Q2 2021 Fundraising Update

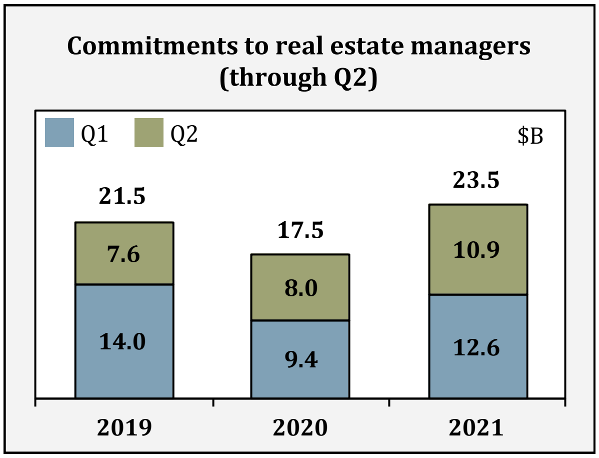
Pension fund commitments to managed real estate vehicles

Ferguson Partners

Commitments to private real estate continue to surge through H1 2021

Public pensions committed $23.5 billion to real estate managers through the first half of 2021, a 35% year-over-year increase

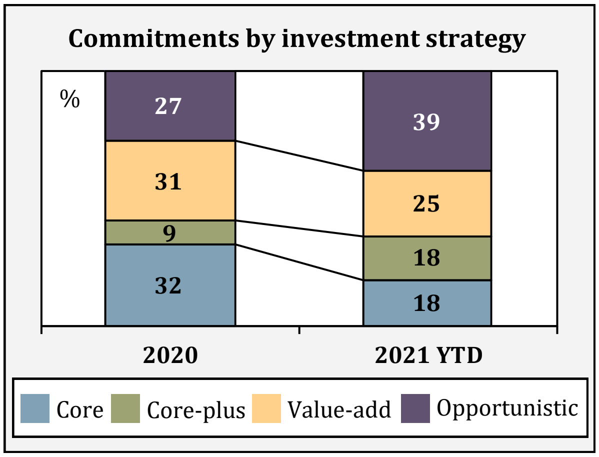
Commitments to real estate managers by U.S.-based public pensions in H1 2021 increased significantly relative to the same period in 2020 and represent the strongest H1 fundraising performance since 2015 ($24.6B), according to data tracked by Ferguson Partners ("FP"). Per FP's proprietary database, pensions committed $23.5 billion to managed real estate vehicles through the first half of 2021, compared to $17.5 billion last year and $21.5 billion in 2019. Moreover, the H1 2021 commitment volume to privately managed real estate vehicles outpaced the five-year H1 average of $19.6 billion by 20%, suggesting that investors regard real estate as a compelling investment opportunity as we emerge from the global pandemic. Given the strong performance to-date, it would not be surprising if 2021 matches or exceeds the previous high watermark year of 2018 ($49.6B in total).



Commitments to real estate managers (through Q2)

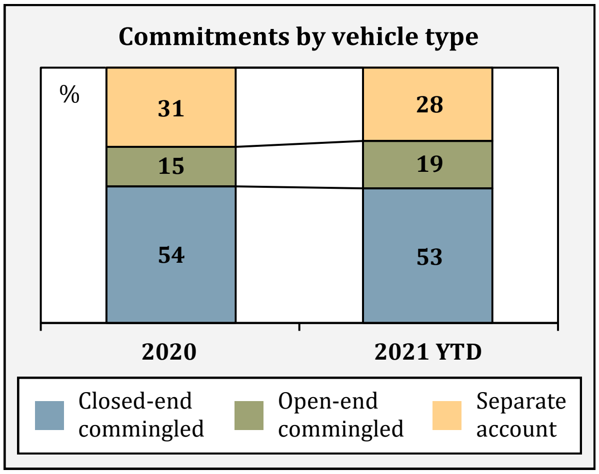
Investment Strategy and Vehicle Structure

Commitments tracked during the first half of 2021 have shifted markedly toward opportunistic strategies, which represent nearly 40% of total volume year-to-date. When combined with commitments to value-add vehicles, these higher yielding strategies account for 64% of all H1 commitments. The swing toward opportunistic strategies underscores investors' appetite for higher returns coming out of the pandemic. The growth in the share of commitments to opportunistic strategies was offset by a material decrease in commitments flowing to core strategies, which fell from 32% in 2020 to 18% in 2021.



