

Fundraising Report: Waiting for the Fed’s Next Act?



Rob Kochis
The Townsend Group

Fundraising for institutional real estate remained mostly stalled in the first half of 2024. Property markets generally have been frozen since the Federal Reserve increased interest rates at a dramatic pace to curb inflation in 2022–2023. Property acquisitions and sales essentially dried up overnight, and most lenders stopped lending. The value of public and private real estate markets corrected severely.



Nick Moné
The Townsend Group

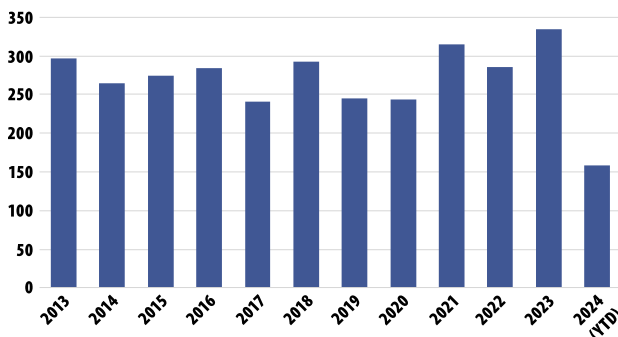
A growing consensus now is that the Federal Reserve will begin to reverse course soon, beginning with a reduction in interest rates perhaps as early as September. If this consensus reflects a sentiment that the worst is behind us,

it prompts the question, How will the institutional real estate community adjust and adapt to this difficult period? Because our focus in this column is on fundraising and capital formation, does the universe of new real estate fund offerings suggest any insight into how the market may be shifting? What are fund sponsors targeting for investment post-correction?

Current Universe of Real Estate Funds Offered For Investment

The number of new real estate funds offered has been increasing since the COVID-19 pandemic. Since

Exhibit 1: Number of Closed-End Debt and Real Estate Funds Launched



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

Tracking Fundraising in Institutional Real Estate

As a consultant advisor to numerous public and private pensions, foundations, endowments, and other capital sources, The Townsend Group reviews approximately 300 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 The Townsend Group also reviews products targeting other real assets (such as infrastructure, timber, agriculture, and other natural resources), this article focuses on real estate funds only.

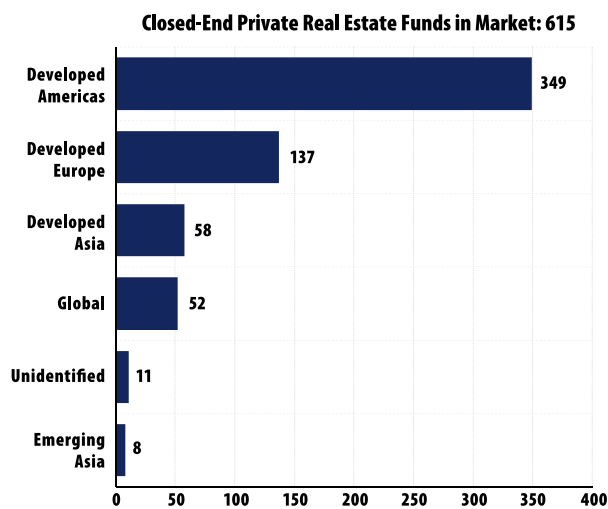
When a sponsor approaches The Townsend Group with a new fund, the product is entered into a database. The sponsor is asked to identify essential terms and characteristics, which are logged. Logged items include a description of strategy or target sector, geographic focus, forecast returns, fee structures, 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.

2020, an average of more than 300 new funds has been offered for investment each year. The number of new fund launches is close to volumes seen in the years immediately following the global financial crisis (Exhibit 1).¹

The slower pace of fundraising likely has created a glut of fund offerings in the market today. Including both new fund offerings and funds previously offered but in the market for an extended period, The Townsend Group is currently tracking more than 600 real estate funds available for investment. The sponsors of these funds are likely collectively seeking to raise more than \$300 billion for both equity- and debt-related investments. Exhibit 2 shows 349 funds currently actively fundraising for real estate strategies targeting

1. We associate the global financial crisis with the period extending from mid-2007 through early 2009. The number of new funds offered increased during that period as well as during the years that immediately followed.

