Real Estate Spotlight

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PERE Funds at End of Investment Period Sitting on $70-80 billion in Dry Powder

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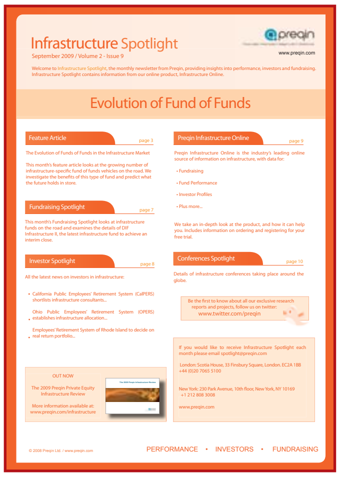

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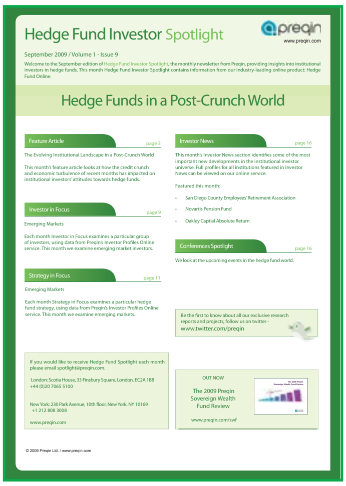

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PERE Funds at End of Investment Period Sitting on $70-80 billion in Dry Powder

The boom in private equity real estate fundraising prior to Q4 2008 saw increasing amounts of capital committed to the asset class. However, following the global financial crisis and severe declines in property prices, the number of completed deals has fallen significantly. With a median investment period for real estate funds of three years, many fund managers are now approaching the end of their investment periods with large amounts of capital yet to be invested. For example, vintage 2007 funds have $67 billion in uncalled capital available for investment.

Fig. 1 shows how substantially fundraising for private equity real estate funds grew in the years 2003 to 2008, with the aggregate capital raised in 2008 more than 10 times the amount raised in 2003. Investors, keen to diversify their portfolios and gain exposure to the strong returns that private equity real estate funds were achieving, increased their allocations to the asset class. Rising property prices meant that fund managers found a wealth of opportunities in which to invest committed capital and were typically able to successfully realize their investments within a few years. Investors were therefore receiving regular distributions from their existing portfolio funds and had to continually make new investments to maintain their real estate allocations, further fuelling the fundraising boom.

"Many fund managers are now approaching the end of their investment periods with large amounts of capital yet to be invested."

Declining property values worldwide had a significant impact on property transactions during 2009. Falling property values, a lack of available credit and uncertainty about the future of real estate markets meant that many were reluctant to invest capital. This included managers of private equity real estate funds, meaning that they now have a significant amount of capital that was committed during the booming fundraising market but has not yet been called.

Private equity real estate funds have stated investment periods, starting from a fund's first close. Analyzing Preqin's fund terms data shows that such funds have relatively short investment periods compared to other private equity fund types, with a median investment period of three years and a mean of 3.3 years. When real estate values were rising, few fund managers had difficulty finding sufficient opportunities in which to invest their funds' capital within the investment period. However, the rate at which fund managers have called capital has dropped significantly in recent months, which has made it far more likely for fund managers to approach the end of their investment periods with significant levels of capital uninvested. In most cases it is likely that firms will be able to negotiate extensions to the investment period with their investors – provisions for such extensions are present in many limited partnership agreements – but this may not be possible for some, meaning that they would no longer be able to draw down capital for new investments. Such negotiations are likely to become more commonplace during 2010 as more funds approach the end of their original investment periods.

Uncalled Capital

Using Preqin's individual fund level

Fig. 1:

