2023 Fundraising Year in Review

Pension fund commitments to managed real estate vehicles

Ferguson Partners

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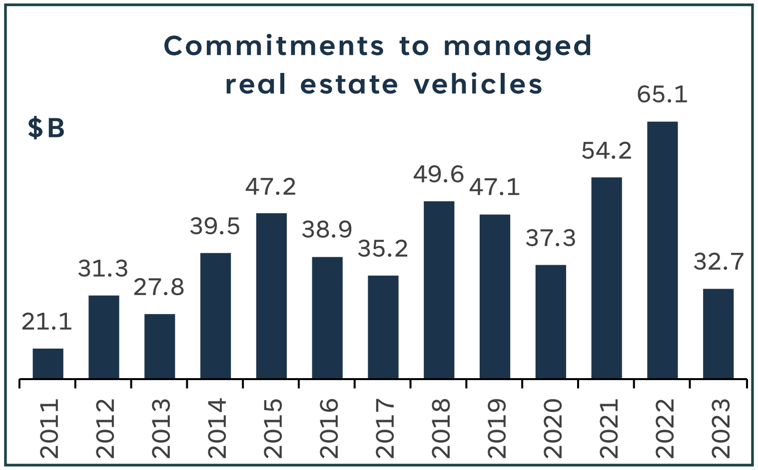
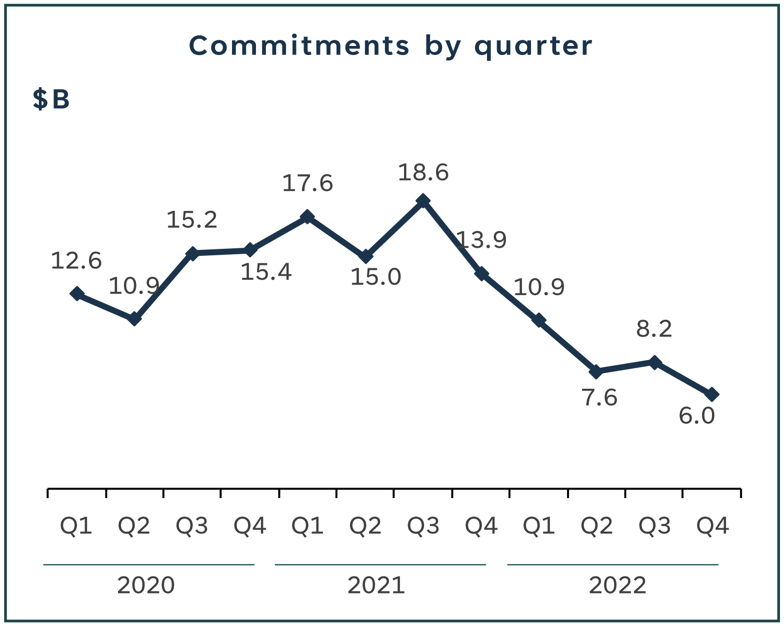
Commitments to private real estate dropped significantly in 2023

Commitments to private real estate managers from U.S. public pensions lost momentum in 2024

Capital commitments from U.S. public pension funds to privately managed real estate vehicles amounted to $32.7 billion in 2023, marking the lowest fundraising volume recorded since 2013. Year over year, the total commitment volume decreased 50%. This decline in total commitment volume was primarily driven by a 49% decrease in the number of unique commitments and a 2% decrease in the average commitment size compared to 2022. Q4's total volume of $6 billion was the lowest quarterly total since Q3 2013, according to FP's database.



2023 began with the collapse of multiple regional banks and concerns about a looming recession. As the year progressed, several factors contributed to a stagnant real estate market. Inflation concerns, paired with the Federal Reserve's rate hikes, led to increased volatility in market valuations and widened bid-ask spreads. Consequently, cautious investment managers, lacking historical transaction data for guidance, paused transaction activities as borrowing costs soared. According to Preqin's 2024 Global Report, deal flow from Q1-Q3 2023 only accounted for 35% of the annual total of 2022[1].



