GLOBAL MANAGEMENT SURVEY

A comprehensive study of management practices and enterprise benchmarking metrics in the real estate investment management/private equity industry

2015
Executive Summary & Key Industry Trends

FPL Consulting

NAREIM
National Association of Real Estate Investment Managers
The NAREIM/FPL Global Management Survey

The NAREIM/FPL Global Management Survey is the most comprehensive study of management practices in the commercial real estate industry and is designed to provide real estate investment managers (REIMs) and private equity firms with current information regarding strategic, organizational, financial and operational best practices. In particular, this study’s report of findings provides an in-depth view of practices across a variety of topics including capital raising, organizational structure, staffing, workloads, governance, financial performance, and fund terms.

Fifty-three firms, representing a cross-section of the industry in terms of size, strategy, and geography, participated in the 2015 iteration of the survey. The final report, released in July, includes 100+ pages of organizational, financial, fundraising, governance, and other enterprise-related performance metrics that allow participants to benchmark themselves against industry norms to identify ways to run their business more effectively and efficiently.

While the full report of findings is only available to participating firms, the following pages outline the “Executive Summary and Key Industry Trends” section of the report.
Executive summary and key industry trends

Real estate market conditions are improving

The U.S. commercial real estate industry showed continued strength in 2014. The persistence of the low interest rate environment, availability of debt financing, attractive real estate fundamentals, as well as the relative strength of the U.S. economy versus other international markets led to an influx of capital, foreign and domestic, searching for a home in U.S. real estate. As a result, transactional volume and CMBS issuance both hit their highest levels since 2007, while commercial/multifamily mortgage originations were up about seven percent over 2013. Asset pricing also increased for the fifth year in a row, reflecting the continued appetite, and competition, for real estate.

Overall property returns are indicative of this rising tide. In the private sector, the NCREIF property returns index (NPI) generated an 11.8% return for the year, up slightly from 11.0% in 2013 and 10.5% in 2012. The public sector performed even better, with the FTSE NAREIT All REIT Index registering a 28% total shareholder return, versus 13.7% for the S&P 500.

The positive real estate trends of 2014 have continued thus far in 2015. Transactions in Q1 2015 were up 45% over Q1 2014 and general sentiment continues to be largely optimistic. That said, most market participants are proceeding cautiously, recognizing that things could change quickly in the case of a major macroeconomic or geopolitical event. Additionally, interest rates continue to be monitored closely as concerns remain about what kind of impact a forthcoming rise will have on industry conditions.

The REIM sector is benefitting accordingly; AUM is on the rise and 77% of firms saw an increase in 2014

The trends in the broader commercial real estate industry were generally mirrored within the REIM space. Assets under management (AUM) increased for 77% of survey participants in 2014. The average year over year increase was 9% on a net basis and 6% on a gross basis, with the median firm growing net AUM by 6% (see exhibit 1). This rise in AUM is driven by the continued rise in property values, as well as positive fundraising momentum. Capital flows into the REIM industry increased yet again in 2014, continuing a multi-year trend of improving fundraising conditions. Commitments from U.S. pensions to managed real estate vehicles reached nearly $40 billion in 2014, an increase of 42 percent over 2013, according to FPL’s proprietary database tracking such activity.

1) Mortgage Banker’s Association; “2014 Q4 Commercial/Multifamily Mortgage Originations Up Eleven Percent from 2013 Q4; 2014 Total Up Seven Percent from 2013 Total”; 2/2/15
2015 Global Management Survey

Profitability improves for most firms

Most firms (81%) reported higher expenses in 2014 than 2013, reflecting both the increase in headcounts as well broader industry compensation trends. However, these expenses are more than offset by the incremental revenue driven by increases in AUM, as margins have increased from 2013. For firms who participated in our study each of the last two years, EBITDA margins ranged from 17 to 39 percent (25th to 75th percentile) in 2014, up from 16 to 30 percent in 2013 (see exhibit 2).

