

Real Estate Spotlight is the monthly newsletter published by Preqin packed full of vital information and data, all based on our latest research into the private equity real estate industry. Real Estate Spotlight combines information from our online products Real Estate Online and Real Estate Capital Sources.

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The 2012 Preqin Private Equity Fund Terms Advisor

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Real Estate Spotlight

July 2012

Real Estate Fund Terms and Conditions

With conditions so challenging for real estate funds on the road, recent years have seen increasing pressure placed on GPs to offer more investor-friendly fund terms - particularly in relation to fees. What are the latest trends? This month's feature article takes a deeper look at the latest industry stats.

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Asia-Headquartered Real Estate Fund Managers

A rundown of all the key stats regarding Asia-based real estate GPs. What are their investment preferences? Who manages the biggest funds currently on the road?

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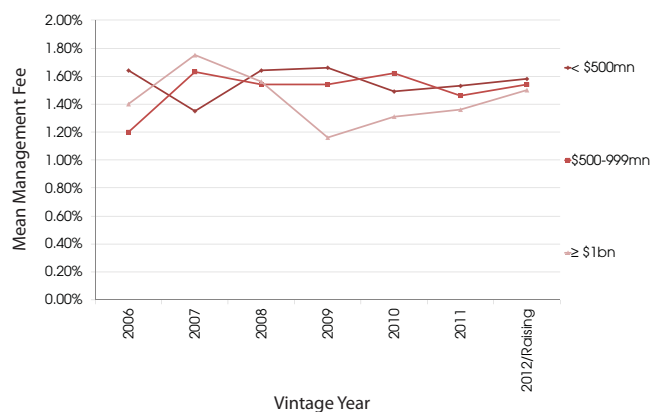
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Real Estate Fund Terms and Conditions: Balance of Power Shifting?

Fund terms remain a key issue that investors will look at when examining potential commitments. Drawing on data from the 2012 Preqin Private Equity Fund Terms Advisor publication, [Sarah Unsworth](#) examines how the fees charged by real estate funds are changing.

Fig. 1: Real Estate Mean Management Fee by Fund Size and Vintage Year



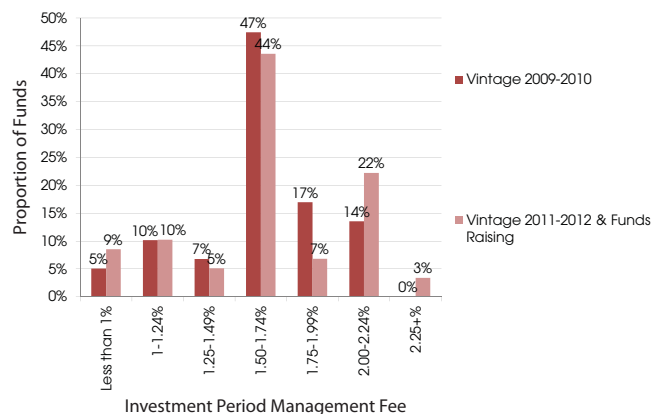
Source: 2012 Preqin Private Equity Fund Terms Advisor

As fundraising for private real estate funds became more challenging in the wake of the financial crisis, it appeared that there was a shift in certain areas of fund terms and conditions in favour of LPs. With the fundraising market extremely crowded and institutional investors now more demanding than ever, wider conditions have pushed many GPs towards offering potential LPs concessions in regards to fund terms and conditions. While headline fund terms and conditions became slightly more LP-friendly in 2009 and 2010, this change has now reverted somewhat among the most recent funds.

