2021 Fundraising Year in Review

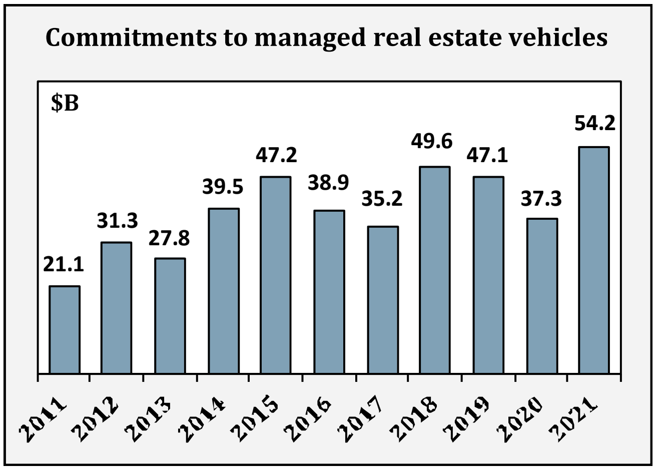
Pension fund commitments to managed real estate vehicles

Ferguson Partners

Commitments to private real estate reach all time highs in 2021

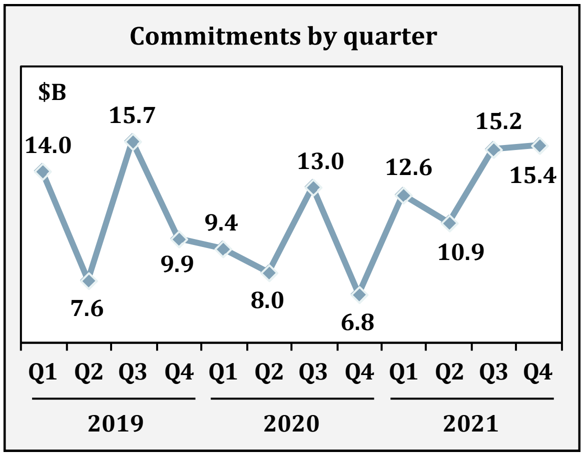
Commitments to private real estate managers from U.S. public pensions rebound from 2020, posting a 45% year-over-year increase

Capital commitments from U.S. public pension funds to privately managed real estate vehicles totaled $54.2 billion in 2021, which is the largest annual fundraising volume since the inception of Ferguson Partners' proprietary commitment database in 2011. The total commitment volume in 2021 increased 45% year-over-year, and is 9% higher than the previous high watermark of $49.6 billion in 2018. Driving this upturn was a 19% increase in the number of unique commitments and a 22% increase in average commitment size over 2020.



A confluence of factors combined to drive capital raising in 2021. For one, the significant economic uncertainty brought about by the COVID-19 pandemic caused many institutional investors to take a "wait and see" approach to their capital allocations in 2020, leading to pent-up demand for the asset class coming into 2021. Additionally, the inflationary environment of 2021 made real estate appealing to investors looking to hedge against rising prices. On top of this, a volatile stock market and low bond yields positioned real estate well in the eyes of investors.

Managers recognized the demand from investors and brought funds to market at a record pace. According to Preqin, the number of closed-end private real estate funds that are currently in market is at a record high, resulting in fierce competition for capital and deals. As of Q3 2021, nearly 1,300 closed-end funds were targeting $365 billion in capital.[1] Whether investor demand will keep pace with the number of managers seeking capital is yet to be seen; however, findings from a recent study by Hodes Weill & Associates and Cornell University indicates that institutional investor portfolios are under allocated to real estate by a record margin.[2] Additionally, investors anticipate increasing allocations to real estate over the next 12 months at a faster pace than in the prior 4 years (expected increase of 30 basis points over the next 12 months versus increases of only 10 basis points in each year since 2018).[2]



