

Fundraising Report: Global Trends in Private Real Estate Funds



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In the US, institutional real estate investors are fortunate to operate in the largest, most diversified, and most developed market in the world. Domestic investors may question whether it makes sense to venture offshore because of perceived risks and issues related to taxes, regulations, and currencies. Investors outside the US may perceive a greater need to embrace international investment. Large institutions in Canada, Australia, and the Middle East, for example, have smaller “home” markets, and capital competition can be a challenge. At some point, nearly every investor faces the issue of how

to address global markets. Common questions include how much to invest, how much control to exercise over portfolio construction, and what vehicles to use (as well as how many).

Fortunately, capital markets offer investors opportunities and choices. While the largest investors may invest directly through separately managed accounts or joint ventures, any investor has access to real estate globally through a robust universe of commingled funds. Investors can pick a global “one-size-fits-all” fund that allocates capital around the world. Alternatively, investors can build a portfolio and express their own convictions through geographic selection. More recently, the universe of fund offerings has diversified more by risk profile, offering investors an opportunity to seek more-stable core and core-plus investment styles as well as more-tactical value-added or opportunistic strategies.

This column focuses on trends in international real estate fund offerings. Over time, a growing number of global, regional, and country-specific real estate investment funds have been offered to global investors. This column reviews the number of funds launched regionally, capital raised, and projected returns by fund sponsors.

Tracking Fundraising in Institutional Real Estate

This column tracks capital raising for real estate funds, and strives to identify trends as investment managers offer private market commingled funds for investment by mostly institutional investors. As a consultant and manager for numerous public and private pensions, foundations, endowments, and other capital sources, Townsend Group reviews approximately 200 new real estate fund offerings per year on a global basis. These include both closed-end and open-end funds targeting real estate equity and debt strategies. Although products targeting other real assets (such as infrastructure, timber, agriculture, and other natural resources) are also reviewed, this column focuses on real estate funds only.

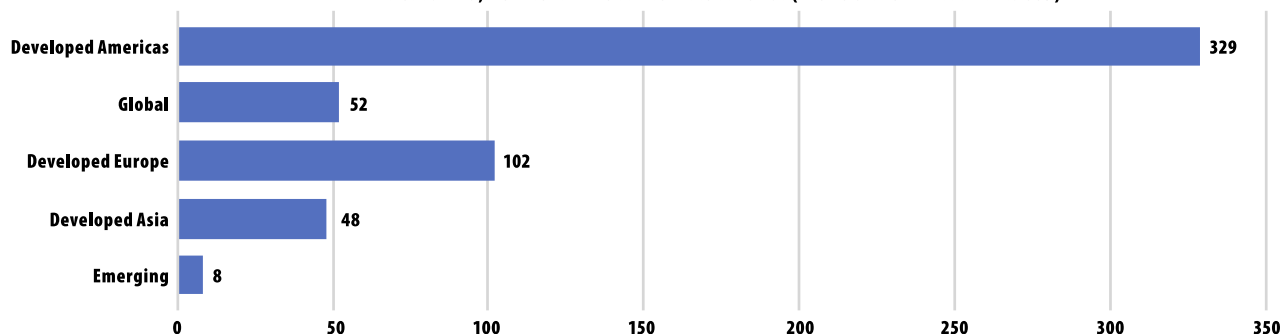
When a sponsor approaches Townsend Group with a new fund, the product is entered into a database. The sponsor is asked to identify essential terms and characteristics, which are logged. Logged items include a description of strategy or target sector, geographic focus, forecast returns, fee structures, intended use of leverage, target fund size, and more. This database is updated as the sponsor proceeds through its fundraising. The fund sponsor is asked to provide closing dates (and the amount raised). Having done this for more than 30 years, The Townsend Group has a rich database for tracking fundraising trends in real estate.