Management Fees

Institutional investors have been keen to ensure that management fees cover a GP's expenses/costs, without representing a significant source of profit. Pressure from the institutional investor community for real estate fund managers to lower management fees increased in the wake of the financial crisis; however, there has actually been little downwards movement. As can be seen in Fig. 1, management fees have remained fairly consistent, albeit with more variance by vintage year for larger funds than for smaller funds. Indeed, it appears that management fees have increased slightly for 2012 vintage funds and funds currently raising, with these funds having average management fees of 1.50% for funds of \$1bn or more, 1.54% for funds of \$500-900mn, and 1.58% for funds less than \$500mn in size. While management fees have remained relatively consistent at an industry level, there are growing numbers of GPs that offer reduced fees for investors that commit before the first close of the fund, or similar concessions that encourage early investment. In general, changes in management fees are unlikely to be dramatic. The institutional investor community generally recognizes the need to balance between incentivizing GPs via carried interest as opposed to non-performance-related fees, and reducing such fees to the detriment of the fund. Fund

Fig. 2: Real Estate Management Fee during Investment Period



Source: 2012 Preqin Private Equity Fund Terms Advisor

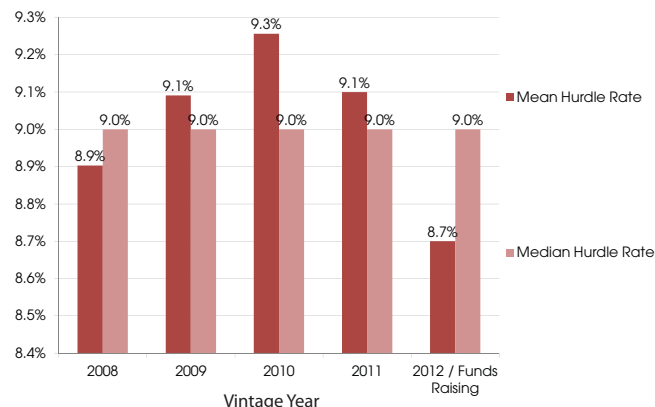
managers are unlikely to drop fees below a certain level, as doing so risks damaging the day-to-day running of the fund and the potential for generating attractive future returns.

Due to the economies of scale enjoyed by GPs that manage larger funds, the management fees for such vehicles are generally somewhat lower than for the smaller funds. These larger GPs are more likely to be able to reduce management fees than those managing smaller amounts; for example the variable costs of a GP with \$1bn in funds under management are unlikely to be double those of a manager with \$500mn under management. Management fees have therefore become a significant source of revenue for some of the larger GPs. However, despite the criticism levelled at real estate fee levels in recent years – and particularly those charged by larger funds – the disparity between the management fees charged on funds of differing sizes seems to be narrowing. For vintage 2009 funds, the difference in the average management fee between funds of \$1bn or more and those of less than \$500mn in size stood at 50 basis points. For vintage 2012 funds and those still raising, however, the gap has narrowed to eight basis points.

The management fee charged during the investment period is generally calculated as a percentage of the total commitments made by LPs to the fund. The rationale behind this is that the major part of a GP's workload at this stage is the search for potential investments, which is driven by the aggregate size of commitments to the fund and not the amount invested at this point in the fund's life.

Fig. 2 shows the breakdown of management fees charged during the investment period by real estate fund managers. For vintage 2011 and 2012 funds, and those currently raising capital, 44% of funds charge

Fig. 3: Real Estate Fund Mean and Median Hurdle Rate by Vintage Year



Source: 2012 Preqin Private Equity Fund Terms Advisor

a management fee of 1.50-1.74% during the investment period. There has been a slight shift towards higher management fees during the investment period, with 22% of funds charging a management fee of 2.00-2.24%, compared to 14% for 2009-2010 vintage funds. Additionally, 3% of 2011-2012 vintage funds and those in market have a management fee of 2.25% or more, whereas no 2009-2010 vintage funds charge this higher amount.

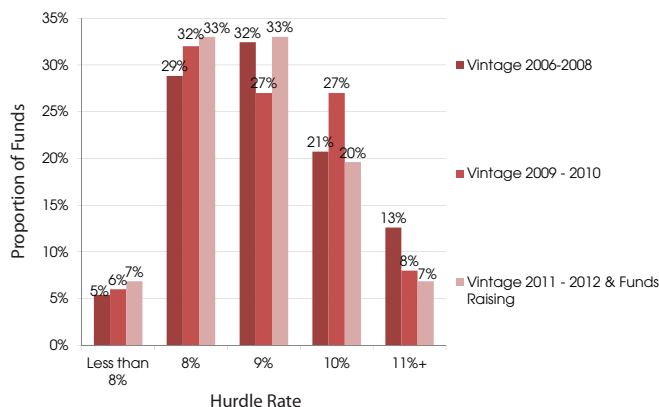
Hurdle Rates

While there has been some movement in management fees, there has been little variation in carried interest charges, with 85% of funds in market or with 2011-2012 vintages charging 20% carried interest. The same proportion of 2009-2010 vintage funds charge 20% carry.

