NAREIM FPL Associates

Real Estate Investment Managers Report Increased AUM and Capital Raising

NAREIM/FPL Associates 2019 Global Management Survey also reveals growing diversification, complexity and outsourcing

Chicago, IL, November 6, 2019 – Real estate investment management firm capital raising and assets under management (AUM) are growing, according to the findings of the latest NAREIM/FPL Associates Global Management Survey.

Net AUM increased 7% year-over-year, with three out of four firms reporting overall increases. Firms also raised more capital between 2017 and 2018, growing by 5% year-over-year.

The Global Management Survey is a survey of management practices and enterprise benchmarking metrics for the real estate investment management industry produced annually by industry association NAREIM and FPL Associates. The current survey was conducted in Q1 2019 and reflects data as of year-end 2018.

The 2019 survey also reveals that participants are taking advantage of positive market fundamentals by offering more products and strategies, and raising capital from increasingly diverse sources.

"The 2019 Global Management Survey clearly demonstrates that the real estate investment management industry is becoming much more complex," said Zoe Hughes, CEO, NAREIM. "Succeeding in today's market requires that firms become more efficient and effective at investing capital on behalf of their partners to generate best-in-class risk-adjusted returns."

Key findings from the 2019 report include:

<u>Desirable Asset Class.</u> Commercial real estate continues to attract investors, as reflected in the continued growth in asset valuations and capital raising success. Sixty-two percent of same-store survey participants reported an increase in capital between 2017 and 2018.

However, the “haves vs. have-nots” dynamic continues, with positive fundraising driven primarily by the largest firms. Same-store survey participants with at least $10 billion in gross AUM experienced a 7% increase in aggregate capital raised, while firms with less than $10 billion experienced an 8% decline.

More Products. The median Global Management Survey participant sponsored 12 active investment vehicles in 2018, up from 10 vehicles in 2012 (a 20% increase) and a more than 70% increase since pre-recession 2008 when managers reported 7 active vehicles.

Fewer participants are investing in just one strategy (whether core, core-plus, value-add or opportunistic). Only 23% of participants offered one strategy in 2018 compared to 30% in 2012. Further, 77% of participants reported investing in two or more risk strategies in 2018 versus 70% in 2012.

More Capital Sources. While Global Management Survey participants continue to raise more than half their capital (51%) from public and corporate pension funds, there is an increased focus on alternative sources, including defined contribution plans and retail capital.

Thirteen percent of survey participants offer a product that targets defined contribution pension plans. Only 5% of participants in the previous year did so.

In addition, survey participants that have a product targeting defined contribution pension plans secured 80% more capital year-over-year, raising $1.8 billion in 2018 versus $1 billion in 2017. Successfully raising capital from defined contribution plans can be challenging, requiring new vehicles that provide daily liquidity and valuations, educating investors, and hiring staff with additional expertise in sales, reporting, compliance and other areas.

Real estate investment managers are also very interested in retail capital, with almost 90% of all survey participants indicating that retail capital will be very or somewhat important over the next three years.

More Outsourcing. As expanded products and strategies make real estate investment management more complex, firms increasingly need to focus on core strengths and are outsourcing other functions, including fund administration.

Almost a third of survey participants (31%) reported that they currently outsource fund administration – up from 17% in 2014. An additional 22% are actively considering outsourcing this function.

The primary drivers behind the decision to outsource fund administration include allowing management to focus on core competencies and real estate investing (91%), followed by providing greater transparency to investors (70%).

"Fund administration is an excellent illustration of the trend toward outsourcing among real estate investment managers," said Erin Green, Senior Director, FPL Associates. "Adding new products, strategies and capital sources makes fund administration much more complicated. Outsourcing it to an expert provider can help a firm operate more effectively by focusing on essential functions."

The Global Management Survey was first conducted in 2009. The 2019 Survey is based on responses from 61 companies that represent a cross section of the real estate investment management industry. Year-over-year data reflects changes between 2017 and 2018.

About NAREIM

NAREIM is the industry association dedicated to the business of real estate investment management. For 30 years, NAREIM has been the home of real estate investment management benchmarking and best practices, where investment managers learn and share intelligence to drive investment and business performance and process. Founded in 1990, NAREIM today represents real estate investment management firms with combined assets under management of more than $1 trillion. For more information, visit www.nareim.org

About FPL Associates

FPL Associates is a member of the FPL Advisory Group family of companies, which provides highly specialized advisory services to the real estate and related industries. Through our complementary practice areas, we work with our clients to develop the right leadership, structures, strategies, financial and compensation foundations for success in today's intensely competitive marketplace. FPL Associates specializes in “transformational” assignments addressing key shareholder and/or employee requirements so as to provide a new foundation for competitive performance. See www.fplassociates.com

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