Geopolitical tensions in Europe and the Middle East heightened investor apprehensions. In Asia, China grappled with its own commercial real estate crisis as some major investment and development firms faced collapse due to mounting debt.

Domestically, the return-to-office policies received mixed reactions. Despite efforts by numerous companies to promote in-office work, the office sector continued to falter in 2023 and is expected to grapple with more uncertainty in the coming years, particularly as loans mature. Despite its historical role as a hedge against inflation, the demand for commercial real estate remained muted throughout the year.

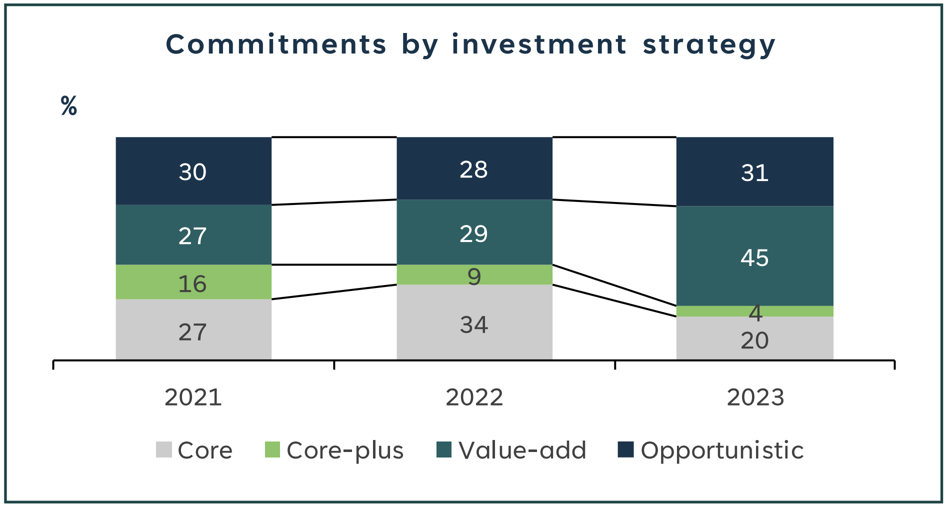
As a result, the fundraising landscape faced challenges in 2023, experiencing a 36% decrease in fund closures during the initial three quarters as investors became more discerning in their capital allocations[1].

Towards the end of 2023, a glimmer of hope emerged as the U.S. jobs report signaled a slowdown in employment figures and the Federal Reserve Bank hinted at a potential pause in rate hikes.

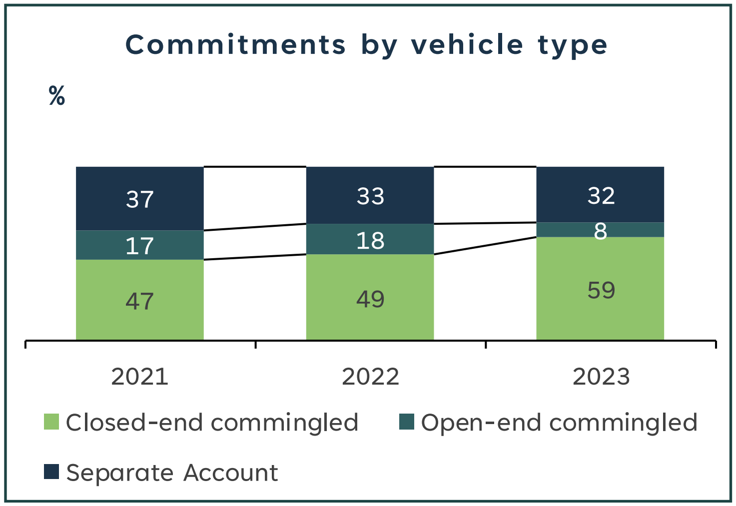
1. 2024 Preqin Global Real Estate Report

Investment Strategy and Vehicle Structure

High-yield strategies were overwhelmingly popular in 2023 with commitments to opportunistic and value-add vehicles representing roughly 76% of total 2023 volume, surpassing 2022 levels by nearly one-third. Even with the multitude of macroeconomic uncertainties, investors are still gravitating towards high-yield strategies. Preqin similarly predicts that value-add strategies will experience the strongest AUM growth, closely followed by opportunistic real estate.[1]



In 2023, Blackstone continued high-yield fundraising dominance with BREIT, Blackstone Real Estate Debt Strategies V, and the close of Blackstone Strategic Real Estate Partners X. Brookfield, Waterton, Cerberus, and Oak Street Real Estate Capital rounded out the top managers to secure material commitments for their high-yield strategies.