Exhibit 2: Real Estate Funds Currently Available for Investment



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

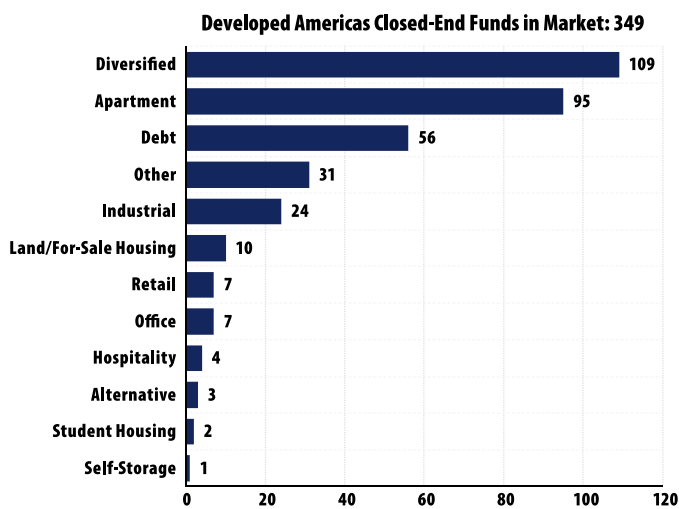
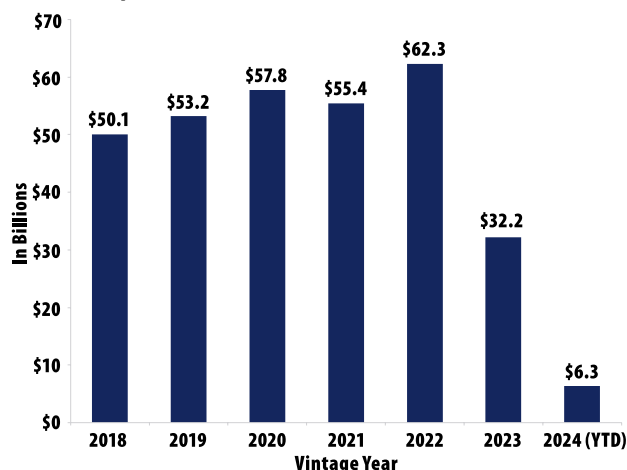


Exhibit 3: Capital Raised for Closed-End Real Estate and Debt Funds



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

North America (including funds designated as “global” that will likely invest meaningfully in the US).

Regardless of the number of new fund offerings, the pace of fundraising has slowed dramatically. Our data suggest that the spigot of private market capital mostly closed by year-end 2022. Institutional investors largely stopped investing, and the drought continued into 2024 (Exhibit 3).

The trend is obvious, even though the figures in Exhibit 3 are likely understated.² As many fund sponsors are no doubt keenly aware, calendar year 2023 was a

very difficult year to raise capital for institutional real estate investment. The limited data for 2024 reported so far suggest the period of dry fundraising has continued.

Current Universe of Fund Strategies Predominantly Reflects “More of the Same”

Even though investors have spoken with their dollars, fund sponsors do not appear to be adjusting dramatically to the new environment. Based on the sponsors’ targeted strategies (i.e., geographies, targeted sectors, and property types), the current crop of fund offerings looks a lot like what was available to investors in the past. This summary is based on the strategies that fund sponsors articulate in their offering documents. The Townsend Group tags each new fund offering with a strategy category and tracks the number of new offerings received each year. Following are some observations.

■ **No Substantial Rotation Globally.** Of the funds currently available for investment, most (more than 60%) target primarily US markets (and a few target Canada). This is essentially the same proportion we observed over most of the period since the global financial crisis. At times in the past, we observed an increase in funds targeting other regions (for example,

2. Fund sponsors do not always provide timely updates on actual commitments received. Because of underreporting or lagged reporting, we believe actual capital raised is greater than what we report here.



Connecting
Exploring
Growing

Investing today. For tomorrow.

Innovating
Researching

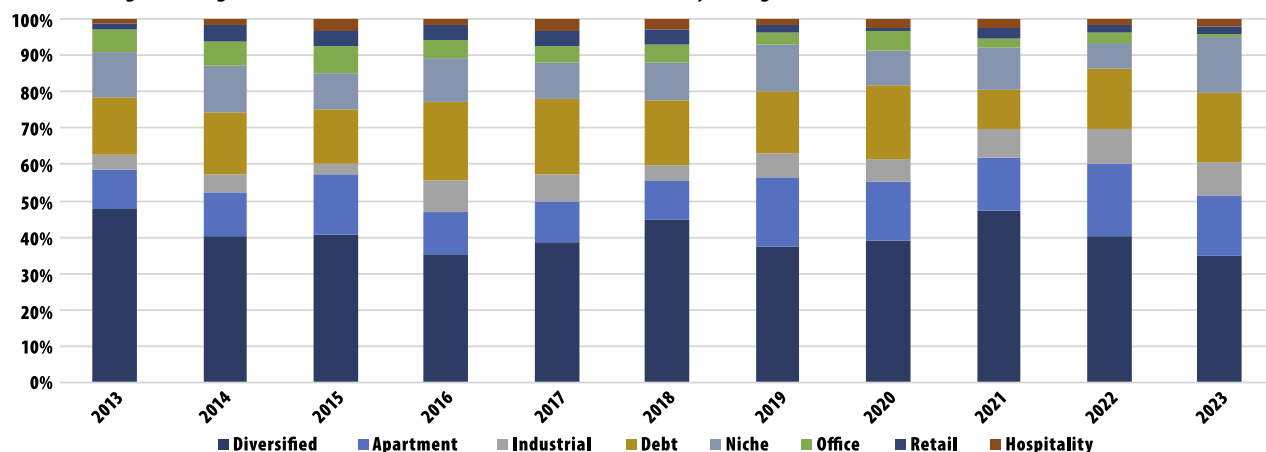
As one of the world's leading real estate investment managers, LaSalle manages assets for a wide range of institutional investors, including pension plans, sovereign wealth funds, insurance companies and family offices. The investments we manage on behalf of our clients are designed to align with their long-term investment objectives and benefit the thousands of pensioners, investors and other stakeholders that they represent.