However, not everyone is a winner; the industry is bifurcating into a world of ‘haves’ and ‘have nots’

Despite the increase in aggregate capital flows, the REIM space remains highly competitive. Analysis by FPL Consulting suggests that the amount of capital sought by REIMs is approximately 2.5x that actually being raised. Moreover, all do not share equally in the rising tide. Capital continues to be highly concentrated among the large, established, and high-performing firms, creating a clear bifurcation between the ‘haves’ and ‘have nots’. This trend is illustrated by the fact that the top 5 firms in our study (by fundraising volume) accounted for 52% of total commitments (see exhibit 3). Looked at another way, the small to medium sized firms in our sample (<$10B AUM) reported a decrease in year-over-year commitment volume, while the average large firm reported an increase of about $200 million or 8% from last year (see exhibit 4). This bifurcation is likely to persist, especially as relative newcomers with strong platforms and blue-chip brands continue to expand their presence in the space (e.g. MetLife, New York Life, KKR, TPG, etc.). The end result is a market that is highly competitive at best and impenetrable for lower performing firms.

---

**Exhibit 2: Post-bonus EBITDA margins**

<table>
<thead>
<tr>
<th>%</th>
<th>25th %ile</th>
<th>50th %ile</th>
<th>75th %ile</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>16</td>
<td>24</td>
<td>30</td>
</tr>
<tr>
<td>2014</td>
<td>17</td>
<td>27</td>
<td>39</td>
</tr>
</tbody>
</table>

**Exhibit 3: Concentration of new capital commitments**

- All others 4%
- Firms 11-20 21%
- Firms 6-10 24%
- Top 5 Firms 52%

**Exhibit 4: Average same-participant YOY % change in commitment volume**

- <$10B Gross AUM (-25%)
- >$10B Gross AUM (8%)
Diversification of product and capital is a recurring theme

To survive and thrive in this highly competitive marketplace, firms of all sizes are considering ways to diversify their product and/or capital strategies to facilitate scaling AUM. Many firms have begun moving up or down the risk curve, offering products beyond their historical risk profile. The most prominent example of this trend is Blackstone’s foray into the core plus space, but there are many other such examples. Other firms are considering expansion into new asset classes, quadrants (e.g. debt products), and/or geographies as a means of growing AUM.

Capital strategies are also being re-evaluated as firms try to access new investors. REIMs are increasingly turning to new channels and/or nontraditional capital sources to find a way to grow, or in some cases even stabilize, AUM. In particular, some are making a concerted effort to pursue international investors looking for exposure to U.S. real estate, while others are actively working on effective mechanisms for accessing retail and high net worth capital. Defined contribution products in particular have been a hot topic among many firms, and this will be a critical area to watch over the coming years as those who are successful in tapping into these nontraditional capital sources may ultimately wield a major competitive advantage over the rest of the industry.

Growth in dry powder has outpaced that of acquisition volume, as it becomes increasingly difficult to place capital effectively

With the influx of capital coming into the U.S. commercial real estate industry, it is perhaps unsurprising that competition for deal flow is intense. While transaction volumes within our sample increased for the fifth year in a row (see exhibit 5), many report that capital placement has become one of the most significant challenges facing their business today.

This struggle to source attractive investment opportunities is evidenced by the amount of capital sitting on the sidelines. Levels of dry powder have steadily increased over the last four years (see exhibit 6) and today sit at historical highs. These increases have outpaced the increases seen in acquisitions volume, as much of the industry faces a challenge in putting their money to work. Among the firms in our study, dry powder makes up 7% of gross AUM and 11% of net AUM on average.

---

1) Source: Preqin
Two-thirds of firms increased their headcounts in 2014; portfolio accounting saw the most growth

Driven by increases in portfolio sizes, headcounts rose at most firms. Two-thirds of firms in our study reported staffing increases in 2014, with the average increase across the sample equating to about four percent. That said, changes in headcount also reflect the bifurcation in the market, as 22 percent reported decreases (the remaining 11 percent reported no change). Given increased fundraising and transactional activity, it is not surprising that three of the functions that saw the greatest increases in staffing were portfolio management, acquisitions, and investor relations (see exhibit 8).