Changes have occurred, however, in the hurdle rate set by private real estate fund managers, as shown in Fig. 3. Mean hurdle rates increase steadily with vintage year between 2008 and 2010, as pressure from LPs regarding performance following the financial crisis led to more investor-friendly terms. Despite this, it appears that hurdle rates are now moving back in favour of the GP, decreasing from an average of 9.3% in 2008, to an average of 8.7% for vintage 2012 funds or those currently in market.

Fig. 4 shows how real estate fund hurdle rate distribution varies by vintage year. Compared to 2006-2008 vintage funds, hurdle rates for 2009-10 vintage funds are slightly more LP-friendly. Only 8% of 2009-2010 vintage funds have hurdle rates in excess of 11%, compared to 13% of 2006-2008 vintage funds. Twenty-seven percent have a 9% hurdle rate, compared to 32% of 2006-2008 vintage funds.

Fig. 4: Real Estate Fund Hurdle Rate Distribution by Vintage Year



Source: 2012 Preqin Private Equity Fund Terms Advisor

While there may have been a slight shift towards more LP-friendly terms, the hurdle rates for 2011-2012 vintage funds and for those currently raising suggests a shift back in favour of the fund manager. The proportion of funds with hurdle rates of 10% or more has fallen from 35% for 2009-2010 vintage funds, to 27% for more recent funds. The most common preferred return among real estate funds is 9%, with 33% of vintage 2011-2012 and funds raising capital having a 9% hurdle rate.

Outlook

Many of the changes in the headline fees charged by real estate funds since the global financial crisis do not appear to be long lasting. Hurdle rates increased for a time, but are in many cases now lower for more recent funds. Rather than decreasing significantly following the financial crisis, management fees have remained fairly consistent. While the depressed fundraising environment in 2009 and 2010 appeared to spur fund managers to adjust fund terms and conditions slightly so they were more attractive for investors, the balance now seems to be shifting back. This process is slow, however, and some concessions that have been offered to investors in the wake of the financial crisis are unlikely to be reversed in a dramatic fashion.

Investors, of course, want to invest on the best terms possible, but they also want to invest with firms that can deliver superior returns and want to incentivize talented people. If higher management fees are necessary to operate a superior firm effectively, then many investors will see this as a price worth paying.

Data Source:

The 2012 Preqin Private Equity Fund Terms Advisor is the most comprehensive guide to private equity fund terms and conditions ever produced.

The publication and corresponding online module contains vital analysis, benchmarks and actual listings of key terms for funds of all types. Please visit: www.preqin.com/fta for more information.

2012 Preqin Private Equity Fund Terms Advisor

A vital tool for all private equity firms, placement agents and law firms involved with the fund formation process, the updated **2012 Preqin Fund Terms Advisor** contains valuable intelligence for all those investing in private equity, and for those advising LPs.

Key features include:

- Actual terms and conditions data for over 1,800 funds, including management fees and mechanisms for reduction after the investment period, carry, carry distribution methods, hurdles, preferred return, fee rebates, no-fault divorce clause, GP commitments, investment period.
- Benchmark terms and conditions data for funds of all different types: buyout, venture, real estate, distressed, mezzanine, fund of funds, secondaries and more...
- Results of our LP survey - the most comprehensive study of current opinions on fund terms and conditions ever conducted.
- Data and analysis on the actual fees and costs incurred by LPs, with listings showing costs for 1,250 named vehicles.
- Full access to our updated Fund Terms Advisor Online product, which enables you to model the real economic impact of fund terms and conditions, and download detailed fund terms for further analysis.
- Comprehensive analysis on all aspects of private equity fund terms and conditions including how conditions have changed over time and what variations exist amongst funds of different type, size and region.