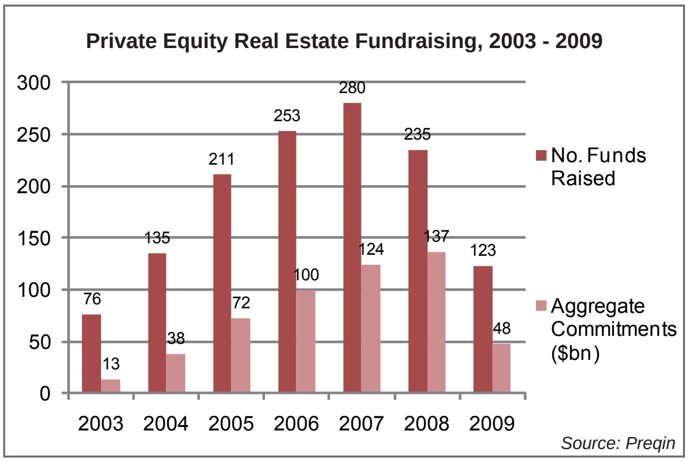
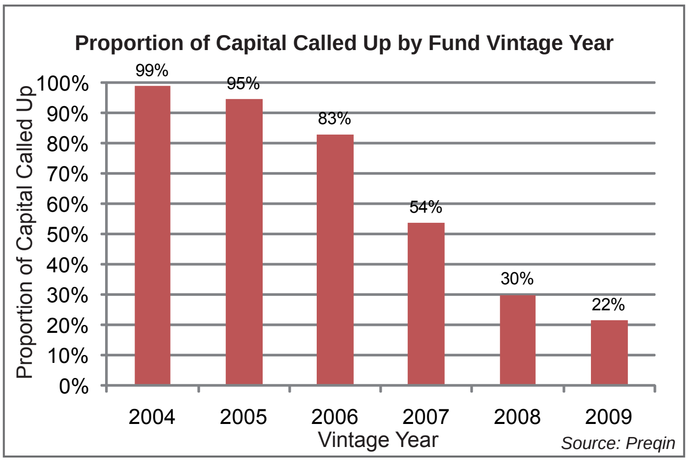
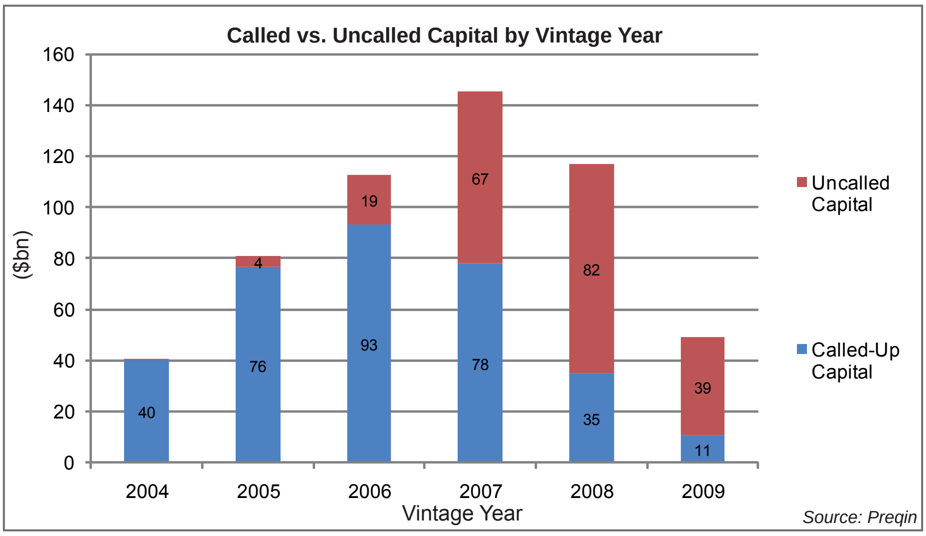


Fig. 2:



performance data, it is possible to calculate how much capital is still uncalled by funds of different vintage years. Fig. 2 shows the percentage of capital that has been invested by vintage year. Vintage 2007 funds have called up 54% of investor commitments. Fig. 3 demonstrates the amount of capital that has been called up and how much is still uninvested. As mentioned, vintage 2007 funds have $67 billion in uncalled capital available for investment. With the median investment period length for real estate funds standing at three years, a significant proportion of this capital is committed to funds nearing the end of their investment periods. There is also $19 billion of uncalled capital from funds of a 2006 vintage, and the vast majority of this capital will be for funds nearing the end of their investment periods.

Fig. 3:

