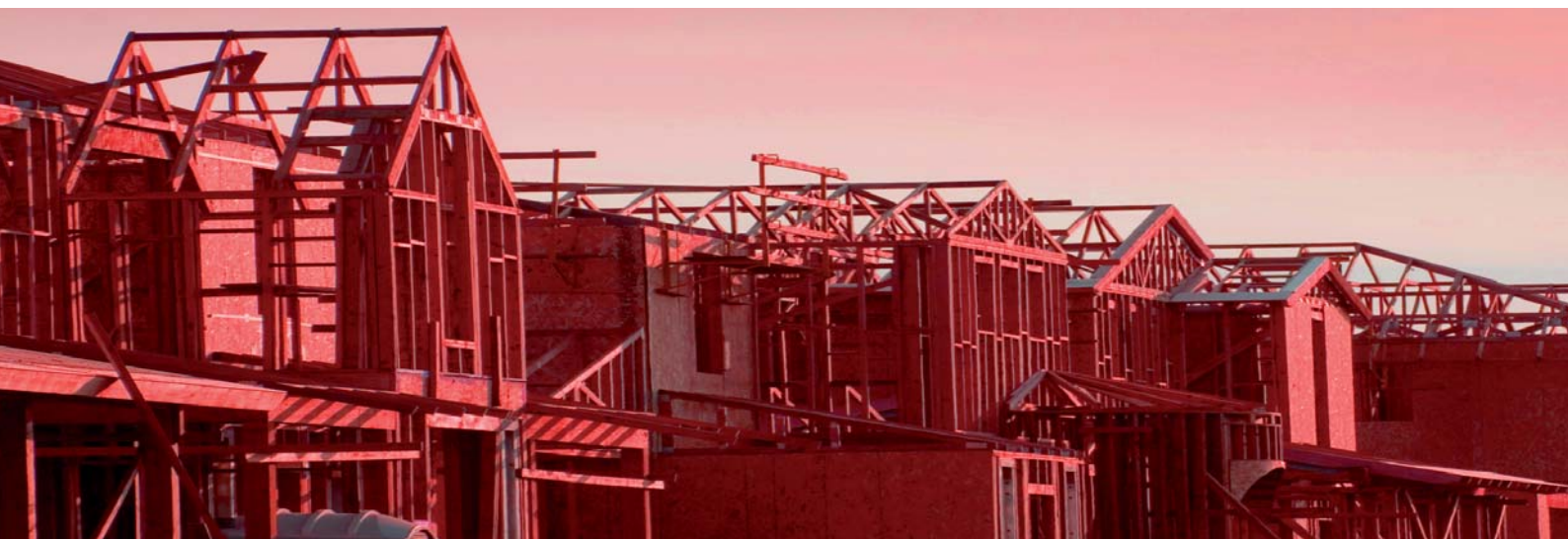


Preqin Special Report:

Private Equity Real Estate Distressed and Debt Market

April 2010



Private Equity • Real Estate • Hedge Funds • Infrastructure

Distressed and Debt Real Estate: From Niche to Mainstream

Since Preqin launched the first edition of its report, the Real Estate Distressed and Debt Review in 2009, the effect of the economic downturn on private equity real estate fundraising has become clear. Years of unprecedented growth in the closed-end private fund industry, which saw fundraising balloon from \$38 billion in 2004 to \$137 billion in 2008, came to an end in 2009 as fundraising figures dropped to a five-year low (see Fig. 1). When the credit crunch hit, real estate prices fell and liquidity issues affected many involved in the real estate investment universe.