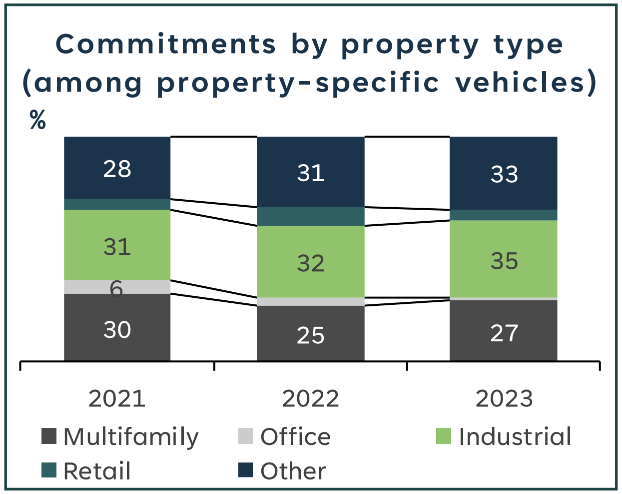
On the other end of the risk/reward spectrum, commitments to core-oriented vehicles decreased significantly from 34% to 20% of total commitment volume in 2023, and core-plus commitments decreased from 9% to 4% year over year. PCCP's PacificCal Debt II, a joint venture with CalSTRS, topped the list of core-focused funds, followed closely by products from Clarion Partners, CBRE IM, Principal Real Estate Investors, and Nuveen. These four private ODCE funds offer institutional investors the chance to diversify their real estate portfolio and act as a safe bet as inflation continues to dominate discussions.

Lastly, for core-plus commingled funds, The Carlyle Group, Blue Owl Capital, and Angelo, Gordon & Co. received sizeable commitments in 2023 despite the decreasing core-plus share of total commitments.

Examining 2023 commitments by vehicle type, closed-end commingled vehicles remained the top choice for investors and its share of total volume of commitments rose from 49% in 2022 to 59% in 2023. On the flip side, the percentage of volume dedicated to open-end commingled vehicles decreased significantly year over year with only 8% of the total volume flowing into this vehicle type. Separate account vehicles remained stable year over year, comprising 32% of total volume.

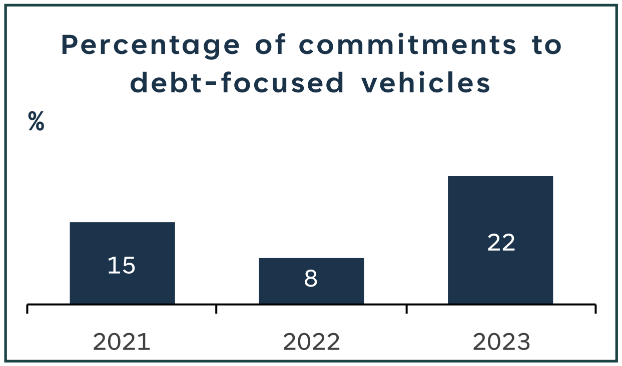
1. 2024 Preqin Global Real Estate Report

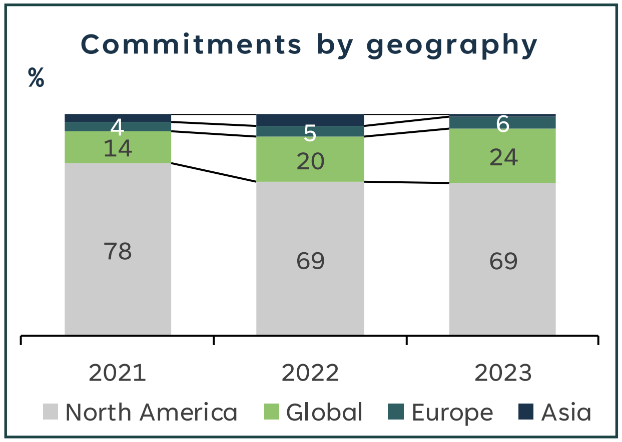
Property Type, Vehicle Focus, and Geography



