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June 2013
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FEATURED PUBLICATION:

2013 Preqin Investor Network Global Alternatives Report



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Real Estate Spotlight

June 2013

Feature Article

The Challenges Facing Investors in Private Real Estate

Drawing on data from [Preqin Investor Network](#) and the [2013 Preqin Investor Network Global Alternatives Report](#), we explore the challenges investors face when looking to construct private real estate fund portfolios.

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This month's Industry News looks at private real estate in Asia-Pacific. Which investors in the region are looking to commit to the asset class? Which Asia-Pacific-focused private real estate funds have recently launched or held an interim close?

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Lead Article

Investors' Approach to Alternative Investments: Proactive or Passive?

In this excerpt from the [2013 Preqin Investor Network Global Alternatives Report](#), we examine how proactive and sophisticated investors in alternatives are based on Preqin's interviews with institutional investors from around the globe in April 2013.

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The Challenges Facing Investors in Private Real Estate

Drawing on data from [Preqin Investor Network](#) and the [2013 Preqin Investor Network Global Alternatives Report](#), [Andrew Moylan](#) examines the challenges investors face when looking to construct private real estate fund portfolios.

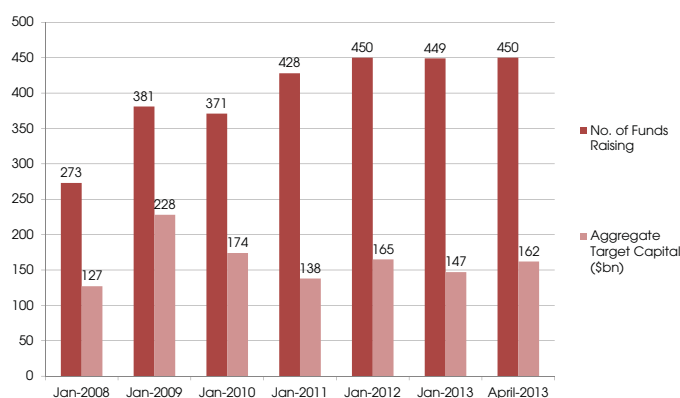
Although investors in private real estate funds are more sophisticated than ever and are conducting even greater levels of due diligence on potential real estate fund commitments, it remains extremely difficult for institutions to identify the best opportunities. In this article we examine the challenges investors face with fund selection using data from [Preqin Investor Network](#) and the [2013 Preqin Investor Network Global Alternatives Report](#) (click [here](#) to download your complimentary copy), as well as why investors continue to be attracted to investing in private real estate.

Opportunities

The private real estate fundraising market remains extremely crowded, with 450 closed-end private real estate funds in market targeting aggregate commitments of \$162bn (Fig. 1). There are a diverse array of funds offering investors exposure to a wide range of strategies, property sectors and risk profiles. As shown in Fig. 2, a significant proportion of funds in market incorporate a combination of at least two strategies. As a result, it can be difficult for investors to identify the funds that will help them best meet their desired portfolio composition and offer the potential to generate strong risk-adjusted returns.

Another concern for institutions investing in real estate is that the competitive nature of the fundraising market means that not only are there a wide range of funds vying for investor capital, but also in many cases managers may not be able to successfully raise the funds they are marketing. Investors may be forced to make a judgement not just on the attractiveness of a fund as an investment opportunity, but also on whether the manager will be able to raise sufficient capital for a fund to be viable. One hundred

Fig. 1: Closed-End Private Real Estate Funds in Market, January 2008 - April 2013

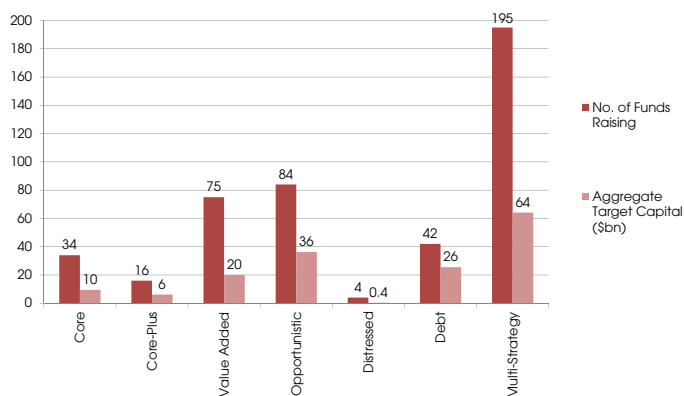


Source: Preqin Investor Network

and fifteen closed-end private real estate funds were abandoned between January 2012 and May 2013 and, of the funds in market that have yet to hold an initial close, 45% have already been on the road for more than a year. It seems likely that many managers of these funds will not be able to successfully close these offerings.