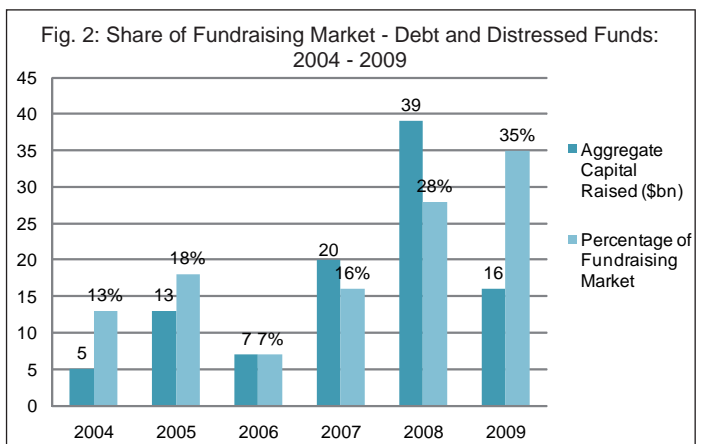
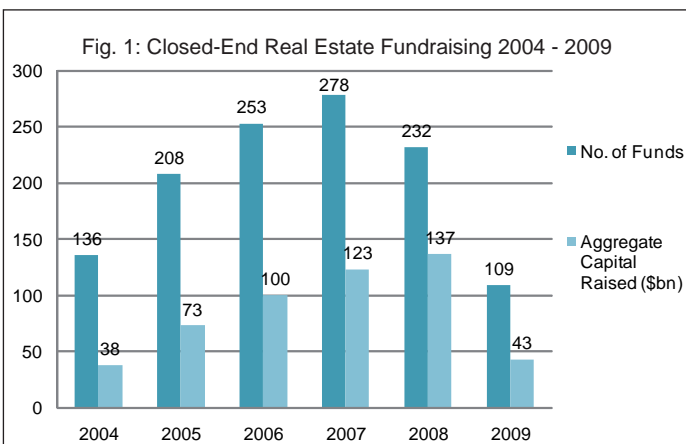
While the downturn was certainly unwelcome, it has actually assisted certain areas of the industry, namely the distressed and debt markets. The importance of the real estate debt and distressed markets has increased rapidly in the last couple of years as a result of the economic slump and, although fundraising for these vehicles was down from previous years in 2009, their share of the fundraising market grew. Debt and distressed funds have not only played a crucial role in helping the industry at large, they have also been key in sustaining the closed-end private fund market. As Fig. 2 highlights, 28% of the aggregate capital raised by real estate funds in 2008 was accounted for by funds that incorporated debt and/or distressed plays in their strategy. This increased to 35% in 2009 and the debt and distressed market is now so prominent that over 50% of the capital targeted by funds in market is to be allocated to vehicles that include a focus on one or both of these strategies.

Opportunities Available

Debt and distressed real estate funds have featured in the closed-end real estate fund market almost since its emergence and some fund managers have been raising such vehicles for a number of years. Lone Star Funds, for example, has raised funds incorporating distressed and debt assets since the mid-1990s. However, market conditions have now become so conducive to distressed and debt investments that 44% of funds in market (by number of funds) will make plays in either one or both of these strategies. It is not only debt and distressed specialists involved in these funds; managers that traditionally raise value added and opportunistic funds have been including distressed and debt strategies in their funds in order to benefit from these expanding areas of the market. Some of these managers are even raising funds solely focused on these markets.

The influx of fund managers into the distressed and debt market is largely owing to illiquidity in the real estate industry and the fact that many with real estate holdings are being forced to sell their debt portfolios or assets at a reduced price. With many institutional investors still keen to commit to closed-end real estate funds, and interested in the opportunities available in debt and distressed markets, fund managers are increasingly catering for those wanting such exposure.

Debt funds have become more prominent in the last couple of years as traditional providers of debt to the real estate market have become unable to finance real estate markets to the same



Distressed and Debt Real Estate: From Niche to Mainstream

degree as they were during the economic boom. Banks and other lenders are now more focused on building up their balance sheets, so are unable or unwilling to source real estate investment as they once did. Uneasy in the economic climate, many lenders have chosen or been forced to sell their debt portfolios to those wanting and able to take the risk. Fund managers have stepped into the breach to help the market with both problems. Firstly, they have become a more significant source of financing for those wishing to undertake real estate projects and for those looking to buy into the market. Secondly, they have also invested in debt, taking real estate debt packages from traditional lenders at discounted prices. Opportunities are rife in debt markets and with many fund managers believing that debt investments will achieve better returns than equity investments, many are raising funds targeting this area of the market.

