

Preqin Research Report (1)

Real Estate Dry Powder: Record Levels in Rocky Times

Due to the adverse effects of the credit crunch, many real estate developers are struggling to find finance for new and existing projects. Traditional sources of capital have dried up, with banks reluctant to lend at the same rates as in previous years, leaving developers with compelling opportunities that cannot get off the ground, half-completed projects and debts that require refinancing.

However, although conditions are far from ideal, there is capital out there and developers just need to be pointed in the right direction in order to find like-minded property investment firms that have capital to commit and are keen to make deals. This month we examine the amount of dry powder available across the private equity real estate world and see how much capital is out there to commit to real estate projects.

All the information in this article is taken from our Real Estate Capital Source database - the industry-leading product with information for developers looking for finance for their real estate projects. For more information, please visit: www.preqin.com/RECS

Private equity real estate funds have been struggling to raise capital recently, with 2009 seeing the lowest level of fundraising since 2004. To date only 63 funds have reached a final close, raising an aggregate \$30 billion. As a result, it would be natural to assume that this drop in fundraising would result in a drop in the amount of capital available for investments.

However, this is not the case and the amount of dry powder available to private equity real estate firms for investments is still very high. The amount of dry powder available across the private equity real estate industry remains at a similar level to recent years, with an estimated \$143 billion available across all private equity real estate as of December 2008.

There are several reasons why the dry powder remains so high despite difficulties in fundraising. With the credit crunch, financing for deals has become much more difficult to come by, and resultantly deals have been limited

and call-ups have slowed significantly. Additionally, some managers are reluctant to invest in these conditions, preferring to wait until the market has bottomed out. In some cases, fund managers have also been forced by investors to delay capital calls due to investors' fears that they do not have the liquidity to meet these obligations, which means that the fund managers are sitting on large levels of dry powder.

Where Will This Money Be Invested?

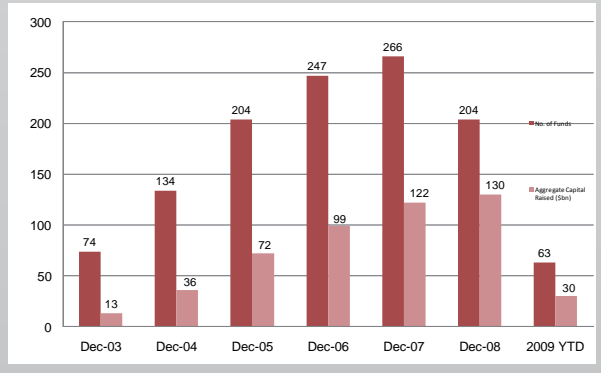
The majority of private equity real estate fund managers employ opportunistic strategies when making investments, and as of December 2008 there was \$70.4 billion available for investment in real estate projects following this strategy. There is \$40.6 billion available for value added projects, \$21.4 billion for investment in real estate debt, \$6 billion for core-plus and \$4.8 billion for distressed projects. It must be noted that many opportunistic fund managers will also make investments in distressed projects as part of their investment mandate in order to take advantage of the growing number of opportunities in this area.

There has been an increase over the years in dry powder available for investment in real estate debt, while slight decreases have been registered in the amount of dry powder available for value added and opportunistic investments over the last 18 months. Due to the recent liquidity crisis, debt funds have become an even more popular source of investment. These funds look to provide financing opportunities to property developers or owners in need of term financing or refinancing for property projects, and look to replace the role of the traditional lenders such as banks. Debt funds also look to purchase debt from institutions or operating companies.