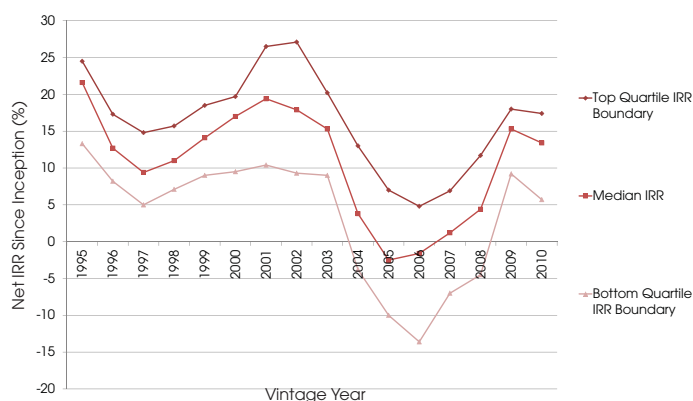
Identifying top performing fund managers is one of the biggest challenges for institutional investors and their consultants. As shown in Fig. 3, there is significant variation between the performance of top quartile and bottom quartile funds, with this being particularly notable for the worst performing vintage years. Top quartile closed-end private real estate funds have never returned negative IRRs in any of the vintage years displayed in

Fig. 2: Closed-End Private Real Estate Funds in Market by Strategy



Source: Preqin Investor Network

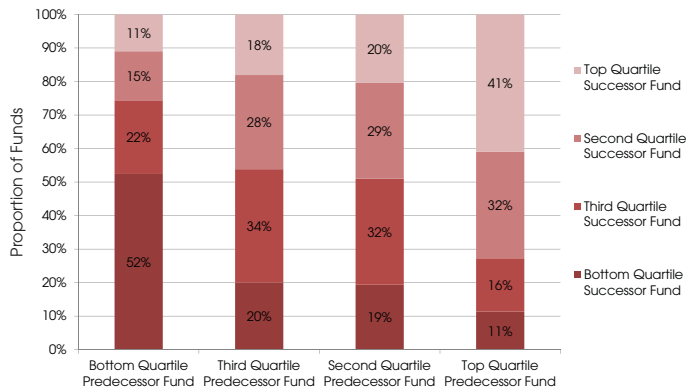
Fig. 3: Closed-End Private Real Estate Funds - Median Net IRR and Quartile Boundaries by Vintage Year



Source: Preqin Investor Network

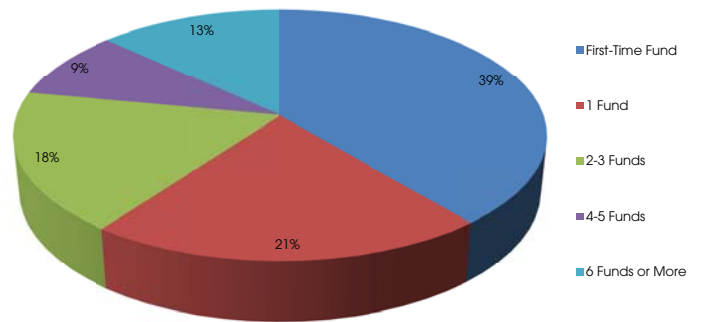


Fig. 4: Closed-End Private Real Estate Funds - Relationship between Predecessor and Successor Fund Quartiles



Source: Preqin Investor Network

Fig. 5: Breakdown of Private Real Estate Firms Managing Closed-End Funds in Market by Number of Funds Raised



Source: Preqin Investor Network

Fig. 3, but more than half of 2005 and 2006 vintage funds are generating negative IRRs. For 2006 vintage funds there is an 18.4 percentage point difference between the top and bottom quartile boundaries.

Although a manager's track record is not a guarantee of future performance, past performance can provide a good indication of future performance to investors. It can also demonstrate in particular how managers navigated the more turbulent market

conditions in 2009 and 2008, an important consideration for many investors in private real estate. As Fig. 4 shows, 73% of managers of a top quartile fund will go on to surpass the median fund return with their subsequent offering, with 41% again ranked as top quartile. To aid investors in identifying strong performers, Preqin Investor Network allows investors to see the full performance track record for all managers with a real estate fund in market.