For similar reasons, opportunities have also presented themselves in the distressed real estate market. Unfinished and unfinanced projects are being bought at discounts by fund managers that have capital to inject and can afford to wait until markets improve before they see returns on their investments. In addition, fund managers can pick up property portfolios from institutions that are in distress and need to offload real estate at a discount in order to provide themselves with financial relief.

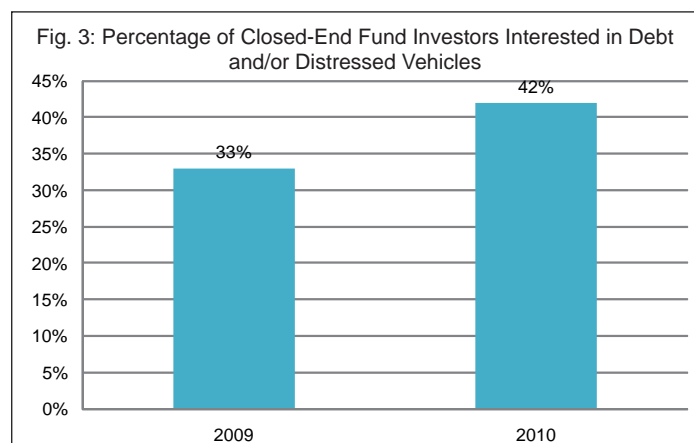
Importance of the Distressed and Debt Market

The global economic downturn has had a sobering effect on the real estate market. Debt and distressed funds have become

important for the industry, stepping in to fill the gap left by traditional sources of capital. Without this injection of capital, many projects would struggle to complete, distressed sellers would be left without capital relief and banks would have debt packages that they could not afford to hold.

With marketing of funds now often tailored to this increasingly prominent area of real estate investment, investors have followed suit. Although overall fundraising has been relatively poor since Q4 2008, most investors retain an optimistic outlook for the industry in the longer-term and see debt and distressed funds as important parts of their real estate investment portfolios. Many see these vehicles as a long-term, viable risk-adjusted choice for their portfolios as they seek to tap into the opportunities available due to market dislocation. With 42% of closed-end investors interested in these markets, a figure up nine percentage points from last year and still growing, signs are promising for managers that have incorporated debt and distressed strategies into their vehicles. With demand comes supply, and fund managers will continue to make funds available for an increasingly willing debt and distressed investor universe.

Gaining an insight into market trends in the debt and distressed landscape is of vital importance to those involved in the closed-end real estate fund industry. Preqin's new publication, The 2010 Preqin Real Estate Distressed and Debt Review, enables market players not only to see the bigger picture, but also to pinpoint the exact strategies adopted by individual debt and distressed fund managers and investors. With debt and distressed moving from niche to mainstream, those involved in the real estate debt and distressed industry, whether fund manager, fund of funds, real estate advisor, placement agent, fund lawyer, fund accountant or investor, can benefit by gaining an unique insight into an industry that is more important than it has ever been. More information on the Review can be found on page 8, and also on our website: www.preqin.com/redistressed



PERE Distressed and Debt Market: Institutional Investors Overview

Investor Location

- Institutional investors from across the globe invest in distressed and debt private real estate funds. North America accounts for the largest proportion of investors interested in distressed and debt funds, with 66% of investors headquartered in the region.
- The US is by far the most significant base for investors in these funds, with 64% of investors headquartered in the country.
- Europe-based investors now account for 24% of the real estate distressed and debt investor universe, up from 16% in 2009, and Asia and Rest of World-based investors now account for 10%, up from 6% in 2009. Investors from these regions are increasingly recognizing the opportunities available in these markets and are keen to gain exposure to funds with such focus.

Investor Type

- The real estate distressed and debt fund industry is becoming increasingly prominent within the closed-end investor universe and institutions of various types are interested committing to these markets.
- 31% of investors with an interest in distressed and debt funds are public pension funds. This group accounts for some of the most significant investors in the distressed and debt market.
- Endowments are the second most significant type of investor, making up 12% of the distressed and debt investor universe. Although sovereign wealth funds only account for 2% of the investors interested in distressed and debt funds, they tend to invest a significant amount of capital to the market when they make commitments.