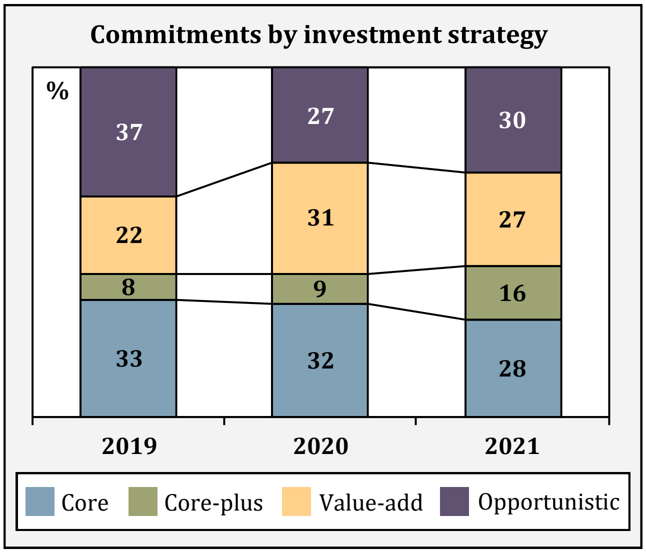
2021 represented a material rebound for the real estate industry. This is supported by the strong investor demand as well as upward trends in returns, transaction volume, asset valuations, and industry sentiment. While indicators point toward continuing momentum, 2020 taught us that changes to the real estate industry landscape can happen overnight.

[1] Preqin Quarterly Update: Real Estate Q3 2021

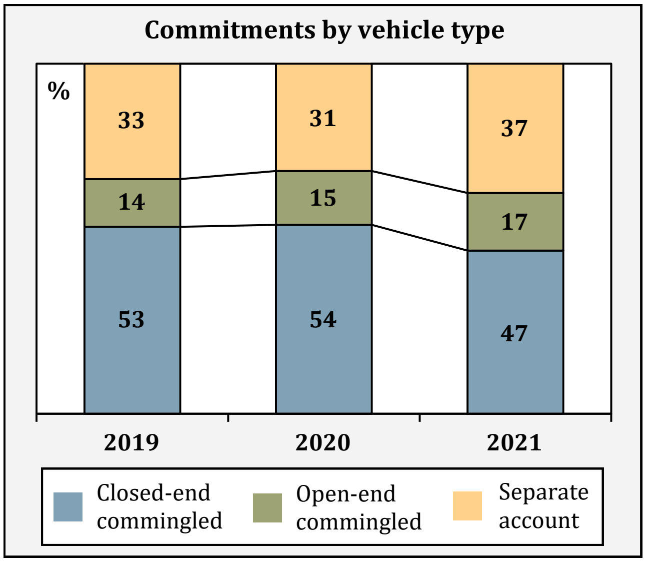
[2] Weill, D. (2021). 2021 Institutional Real Estate Allocations Monitor. Ithaca, NY: Cornell University's Baker Program in Real Estate and Hodes Weill & Associates, LP, November 2021.

Vehicle Structure and Investment Strategy

High-yield strategies continued to attract the majority of capital, with commitments to opportunistic and value-add vehicles representing roughly 57% of total 2021 volume. The mix across these high-yield strategies shifted slightly when compared to 2020, with a heavier orientation toward opportunistic strategies relative to value-add. In support for this finding, a recent Preqin survey suggests that investors view value -add and opportunistic strategies as presenting the best opportunities over the next 12 months.[1] On the other end of the risk-return spectrum, the share of commitments to core– and core-plus-oriented vehicles increased slightly, with core-plus strategies seeing an increase from 9% to 16% of total commitment volume.



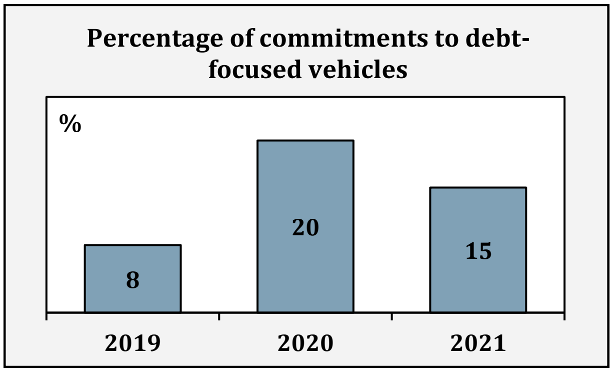
Similar to years past, fundraising for high-yield vehicles was dominated by recognizable industry names. Blackstone topped the list, while Brookfield, Carlyle, KKR, Oaktree, Harrison Street, and Carmel Partners, among others, secured meaningful commitments to their high-yield strategies in 2021. In terms of core oriented strategies, the open-ended ODCE funds managed by Morgan Stanley, CBRE, J.P. Morgan, and PGIM, among others, received material 2021 commitments. Moreover, firms such as GID, CommonWealth, BentallGreenOak, First Washington Realty, and GI Partners successfully garnered significant commitments for their core JVs/separate accounts. Lastly, a number of core-plus vehicles received sizable commitments, including those managed by Metlife, Walton Street, Heitman, DWS, Blackstone, and Cortland Partners.