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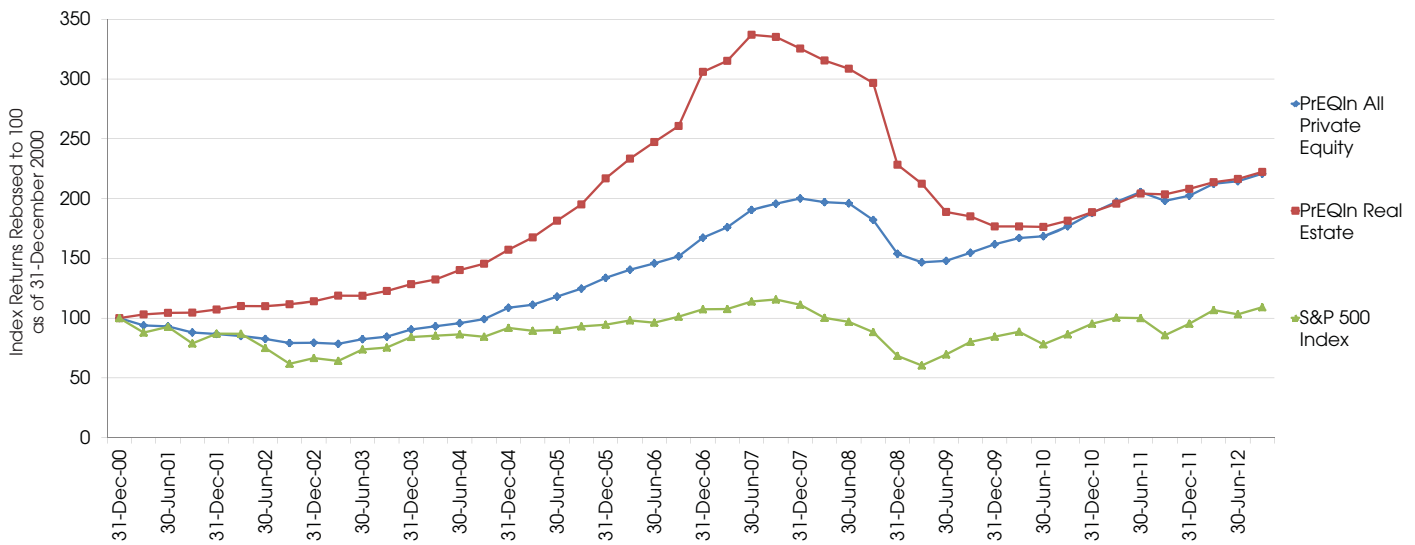
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Fig. 6: PrEQIn Quarterly Index: Real Estate vs. All Private Equity and S&P 500



Source: Preqin Investor Network

However, a large proportion of funds currently seeking investor capital are being raised by relatively inexperienced firms. As shown in Fig. 5, 39% of managers raising new funds are seeking capital for their first offering, while a further 21% have closed just one fund previously. New managers can often prove to be strong performers, and of the first-time funds of 2000-2010 vintage years, 35% are ranked as top quartile, with only 19% ranked as bottom quartile.

Savvy investors, with the knowledge and resources required to conduct due diligence on first-time funds, may look to identify the best prospects among the next generation of fund managers, but with so many new managers attempting to raise capital, this is a difficult task. For many others, the additional due diligence required and the additional risk associated with investing in first-time funds means this is a route they are unlikely to consider.

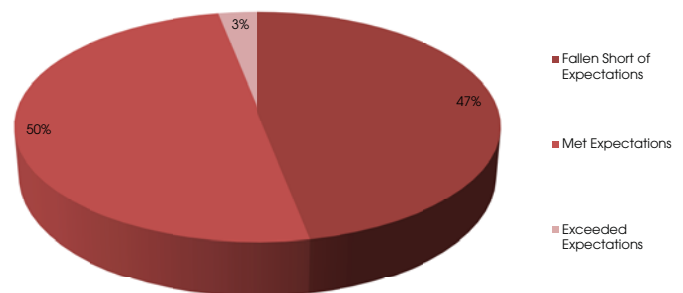
The Role of Private Real Estate

Real estate remains attractive to many investors for several reasons. Real estate portfolios can offer diversification, act as an inflation hedge, and provide a steady income stream. Most investors, however, will still expect real estate, and in particular private equity real estate funds, to offer strong performance compared with traditional investments. The financial and liquidity costs associated with getting access to private equity real estate funds mean that returns above and beyond other asset classes are required to justify investors' commitments.

The PrEQIn – Private Equity Quarterly Index – captures in an index the returns earned by investors on average in their private equity and private equity real estate portfolios based on the actual amount of money invested in these partnerships.

Fig. 6 shows that, over the long term, private real estate has outperformed the S&P 500 index. Despite encouraging performance in recent quarters, the PrEQIn Real Estate Index, rebased to 100 as of December 2000, remains well below its June 2007 peak of 337.0, having fallen significantly in 2008 and 2009. As of September 2012, it stood at 222.8, narrowly above

Fig. 7: Proportion of Investors That Feel Their Private Real Estate Fund Investments Have Lived up to Expectations



Source: Preqin Investor Outlook: Real Estate, H1 2013

the PrEQIn All Private Equity Index, which stood at 220.8, and well above the S&P 500 index which stood at 109.1.

While the All Private Equity Index has returned to the levels seen before the downturn, the Real Estate Index has not seen this level of recovery. Many investors suffered significant declines in their portfolios, and so it is perhaps unsurprising that 47% of real estate investors interviewed by Preqin in December 2012 believe the performance of their private real estate portfolios fell short of their expectations (Fig. 7). For investors planning new commitments, however, the performance of more recent vintages does offer some encouragement, with the median IRR for 2009 and 2010 vintages currently 15.3% and 13.4% respectively.

Outlook

The vast majority of institutional investors with an allocation to real estate remain committed to the asset class, with 52% expecting to maintain their allocation in the longer term and 39% planning to increase it. However, navigating the private real estate fund market remains difficult for investors. With a large number of



managers vying for investor capital, and an increasingly diverse array of fund offerings, fund selection is very challenging.