Fig. 4: Make-up of Investors in Distressed and Debt Funds by Location

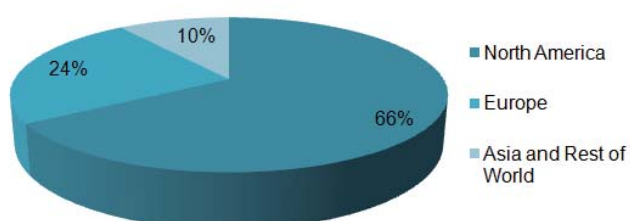
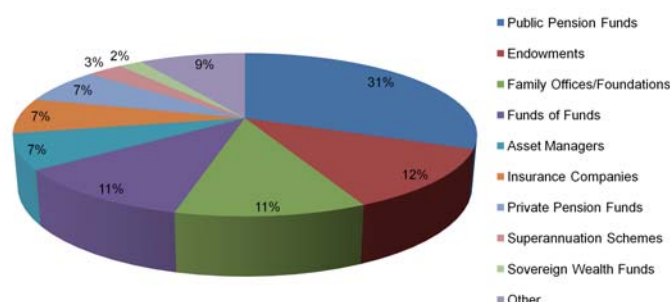


Fig. 5: Make-up of Investors in Distressed and Debt Funds by Investor Type



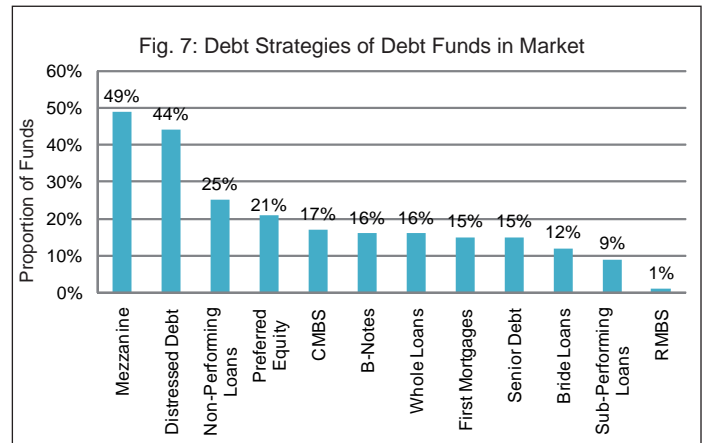
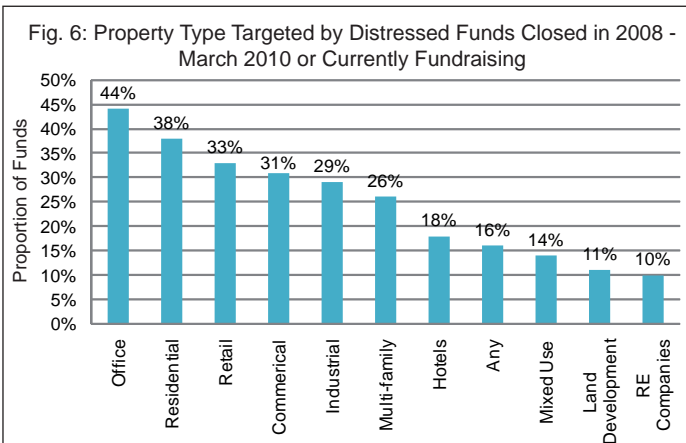
PERE Distressed and Debt Market: Funds Overview

Distressed Funds

- Office properties are the most commonly targeted by vehicles that incorporate distressed plays into their strategies. 44% of distressed funds closed in 2008 – Q1 2010 and distressed funds in market target this sector.
- Residential properties are the second most targeted for distressed funds with 38% of these vehicles interested in this property type. 33% of funds target the retail sector and 31% of funds target commercial assets.
- 16% of distressed vehicles have an open approach to investment and will consider opportunities in all property sectors.