With regard to vehicle structure, the mix in 2021 shifted toward separate accounts and away from closed-end commingled funds. While closed-end vehicles remained the vehicle of choice for investors, the share of commitments flowing to these vehicles fell from 54% in 2020 to 47% in 2021. Conversely, separate accounts saw an increase relative to 2020, and made up over 35%of the total volume in 2021. Open-end commingled funds garnered the smallest percentage in 2021, making up 17% of total volume.

[1] 2022 Preqin Global Real Estate Report

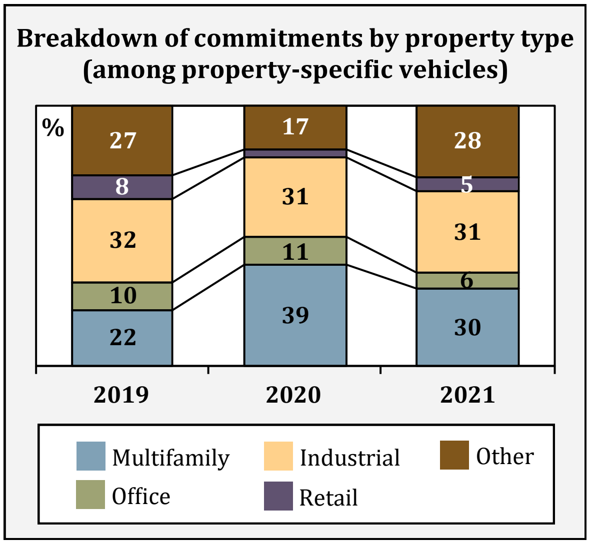
Vehicle Focus



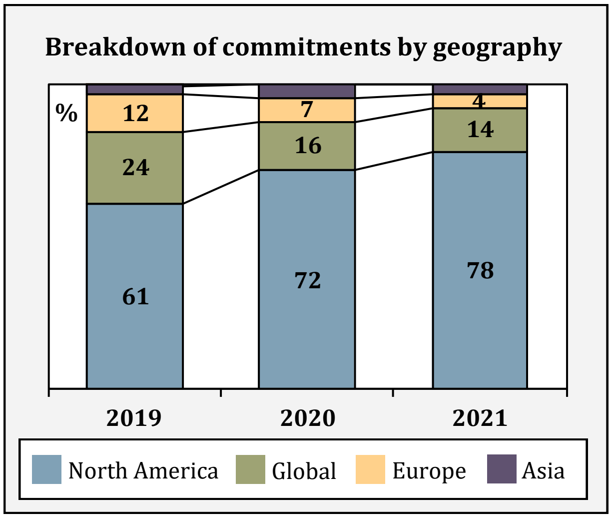
The portion of total commitments to debt-focused vehicles decreased when compared to 2020, with 15% of 2021 commitments flowing to such vehicles compared to 20% a year ago. While the decrease is notable, 15% still represents a sizable portion of total commitment volume and is roughly consistent with the multi-year average since Ferguson Partners began tracking allocations to debt-focused vehicles in 2015.

Property Type

Vehicles dedicated to a single property type attracted 49% of commitment dollars in 2021, a figure that is materially higher than the total from 2020 (42%) and 2019 (37%). Among commitments to property-specific vehicles, industrial was the most popular property type, representing 31% of total volume, followed closely by multifamily, representing 30 of total volume in 2021. "Other/Niche" property types saw a significant increase in attention in 2021, with vehicles focused on life sciences, single family rentals, healthcare, data centers, and cold storage, among others, receiving commitments from investors.