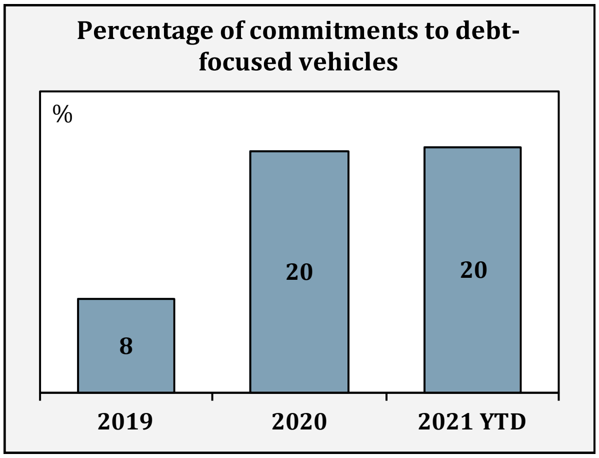
Commitments by investment strategy

In terms of vehicle type, the mix of commitments has remained relatively consistent with 2020. Through the first six months of the year, closed-end commingled funds accounted for 53% of all 2021 commitment volume while open-end commingled funds and separate accounts represent 19% and 28% of total volume, respectively.



Commitments by vehicle type

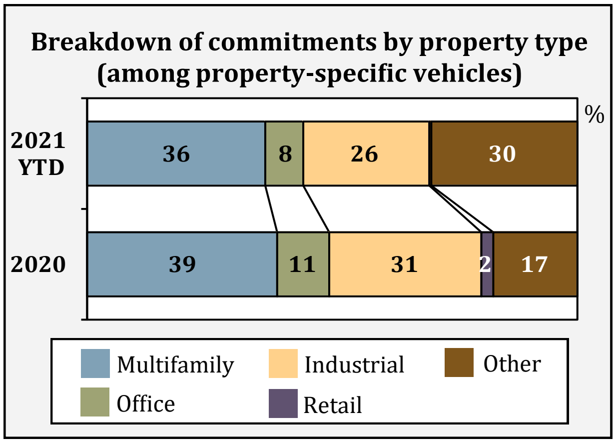
Vehicle Focus



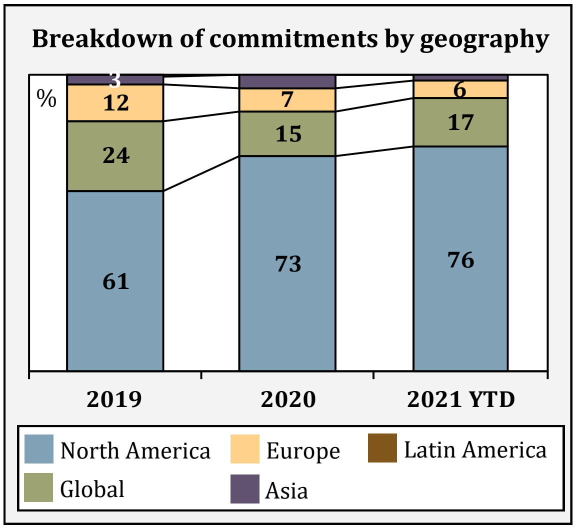
The share of total commitments to debt-focused vehicles held steady through the first half of 2021 compared to full-year 2020. Through the first six months of the year, 20% of commitments flowed to debt-focused vehicles compared to 20% in 2020 and 8% in 2019. The volume of capital flowing to debt vehicles over the past 18 months is reflective of the highly competitive real estate environment, with debt vehicles providing managers with another avenue to participate in transactions and produce returns.

Property Type

Vehicles dedicated to a single property type have attracted 38% of commitment dollars thus far in 2021, a figure that is slightly below 2020 (42%) and slightly above 2019 (37%). Among commitments to property-specific vehicles, multifamily was the most popular property type, though its share has fallen slightly from 2020. Interest in "other/niche" sectors has increased of late as investors look for yield in an environment where the primary property types that are currently in favor are highly competitive. These property types include life sciences, single family rentals, data centers, senior housing, and cold storage, among others.