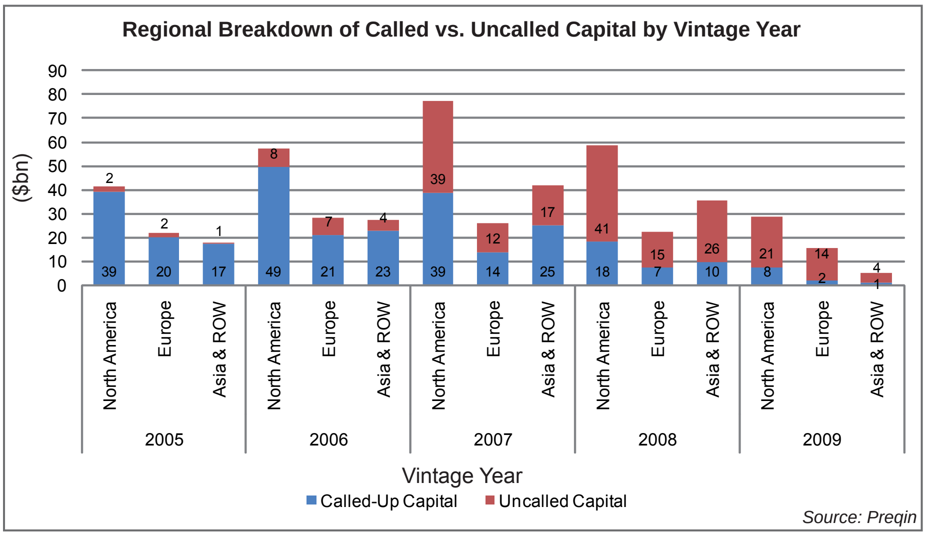


Funds of 2008 vintage have called just 30% of their commitments. Although managers of most of these funds will have more than a year of the investment period remaining, it still represents a significant amount of dry powder that is available to make acquisitions, if the managers of these funds believe that it is a good time to do so. Additionally, some vintage 2008 funds have investment periods shorter than three years. Therefore, in total, it is estimated that funds with an investment period ending in 2010 have $70-80 billion in uncalled capital.

Regional Breakdown

There appears to be little variation in the percentage of capital that has been called up between different regions. For 2007 vintage funds, North American vehicles are 50% called up, European 54% and Asia and Rest of World 60%. In terms of capital, North American funds of 2006 and 2007 vintages have $46 billion still uncalled. The surge in Asia-focused fundraising that occurred in recent years has resulted in funds of 2006 or 2007 vintages having $21 billion uncalled, while European funds of these vintage years have $19 billion still to invest.

Fig. 4:



Conclusion

Real estate firms and investors alike will be extremely reluctant to leave investor commitments uninvested, so it is likely that the investment periods of many funds that had investment periods scheduled to end in 2010 will extend this period for a year or more. There is growing optimism amongst those in the real estate industry and many are anticipating that 2010 will see far more deals being done. Private equity real estate firms certainly have no shortage of capital to invest and so are in a strong position to take advantage of the opportunities in the current market.

Andrew Moylan

The information in this month's Feature Article is taken from Preqin's Real Estate Online product. Preqin currently holds transparent net-to-LP performance data for over 750 private equity real estate funds.

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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:

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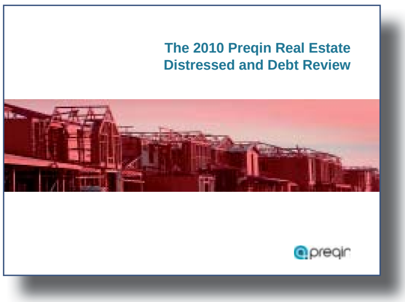
- Full profiles for over 170 institutional investors currently investing in this market
- Listings for all funds closed and currently in market, plus fund-specific performance data listings for over 100 funds and terms listings for 73 funds
- Global coverage, featuring the largest known managers and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



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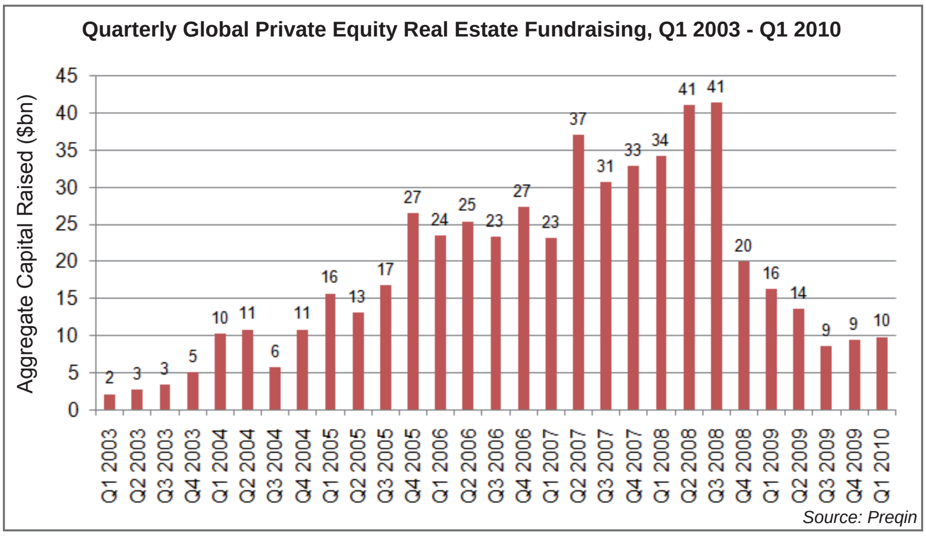
Fundraising Spotlight:
PERE Fundraising in Q1 2010

In the first quarter of 2010, 12 private equity real estate funds reached a final close, receiving aggregate commitments of $9.8 billion. This was the third successive quarter in which less than $10 billion was raised. Q1 fundraising did represent a small increase on the $9.4 billion that was raised in Q4 2009, but the pace of fundraising remains far slower than in previous years.