[Preqin Investor Network](#), a free service for accredited investors and qualified purchasers, draws on Preqin's fundraising, performance and fund terms data in order to help accredited investors navigate the range of opportunities available in the private real estate

market. Subscribers to the platform have full access to profiles of every private real estate fund currently seeking investor capital, including details of the fund strategy, investment preferences and any interim closes held. It also includes information on the history and track record of fund managers with a vehicle in market, plus fund terms benchmarks and net-to-LP fund performance.

Data Source:

[Preqin Investor Network](#) is a free tool for accredited investors looking to source new investment opportunities, providing information that can help with asset allocation, fund selection and due diligence. Accredited investors can access:

- Full information for 450 private real estate funds currently in market, including geographic, property sector and strategy focus, and fund manager contact details.
- Benchmark returns for private real estate funds by geographic focus and strategy, and the PrEQIn Real Estate Index.
- Performance track records of any fund managers with a fund currently seeking investor capital.
- A fund terms calculator, allowing investors to compare benchmark terms for funds of different sizes, strategies and geographic foci.

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Preqin Industry News

Jessica Sutro examines the latest news on Asia-Pacific-focused private real estate, including investors based in the region looking to make commitments, and Asia-Pacific-focused funds that have launched or held interim closes.

A number of Asia-Pacific-based investors are planning to make new commitments to debt-focused private real estate funds:

Singapore-based wealth manager [First Degree Global Asset Management](#) could make its maiden real estate investment by H1 2014. It will consider committing up to \$1mn to private funds across all strategies, including debt-focused private equity real estate funds. First Degree Global Asset Management will look at funds investing in the property markets of Australia and the US. The wealth manager has set a strategic target of 10% to the real estate asset class.

[Pacific Asset Management](#) intends to make its maiden investment to private real estate funds in the next 12 months. The China-based asset manager is looking at funds employing core and debt strategies, and will consider vehicles targeting China's tier one cities. Pacific Asset Management has not determined how much capital and how many funds it plans to commit to over the coming year. At present, the majority of Pacific Asset Management's real estate exposure lies in direct assets, and listed funds make up a small portion of its portfolio. It is also interested in separate account opportunities.

A number of Asia-Pacific-focused private real estate funds have launched or held interim closes recently:

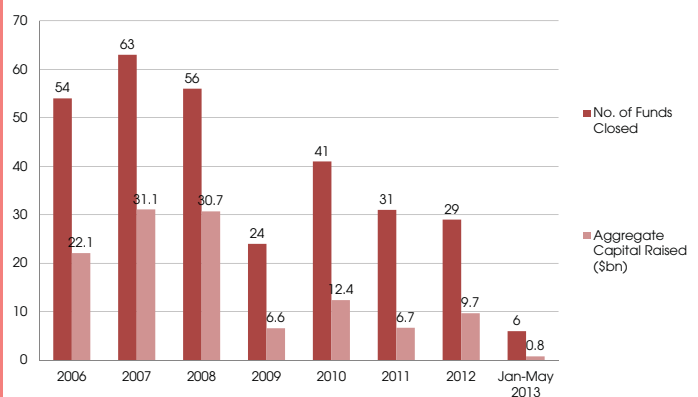
[Carlyle Group](#) recently launched [Carlyle Asia Real Estate Fund III](#), an opportunistic fund targeting \$750mn. The pan-Asian real estate fund has a focus on China and other select markets, including Singapore, Hong Kong and Japan.

Recently launched [HREI China Total Return Fund](#) is the maiden vehicle of [Harvest Real Estate Investments](#). The fund, which is looking to raise \$500mn in capital commitments from investors, targets medium- to long-term investments in retail, office and residential properties in the Chinese market. It employs an opportunistic strategy and focuses on tier 1 and 1.5 cities in China.

[Secured Capital Japan](#) held a second interim close on \$253mn in April 2013 for their vehicle [Secured Capital Real Estate Partners V](#), which is targeting \$1bn. The fund invests in properties and distressed and debt opportunities mainly in Japan and targets medium sized properties between \$20-300mn, with emphasis on B+ to A Class quality.

A look at Asia-Pacific-focused private real estate fundraising since 2006:

Chart of the Month: Annual Asia-Pacific-Focused Closed-End Private Real Estate Fundraising, 2006 - May 2013



Source: Preqin Real Estate Online

The 29 Asia-Pacific closed-end private real estate funds closed in 2012 represented a slight drop from the 31 closed in 2011. However, the Chart of the Month shows that the aggregate capital raised by funds closed targeting the region increased from \$6.7bn in 2011 to \$9.7bn in 2012. Fundraising for vehicles targeting the region has remained slow in 2013 so far, with six funds closed raising an aggregate \$0.8bn.

[Phoenix Asia Real Estate Investments V](#), managed by [Phoenix Property Investors](#), held a second interim close on \$468mn in May 2013. The fund, which is targeting \$600mn, has a pan-Asian focus, but is primarily interested in the Hong Kong and Taiwan real estate markets. It invests in all property types with the exception of industrial assets and hotels.