Global Distribution of Real Estate Funds Offered For Investment

Townsend Group is currently tracking nearly 540 real estate funds available for investment. The sponsors of these funds are estimated to collectively seek to raise more than \$300 billion for both equity- and debt-related investments. As is evident from Exhibit 1, a majority of funds currently offered for investment target North American markets, mostly the US. However, investors have numerous choices for investment in Europe and Asia. Investors can also evaluate investment through any

Exhibit 1: Real Estate Funds Currently Available for Investment

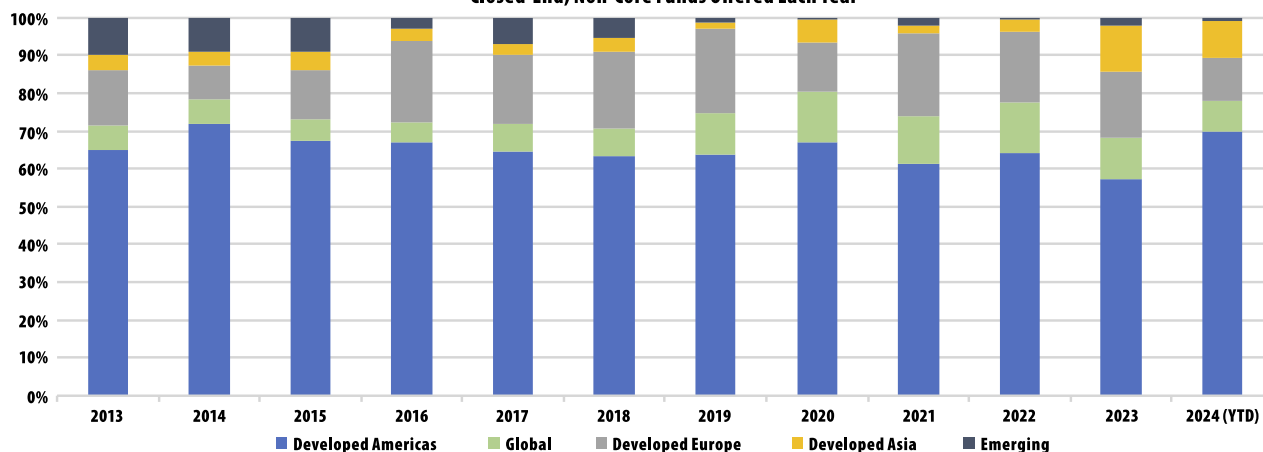
Closed-End, Non-Core Private Real Estate Funds (Available for Investment: 539)



Source: Townsend Group; all data as of June 30, 2024

Exhibit 2: Number of New Funds Launched Each Year—Geographic Region

Closed-End, Non-Core Funds Offered Each Year



Source: Townsend Group; all data as of June 30, 2024

of a large number of global funds that may invest across multiple regions.

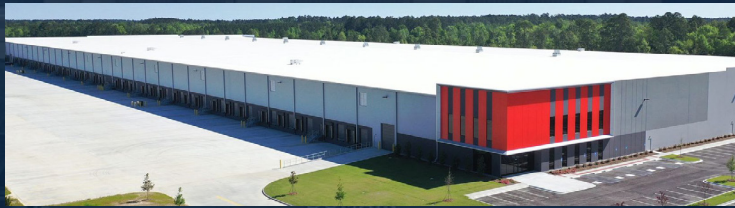
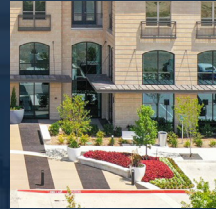
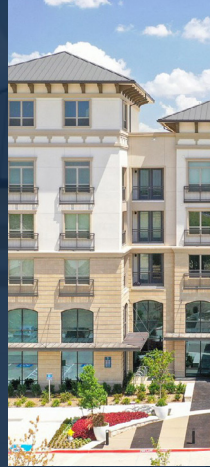
As a result of current stalled market conditions, there is a glut of funds raising capital as of midyear 2024. The sharp rise in interest rates froze market conditions over the past two years. Reduced capital commitments were made, acquisition activity slowed, and older funds sold fewer assets. As a result, many funds offered in 2022 and 2023 remain in the market today trying to raise capital to meet their target fund sizes.

Over the past decade or more, the proportion of funds targeting North America has remained roughly the same. At the same time, the number of funds offered to target other parts of the world has shifted. Townsend data indicate an average of more than 200 new closed-end,

non-core fund offerings per year (Exhibit 2). Europe has been a growing destination for investment capital, with more than 40 new value-added or opportunistic funds offered each year. Also, the number of investment managers offering global funds has increased steadily over the past decade. In contrast, the number of new funds targeting emerging markets seems to be waning. Emerging market strategies were relatively popular more than a decade ago; however, in the past five years, only a handful of such strategies was offered each year.