Vehicles dedicated to a specific property type continued to garner interest, with 44% of overall volume committed to property-specific vehicles in 2023. Once again, industrial was the most popular property type, representing 35% of total property-specific commitment volume. Multifamily increased slightly from 2022 with 27% of the volume. In 2023, attention to retail properties decreased again to 5%, and appetite for office investments continued to follow a downward trajectory from 2022 garnering only 1% of the volume of commitments. On the other hand, the "other/niche" property types continued to gain attention with vehicles focused on life sciences, single family rentals, healthcare, data centers, and cold storage, among others, receiving 33% of the commitments from investors. Of the niche property types, data centers shined in 2023 with the rise of AI technology.

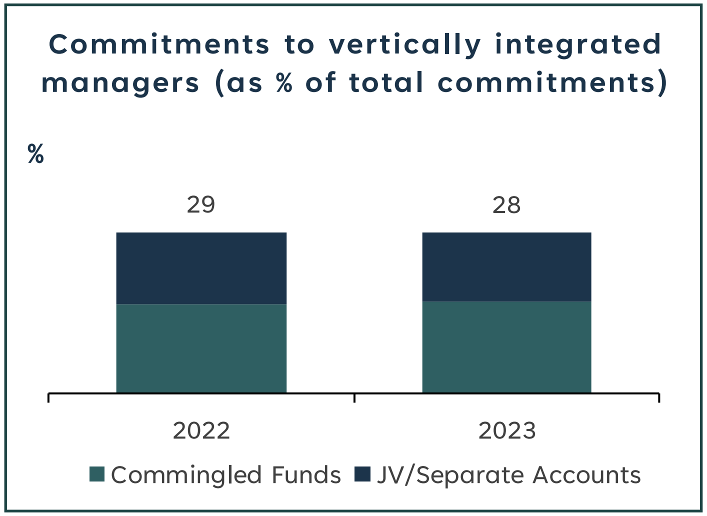
In 2023, managers anticipated market distress and a stricter lending atmosphere. As traditional banks tightened their underwriting standards to remain liquid, private real estate investment funds sought to replace them. The share of total commitments directed towards debt-focused vehicles hit a record high since Ferguson Partners began tracking debt commitments in 2018, constituting 22% of the total volume. This surge, compared to the previous peak of 20% in 2020, signaled the industry's revitalized interest in this strategy, possibly suggesting a market poised to capitalize on distress opportunities in 2024.