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Asia-Headquartered Real Estate Fund Managers

Gayatri Pillai looks at fundraising by firms headquartered in Asia.

Fig. 1: Key Facts: Asia-Headquartered Real Estate Fund Managers

Number of Fund Managers	127
Total Number of Real Estate Funds Closed 2005 - 2012	172
Aggregate Capital Raised (\$bn) 2005 - 2012	46
Number of Funds Currently on the Road	38

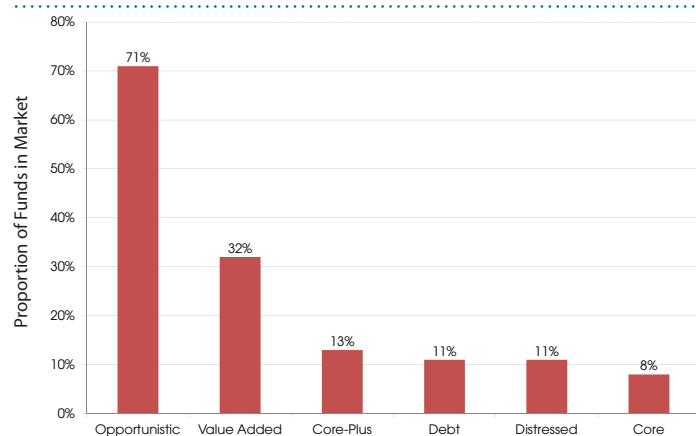
Source: Preqin Real Estate Online

Subscriber Quicklink:

Subscribers to Preqin's Real Estate Online can click [here](#) to access detailed profiles for 127 real estate fund managers that are based in Asia.

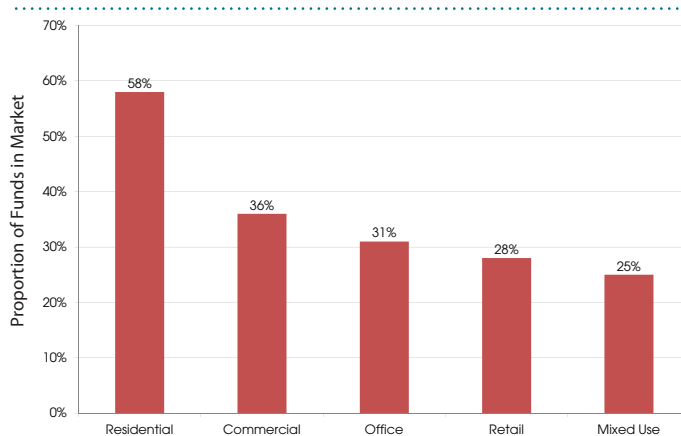
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Fig. 2: Strategies Targeted by Funds on the Road Managed by Asia-Headquartered Firms



Source: Preqin Real Estate Online

Fig. 3: Property Types Targeted by Funds on the Road Managed by Asia-Headquartered Firms



Source: Preqin Real Estate Online

Fig. 4: Largest Funds Currently on the Road Managed by Asia-Headquartered Firms

Fund	Manager	Target Size (mn)	Strategy	Geographic Focus
Alpha Asia Macro Trends Fund II	Alpha Investment Partners	1,000 USD	Core and Value Added	Asia
ARA Asia Dragon Fund II	ARA Asset Management	1,000 USD	Opportunistic	Asia
Secured Capital Real Estate Partners V	Secured Capital Japan	1,000 USD	Debt, Distressed and Opportunistic	Japan, China
CITIC Capital China Retail Properties Investment Fund	CITIC Capital	600 USD	Value Added	China
HDFC India Property Fund	HDFC Property Ventures	600 USD	Distressed, Opportunistic and Value Added	India
ARCH Capital-TRG Asian Partners	ARCH Capital Management	500 USD	Opportunistic	Asia

Source: Preqin Real Estate Online

UK-Based Private Sector Pension Funds

Carla Henry looks at UK-based private sector pension funds investing in real estate.

