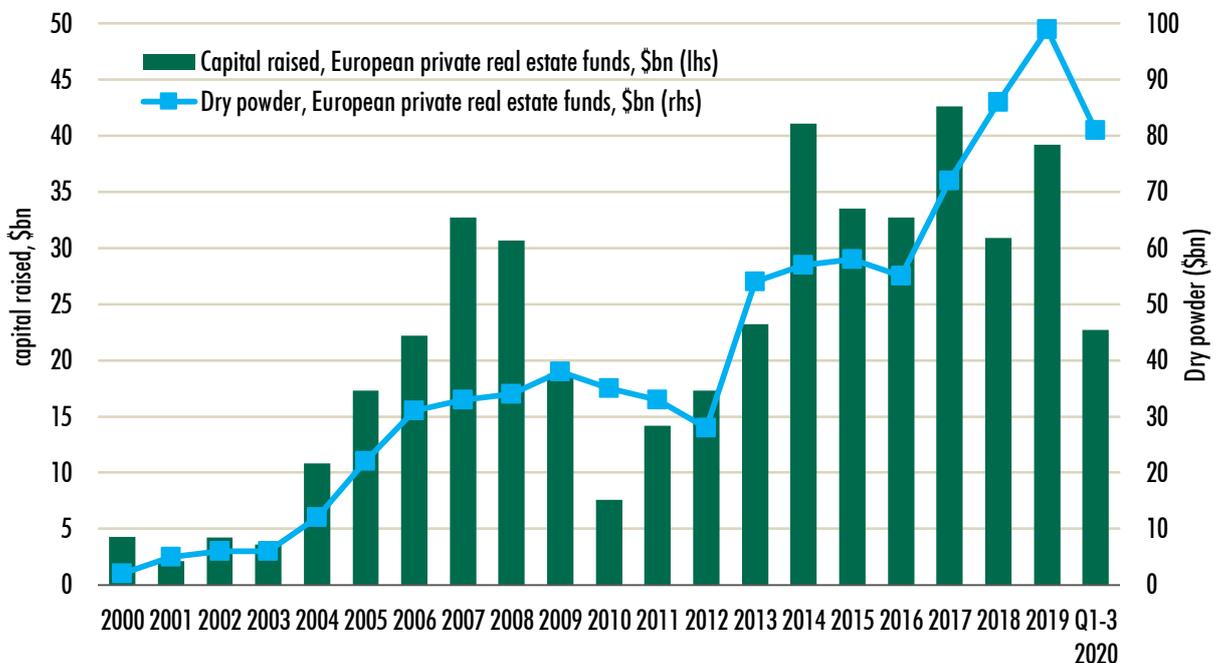


EMEA CAPITAL ADVISORS

Private Equity

That COVID-19 will have more than a temporary impact on European investment activity can be discerned from Figure 1, which shows the change in fund raising and dry powder over the first three quarters of 2020. Dry powder available to private real estate funds has fallen almost 20% over the year so far, from \$99bn at the end of 2019 to \$81bn at the end of Q3 2020 – while some of this may have been invested in the market, a significant share is likely to have been returned to investors by funds. Meanwhile, fund raising activity has slowed; €22.7bn had been raised as at the end of Q3 2020 (with over 40% of that total accounted for by one fund), compared with \$39.2bn for 2019 as a whole. Heading into 2021 therefore it is likely that the strength of pressure to invest in the market will be lower than previously, which could impact deal volume and pricing. Having said that, on these metrics 2020 does not look dissimilar to 2018, itself a strong year, so there are reasons to be cautiously optimistic with regards to the outlook for investment.

Figure 1: European private real estate fund raising and dry powder



Source: Preqin

As for the performance of private funds, data from our PropertyMatch secondary trading platform suggests that pricing improved over Q3 from lows seen in April to June. Typically, UK balanced funds traded or were quoted at discounts of more than 10% to NAV in the second quarter of the year, but more recently pricing and trading activity has gathered momentum and these funds are now quoted at mid to high single digit discounts to NAV. Discounts never hit such lows on the continent; balanced funds there remain priced at a small discount to NAV. In both the UK and Europe, specialist fund pricing reflects relative preference for underlying markets: Long income and logistics funds are often priced more competitively than respective balanced funds, retail and office funds less so.

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