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@preqin.com and we will endeavour to publish them in the next issue.

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Investors' Approach to Alternative Investments: Proactive or Passive?

In this excerpt from the [2013 Preqin Investor Network Global Alternatives Report](#), Leopold Peavy examines how proactive and sophisticated investors in alternatives are based on Preqin's interviews with institutional investors from around the globe in April 2013.

The alternative investor universe has grown considerably in the past decade, with many investors now seeing alternative assets as an integral part of their portfolios. As institutions become more active and experienced in alternative investment, many are gaining more confidence in navigating fund opportunities and are also more proactive with their approach.

In light of the global economic downturn and greater pressure on investors to be prudent with capital and selective with where it is allocated, in April 2013 Preqin interviewed 70 institutional investors from around the globe to find out just how proactive and sophisticated they are in relation to committing to alternatives. Investors may need to consider managing a variety of areas: risk exposure, returns requirements, liquidity allowances, and capital and staff resources. This article explores what proportion of the alternative investment community considers itself proactive, how investors source investments and the resources they have to do so.

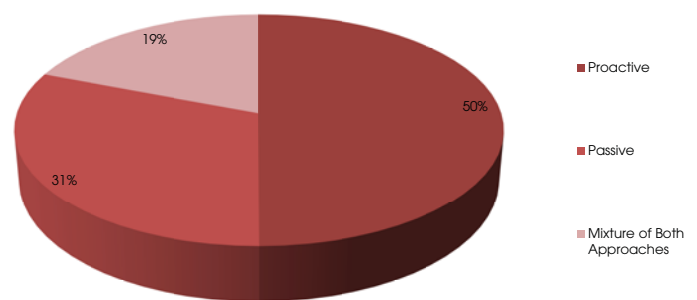
Sourcing Alternative Investment Opportunities

As Fig. 1 shows, 50% of investors interviewed stated that they have a proactive approach to sourcing new alternative asset fund investments, meaning they actively review and source new investment opportunities. Thirty-one percent of investors interviewed declared a passive approach to sourcing new investment opportunities, relying exclusively on third parties to present viable fund opportunities. The remaining 19% stated that they employ a mixed approach to sourcing alternative asset fund investments.

With greater transparency on fund manager activity available than ever before, investors can be proactive in sourcing funds themselves, cross-referencing information given to them by third parties, and making fund suggestions for third parties to undertake due diligence on.

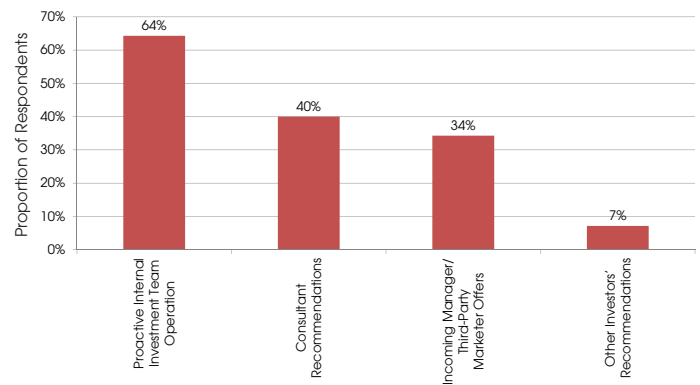
Investors in alternatives use various methods to source alternative assets fund opportunities, often concurrently. Fig. 2 shows that 40% of investors interviewed gain access to funds following recommendations from their consultant, while just over a third (34%) depend on incoming fund manager, placement agent and third-party contacts to commit to funds. Sixty-four percent of investors interviewed have an investment team tasked with finding appropriate opportunities and 7% find funds following recommendation from a fellow investor. One Europe-based government agency stated that it uses "mostly an internal team but sometimes uses an external consultant when [it] wants to examine profit and risk more closely". One Middle East-based bank interviewed typically "speaks to existing managers and finds out what competitors are doing".

Fig. 1: Investors' Attitudes Towards Sourcing Alternative Asset Fund Investments



Source: 2013 Preqin Investor Network Global Alternatives Report

Fig. 2: Investors' Sources of Alternative Asset Fund Investments



Source: 2013 Preqin Investor Network Global Alternatives Report

Preqin's interviews with investors confirm that alternative investments have grown in importance for investors over the years, with almost half (49%) of investors interviewed stating that their investment teams have given more attention to managing alternative assets in the last two years than in the past. Only 8% of investors said that they have given alternative investments less attention over the last two years, and 42% indicated that their level of attention to alternative investments has stayed the same.