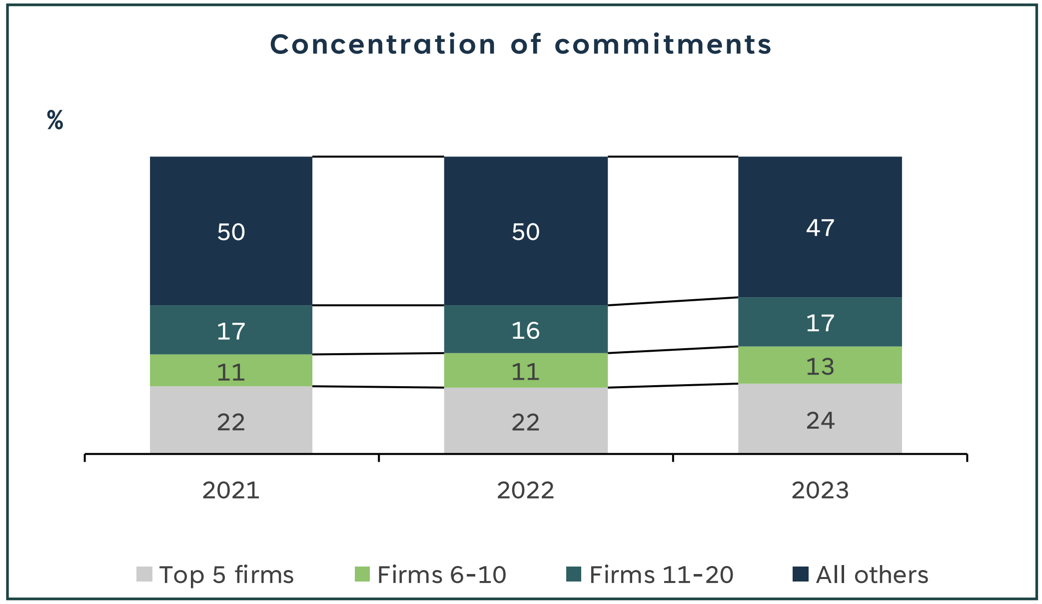
Commitments from U.S. public pensions flowed predominantly into North America-focused vehicles (69%), falling even year over year. Global strategies continued to rise, from 20% of the total volume in 2022 to 24% in 2023, as institutional investors looked to diversify their portfolios. Additionally, despite major geopolitical concerns, commitments to European-focused strategies rose modestly from 5% in 2022 to 6% in 2023. Asia-focused strategies, on the other hand, fell dramatically from 5% of the total volume in 2022 to 1% in 2023. However, the growing trend of geographic diversification in European and global strategies is not slated to end soon, with investment managers looking to take advantage of geographic diversification.

Vertical Integration and Manager Concentration



Vertically integrated managers attracted 28% of committed capital in 2023, which is roughly consistent with 2022. Commitments to vertically integrated managers were more skewed toward commingled funds than JV/separate accounts. However, 41% of commitments to JV/separate accounts went to vertically integrated managers. Further, when segmenting by strategy, value-add mandates were somewhat likely to be committed to vertically integrated managers, with 36% of total value-add commitments flowing to vertically integrated managers in 2023.

The largest players continued to dominate the fundraising cycle with the top 20 managers (by aggregate fundraising volume) receiving more than half of the overall commitments. Roughly 37% of the aggregate fundraising volume went to the top ten firms in 2023, an increase from one-third in 2022. Blackstone, PCCP, Bridge Industrial, Waterton Associates, and KSL Capital topped our list of top managers in 2023 and are building on this momentum heading into 2024. Interestingly, only 20% of the top ten fundraisers in 2023 made the list in 2022. Blackstone's three largest funds currently in market are targeting European and Asian real estate, and real estate debt. The largest managers with opportunistic funds in market include Brookfield, Blackstone, Starwood, Oaktree Capital Management, and KKR. On the debt side, Blackstone, Cerberus Capital Management, Berkshire Residential Investments, Oaktree Capital Management, and Bridge Investment Group top the list currently fundraising.



2023 Top 10 Managers	
Blackstone*	Partners Enterprise Capital
PCCP	Brookfield Asset Management
Bridge Industrial	Principal Financial Group
Waterton Associates	Clarion Partners*
KSL Capital	Cerberus Capital Management