Fig. 1:



Largest Funds to Close

The largest fund to close in the quarter was Morgan Stanley Real Estate Fund VII Global, which received commitments of $5.2 billion, making it the fifth-largest private equity real estate fund of all time. The opportunistic fund targets distressed real estate and makes debt investments. It focuses on: opportunities that arise from corporate spin-offs, liquidations and sales of real estate-related subsidiaries; investments in publicly traded or privately held real estate operating companies; and direct real estate assets that provide value-enhancement opportunities. Beacon Capital Strategic Partners VI was the second-largest fund to close in the quarter. The fund is Beacon Capital Partners' sixth value added fund and focuses on the acquisition, development and management of office properties in select supply-constrained markets in the US and Western Europe. Other notable funds to close included the $577 million JBG Fund VII, which acquires and develops a diverse mix of properties in the Washington metropolitan area, and the $500 million Garrison Opportunity Fund, which makes investments in asset-based transactions, loan originations/acquisitions and corporate securities.

Region Focus

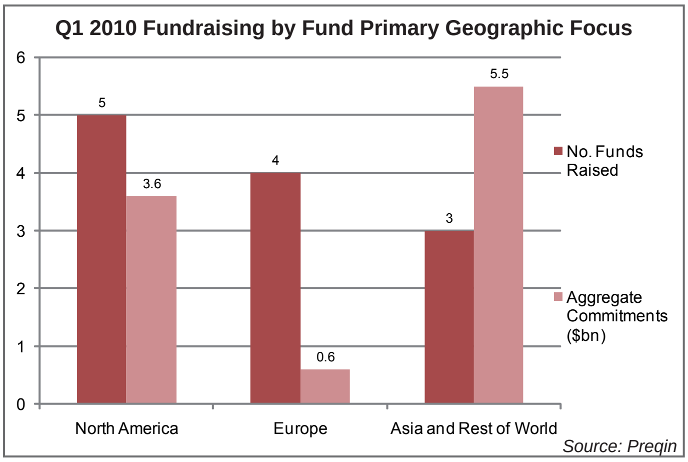
In terms of regional focus, the largest amount of capital was raised by funds with a primary focus on Asia and Rest of World. Three Asia and Rest of World funds reached a final close, raising $5.5 billion. The majority of this capital was raised by Morgan Stanley Real Estate Fund VII Global, which is primarily focused outside North America and Europe. Five North

Fig. 2:

Five Largest Real Estate Funds to Close in Q1 2010					
Fund	**Firm**	**Strategy**	**Size Closed (mn)**	**Manager Country**	**Geographic Focus**
Morgan Stanley Real Estate Fund VII Global	Morgan Stanley Real Estate	Debt, Distressed and Opportunistic	5,200 USD	US	Global
Beacon Capital Strategic Partners VI	Beacon Capital Partners	Value Added	2,500 USD	US	US, West Europe
JBG Fund VII	JBG Companies	Opportunistic	577 USD	US	Washington DC
Garrison Opportunity Fund	Garrison Investment Group	Debt and Distressed	500 USD	US	US
NREP Logistics	Nordic Real Estate Partners	Value Added	1,600 SEK	Denmark	Denmark, Finland, Norway, Sweden

Source: Preqin

Fig. 3:



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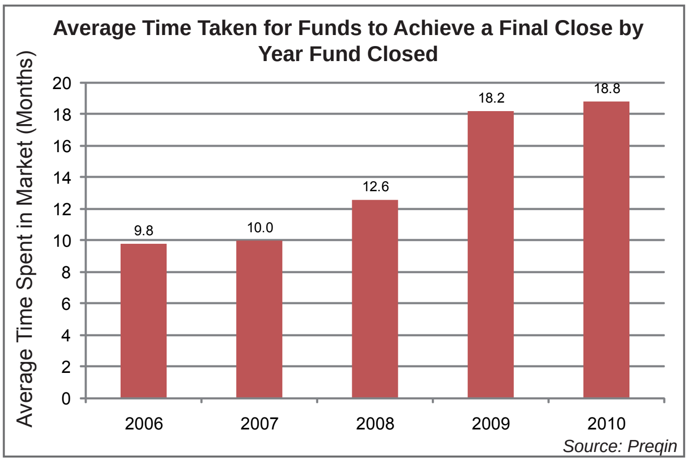


America-focused funds raised $3.6 billion and four European funds reached a final close, raising $0.6 billion.