Dry Powder by Region

As of December 2008 there was \$78 billion available in dry powder for investment in property projects in the US. The amount of dry powder available for

Fig. 1:
Private Equity Real Estate Fundraising:
2003 - 2009 YTD



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... the amount of dry powder available is still very high ...
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Fig. 2:
Private Equity Real Estate Dry Powder Levels: December 2003
- December 2008 (\$bn)

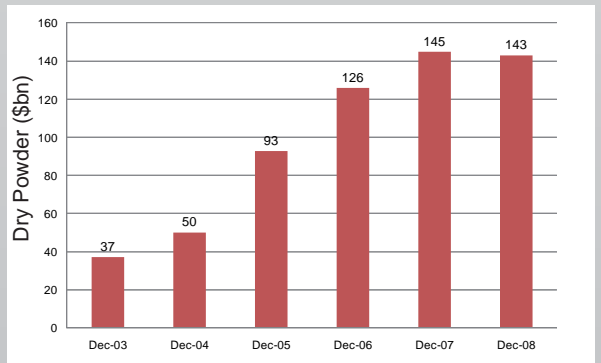


Fig. 3:
Dry Powder by Fund Type:
December 2003 - December 2008 (\$bn)

Date	Core-Plus	Opportunistic	Value Added	Debt	Distressed
31/12/2003	3.0	16.9	11.0	4.6	1.5
31/12/2004	3.5	21.3	18.7	5.7	0.9
31/12/2005	7.0	44.2	31.4	6.9	3.3
31/12/2006	10.5	61.0	40.9	9.0	4.5
31/12/2007	10.2	71.7	46.3	13.3	3.5
31/12/2008	6.0	70.4	40.6	21.4	4.8



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- > Fund Performance
- > Fund Raising
- > Fund Manager Profiles
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Preqin Research Report (2)

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investment in Asia and Rest of World has increased and is currently higher than that available for investment in Europe.

In recent years there has been an increase in the amount of capital raised by Asia and Rest of World private equity real estate funds as investors looked to take advantage of the boom in Asian property markets and the high returns that have been generated by investments in this area. However, it is likely that dry powder for this region will decrease slightly in the near future as western institutional investors are more likely to deploy limited resources closer to home, making it more difficult for Asia and Rest of World funds to achieve success in the fundraising market and therefore replenish dry powder stocks.

The Future

Although dry powder levels are high at the moment, it is likely that capital call-ups will resume more quickly than new fundraisings over the course of 2009, and as a result dry powder levels are likely to dip.

However, there is a feeling prevalent throughout the industry that the market will settle and investors will begin committing to the asset class again. Many investors are ready to start committing to the industry again once this improvement is fully realized, and we would expect that dry powder levels will increase further in the future.

For developers and real estate companies there is capital out there. Fund managers are keen to deploy capital into projects order to deliver returns to their investors.

Not all private equity real estate fund managers will be using uninvested capital to invest in new developments. It was reported that PCCP, a fund operator based in San Francisco, was planning to use uninvested capital in order to shore up its existing debt and make improvements to existing properties.

This strategy may be adopted by additional fund managers in order to prevent further losses and improve the quality of existing investments if they are struggling to source new investments. So, for developers, tracking down the right source of capital with the same goals and aims as they possess is an essential task.

Data Source

All of the data used in this report was taken from Preqin's industry-leading product - Real Estate Capital Source.

Real Estate Capital Source is a powerful interactive database designed to help real estate developers, intermediaries, and firms to find sources of private equity real estate capital to partner with.

Real Estate Capital Source will help you to network and establish relationships, leading to successful partnerships being struck, and profitable deals being made.

For more information about this product, or to order online, please visit;

www.preqin.com/RECS

Fig. 4:
Dry Powder by Fund Strategy (\$bn)

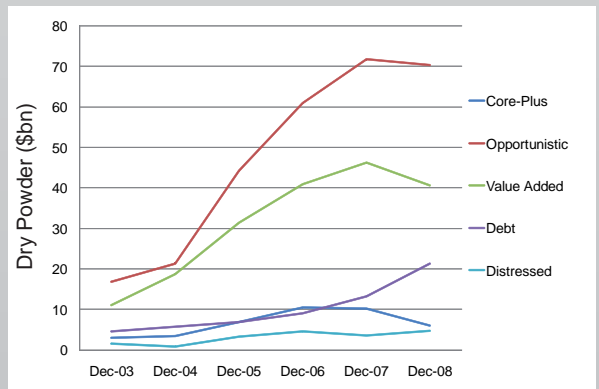


Fig. 5:
Dry Powder by Fund Strategy (%)

