PREQIN

Press Release

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Strong Headwinds Dominate the Real Estate Outlook — Preqin Global Report 2023

Fundraising unlikely to hit 2021 levels, but value-added funds remain in demand, accounting for almost 40% of all funds closed

Today Preqin, the global leader empowering the alternatives community with essential data and insight, published its *Preqin Global Report 2023: Real Estate.* The report finds that the optimism for real estate at the end of 2021 is now replaced with a more pessimistic view for the year ahead. As interest rates are expected to increase further, asset values are falling, with Preqin analysts predicting a difficult 2023 for real estate.

Fundraising in 2022 slows down, while first-time managers do well

Fundraising numbers dropped this year compared to 2021. According to Preqin data, 249 funds had closed at the end of Q3 2022, equal to 46% of the 546 funds closed throughout the whole of 2021. While Preqin analysts expect Q4 to bring an increase compared to the previous three quarters of 2022, they remain doubtful that the strength witnessed at the end of 2021 will be repeated this year. What is more, the $101.9bn of aggregate capital raised by end of Q3 2022 is equal to just 48% of 2021's $210.7bn total.

Surprisingly, first-time funds have been one of the winners in 2022. By the end of Q3 2022, first-time managers secured $10.5bn in capital, significantly more than the $9.4bn they raised throughout the whole of 2021.

Bright spots remain in value-add strategies

Preqin data also shows that value-added funds have been the dominant strategy throughout 2022, accounting for almost 40% of funds closed, at 99, in the first three quarters of the year – in comparison to the 2001-2021 average of 32%. When measured by the proportion of aggregate capital raised, the value-added strategy accounts for 35% ($35.6bn), far above the 2001-2021 average of 27%.

Value-added funds are well placed to capitalize on repositioning older office stock, for example, toward modern ways of working. The strategy offers the ability to commit capital to significantly improve the quality and rental prospects of an asset. Providing the opportunity to generate returns in the double digits, this strategy is favoured by many fund managers and investors because of the breadth of opportunities to put capital to work.

Recession could create opportunity for real estate risk assets

Overall, 2023 is likely to be a difficult year for real estate. There are strong headwinds to the global real estate outlook, with rising interest rates dominating the immediate trajectory of the asset class. This is likely to hit both fundraising and deal activity. With borrowing costs rising and patchier occupier demand, this situation could worsen even more should many countries enter a recession. Adding to this, households have less disposable income to spend in shops or online, potentially hitting retail and industrial activity.

74% of investors believe real estate assets are overvalued, according to Preqin's 2022 November investor survey. 2023 is therefore likely to be a difficult year for real estate. Fund managers agree with investors on the outlook for valuations and expect them to fall, ultimately putting a brake on activity.

With higher interest rates likely to push many developed markets into recession, it is possible that we see central banks pivoting towards either cutting or raising rates to a lower degree than currently expected. Both scenarios would be positive for risk assets – and positive for income-focused assets, such as prime real estate. However, Preqin analysts believe that this is one possible scenario, and it is also feasible that recessionary effects outweigh any easing, resulting in weak growth.

Dave Lowery, SVP, Head of Research Insights at Preqin says: "*The real estate market appears to be in the preliminary phase of a readjustment. After benefiting from low rates for an extended period, the market is adjusting to higher rates – a trend witnessed in many parts of the world. This will mean falling prices for even the best quality assets, and if we see recessions in some markets, occupier demand may also weaken, with implications for rents. Investors may well sit on their hands and wait for the market to settle before making any new allocations, while fund managers will need to find agreement on pricing for deal activity to increase.*"

Preqin Global Report 2023: Real Estate - key figures:

- **Funds closing:** At the end of Q3 2022, 249 funds had closed – equal to 46% of the full-year total in 2021, at 546. The $101.9bn of aggregate capital raised by end of Q3 2022 is equal to just 48%, of 2021's $210.7bn total.
- **First-time funds**: At the end of Q3 2022, first-time managers secured $10.5bn, compared to $9.4bn raised throughout the whole of 2021.
- **Value-added funds:** Value-added funds accounted for almost 40% of funds closed by end of Q3 2022, compared to the long-term average of 32%.

#ENDS#

**Note to editors:*
- All reference to '$' is USD.

For more information and to receive a copy of the full report, contact mariella.reason@preqin.com or call (+44) 20 3207 0282.

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