*Top 10 manager also in 2022

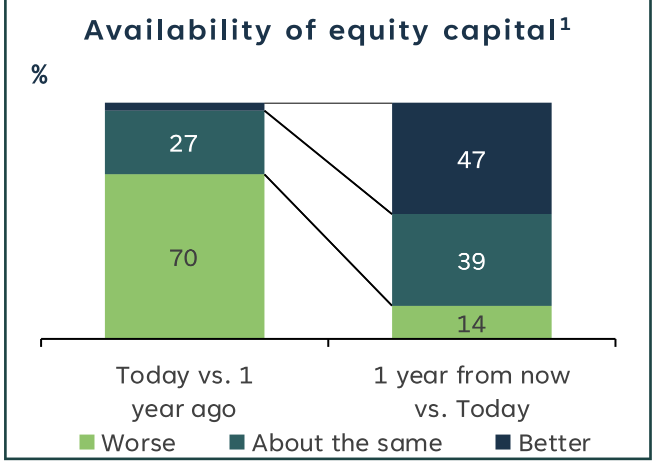
Looking Forward

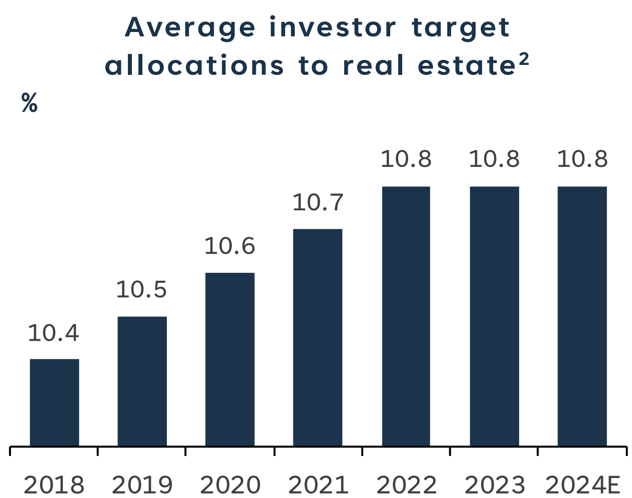
Bank collapses, Fed rate hikes, decreased bank lending, geopolitical uncertainties, and fluctuating valuations led to a grim real estate outlook in 2023. With the transaction market all but completely halted, U.S. public pensions remained cautious and drastically slowed their contributions to private real estate vehicles, committing only $32.5B. According to the Q4 2023 real Estate Roundtable Sentiment Survey, 70% of participants believed the availability of equity capital to be worse than one year ago, highlighting the tough fundraising environment in 2023[1].

In 2024, fundraising prospects remain challenging, as indicated by the Q4 2023 Real Estate Roundtable Sentiment Survey, in which 39% of respondents believe that equity capital availability will remain unchanged in Q4 2024[1]. This bleak anticipation suggests another challenging year for capital raisers. Moreover, according to the Hodes Weill & Associates and Cornell University's Real Estate Allocations Monitor Report, institutional investors are expected to maintain a consistent weighted average target allocation to real estate in 2024[2]. Looking ahead, investors will be closely monitoring the Federal Reserve's rate decisions and any economic side effects from the U.S. election cycle.

Despite the uncertain outlook, many firms in the industry took advantage of the slower transaction market to focus on owned assets and operational efficiency in 2023. These managers continued to build their stores of dry powder, made deliberate and cautious investments, and unlike the GFC, managers were careful to not be overleveraged. These prudent moves may have contributed to a slight increase in public pensions' confidence in the asset class. The conviction index climbed from 6.1 in 2022 to 6.5 in 2023[2], leading to hesitant optimism that there will be renewed interest in the asset class.

While capital raising is not expected to reach the heights seen in 2022, there's room for improvement in 2024. The real estate market anticipates stabilized valuations to revive transaction activity. Signs of cooling inflation and labor markets suggest a potential economic 'soft landing.' These factors foster optimism for public pension funds to participate in a promising 2024 vintage.





Graph accounts for all institutional investors, not just pension funds

1. Q4 2023 Real Estate Roundtable Survey conducted by Ferguson Partners
2. Weill, D. (2023). 2023 Institutional Real Estate Allocations Monitor. Ithaca, NY: Cornell University's Baker Program in Real Estate and Hodes Weill & Associates, LP, November 2023.

Ferguson Partners

LP Feedback Studies – Turn Insights Into Action

Leverage insights. Unlock performance.

We help our clients raise capital by better understanding their investors

Success starts with the customer. Understanding the needs and perspectives of investors is critical to building, scaling, and maintaining a successful investment management business.

The challenge is getting unvarnished, honest, and meaningful feedback – both from existing and aspirational investors - that can inform our clients' strategy and ensure they are getting the most out of their capital raising and investor relations teams.

> *"It's like already having the answers to the test, it's a huge advantage when fundraising."*
>
> *–Partner of a $25B REPE after seeing the results of our study*

Ferguson Partners – Our Value

With 30+ years of experience serving our clients, Ferguson Partners is a trusted name in the real assets industries.