Alternative Investment Staff Resources

Many investors in the asset class have established an internal team with multiple employees specializing in alternatives. The majority



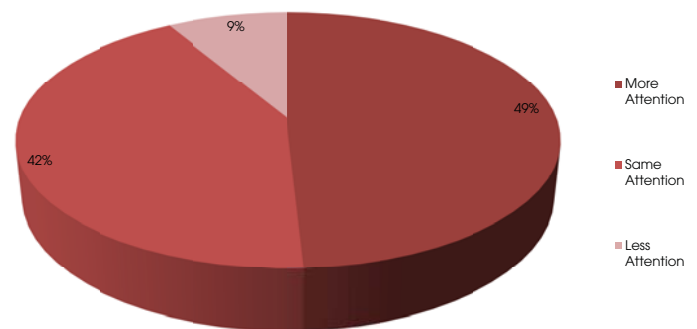
of investors (67%) we spoke to employ more than two investment professionals to oversee alternatives, including 16% that have alternative investment teams of more than five people. In one case, a large Asia-based bank has 18 individuals on its alternative investments team. The largest proportion (51%) of investors we spoke to have teams of between two and five individuals. Despite the growing number of alternative investment teams across the globe, 15% of investors interviewed have their investment activities completely outsourced to investment consultants, asset managers or other third-party investment managers.

Outlook

Proactivity in sourcing and making alternative investment fund commitments is often dictated by an investor's circumstance; those investors with fewer resources may have to completely or almost completely outsource alternative investment decisions to a third party.

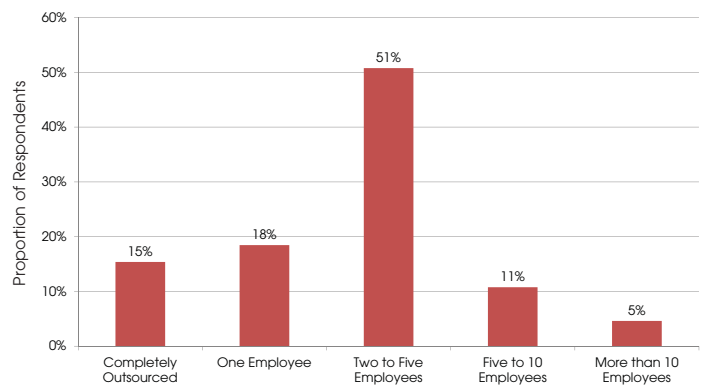
However, those with resources to actively source funds perhaps should consider the way their peers manage their alternative investment portfolios when looking after their own. With 69% taking either a proactive or somewhat proactive approach to sourcing funds, investors that take a passive stance out of preference may reflect on the difference greater internal focus could make on gaining access to better funds. With the chasm between top quartile funds and the rest so acute, investors having insightful, objective fund manager information at their disposal and being proactive in using it, could prove crucial to building and maintaining a successful portfolio.

Fig. 3: Attention Given by Investors to Managing Alternative Investments Over the Last Two Years Compared to the Past



Source: 2013 Preqin Investor Network Global Alternatives Report

Fig. 4: Size of Investors' Internal Alternative Investment Teams



Source: 2013 Preqin Investor Network Global Alternatives Report

2013 Preqin Investor Network Global Alternatives Report

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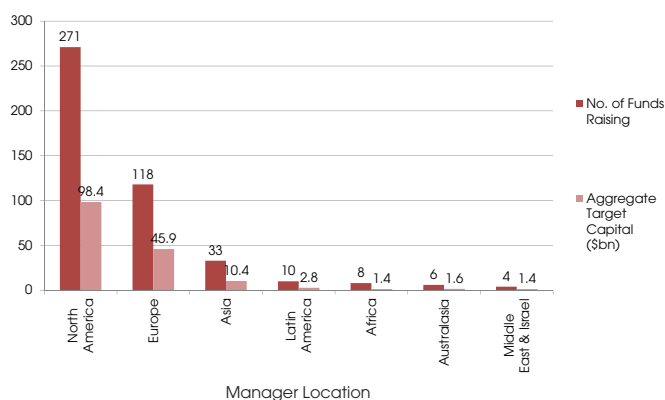
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Fundraising Update

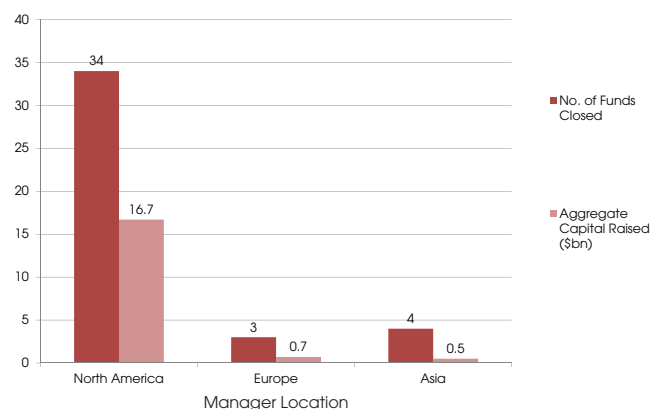
Farhaz Miah provides a round-up of the latest private real estate fundraising statistics.