Time Spent in Market

The length of time funds spend in market is a good indicator of how competitive the fundraising environment is. Funds that closed during the first quarter of 2010 spent an average 18.8 months in market, a small increase on the average 18.2 months for funds that closed in 2009. The length of time funds spent in market has increased steadily since 2006, when fund managers spent an average of just 9.8 months marketing their funds.

Funds on the Road

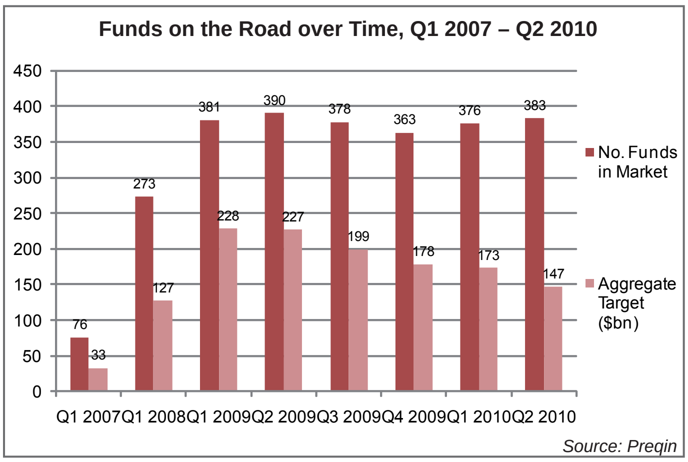
There are currently 383 funds in market seeking aggregate capital commitments of $147 billion. Fig. 5 shows how the number and aggregate value of funds in market has changed since Q1 2007. The aggregate target of all funds in market has been declining steadily since the first quarter of last year as many fund managers have reduced fundraising targets and some have abandoned funds altogether. The number of funds in market increased slightly between Q4 2009 and Q2 2010, but firms that have started marketing new funds are typically setting more modest fundraising targets.

Andrew Moylan

For more information about private equity real estate fundraising in Q1 2010, please see our full report, which is available at:

www.preqin.com/refundraisingQ12010

Fig. 5:



Fund Manager Spotlight:
Value Added Fund Managers

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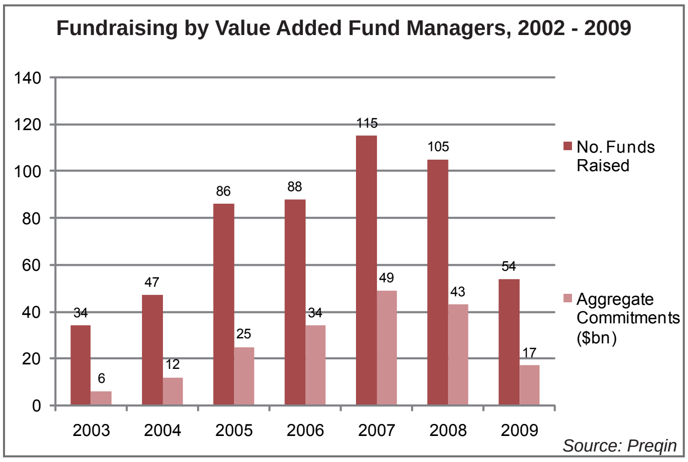
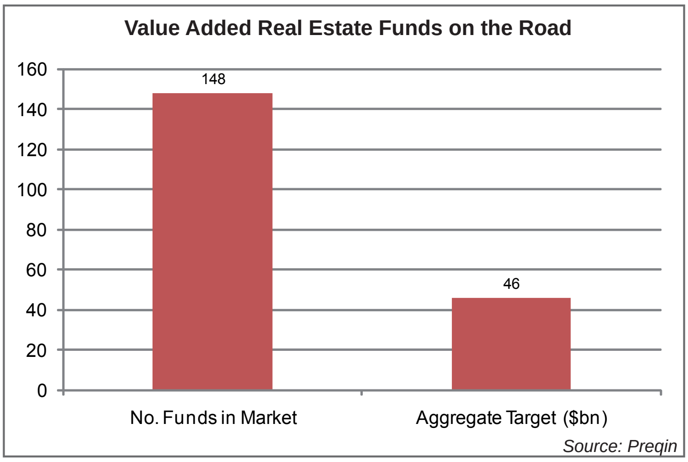


Fig. 2:



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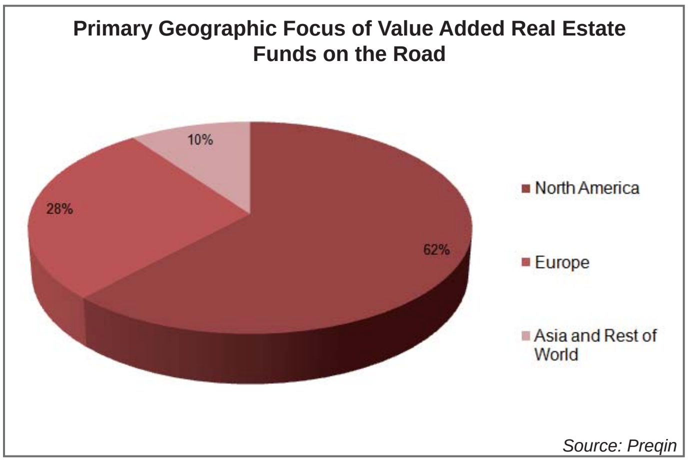

Fig. 4:

Ten Largest Real Estate Firms by Capital Raised for Value Added Funds

Firm	Total Capital Raised for Value Added Real Estate in Last 10 Years ($bn)	Country Headquarters
Beacon Capital Partners	10.5	US
Tishman Speyer	6.1	US
CB Richard Ellis Investors	5.8	US
TA Associates Realty	4.8	US
AREA Property Partners	4.5	US
LaSalle Investment Management	4.2	US
Rockwood Capital	4.0	US
Lubert-Adler	4.0	US
JER Partners	4.0	US
Walton Street Capital	3.8	US

Source: Preqin

The information in Fund Manager Spotlight is taken from Preqin's Real Estate Online product. There are currently profiles for over 450 fund managers managing funds with a value added focus.

To find out more information about this product, or to arrange a demo, please visit:

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Andrew Herman

Investor Spotlight:
The Private Equity Real Estate Secondary Market

Introduction

2009 was a particularly difficult year for investors in private equity real estate funds. Many institutions found themselves over-allocated to the asset class at the beginning of the year as a result of the denominator effect, and this led many to consider exiting private real estate fund investments. The worst affected sought relief via redemptions on their open-ended real estate fund commitments, while a number became interested in selling fund stakes on the secondary market. There was also an increase in the number of investors interested in purchasing fund stakes on the secondary market, with many believing that there were opportunities to buy funds at a considerably discounted price. Significant numbers of both interested buyers and sellers should have resulted in a high number of secondary transactions; however, activity fell short of expectations in 2009. The main reason for this was the valuation gap between buyers and sellers. Despite this, the secondary market has remained an area of interest for investors in the asset class.

Proportion of Investors Considering Buying or Selling on the Secondary Market

Fig.1 shows that 43% of real estate investors are interested in purchasing stakes in private equity real estate funds in the next 24 months. Secondary market investments can offer portfolio diversification by vintage year, mitigation of the J-curve effect and therefore quicker returns, and the potential to access top performing managers at discounts to the net asset value of the fund.

"43% of real estate investors are interested in purchasing stakes in private equity real estate funds in the next 24 months."

Fig. 2 shows that 20% of investors are considering offering PERE stakes for sale on the secondary market. The secondary market can be used as a portfolio management tool as investors can generate liquidity through secondary sales and rebalance and restructure their portfolios.

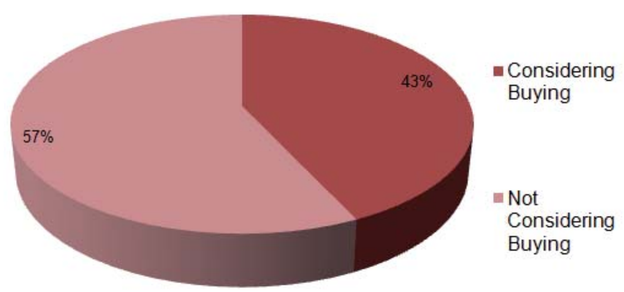
Breakdown of Buyers and Sellers by Investor Type and Location

Appetite for secondary market purchases is not limited to specialist secondary market players and fund of funds managers. Fig. 3 illustrates that a significant proportion of asset managers (55%) and insurance companies (58%) are interested in buying on the secondary market. Many of these non-traditional buyers may consider immature second-hand fund interests as a cost-effective alternative to making new primary commitments.