![Exhibit 7: YoY headcount change](image)

Most notably, much of the industry increased portfolio accounting headcount (15% increase on average), due to regulatory requirements, increased complexity of product offerings, and more extensive investor demands regarding transparency and timeliness of reporting. Looking ahead, the industry is showing optimism for continued growth; 83 percent of firms expect headcounts to increase in 2015, while only 2 percent are anticipating a decrease (see exhibit 9).

Outsourcing has become an increasingly relevant topic

Outsourcing is a key area of focus for many managers. While many firms have outsourced property-level operations (e.g. property management, leasing, engineering) and certain “corporate” responsibilities (e.g. IT, legal) for years, there is an ever increasing discussion surrounding the outsourcing of fund administration activities. To reflect this fact, the 2015 iteration of the survey for the first time specifically asked participants about fund administration practices. The results confirm what anecdotal evidence suggests – 32 percent of the REIM universe is actively considering outsourcing fund administration, while 17 percent already do (see exhibit 10). This topic has become particularly relevant as cost allocation policies, fees, and other compliance issues continue to be placed under the microscope by investors and the SEC.
Fund managers considering a move to outsourcing cite a variety of motivations; chief amongst them are scalability, competency, management focus, and complexity.

Scalability is critical as REIMs strive to operate efficiently though cyclical fund lives, new product offerings, wind down of legacy vehicles, and other such portfolio changes. Adapting to these changing needs can be challenging for a firm managing fund administration in-house.

Competency is another key argument often made for outsourcing. The best and brightest fund accountants often do not see a clear career path at a REIM, and therefore recruiting top tier talent can be difficult. At a third-party provider where such activities are the primary focus, however, there can be more opportunity for growth, which in turn impacts the type of talent one can attract. Additionally, third-party providers have the necessary scale to make critical technology and infrastructure investments to optimize capabilities; such investments that often don’t make sense for a REIM due to lack of scale and the existence of other business priorities.

Outsourcing also allows management to focus energy on the firm’s primary responsibilities: raising, placing, and managing capital on behalf of investors. Removing the additional organizational complexity of a large fund administration platform can streamline operations and allow for prioritization of these critical activities.

Lastly, anytime a firm launches a new product or strategy, they are also adding greater reporting complexity. Tapping into third-party expertise in such new endeavors may make for a more seamless transition than trying to build new capabilities internally.

Despite the potential benefits, many questions still remain, and where the industry will shake out over the coming years remains to be seen.

**Core strategies have dipped from 31% to 18% of new capital commitments since 2013**

As attractive fundamentals and competition for deals drive prices up, returns have become harder to come by. As a result, many investors are moving up the risk curve in search of yield. High-yield strategies represented 77 percent of commitments in 2014 versus only 23 percent for core strategies, according to FPL’s proprietary database tracking U.S. pension commitments (see exhibit 11). This trend has continued thus far in 2015 and nothing imminent suggests a near-term shift.
Looking ahead

Looking ahead to 2015 and beyond, the real estate investment management sector will continue to face both challenges and opportunities. Fundraising thus far in 2015 is significantly outpacing that of 2014 (up by over 40 percent through Q2), as is transactional volume. Furthermore, investor allocations to real estate suggest that this trend has the potential to continue for the foreseeable future (see exhibit 12) as investors continue to commit capital to real estate in an effort to reach target allocations levels that continue to rise.

Despite the tailwinds, ongoing concerns regarding interest rates, the potential for macroeconomic or geopolitical events, and general acknowledgement that we may be reaching the “later innings” of the cycle have many proceeding cautiously. Likewise, the industry continues to be highly competitive, with far more managers seeking capital than can be sustained. Consolidation will be a continuing trend, favoring those select managers with a proven track record and forcing those in the ‘have not’ camp to seek alternative means of survival.