Fig. 1: Key Facts: UK-Based Private Sector Pension Funds

Average Allocation to Real Estate (% of AUM)	6.1
Average Target Allocation to Real Estate (% of AUM)	7.8

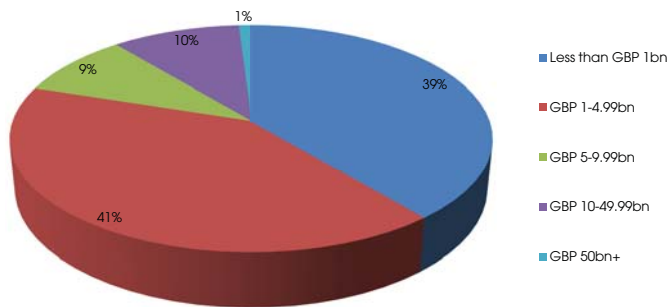
Source: Prequin Real Estate Online

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Would you like to see details of 133 UK-based private sector pension funds investing in real estate, with information on their areas of interest, key contacts, future plans and more? Click [here](#) to view the full list.

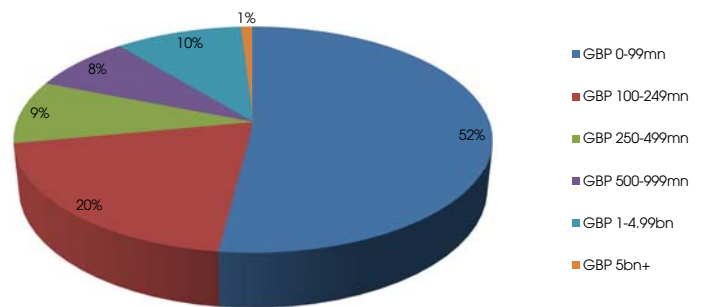
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Fig. 2: Breakdown of UK-Based Private Sector Pension Funds that Invest In Real Estate by Assets under Management



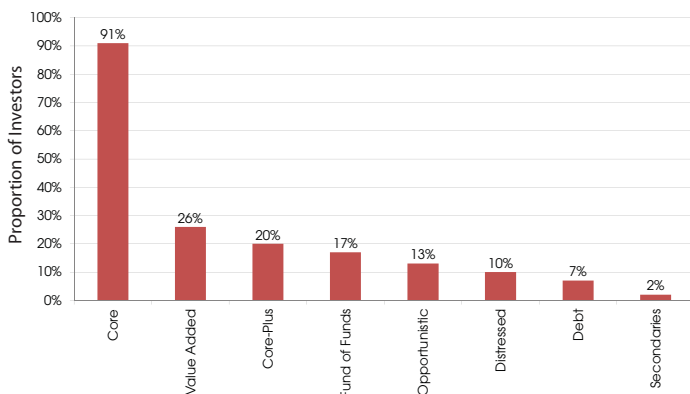
Source: Prequin Real Estate Online

Fig. 3: Breakdown of UK-Based Private Sector Pension Funds that Invest in Real Estate by Overall Real Estate Allocation