Learn more at lasalle.com

Investment in the real estate sector is subject to risks and no investment strategy or risk management technique can guarantee return or eliminate risk in any market environment. Any information presented herein is for illustrative purposes and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy in any jurisdiction where prohibited by law or where contrary to local law or regulation. Any such offer to invest, if made, will only be made available to certain qualified investors in accordance with applicable laws and regulations. Past performance is not indicative of future results, nor should any statements herein be construed as a prediction or guarantee of future results or of any performance of services by LaSalle.

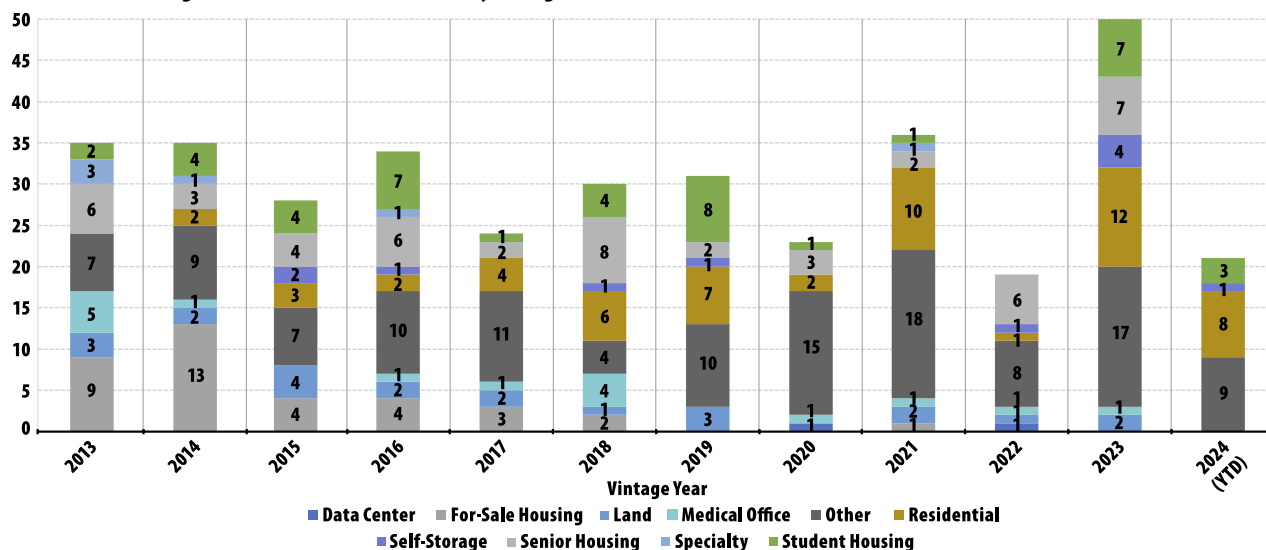
GLO001/31DEC23

Exhibit 4: Target Strategies of Real Estate Funds Launched (Percent of Total by Vintage Year)



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

Exhibit 5: Niche Targeted Funds (Number Launched by Vintage Year)



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

Continental Europe post-Brexit or Asia strategies as growth in China accelerated more than a decade ago). Currently, though, we observe no such shift, perhaps reflecting a synchronized global approach in developed markets around the world during the COVID recovery.³

■ No Increase in Diversified “Opportunistic” Strategies.