Debt Funds

- A large proportion of the debt funds closed in 2008 – 2009 targeted mezzanine deals. 83% of the funds closed during this period plan to provide or acquire mezzanine loans. The joint second most targeted strategies, preferred equity and distressed debt, are used by 40% of debt funds closed in 2008 - 2009.
- For debt funds currently in the fundraising stage, mezzanine loans are also the most targeted form of debt, with 49% of funds on the road seeking these opportunities. 44% of funds are targeting distressed debt, making it the second most targeted debt type for funds on the road.
- Preferred equity strategies are less targeted by funds in market than they are by funds closed in 2008 - 2009, with 21% of vehicles on the road interested in this debt type.



PERE Distressed and Debt Market: Fundraising Overview

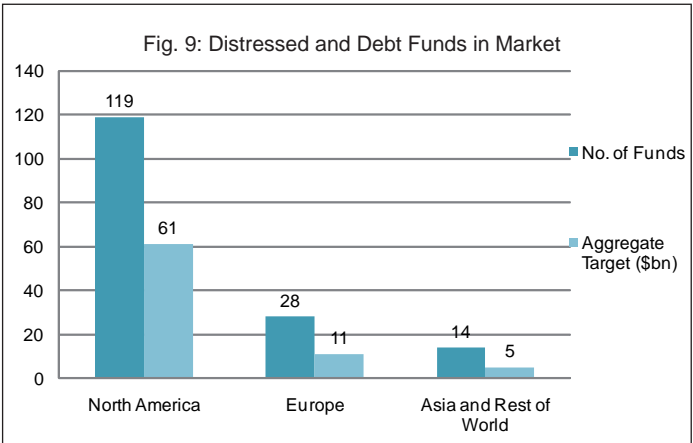
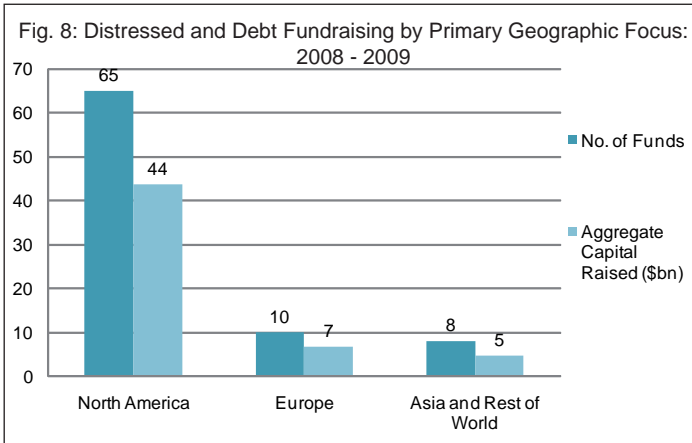


Fundraising (2008 - 2009)

- North America is the most significant geographical focus for distressed and debt funds closed in 2008 – 2009. \$44 billion was raised for funds with a primary focus on this region. This accounts for 79% of all the capital raised for debt and distressed funds in this period.
- Of the funds closed in 2008 – 2009, 65 of them are focused primarily on North America. This 78% share highlights the predominance of the North American market.
- During this period 10 primarily Europe-focused funds raised \$7 billion, while eight primarily Asia and Rest of World-focused funds received commitments of \$5 billion. It is important to note however, that a number of the largest funds with a primary focus on North America do also make investments on a global basis.

Funds in Market

- As with funds closed in 2008 – 2009, the distressed and debt vehicles on the road also favour markets in the US. \$61 billion is being targeted by funds with a primary focus on North America. This accounts for 79% of capital being targeted; the same figure seen in 2008 - 2009.
- 74% of funds in market that are targeting distressed and debt vehicles have a prime focus on North American markets.
- Although the focus of the distressed and debt fund market is heavily weighted to North America, other regions also play an important role in fundraising. 28 funds in market are primarily Europe-focused funds targeting \$11 billion and 14 funds in market are primarily Asia and Rest of World-focused funds targeting \$5 billion. It is important to note however, that a number of the largest funds with a primary focus on North America do also make investments on a global basis.



