition has led to a “**barbell effect**” in fundraising, with key beneficiaries being **larger, diversified fund sponsors** (e.g., Blackstone, Lone Star, Starwood, Carlyle, Brookfield, Oaktree, Westbrook, Rockpoint, etc) on the one end and **targeted, niche fund managers** (e.g., Harrison Street, Niam, Woodbourne, Savanna, ECE, Meridian, Hammes Partners, Waterton, etc) on the other end

(1) PERE, H1 Fundraising Report 2016.

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