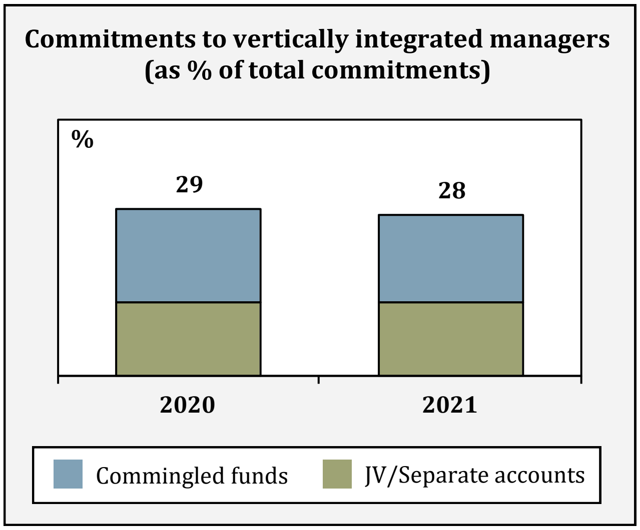


Geography



The majority of commitments from U.S. pensions continued to flow to North America-focused vehicles (78%). This represents a sizable increase from 2019 and 2020 where only 61% and 72% of commitments were made to North America-focused vehicles, respectively. Commitments to global strategies fell slightly in 2021, accounting for only 14% of commitment volume. Similarly, Europe-focused strategies decreased from 7% in 2020 to 4% in 2021 and Asia-focused strategies fell from 5% in 2020 to 3% in 2021.

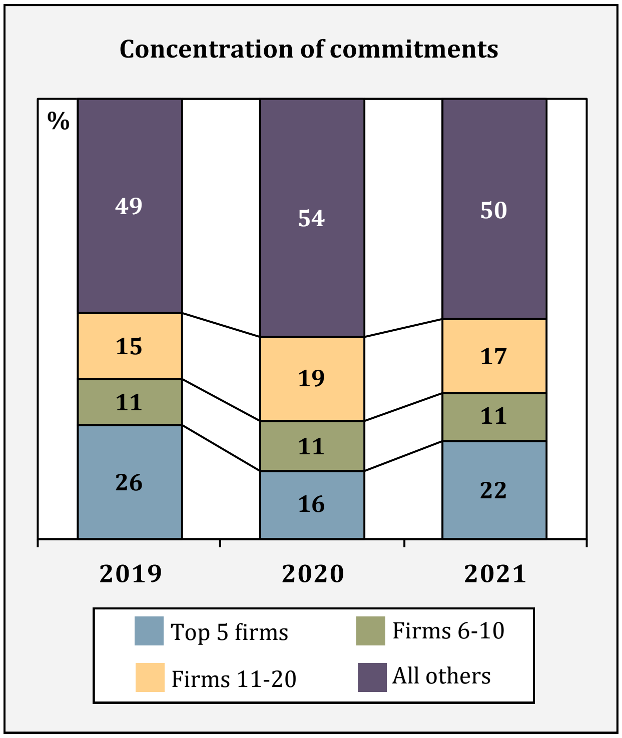
Vertical Integration



Vertically integrated managers attracted 28% of committed capital in 2021, which is roughly consistent with 2020. Commitments to vertically integrated managers in 2021 were slightly more likely to go to commingled funds than separate accounts. However, it is notable that over 40% of commitments to separate accounts went to vertically integrated managers in 2021. Among the major investment strategies, value-add mandates were most likely to be committed to vertically integrated managers, with 34% of commitments made to these strategies flowing to vertically integrated managers in 2021.

Manager Concentration

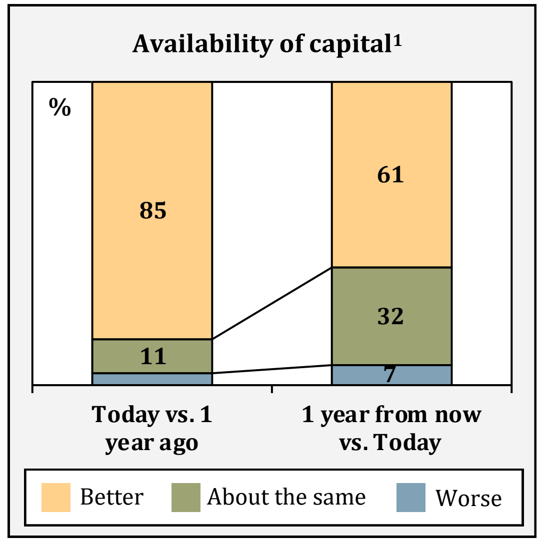
In terms of commitment concentration, the top 20 managers (by aggregate fundraising volume) received approximately 50% of total commitments in 2021, which is slightly more than in 2020, where the top 20 firms received 46% of all committed capital. The primary driver of this increase is the rise in the share of commitments flowing to the top 5 managers. In 2021 the top 5 managers collected 22% of capital commitments compared to only 16% in 2020. This increase is likely a result of fundraising timing and investors' comfort with some of the top, proven managers.