Fig. 3 also reveals that 44% of asset managers, 41% of real estate fund of funds managers, 26% of endowments and 25% of insurance companies will consider selling PERE fund interests. There are a number of motivations for institutions to consider secondary

Fig. 1:

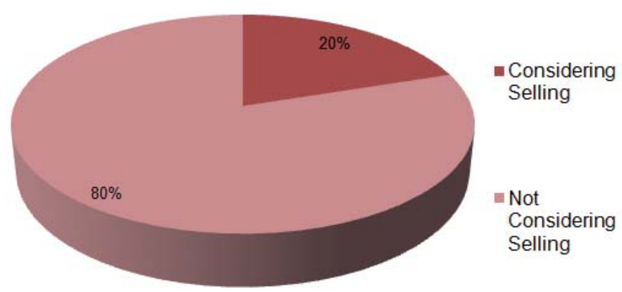
Proportion of Investors Considering Buying PERE Fund Interests in the Next 24 Months



Source: Preqin

Fig. 2:

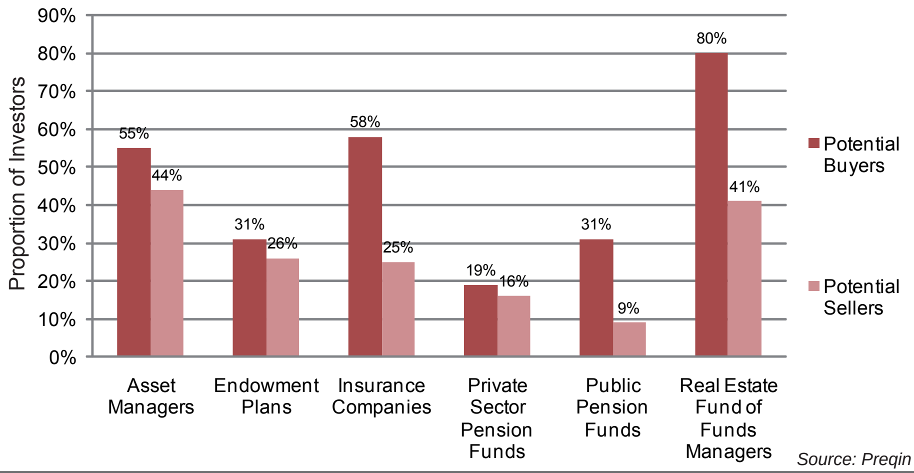
Proportion of Investors Considering Selling PERE Fund Interests in the Next 24 Months



Source: Preqin

Fig. 3:

Level of Interest in PERE Secondary Market Participation across Investor Types



Source: Preqin

sales, and these can differ depending on their own investment policies. Many endowments, for instance, employ an over commitment strategy to private equity real estate and, during the financial downturn, when there was a slowdown in distributions and a lack of regular income through benefactors to these institutions, they struggled to fund capital calls. Whereas many fund of funds managers use the secondary market to streamline their portfolios, modify their investment focus, or exit poorly performing investments.

Fig. 4 shows that 55% of investors from Asia and Rest of World, 37% from North America and 47% from Europe are interested in buying PERE fund stakes. The proportion of investors potentially interested in selling is relatively consistent, with 20% of North American investors, 23% of European investors and 17% of Asia and Rest of World-based investors looking to sell. It is interesting to note that investors from Asia and Rest of World are more likely to buy, and less likely to sell PERE fund stakes on the secondary market than those based in Europe and North America.

While the secondary market has yet to take off in terms of transaction volume, there is still significant interest in both buying and selling private equity fund interests across investor types and locations.

Forena Akhtar

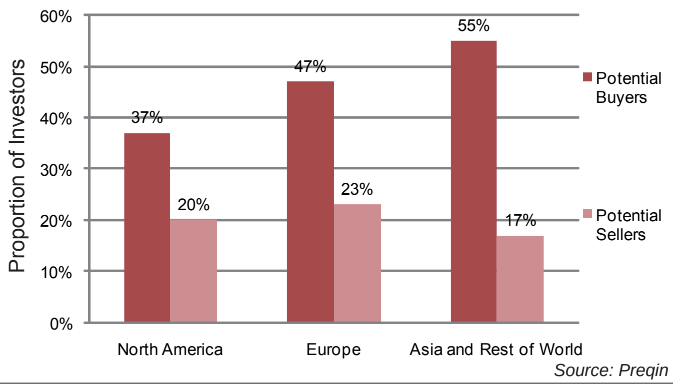
The information in Investor Spotlight is taken from The 2010 Preqin Private Equity Secondaries Review.

To find out more about the Review please visit:

www.preqin.com/secondariesreview

Fig. 4:

Level of Interest in PERE Secondary Market Participation by Investor Location



Source: Preqin

Conferences Spotlight:
Forthcoming Events

Vietnam Investment Summit 2010

Date: 8 - 9 June 2010
Location: Park Hyatt Hotel, Ho Chi Minh City, Vietnam
Organiser: Terrapinn

Vibrant Vietnam - Asia's most promising frontier market! This event brings foreign direct investors to meet local government, developers, owners and financiers to discuss investment opportunities presented by Asia's new tiger. Rebranded from Funds World Vietnam: we have a whole new agenda, focus, topics, sessions and speakers!