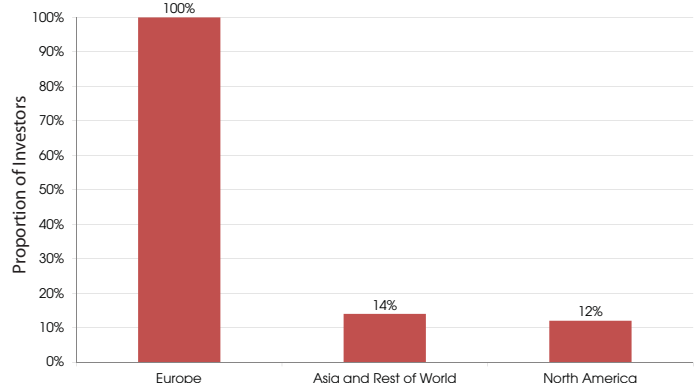
Source: Prequin Real Estate Online

Fig. 4: Fund Strategy Preferences of UK-Based Private Sector Pension Funds



Source: Prequin Real Estate Online

Fig. 5: Geographical Preferences of UK-Based Private Sector Pension Funds



Source: Prequin Real Estate Online

Wealth Managers in Real Estate

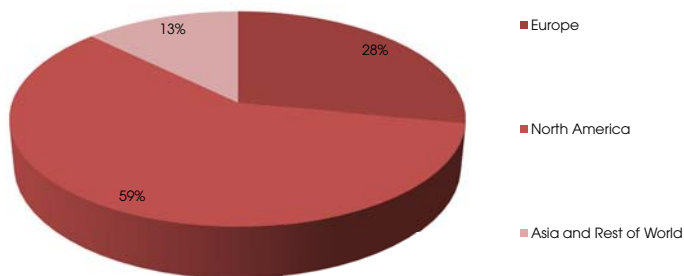
Prequin has now launched coverage of wealth managers involved in the Real Estate, Private Equity, Infrastructure and Hedge Fund asset classes.

Real Estate Online Now Includes:

- [Wealth Manager Profiles](#) - constantly updated, searchable profiles of wealth managers and their real estate investment preferences.
- [Wealth Manager Contact Details](#) - access the details of wealth managers' key personnel and preferred methods of contact.

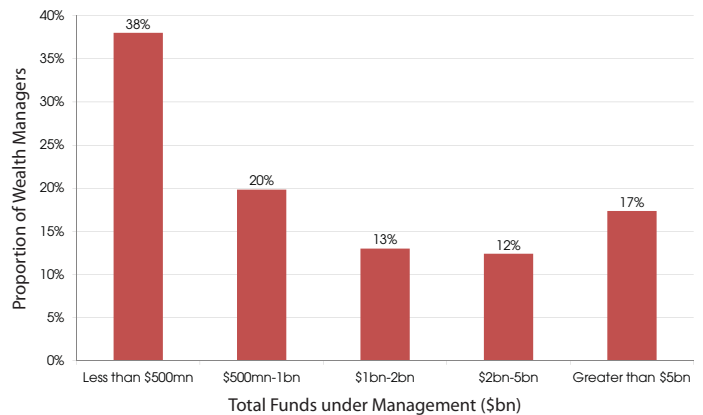
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Other Offices:	Show/Hide Offices...		
Tel:	[Redacted]		
Fax:	[Redacted]		
Website:	[Redacted]		
Email:	[Redacted]		
Type:	Wealth Manager		
About:	[Redacted]		
Assets (mm):	Total Assets Under Advisement (EUR bn):	6,000	
	Allocation to Real Estate:	1,600	26.67 % (of Total Assets)
Allocations:		Current Allocation	Target Allocation
	Type	Investing	Amount (mm) %
	Private Real Estate Funds *	Yes	
	Private Equity Real Estate *	Yes	
	Direct Real Estate	Yes	
	* Unlisted Funds		

Fig. 1: Geographical Location of Private Real Estate Wealth Managers



Source: Prequin Real Estate Online

Fig. 2: Private Real Estate Wealth Managers by Funds under Management



Source: Prequin Real Estate Online

Prequin has also released a complimentary research report, providing insights into wealth managers involved in the alternative assets industry. Download your free copy now:

[Wealth Managers Outlook: Alternative Assets](#)

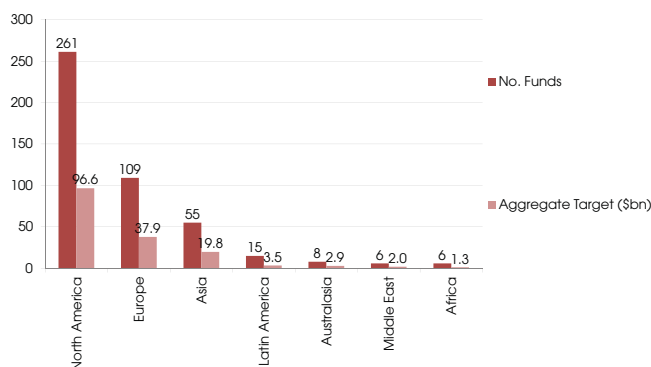
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Fundraising Update