PERE Distressed and Debt Market: Fund Manager Universe Overview

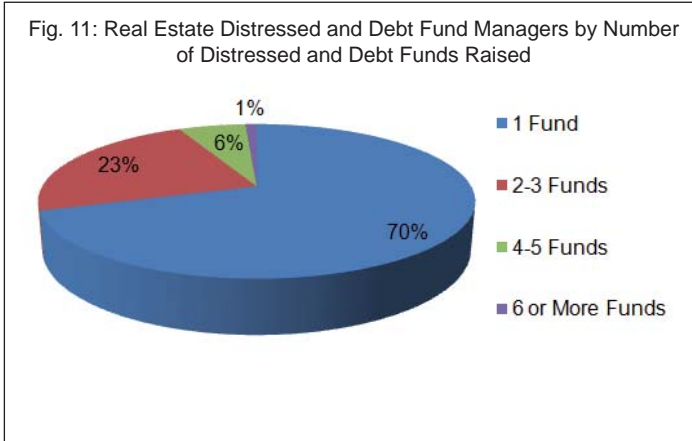
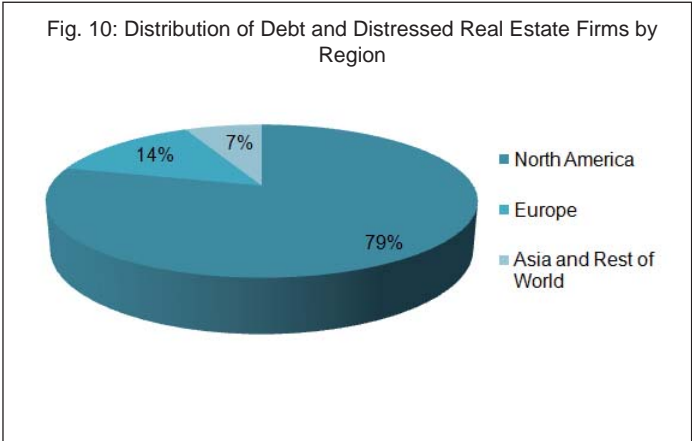


Fund Manager Location

- Preqin has identified a total of 248 fund managers managing 385 distressed- or debt-focused real estate vehicles. 195 of these fund managers are based in North America. This accounts for 79% of the fund manager universe. 190 of the 195 fund managers are based in the US making it the most significant distressed and debt fund manager location.
- 35 of the fund managers are located in Europe. This accounts for 14% of fund managers. 23 of those firms are based in the UK.
- Asia and Rest of World is home to the remaining 18 fund managers involved in the distressed and debt fundraising markets. This accounts for 7% of the global total.

Fund Manager Experience

- The private real estate fund market has seen an increase in both the number of experienced fund managers diversifying into distressed or debt investments and the number of new firms raising first-time funds targeting the distressed and debt market.
- 70% of firms are first-time managers of distressed and debt vehicles. This does not necessarily mean that they are raising their first real estate fund, as many of these fund managers have previously managed funds with other strategies.
- 23% of fund managers are raising their second or third distressed or debt fund, while 6% have four or five vehicles and only 1% manage six or more.



The 2010 Preqin Real Estate Distressed and Debt Review



The global economic downturn has had a major effect on the global real estate industry. A large number of managers, operators and owners have become distressed, with many looking to refinance projects and sell off properties. As fundraising for traditional PERE funds has struggled, the number of vehicles launched to take advantage of distressed and debt opportunities has grown dramatically, and now represents a significant proportion of the closed-end real estate fund market. The 2010 Preqin Real Estate Distressed and Debt Review is a vital tool in helping you to understand the key trends and players in this market.

Key features of this year's publication include:

- Comprehensive profiles for over 200 distressed and debt fund managers.
- Full profiles for over 170 institutional investors currently investing in this market.
- Listings for all funds closed and currently in market, plus fund-specific performance data listings for over 100 funds and terms listings for 73 funds.
- Detailed analysis covering the history and make-up of the market, performance, fundraising, investors and fund terms.
- Global coverage, featuring the largest known managers and investors worldwide.

Benefits of this year's publication include:

- Wide-ranging analysis will help you understand the latest market trends and is essential for producing reports, presentations and marketing materials.
- Our detailed profiles will save hundreds of research hours looking for firm or investor backgrounds and contact details.
- Most comprehensive report available today, with exclusive information all compiled by our team of dedicated analysts via direct contact with firms and investors.
- Industry's most trusted source of data with over 800 firms worldwide using our data, including 39 of the top 50 PERE firms by size.