Our expertise, relationships, and brand make us a valued partner in facilitating LP feedback studies for our clients. Our status as an independent third party enables our success in collecting objective, constructive feedback from LPs.

We then take this feedback and translate these learnings into tactical recommendations that help our clients meet their capital raising and investor service goals.

Investor feedback results in actionable insights

LP studies help our clients make better decisions and drive strategy by improving investor relations performance

Understanding what LPs are seeking, thinking, and feeling, and how they view a platform helps our clients to:

- **Better define strategy:** Identify new business and product opportunities spurred by investor demand.
- **Benchmark against direct peers:** Learn how they stack up against the competition. Through our confidential forum, LPs are comfortable providing sensitive feedback and are more willing to make direct comparisons of our clients vs. their peers.
- **Enhance market positioning:** Discover how to effectively differentiate from competitors and articulate their place in the market. Communicate to investors in a way that meets their needs.
- **Efficiently target investors:** Better understand their product-market fit, leading to fewer wasted meetings and more time with real prospects.
- **Improve investor loyalty:** Demonstrate commitment to improving client service and identifying and addressing challenges by engaging a third party to formalize the feedback collection process with investors.

Management Consulting – Full list of capabilities

Our clients often face complex problems that require bespoke, holistic solutions across one or more of our core service offerings

STRATEGY & MARKET POSITIONING

Optimizing your strategy to compete in the market

- Strategic planning
- LP feedback studies
- Fee benchmarking
- Product mapping/competitive landscaping
- Custom market studies and research

GOVERNANCE & SUCCESSION PLANNING

Planning around future leadership, ownership, governance, and decision-making

- Succession planning advisory
- Internal equity ownership transitions
- Board advisory and assessments
- Governance best practices
- Delegated authorities and decision-making advisory

ORGANIZATIONAL DESIGN

Getting the right structure, roles, and people in place to execute the business plan

- Organizational assessments
- Roles, responsibilities, and reporting lines
- Structuring for scale
- Titling reviews and job descriptions

OPERATIONAL EFFICIENCY

Ensuring your business is operationally optimized

- Financial performance benchmarking
- Staffing benchmarking (headcounts, seniority mix, span of control, etc.)
- Functional workload expectations
- Outsourcing practices

Contact

For questions on this report or more information on our LP feedback study process, please contact our consulting team

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Scott McIntosh is a Director in the Management Consulting group at Ferguson Partners, based in the firm's Chicago office. During his time at Ferguson Partners, Scott has worked with clients across the real estate industry on various organizational, strategic, and financial consulting engagements. Scott has experience advising clients on organizational structure and financial performance, valuation considerations, governance structures and best practices, succession planning, compensation practices, and strategic planning.

Prior to joining Ferguson Partners, Scott worked for the global advisory firms Mercer and Navigant Economics. Over the past five years, Scott also held various leadership positions on the Auxiliary Board of Northwestern Memorial Hospital, a Chicago-based organization that funds innovative research at Northwestern Memorial Hospital.

Scott graduated from Indiana University (Bloomington) with a Bachelor's degree in Finance and earned an MBA from the University of Chicago Booth School of Business.

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Justin Pellino is a Director in the Management Consulting group at Ferguson Partners, based in the firm's Chicago office. Justin specializes in advising real estate clients in both the private and public spheres. His functional expertise includes L.P. feedback studies, organizational design, financial and operational efficiency, ownership transitions and succession planning, compensation, governance best practices, and custom-designed research studies. His work spans across all asset classes and various types of real estate platforms (e.g., private equity, developers, investment managers, family offices, owner/operators, etc.).

Prior to joining Ferguson Partners, Justin held numerous positions with Amazon, focused on strategy, operations, and finance.

Justin holds a finance degree from the University of Notre Dame.

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About the Database

Ferguson Partners' database, which has tracked capital flows since 2011, includes commitments to 535 managers from 308 U.S. public pensions representing over $5.5 trillion in assets under management. Data comes from a variety of sources including pension websites and industry news sources.

Contact

For more information on this report or Ferguson Partners' practice more broadly, please contact:

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Ferguson Partners

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