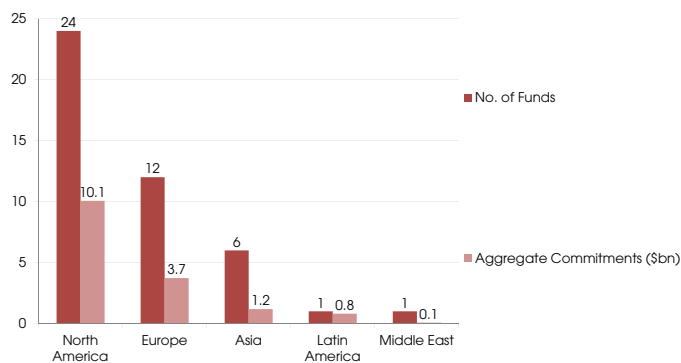
Ee Fai Kam provides a round-up of the latest real estate fundraising statistics.

Fig. 1: Closed-End Private Real Estate Funds in Market by Primary Geographic Focus



Source: Preqin Real Estate Online

Fig. 2: Closed-End Private Real Estate Fundraising by Geographic Focus, January - June 2012



Source: Preqin Real Estate Online

Data Source:

Preqin's [Real Estate Online](http://www.preqin.com/reo) features detailed profiles for all 460 private real estate funds currently in market, including strategy, geographic focus, property focus, target size, anticipated closings and more.

www.preqin.com/reo

Fig. 3: Five Largest Closed-End Private Real Estate Funds to Close, January - June 2012

Fund	Fund Manager	Size (Mn)	Type	Location Focus
AG Realty Fund VIII	Angelo, Gordon & Co	1,265 USD	Debt and Opportunistic	North America, Europe, Asia
AG Core Plus Realty Fund III	Angelo, Gordon & Co	1,014 USD	Core-Plus and Debt	North America, Europe, Asia
Niam Nordic V	Niam	719 EUR	Opportunistic	Nordic
Related Real Estate Recovery Fund	Related Companies	825 USD	Debt, Distressed and Opportunistic	US
GTIS Brazil Real Estate Fund II	GTIS Partners	810 USD	Opportunistic	Brazil

Source: Preqin Real Estate Online

Fig. 4: Recently Closed Funds

Hines Russia & Poland Fund	
Manager	Hines
Strategy	Opportunistic
Property Focus	Industrial, Office, Residential, Retail, Mixed Use
Geographic Focus	Poland, Russia
Final Close	€390mn (May 2012)
Sample Investors	European Bank for Reconstruction and Development

Exeter Industrial Value Fund II	
Manager	Exeter Property Group
Strategy	Value Added
Property Focus	Industrial, Logistics, Flex
Geographic Focus	US
Final Close	\$615mn (May 2012)
Sample Investors	Kansas Public Employees' Retirement System, New York State Teachers' Retirement System, Ohio Police and Fire Pension Fund

Source: Preqin Real Estate Online



Industry News

The inside scoop from the world of private real estate gathered by Prequin's team of researchers.

Public pension funds are significant backers of private real estate, and several of these institutions have recently revealed new plans regarding their involvement in the asset class.

The \$224.1bn industry giant [California Public Employees' Retirement System \(CalPERS\)](#) has allocated \$1.75bn to a separately managed account. The account, called Fifth Street Properties, is managed by Commonwealth Partners and will focus on the acquisition of office assets, with 80-85% targeted towards core investments in Boston, New York City, San Francisco, Seattle, Southern California and Washington DC. Commonwealth Partners is no stranger to operating a managed account for CalPERS, as the firm already runs a different mandate for the pension fund called National Office Partners.