Information: www.terrapinn.com/2010/vis/

Featured Conferences:

Conference	Dates	Location	Sponsor
US Real Estate Opportunity & Private Fund Investing Forum	3 - 4 June 2010	New York	IMN
Vietnam Investment Summit 2010	7 - 9 June 2010	Vietnam	Terrapinn
Real Estate Investment World Asia 2010	21 - 23 June 2010	Singapore	Terrapinn
Expo Real 2010	4 - 6 October 2010	Munich	Messe Munchen
Real Estate Investment World Australia 2010	6 - 8 October 2010	Sydney	Terrapinn
Real Estate Investment World Japan 2010	25 - 27 October 2010	Tokyo	Terrapinn
Real Estate Investment World India 2010	22 - 24 November 2010	Mumbai	Terrapinn

Investor Spotlight:
Investor News

Illinois State Board of Investment to resume real estate investments with USD 300 million allocation in 2010

The USD 10 billion pension fund has approved the decision to allocate USD 300 million to real estate in 2010. USD 200 million will be equally split between its existing separate account managers, ING Clarion and CB Richard Ellis Investors. The capital is to be invested across US core properties. The remaining USD 100 million is set aside for private real estate funds incorporating value added and/or debt strategies. These funds may target both international and US markets. The pension fund is looking to distribute this USD 100 million across four funds, but will not be issuing RFPs. Its advisor Townsend Group will select fund opportunities for the pension fund. These will be its first investments in property since 2007.

Crédit Agricole Assurances-Prédica to be active in private equity real estate in 2010

The EUR 187.5 billion Crédit Agricole Assurances-Prédica is hoping to make more private equity real estate fund investments in the next 12 months. The insurance company has taken a patient approach to investing in real estate in the last couple of years, but wants to become more active this year. As well as investing in opportunistic funds through its mandate with a subsidiary, it is set to invest in funds that could take advantage of opportunities in the dislocated market. Accordingly, it is likely to commit to debt and distressed funds and also gain access to these markets directly. It has not decided on the number of funds it will commit to, or how much capital it will deploy. It has previously invested on a global basis, but its overall real estate portfolio is now split 80% to domestic markets and 20% to other European markets. It is not interested in investing beyond Europe for the foreseeable future.

YMCA Retirement Fund moves into core real estate funds

The USD 4.7 billion pension fund is looking to increase its exposure to unlisted core real estate funds in the next 12 months. It wants to invest in funds opportunistically and therefore has not set aside a specific amount of capital to allocate in 2010. It has also not determined the number of vehicles it will commit to in 2010. It expects that investments will be in core funds targeting both domestic and international markets. YMCA Retirement Fund is interested in core vehicles due to the stable long-term returns that they provide and it feels that the property market now favours such lower-risk investments.

London Borough of Waltham Forest Pension Fund not looking to invest in real estate in next 12 months

The GBP 450 million pension fund is at its 8% target allocation to real estate and will not be making further investments in the next 12 months. Its property allocation comprises UK PUTs and a fund of funds vehicle, Aurora Europe Property Fund. It is satisfied with its property exposure and allocation level. It is unsure as to when it will return to the market and has not yet decided the strategy that it will implement upon resumption of its real estate investments. It has not yet decided whether it will commit to further fund of funds vehicles.

Nebraska Investment Council likely to invest in the next 12 months

The USD 14.1 billion public pension fund will shortly hold an asset liability study through which it will formulate its real estate investment plans for the next 12 months. Nebraska is yet to have any definitive plans with regards to its future real estate investments, but is expecting to invest on an opportunistic basis across the risk/return spectrum, in vehicles ranging from core-plus to opportunistic in strategy. The pension fund is also interested in further investments in debt and distressed funds, believing these to be of increasing importance to the private real estate market. Nebraska has a 5% target allocation to the asset class, and is currently slightly under-allocated.

Lífeyrissjóður Starfsmanna Sveitarfélaga's real estate investments still on-hold

The ISK 42 billion pension fund has not yet resumed investments in the real estate market. The pension fund's investment program was on-hold for the whole of 2009 as it was prohibited from using the pension fund's capital for international investments due to the economic downturn. It is unsure as to when it will start discussing the resumption of its real estate investments. It had initially expected to continue investing through fund of funds when it resumes its investment program, but this will be decided nearer the time of its return.

Forena Akthar

Each month Spotlight provides a selection of the recent news on institutional investors in real estate. More news and updates are available online for Real Estate Online subscribers.

In the last month, Preqin analysts have added 44 new investors and updated 307 existing investor profiles.

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