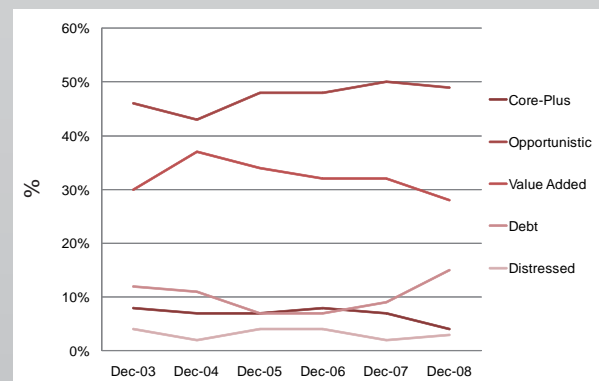
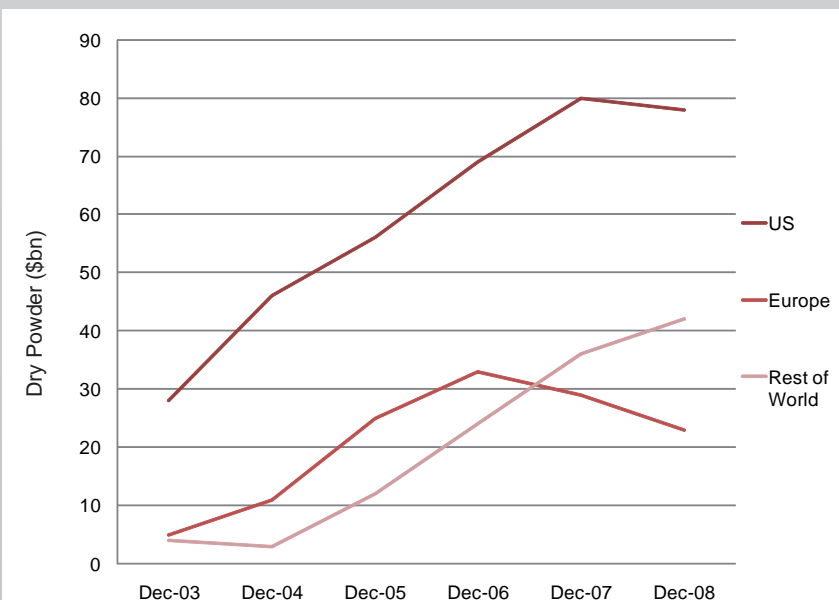
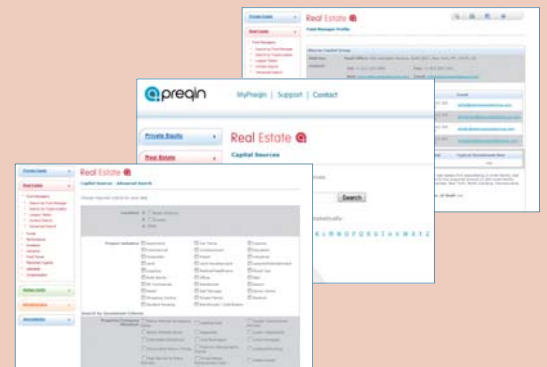


Fig. 6:
All Private Equity Real Estate Dry Powder by Region Focus:
December 2003 - December 2008



Real Estate Capital Source



Keeping up-to-date with the hundreds of private equity real estate capital sources is a time-consuming, near-impossible task. As a result, many developers, intermediaries and fund managers seeking financial backing are missing out on forming opportunities with the most suitable and effective partners.

Preqin's Real Estate Capital Source is an online service developed to help those seeking backing or partnership agreements for developments from the private equity real estate industry.

For more information, or to order online please visit:

www.preqin.com/RECS