Fig. 1: Closed-End Private Real Estate Funds in Market by Manager Location (As of May 2013)



Source: Preqin Real Estate Online

Fig. 2: Closed-End Private Real Estate Fundraising by Manager Location, Funds Closed January - May 2013



Source: Preqin Real Estate Online

Fig. 3: Five Largest Closed-End Private Real Estate Funds in Market (As of May 2013)

| Fund | Firm | Target Size (bn) | Strategy | Geographic Focus |
|---|---|------------------|---------------|-----------------------|
| Blackstone Real Estate Partners Asia | Blackstone Group | 4.0 USD | Opportunistic | Asia-Pacific |
| Brookfield Strategic Real Estate Partners | Brookfield Asset Management | 3.5 USD | Opportunistic | Global |
| Goldman Sachs Real Estate Mezzanine Partners II | Goldman Sachs Merchant Banking Division | 3.0 USD | Debt | US, Europe |
| Blackstone Real Estate Debt Strategies II | Blackstone Group | 3.0 USD | Debt | North America, Europe |
| Morgan Stanley Real Estate Fund VIII Global | Morgan Stanley Real Estate Investing | 3.0 USD | Opportunistic | Global |

Source: Preqin Real Estate Online

Fig. 4: Recently Closed Funds

| Lone Star Fund VIII | |
|---------------------|--|
| Manager | Lone Star Funds |
| Strategy | Debt, Distressed and Opportunistic |
| Geographic Focus | Global |
| Final Close | \$5bn (May 2013) |
| Property Focus | Residential |
| Sample Investors | Dallas Police & Fire Pension System, Houston Firefighters' Relief and Retirement Fund, New Mexico Educational Retirement Board |

| Canyon Multifamily Impact Fund | |
|--------------------------------|---|
| Manager | Canyon Capital Realty Advisors |
| Strategy | Value Added |
| Geographic Focus | US |
| Final Close | \$200mn (May 2013) |
| Property Focus | Multi-family |
| Fund Ethos | Socially Responsible, Environmentally Sustainable |

Source: Preqin Real Estate Online

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Firm Coverage: **14,627** Firms



Performance Coverage: **11,743** Funds (IRR Data for 4,993 Funds and Cash Flow Data for 2,275 Funds)



Fundraising Coverage: **12,322** Funds Open for Investment/Launching Soon
Including 1,939 Closed-Ended Funds in Market and 403 Announced or Expected Funds



Deals Coverage: **74,645** Deals Covered; All New Deals Tracked



Investor Coverage: **10,801** Institutional Investors Monitored,
Including 7,700 Verified Active**** in Alternatives and 81,211 LP Commitments to Partnerships



Alternatives Investment Consultant Coverage: **447** Consultants Tracked

Fund Terms Coverage: Analysis Based on Data for Around **7,500** Funds

Best Contacts: Carefully Selected from Our Database of over **239,873** Active Contacts

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***Venture capital deals: Preqin tracks cash-for-equity investments by professional venture capital firms in companies globally across all venture capital stages, from seed to expansion phase. The deals figures provided by Preqin are based on announced venture capital rounds when the capital is committed to a company.

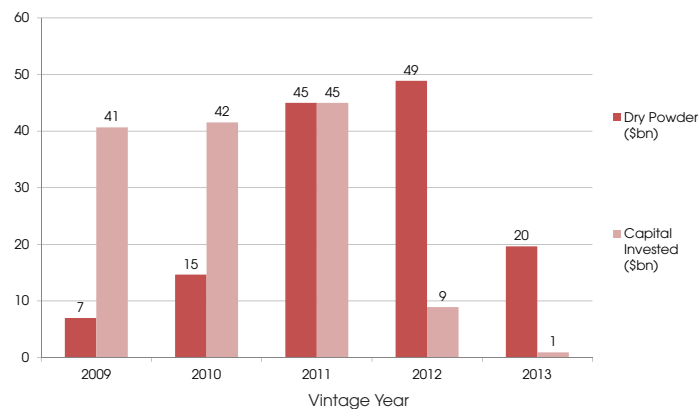
****Preqin contacts investors directly to ensure their alternatives programs are active. We emphasize active investors, but clients can also view profiles for investors no longer investing or with programs on hold.



Private Real Estate Dry Powder

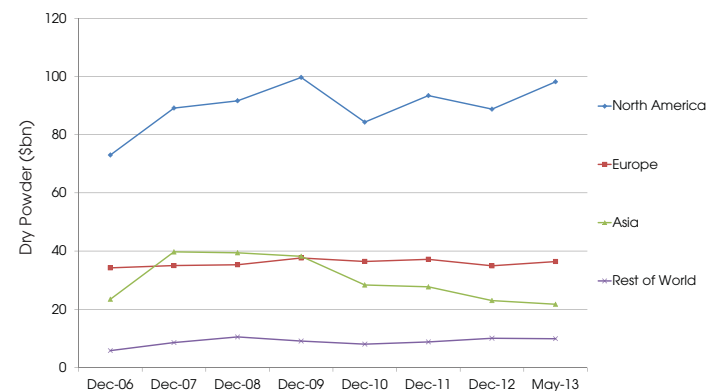
Vasilisa Starodubtseva looks at the dry powder available to managers of closed-end private real estate funds.

