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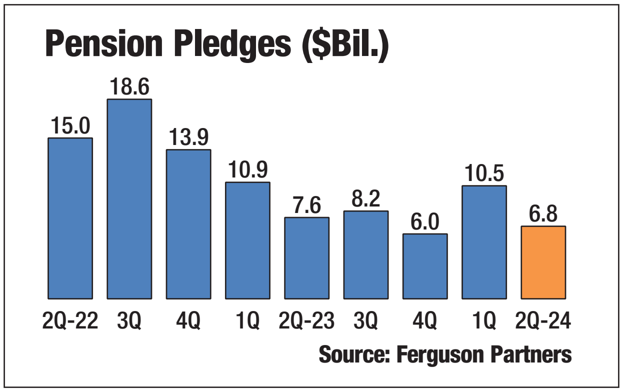
H1 Pension Pledges Slide to Seven-Year Low



Pension pledges to U.S. real estate vehicles hit their lowest level since 2017.

Commitments to funds and separate accounts from January to June totaled $17.11 billion, down 7% from the $18.45 billion pledged during the same period in 2023, according to **Ferguson Partners.**

But both years are nearly half the $32.57 billion corralled by investment managers in the first six months of 2022. And this year's tally is the weakest first half since 2017, when just $15.43 billion of pledges were made.

"It's good news that we haven't seen further deterioration or decline in interest," said Ferguson director **Scott McIntosh.**

Given that the timeline for raising capital can be well over six months, McIntosh says it's likely the annual fundraising tally this year will be in line with 2023, when pledges totaled $32.68 billion, down from the high-water mark of $65.09 billion in 2022. Last year had the lowest tally since 2013 and the fourth-lowest year since Ferguson began tracking the sector in 2011.

"Whether we're at the bottom, right before it, or right after, there is some optimism that capital markets will open up and transaction activity will increase," McIntosh said. "But I don't think it will change like a light going on. It takes time to prep strategies for this point in time. To get on the road, to prep materials, to have meetings and to have follow up meetings and then you land the commitment … and that assumes there is appetite."

Another headwind to a large-scale return for pension pledges is that large allocators are still waiting on the return of money from outstanding commitments. Fund shops are sitting on hundreds of billions of dollars of dry powder due to the mostly stalled property-sales market, leaving less capital available to recycle.

Pensions "have a backlog of uncalled capital commitments … and they want their managers to be thoughtful, conservative and prudent and not go after deals that they shouldn't," McIntosh said. "But that doesn't bode well for a swell of new commitments flowing into the space."

Paradoxically, given investors are on the hunt for higher yields, the first half also saw an uptick in commitments to core and core-plus strategies. Pledges to core-plus funds rose to 9% of commitments through the first half, up from 4% for full-year 2023. Core theses have attracted 32% of committed dollars, up from 20% last year. Meanwhile, opportunistic strategies attracted 33% of overall pledged capital, up slightly from 31%, and value-added approaches collected just 26%, down from 45% last year. Overall, the higher-yield strategies took home 59% of dollar volume, down from 76% in 2023.

Much of the growth in the lower-yielding strategies was

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driven from particularly large commitments in the first quarter of this year, McIntosh said.

"It's a tale of two quarters, where you saw significant core commitments in Q1 and that fell dramatically in Q2," he added. "I think Q1 was more surprising. … We'll see how that works out for the rest of the year."

What new money is going out the door is continuing to flow to vehicles dedicated to a single property type. So far this year, that category has attracted 55% of pledges by dollar volume, well above last year (44%) and slightly above 2022 (53%). Among those dollars, 35% of pledges went to vehicles categorized as "other/niche," the second-highest tally on record behind 2019, when 46% of first-half dollars were pledged to the sector.

Ferguson defines niche as vehicles focused on life-science properties, single-family rentals, healthcare properties, data centers, cold-storage properties, debt and others.

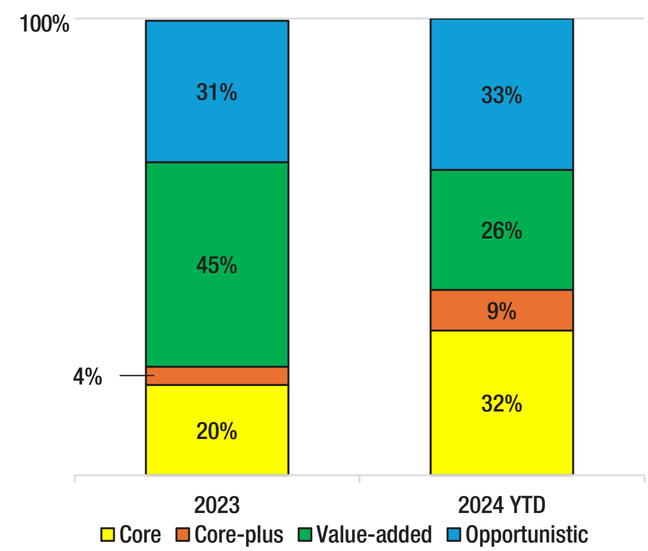
McIntosh said that between newer entrants such as data centers and the long-standing sectors such as student and senior housing, it's significant that more than one-third of all pledged dollars now are going to vehicles investing outside the largest property types. The challenge remains that there are fewer big-name operators or general partners in niche sectors than more traditional asset classes.

"Pensions are looking for track record, they're looking for expertise, and at the very least they're looking for [managers with experience in adjacent sectors]," McIntosh said. "If a GP can make a credible pitch for senior housing because it has made its living in multifamily, okay. … But it rings a little hollow coming from the retail specialist."

After niche, the multifamily and industrial sectors were the biggest winners among vehicles dedicated to single property types. Funds investing in apartments corralled 29% of commitments, by dollar volume, up from 27% for full-year 2023. Investors in warehouses and similar properties took home 25% of pledged dollars, down from 34%. Retail-focused funds and separate accounts had 9% of pledged capital, up from 5%, and commitments to the few office-focused vehicles remained roughly even.

The 308 pension systems tracked by Chicago-based Ferguson have some $5.5 trillion under management. They represent the vast majority of assets held by U.S. public pensions. Ferguson will release its findings in a report next week. ❖

Commitments by Investment Strategy



Source: Ferguson Partners