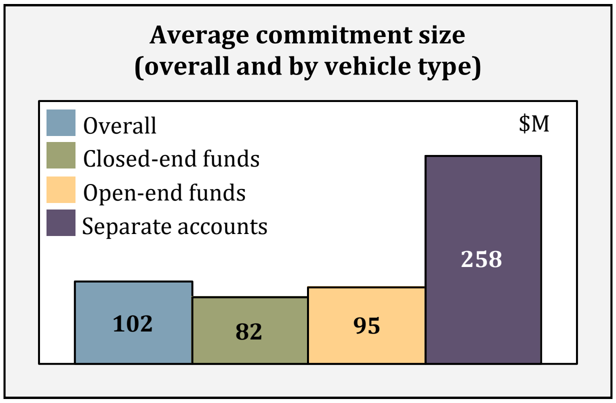


Geography



The overwhelming majority of committed capital from domestic public pensions continues to flow to vehicles focused on North America. Commitments to North America-focused vehicles totaled 76% of all H1 2021 commitments, which represents a slight increase over 2020. Commitments to global strategies also grew slightly, accounting for 17% of commitment volume thus far this year. However, Europe- and Asia-focused strategies have both fallen in H1 and represent roughly 8% of total volume on a combined basis.

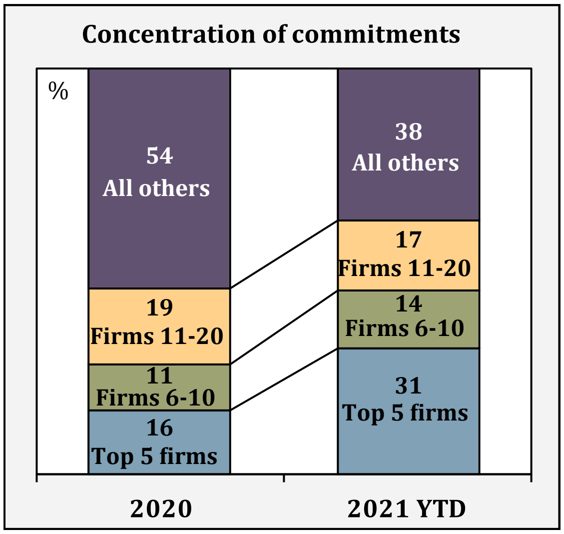
Average Commitment Size



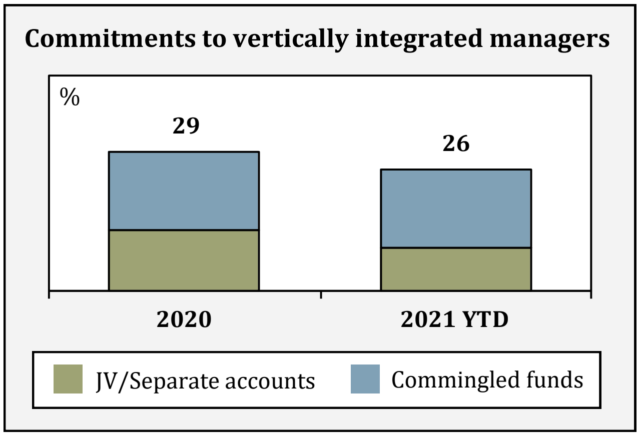
The average commitment size thus far in 2021 is $102 million, up 15% from the 2020 average of $89 million. This was driven by increases in average commitment size across all vehicles types. As we have seen in the past, the average commitment to separate accounts is considerably higher at $258 million, which represents a material increase from the 2020 average of $222 million. Similarly, the average commitment size to both open-end and closed-end funds increased from their 2020 averages, from $82 million in 2020 to $95 million in H1 2021 for open-end funds and from $70 million in 2020 to $82 million in H1 2021 for closed-end funds.

Manager Concentration

The first half of 2021 was marked by a shift toward more commitment concentration among the top 20 managers. Thus far in 2021, the top 20 firms (by aggregate fundraising dollars over the period) represent 62% of volume year-to-date compared to 46% in 2020. The primary driver of this change was the percentage of total commitments awarded to the top five managers; this figure grew materially in H1 and represents over 30% of all commitments. That said, we typically see these concentration metrics decline over the course of the year as large commitments early in the year can skew the metrics toward being more heavily concentrated.



Vertical Integration



Vertically integrated managers attracted 26% of commitment capital in H1 2021, down slightly from 29% in 2020. In H1 2021 it has been most common for commitments to separate accounts and/or value-add strategies to go to vertically integrated managers: 39% of all commitments to separate accounts went to vertically integrated managers and 37% of all commitments to value-add strategies went to vertically integrated managers.

Contact

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