

## Pension Pledges Hit Record Peak In Q1

Pensions pledged a record amount of equity to commercial real estate vehicles in the first quarter amid broader market volatility and rising interest rates.

Public pensions committed \$17.7 billion from January to March, according to **Ferguson Partners**. That's the highest quarterly haul since the Chicago research firm began tracking pledges in 2011 — edging out the \$17.3 billion committed in the third quarter of 2018.

By comparison, the first-quarter tally last year was \$12.6 billion, and it was just \$9.4 billion in 2020. Ferguson is set to release a report of its findings next week.

"I was not surprised it was a strong quarter, given that there was optimism to start 2022," Ferguson managing director **Erin Green** said. "I'd be surprised if we saw commitments to the same degree moving forward as we saw them in Q1."

Green said that in talking to pensions and investment managers, both are dealing with "very real pressures on investments and on returns." Geopolitical unrest, interest-rate hikes and the 25% year-to-date drop in some stock indexes have many investors betting on a recession.

Given that real estate is still broadly seen as a hedge to inflation and hiccups in equity markets, a short-lived downturn could benefit commercial real estate players.

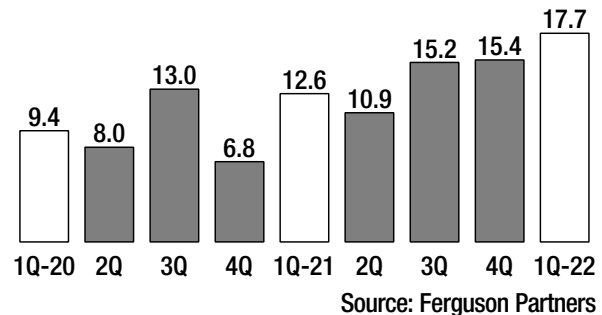
"When we're speaking with managers out in the space today, they are leaning toward a more cautious sentiment," Green said. "I wouldn't say it's negative, but it's certainly cautious."

The portion of pledges seeking the highest returns also peaked in the first quarter. Commitments, by dollar volume, to value-added (30%) and opportunistic (34%) strategies totaled 64%, up from 57% for full-year 2021 and over the prior peak of 63% in 2017. The gains came at the expense of core and core-plus funds, which combined fell to 37% of pledges from 43% for all of 2021.

The uptick in pledges to higher-yielding these also translated to more money going to commingled funds. Closed-end vehicles, by dollar volume, garnered 53% of pledges, up from 47% for full-year 2021, and open-end funds collected 28%, up from 17%. Separate accounts, which typically target lower-yielding investments, saw their share of pledge dollars drop to 19% from 37%.

Pensions also are on early pace to achieve another record: the most money pledged to vehicles dedicated to just one property type. Those commitments totaled 52% of pledged dollars from January to March, up from the peak of 49% set last year. Among such vehicles, strategies targeting niche sectors jumped from

**Pension Pledges (\$Bil.)**



a record 28% last year to a new high of 36%. Ferguson defines niche as vehicles focused on life-science properties, single-family rentals, healthcare properties, data centers, cold-storage properties, debt and others.

Industrial (31% of committed dollars) and multifamily vehicles (29%) were roughly equal with last year's tallies, an indication of continued investor interest in those sectors despite rising valuations, the increased use of negative leverage and compressed capitalization rates.

The flood of capital into niche sectors is pushing down yields on those property types, as well, making the hoped-for returns harder to achieve, Green said.

"We still call them niche, but they're pretty crowded," she added. "As result, that drives up the pricing for those assets, which in turn makes it harder to achieve the higher returns you're looking for."

Green said that while she expects another good year for pension pledges — the record first quarter accounts for 33% of the full-year record of \$54.2 billion notched in 2021 — the uncertain environment means things could change quickly.

"It feels a bit like earlier in the pandemic when the stock market was performing so well, but it felt disconnected from the labor markets and other key indicators," Green added. "We have a lot of indicators pointing in different directions right now, so there's a lot of uncertainty."

The 297 pension systems tracked by Chicago-based Ferguson have approximately \$5.3 trillion of total assets under management. They are believed to represent the vast majority of assets held by public pension systems. ❖

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