Fundraising Success Not Predictive of New Fund Strategies

Success in capital raising should impact what new fund strategies are offered each year; however, the fundraising figures we observe are not that predictive concerning



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Open-End

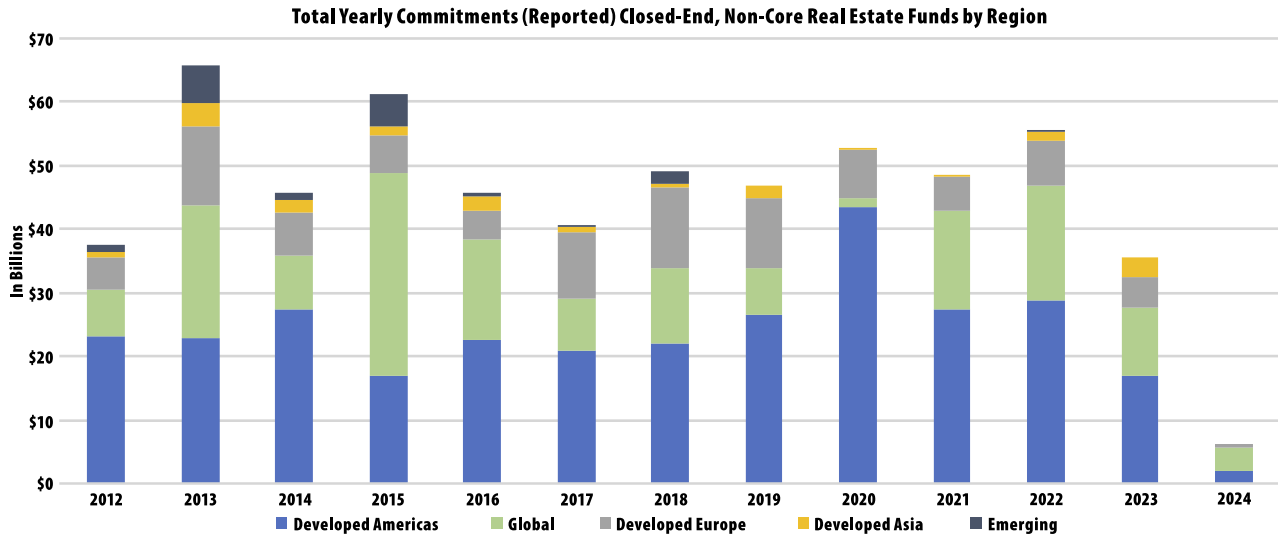
- Core / Core-Plus
- Core-Plus Sector Specific

Closed-End

- Value-Add

Customized Separate Accounts

Exhibit 3: Capital Raised Closed-End Real Estate Funds by Region



Source: Townsend Group; all data as of June 30, 2024

new fund strategies. In other words, capital raising does not always match the number of funds targeting certain geographies. Fund sponsors reported approximately \$50 billion per year in fund commitments. As Exhibit 3 indicates, capital flows do not always correlate to the number of funds offered for a particular region. Europe, for example, has had a consistently growing number of fund offerings. But that has not necessarily followed a period of increased fundraising or resulted in higher levels of capital commitments.¹ On the other hand, capital flows to emerging markets have seemingly dried up, consistent with fewer fund offerings.

Instead, more capital has been flowing to global strategies than to funds targeting other regions outside North America. In particular, investors seemed to pull back from commitments to Europe and Asia during the COVID-19 years. Many investors might have preferred a global partner rather than attempting to target country-specific or Pan-regional funds (i.e., Pan-Europe and Pan-Asia). On the other hand, during certain years, the fundraising statistics are skewed by the “global giant” funds offered by a few well-known firms.

For a typical investor, does investing overseas pay? It seems the sponsors of newer funds do not try to sell that concept. Exhibit 4 tracks the average projected return from fund offering documents. Townsend collects the

internal rate of return projected for each fund over its lifetime (net of fees) and then charts the average among funds launched each vintage year. Townsend looks exclusively at closed-end, non-core real estate equity funds and the simple average of what the fund sponsors project in each region.

Two trends are evident. First, it is apparent over the past ten or more years that the target rates of return have compressed across all regions. Soon after the global financial crisis,² there was a wider spread of projected rates of return across geographic regions. The averages ranged from 15% net to above 20% net returns. The highest target returns were among funds focused on emerging markets. That spread has narrowed to a relatively tight band, from 13.5% net to 14.5% net. Investment managers in each region, on average, are projecting essentially the same results for non-core investing.