To compete in this environment, it is critical for REIMs to have the ability to benchmark themselves against industry practice to ensure that they do not fall behind. To that end, we provide on the following pages a series of benchmark metrics that enable comparisons against the industry across a variety of organizational, financial, fundraising and other enterprise-related performance metrics.

For more information, please contact Timothy Kessler, Principal, at tkessler@fplassociates.com.

---

1) Source: “2014 Institutional Real Estate Allocations Monitor” conducted by Cornell University and Hodes Weill & Associates
Full report of findings

- The full report of findings is available to participating firms; however, we would like to provide non-participants with an overview of the types of information included in the final survey output.
- To that end, on the pages that follow we will provide a detailed list of the metrics included in our report, along with representative charts and analyses to demonstrate the depth of information available to participants.

Table of contents

I Executive summary & key industry trends
II Participant demographics
III Capital raising & assets under management
IV Organizational metrics
   — Staffing metrics
   — Workload metrics
   — Other organizational metrics
V Governance
VI Financial metrics
VII Fund/account terms and conditions
Capital raising & assets under management

- This section analyzes the capital raising activity and assets under management of participating firms in 2014, including:
  - Growth in assets under management
  - Concentration of AUM amongst a firm’s top vehicle and top five vehicles
  - Volume of new capital commitments, by firm size
  - Year over year change in commitment volume
  - Concentration of commitments
  - Value of new commitments as a percentage of assets under management (see chart at right)
  - Breakdown of 2014 capital raised by quadrant, geography, and investor type
  - Breakdown of 2014 and 2015 YTD commitments by (1) vehicle type and (2) strategy (see chart at right)
  - “Dry powder” as a percentage of assets under management
  - Leverage ratios
  - Concentration of AUM amongst a firm’s top investor and top five investors
  - Historical and projected acquisition and disposition volumes

### Median capital raised as a percentage of net AUM by firm size

<table>
<thead>
<tr>
<th>Net AUM</th>
<th>2014</th>
<th>2015 (through Q2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$1.5B net AUM</td>
<td>3%</td>
<td>8%</td>
</tr>
<tr>
<td>$1.5-5B net AUM</td>
<td>23%</td>
<td>36%</td>
</tr>
<tr>
<td>&gt;$5B net AUM</td>
<td>40%</td>
<td>49%</td>
</tr>
</tbody>
</table>

### Breakdown of 2014 commitments by strategy

<table>
<thead>
<tr>
<th>Strategy</th>
<th>2014</th>
<th>2015 (through Q2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core/Core +</td>
<td>23%</td>
<td>18%</td>
</tr>
<tr>
<td>Value-add</td>
<td>36%</td>
<td>33%</td>
</tr>
<tr>
<td>Opportunistic</td>
<td>40%</td>
<td>49%</td>
</tr>
</tbody>
</table>
Staffing metrics

- This section outlines various organizational benchmark metrics, with a focus on staffing; specific analyses include:
  - Year over year change in headcount
  - 2015 headcount expectations
  - **Number of employees per $1B of gross AUM**
    - Overall
    - **By firm size** (see chart at right)
      - By strategy
  - **Number of employees per $1B of net AUM**
    - Overall
    - By firm size
    - By strategy
  - Number of employees per $10MM of revenues
    - Overall
    - By firm size
    - By strategy
  - Breakdown of total employee count by function and seniority
  - Breakdown of employee seniority within each function
  - **Number of employees per $1B of gross and net AUM within each function** (see excerpted chart at right)
  - Employee breakdown by age group
Workload metrics

- This section outlines various organizational benchmark metrics, with a focus on workloads; specific analyses include:
  - **Portfolio management workloads (overall and by firm size)**
    - By number of accounts/funds
    - By gross asset value (see chart at right)
    - By square footage
  - **Asset management workload**
    - By number of properties (see chart at right)
    - By gross asset value
    - By square footage
    - By net operating income
    - By number of tenants
  - Volume expectations for acquisitions officers (overall and by strategy)
  - Actual 2014 acquisitions volume per transactions employee
Other organizational metrics

