Real Estate Alert
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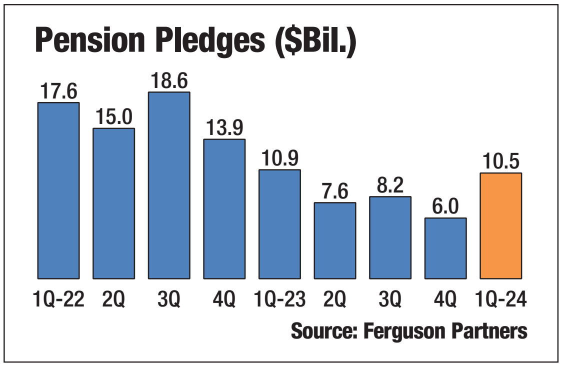
Pension Pledges 'Bouncing Along the Bottom



Public pension pledges to commercial real estate vehicles in the first quarter were down just slightly from a year prior, a potential green shoot for the fundraising market.

Some $10.54 billion was committed to funds and separate accounts from January through March, a 3% dip from $10.87 billion in the same period of 2023, according to **Ferguson Partners.** To be sure, the pledged dollars are the lowest first-quarter total since 2020 — and a fraction of the record of $17.57 billion hit in the first three months of 2022.

But after 2023, which was the worst year in a decade, the tally could be a sign that pensions are poised to increase commitments sooner rather than later.

"It's a continuation of the market conditions and the challenges seen at the back half of 2023," Ferguson director **Scott McIntosh** said. "Had it fallen 20%, that would have been alarming because [it would add to last year's] massive drop-off. … The fact that it's bouncing along the bottom reflects the capital markets and the persistent challenges there."

McIntosh cautioned against reading too much into the first-quarter figures, given that public reporting by **CalPERS** — typically in the first and third quarters — can skew reporting. Still, he views the data as another sign that pensions remain committed to commercial real estate, despite the downturn in the sector.

"You may see changes on the margin, in terms of the allocations, but real estate as an asset class is a core element," McIntosh added.

It's still unclear when pensions as a class will return to more frequent, and larger, commitments. The whipsawing signals from the **Federal Reserve** over the last six months — and particularly the last month — have made it more difficult to predict the number and the timing of interest-rate cuts, which many market players see as the key to opening the floodgates of more property and loan-sale listings.

But McIntosh said pension systems, which operate on longer lag times than, say, property brokers, are fairly confident the market is near enough its valuation trough to begin pledging again. To that end, there were 96 individual commitments to real estate vehicles in the first quarter, up 28% from 75 in the first three months of last year.

"Whether we're currently in the bottom or approaching it, we're within that range of outcomes," McIntosh added. "We're within that confidence interval."

The percentage of dollars pledged to core vehicles more than doubled in the first quarter, to 44% from 20%, but nearly $3 billion in core commitments by CalPERS to separate accounts mostly explains that. "Although core led the fundraising in Q1, we do not expect this trend to continue through the rest of 2024," Ferguson said in a report.

McIntosh added that pensions are looking for higher returns in a volatile market, and value-added and opportunistic strategies are the only ways to generate that type of yield.

"As pension funds are evaluating managers and managers are evaluating opportunities, the sentiment is higher on the risk-reward spectrum," McIntosh said. "There's more opportunity in that high-yield space, and those represent returns that are going to fit within the pension fund's target for an asset class like real estate right now."

CalPERS' first-quarter focus on separate accounts also skewed the figures for investor interest in such structures versus open- and closed-end funds — and the pace of pledges to vehicles that target specific sectors.

Such funds and separate accounts dedicated to one property type attracted 65% of pledged dollars in the first quarter — much higher than the 44% recorded for full-year 2023 and the 53% seen in 2022. Multifamily (32% of those dollars) and niche (31%) dominated such pledges. That said, pledges to retail and office vehicles actually ticked up to 6% and 2%, from 5% and 1%.

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, which has tracked the sector since 2011, will release its findings in a report next week. ❖