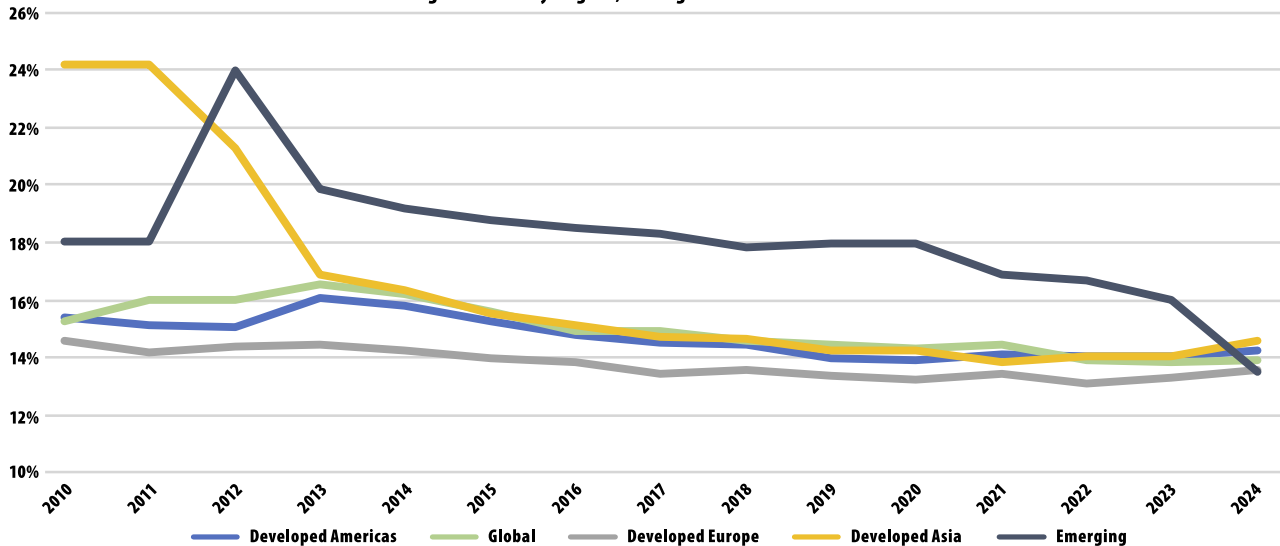
Second, average rates of projected returns have gradually declined over the past ten or more years. On average, the projections have dipped from midteens or above to midteens or below. Part of this decline may be because

1. It is possible that managers from Europe are not as consistent at reporting capital raised.

2. The global financial crisis extended from mid-2007 through early 2009. The number of new funds offered increased during that period as well as during the years immediately following.

Exhibit 4: Average Target Net IRR Among Closed-End Real Estate Funds (Non-Core Only)

Target Net IRR by Region, Average of Funds Offered Each Year



Source: Townsend Group; all data as of June 30, 2024

of a larger number of value-added fund offerings (versus a universe with a higher proportion of opportunistic strategies over a decade ago). It also seems plausible that a long period of declining interest rates globally has resulted in lower capitalization rates and lower discount rates in manager underwriting. It is too early to tell if the recent period of higher interest rates will reverse the trend toward moderating projected returns.

Despite the convergence in forward-looking results tracked above, Townsend data on actual historical results shows a wide spread of outcomes for investors investing globally. Through strategy selection and the ability to pivot and capitalize on regional differences, investment managers and their investors have experienced a broad range of returns across regions. Investors no doubt have also experienced a wide range of results across various funds (based upon fund and manager selection).

Finally, factors outside investor and manager control have likewise impacted actual historical results across regions. For example, currency fluctuations and tax status are mostly risks that investors assume, and they can be outside of fund manager control. In such matters, investors have likely observed a wide disparity in the level of sophistication and accommodation across the general partner community.

Conclusion

The growth in the number and variety of investment strategies across countries and regions has created both opportunity and challenges for investors. Although the universe of fund offerings continues to expand and diversify, there has been a trend among managers to project more-uniform results across regions and countries. Such a convergence could be related to the globalization of capital markets and a series of events that had meaningful impact in nearly every corner of the world (e.g., the global financial crisis, a period of coordinated central bank activity, and the COVID-19 pandemic). As the world adjusts to the recent market correction and a higher interest rate environment, a wider variety of projections and outcomes would not be surprising in the future. ■

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