- This section outlines various other organizational benchmark metrics; specific analyses include:
  - **Span of control metrics (see excerpted chart at right)**
  - Voluntary and involuntary turnover rates
  - Prevalence and magnitude of layoffs
  - Executive management tenure
  - Executive management attrition
  - **Outsourcing practices (see excerpted chart at right)**
  - Approaches to fund administration
  - Number of senior professionals with >20 years industry experience
    - Per $1B of gross and net AUM
    - Per $10MM of revenues
  - CEO involvement in fundraising
  - Valuation frequencies
  - Percentage of firms that distinguish between asset management/portfolio management and asset management/acquisitions
Governance

- This section analyzes governance practices among the firms in our sample; analyses include:
  - Prevalence of various governance committees
  - Size and composition of the Executive Committee, Management Committee, and Investment Committee
  - Investment Committee deal flow, meeting attendance, veto authorities, and decision trends (see excerpted chart at right)
  - Level of capex allowed without formal approval
  - SEC registration and Chief Compliance Officer statistics

Financial metrics

- This section provides a variety of benchmark financial metrics, including:
  - Year over year pre- and post-bonus EBITDA margins
  - EBITDA margins by company size
  - Bonus pool as a percentage of pre-bonus EBITDA
  - Breakdown of revenues and expenses by component
  - Major expenses as a percentage of revenues
Fund/account terms and conditions

- Each firm was asked to provide information on its most recent investment vehicle, or any vehicles currently in market.
- In total, the 2015 data set includes 67 investment funds/separate accounts, vintage 2011-2015.
- This section summarizes the fund/account data and includes:
  - Typical fund size by vehicle type/strategy
  - Target returns (IRR and multiple) by strategy
  - Asset management fee magnitudes
  - Asset management fee compression
  - Asset management fee basis
  - Asset management fees on uninvested commitments
  - Acquisition fee prevalence and magnitudes
  - Disposition and financing fee prevalence
  - Promote/carried interest prevalence and magnitude
  - Promote catch-ups
  - Investor preferred returns
  - General partner co-investment magnitudes and funding responsibility
  - Employee dedication to funds

<table>
<thead>
<tr>
<th>Asset management fees (gross/net basis)</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
</tr>
<tr>
<td>25th %ile</td>
</tr>
<tr>
<td>50th %ile</td>
</tr>
<tr>
<td>75th %ile</td>
</tr>
<tr>
<td>Gross basis</td>
</tr>
<tr>
<td>Net basis</td>
</tr>
<tr>
<td>Net basis</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>During the investment period, are asset management fees paid on uninvested commitments?</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of funds</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>Core/Core+ Separate Account</td>
</tr>
<tr>
<td>Core/Core+ Commingled Fund</td>
</tr>
<tr>
<td>High-Yield Commingled Fund</td>
</tr>
</tbody>
</table>
FPL Consulting

FPL Consulting 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 Consulting specializes in “transformational” assignments addressing key shareholder and/or employee requirements so as to provide a new foundation for competitive performance.

For more information, please contact Timothy Kessler, Principal, at tkessler@fplassociates.com

National Association of Real Estate Investment Managers

NAREIM is the leading association for companies engaged in the real estate investment management business. NAREIM members sponsor funds and other real estate investment programs as well as develop and manage the assets in which they invest. They serve the investment goals of public and corporate pension funds, foundations, endowments, insurance companies and individuals – domestic and foreign. Collectively, NAREIM members have over $1 trillion of assets under management as well as billions in debt investments throughout the capital stack and around the world. NAREIM members, a variety of entrepreneurial and institutional firms, include real estate fund and separate account managers, REITs, and insurance companies.

For more information please visit www.nareim.org