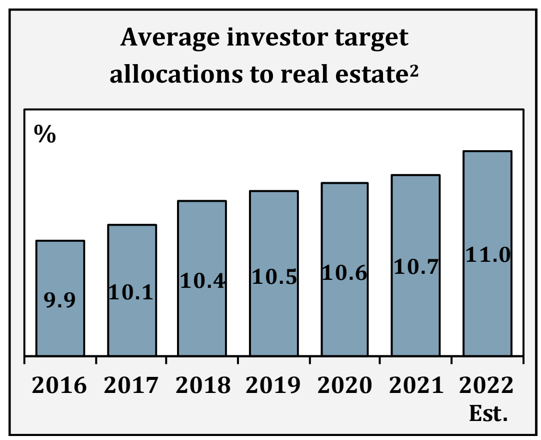


Although 2021 commitment volume was an all time high, the number of funds in market is also at an all time high.[1] As a result, all managers will need to formulate an investment thesis that matches the needs of their clients in order to secure confidence and capital from the institutional investor community.

[1] Preqin Quarterly Update: Real Estate Q3 2021

Looking Forward





The commercial real estate industry experienced a stark "V-shaped" recovery in 2021. As part of this rebound, U.S. public pensions made a mark by allocating nearly $55 billion to privately held real estate vehicles in 2021, a 45% increase from 2020 and the largest annual total since Ferguson Partners began tracking commitments in 2011. This surge in capital was felt by market participants, with 85% participants in the Q4 2021 Real Estate Roundtable sentiment survey indicating that capital availability was better in Q4 2021 than in Q4 2020 (see chart at right).[1]

While 2021 was an extraordinary year in terms of aggregate fundraising volume, the question remains as to whether this trend will continue in 2022. While it is impossible to predict with certainty, several indicators suggest that investor demand for real estate will continue to be strong in 2022. For one, a recent study by Hodes Weill & Associates and Cornell University found that institutional investors anticipate increasing their allocations to real estate at a faster pace in 2022 than in the prior years (see chart at right).[2] Some notable investors have already made upward adjustments, including Indiana Public Retirement System (7% to 10%), Texas Municipal Retirement System (10% to 12%), and Alaska Retirement Management Board (13% to 14%); it would be unsurprising to see this trend continue.[3] Additionally, institutional investors' actual allocations to real estate fell in 2021 due to slower deployment of capital during 2020 and the denominator effect caused by growth in public equity portfolios.[2] As a result, the Hodes Weill/Cornell study found that the institutional portfolios are underweighted to real estate by 140 basis points on average—the largest gap over the past 7 years.[2]

In addition to underweighted institutional real estate allocations, sentiment across the market suggests that industry participants are bullish about the prospects of the asset class. In 2021, the Real Estate Roundtable sentiment survey recorded an overall industry index of 78—a level that had not been reached since 2011.[1] In terms of access to capital, that same survey found that over 60% of participants expect capital availability to be better one year from now (see chart at top right).[1] On the investor side, the Hodes Weill/Cornell conviction index registered an all time high, suggesting institutions are also optimistic about the future of the real estate market.[2]

All told, it will be difficult to match the commitment volume seen in 2021. While indicators suggest that strong demand for real estate is expected to continue, fierce competition for deals and elevated prices could cool the momentum. It will be interesting to see how 2022 unfolds.

[1] Q4 2021 Real Estate Roundtable Sentiment Survey conducted by Ferguson Partners
[2] Weill, D. (2021). 2021 Institutional Real Estate Allocations Monitor. Ithaca, NY: Cornell University's Baker Program in Real Estate and Hodes Weill & Associates, LP, November 2021.
[3] IPE Real Assets

About the Database

Ferguson Partners' database, which has tracked capital flows since 2011, includes commitments to 482 managers from 296 U.S. pensions representing over $5 trillion in assets under management. Data comes from a variety of sources including pension websites and industry news sources.

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