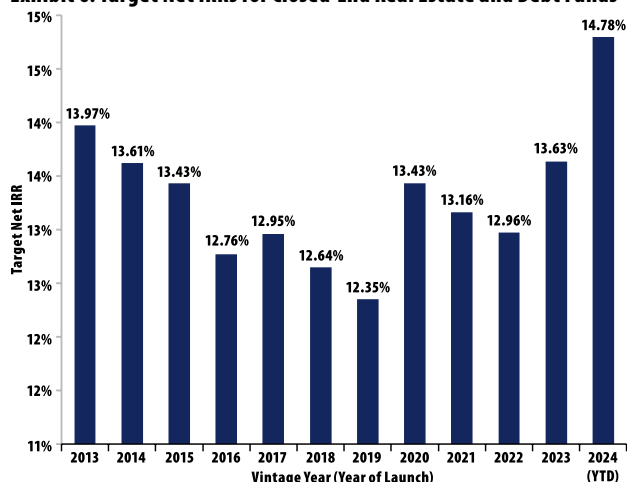
One might expect a growing number of tactical funds designed with broad discretion to capitalize on illiquidity and distress across regions and property types. After all, interest rates are substantially higher, while property

appraisals reflect a substantial loss in value (on average).⁴ However, the number of generalist funds offering to execute across many property types and regions has not increased. As discussed in the Spring *PREA Quarterly*

3. This observation reflects fundraising for investments targeting developed markets. We have observed a drop-off in funds targeting emerging and BRIC (Brazil, Russia, India, and China) markets—a universe of funds that is quite small relative to the total universe of funds offered.

4. Property valuations have been adjusting to the higher interest rate environment at a slow and steady pace. Beginning in 3Q2022, a cumulative depreciation of 24% has been reported in the NCREIF Fund Index—Open End Diversified Core Equity (based upon reported depreciation).

Exhibit 6: Target Net IRRs for Closed-End Real Estate and Debt Funds



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

Fundraising column, private credit funds have likely helped fill this role. As for equity funds, approximately one-third of fund offerings pursue broadly diversified strategies, the same proportion we have observed annually since the global financial crisis (Exhibit 4).

■ **Potential Increase in Niche Strategies.** Recent industry developments might encourage the offering of new funds targeting nontraditional property types; however, it appears early to call a discernible trend in this direction. Historically, most institutional investors targeted the four primary property types (apartment, industrial, office, and retail), which form the basis for industry benchmarks. NCREIF recently reclassified and expanded nontraditional property types that qualify for inclusion in “core” real estate funds, affecting niche sectors such as student housing, senior housing, manufactured and for-rent single-family housing, and life science and data centers. Although managers are generally exploring such alternative property types within diversified funds (both open end and closed end), the number of funds targeting individual niche sectors has not shown a sustained increase over time (Exhibit 5).

■ **Continued Increase in Funds Targeting Apartment, Industrial, and Real Estate Debt Strategies.** The dominant trend evident in Townsend data is continued growth in the number of funds targeting apartment, industrial, and debt-oriented strategies. In the most current snapshot of funds available for investment, more

than 45% target one of these three strategies (Exhibit 4). The proportion of fund offerings aimed at these strategies has grown consistently since the financial crisis.

Potentially Higher Returns Going Forward?

After a major market correction, investors might expect opportunities for increased returns from new real estate investments. New fund offerings appear to reflect that. Townsend data suggest that among funds offered in 2023 and 2024 (first half), managers targeted higher rates of return for new investments going forward. In fact, targeted returns, on average, appear to have started to increase with the COVID-19 pandemic, after a period of compressed returns in the later years of the previous decade (Exhibit 6).

Conclusion

The variety of real estate funds offered for investment has not yet shifted materially as property markets adjust to a higher interest rate environment and a material correction in values. The full picture for 2024 isn't available yet, and the data Townsend has is lagged in time. However, trends in the strategies offered by fund sponsors mostly continue the patterns we have observed since the global financial crisis. Perhaps the general partner community—a large and diverse collection of businesses and entrepreneurs—is awaiting a catalyst before an industry-wide shift becomes evident. Central banks (especially the US Federal Reserve) may deliver that “stimulus” soon. ■

Rob Kochis is a Partner and Nick Moné is an Associate Partner at The Townsend Group.

This article has been prepared solely for informational purposes and is not to be construed as investment advice or an offer or a solicitation for the purchase or sale of any financial instrument, property, or investment. It is not intended to provide, and should not be relied upon for, tax, legal, or accounting advice. The opinions, estimates, forecasts, and statements of financial market trends are subject to change without notice due to changes in the market or economic conditions. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. The information contained herein reflects the views of the author(s) at the time the article was prepared and will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing or changes occurring after the date the article was prepared. Townsend Holdings LLC is a federally Registered Investment Advisor with the U.S. Securities and Exchange Commission.