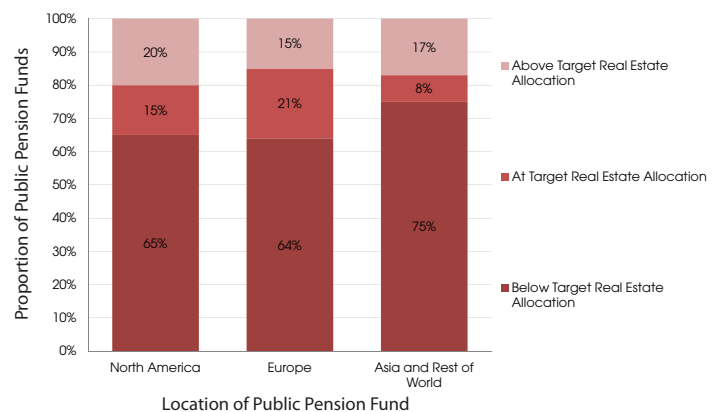
Elsewhere in the US, [San Diego City Employees' Retirement System \(SDCERS\)](#) has decided to invest in core real estate funds in the coming 12 months. The \$5.3bn investor has an 11% allocation to real estate and expects to allocate \$50mn to US-focused real estate vehicles over the coming year, targeting core and non-core strategies. The capital for this new investment will come from the \$70mn that was redeemed from its REIT investments in 2011. SDCERS has already allocated \$30mn to [JP Morgan Strategic Property Fund](#), to which it had initially committed \$30mn in 2010. Also stepping up its private real estate investment is New Jersey State Investment Council, which has raised its target allocation to the asset class from 5% to 5.5% of AUM. The pension fund currently has around \$72.1bn in assets and has committed \$150mn across two real estate funds.

Further afield, [Thailand Government Pension Fund](#) intends to invest THB 7.9bn (approximately \$250mn) with 10 to 20 private real estate fund of funds vehicles across the next 12 months. The THB 525bn pension fund currently has an allocation of 5.5% to real estate, and is targeting exposure to core, core-plus, and value added strategies.

In Europe, the Netherlands-based [Doctors Pension Funds Services](#), which has not made any new investments in real estate funds over the last 12 months, is now looking to make new real estate fund investments over the next year. The €8bn pension fund wants to deploy €75mn across three core vehicles, with a plan to invest in one fund by the end of Q3 2012 and a further two vehicles in Q4.

In the funds space, there have been a few new launches in recent weeks. The third fund from UK-based [Frogmore Real Estate Partners](#) was launched, targeting £350mn from investors to pursue opportunistic investments in the UK. The firm was established in 1961 and started this fund series in 2006 with a £330mn fund. In Australia, [Altis Property Partners](#) has come to market with its [Altis Real Estate Equity Partnership Vintage 2](#) fund. The vehicle, which is targeting AUD 200mn (with a AUD 250mn hardcap), has already had a first close and runs an opportunistic and value added strategy, targeting industrial and office properties in Australia.

Chart of the Month: Current Level of Public Pension Funds' Real Estate Allocation Relative to Target by Region



Source: Prequin Real Estate Online

What's New?

Do you have any news you would like to share with the readers of Spotlight? Perhaps you're about to launch a new fund, have implemented a new investment strategy, or are considering investments beyond your usual geographic focus?

Send your updates to spotlight@prequin.com and we will endeavour to publish them in the next issue.

All of Prequin's exclusive intelligence is available on Real Estate Online, the industry's leading source of information on private real estate funds, managers and investors in the asset class.

Subscribers can click [here](#) to view more industry news and information.



Conferences Spotlight

Conference	Dates	Location	Organizer
Opportunities and Challenges with Private Equity Real Estate (PERE)	04 July 2102	Zurich	Lucerne University
GRI Europe Summit 2012	11 - 12 September 2012	Paris	Global Real Estate Institute
Russia GRI 2012	19 - 20 September 2012	Moscow	Global Real Estate Institute
Real Estate Asset Enhancement World Asia	25 - 27 September 2012	Singapore	Terrapinn
Real Estate Investment World Latin America 2012	2 - 3 October 2012	Miami	Terrapinn

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