More information:
www.preqin.com/redistressed

2010 Preqin Real Estate Distressed and Debt Review - Chapters

1..... EXECUTIVE SUMMARY	10..... LISTINGS OF DISTRESSED AND DEBT FUND TERMS AND CONDITIONS
2..... DATA SOURCES	11..... REVIEW OF LAW FIRMS
3..... OVERVIEW OF REAL ESTATE DISTRESSED AND DEBT MARKET	12..... OVERVIEW OF DISTRESSED AND DEBT REAL ESTATE FIRMS
4..... LISTINGS OF DISTRESSED AND DEBT FUNDS CLOSED: 2008-2010	13..... ANALYSIS OF DISTRESSED AND DEBT FUND PERFORMANCE
5..... DEBT FUNDRAISING	14..... LISTINGS OF DISTRESSED AND DEBT FUND PERFORMANCE
6..... DISTRESSED FUNDRAISING	15..... FIRM INVESTMENT PREFERENCES
7..... LISTINGS OF DISTRESSED AND DEBT FUNDS ON THE ROAD	16..... DISTRESSED AND DEBT FIRM PROFILES
8..... REVIEW OF PLACEMENT AGENTS	17..... REVIEW OF INVESTORS IN DISTRESSED AND DEBT FUNDS
9..... OVERVIEW OF DISTRESSED AND DEBT FUND TERMS AND CONDITIONS	18..... PROFILES FOR KEY INVESTORS IN DISTRESSED AND DEBT FUNDS

2010 Preqin Real Estate Distressed and Debt Review: Order Form

The global economic downturn has had a major effect on the global real estate industry. A large number of managers, operators and owners have become distressed, with many looking to refinance projects and sell off properties. As fundraising for traditional PERE funds has struggled, the number of vehicles launched to take advantage of distressed and debt opportunities has grown dramatically, and now represents a significant proportion of the closed-end real estate fund market. This year's updated 300 page edition includes:



- Comprehensive profiles for over 200 distressed and debt fund managers.
- Full profiles for over 170 institutional investors currently investing in this market.
- Listings for all funds closed and currently in market, plus fund-specific performance data listings for over 100 funds and terms listings for 73 funds.
- Global coverage, featuring the largest known managers and investors worldwide.

Purchase online: www.preqin.com/redistressed

2010 Preqin RE Distressed & Debt Review Order Form - Please complete and return via fax, email or post

I would like to purchase the Preqin RE Distressed and Debt Review:

£465 + £10 Shipping \$795 + \$40 Shipping €495 + €25 Shipping

Additional Copies

£110 + £5 Shipping \$180 + \$20 Shipping €115 + €12 Shipping

(Shipping costs will not exceed a maximum of £15 / \$60 / €37 per order when all shipped to same address. If shipped to multiple addresses then full postage rates apply for additional copies)

I would like to purchase the 2010 Preqin RE Distressed and Debt Review Graphs & Charts Data Pack in MS Excel Format:

\$300 / £175 / €185 *(contains all underlying data for charts and graphs contained in the publication. Only available alongside purchase of the publication).*

Name: _____

Firm: _____ Job Title: _____

Address: _____

City: _____ Post / Zip Code: _____ Country: _____

Telephone: Email: _____

Payment Options:

- Cheque enclosed (please make cheque payable to 'Preqin')
- Credit Card Visa Mastercard Amex
- Please invoice me

Card Number: _____

Expiration Date: _____ Security Code*: _____

Name on Card: _____

*Security Code:



— Visa / Mastercard: the last 3 digits printed on the back of the card.



— American Express: the 4 digit code is printed on the front of the card.

Preqin - Scotia House, 33 Finsbury Square, London, EC2A 1BB
Preqin - 230 Park Avenue, 10th floor, New York, NY 10169

w: www.preqin.com / e: info@preqin.com / t: +44 (0)20 7065 5100 / f: +44 (0)87 0330 5892 or +1 440 445 9595