Fig. 1: Closed-End Private Real Estate Funds - Capital Invested and Dry Powder Remaining by Vintage Year (As of May 2013)



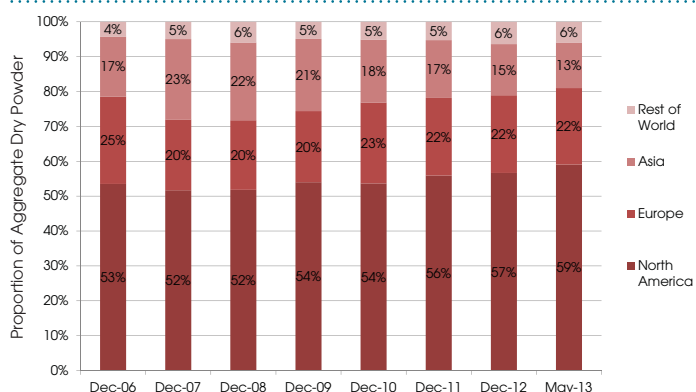
Source: Preqin Real Estate Online

Fig. 2: Closed-End Private Real Estate Dry Powder by Primary Geographic Focus, December 2006 - May 2013



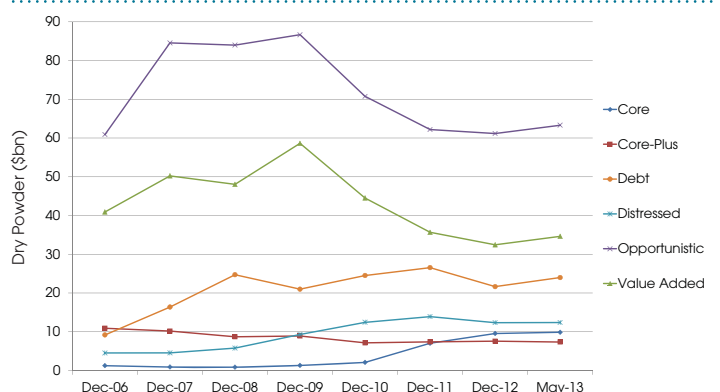
Source: Preqin Real Estate Online

Fig. 3: Breakdown of Closed-End Private Real Estate Dry Powder by Primary Geographic Focus, December 2006 - May 2013



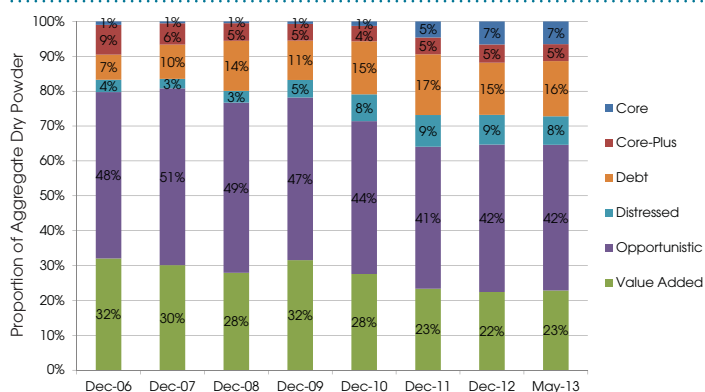
Source: Preqin Real Estate Online

Fig. 4: Closed-End Private Real Estate Dry Powder by Strategy, December 2006 - May 2013



Source: Preqin Real Estate Online

Fig. 5: Breakdown of Closed-End Private Real Estate Dry Powder by Strategy, December 2006 - May 2013



Source: Preqin Real Estate Online

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Future Searches and Mandates

Forena Akthar takes a look at the latest searches and mandates of private real estate investors. Which investors are most likely to be active in the next 12 months? What strategies and locations are being sought?

Fig. 1: Proportion of Private Real Estate Investors Searching for New Funds in the Next 12 Months by Investor Type

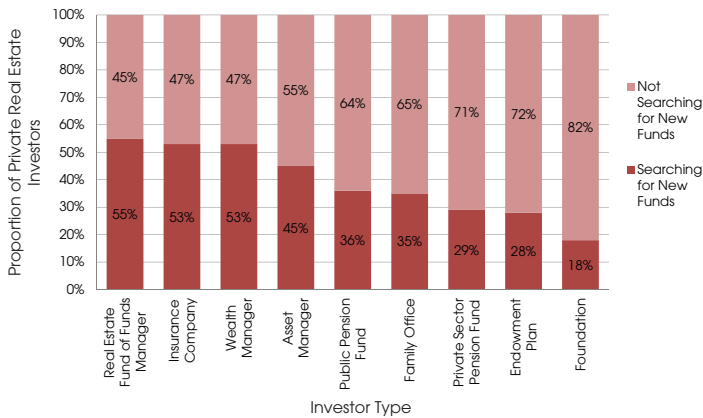


Fig. 2: Proportion of Private Real Estate Investors Searching for New Funds in the Next 12 Months by Investor Location



Fig. 3: Proportion of Private Real Estate Investors Searching for New Funds in the Next 12 Months by Investor Assets Under Management

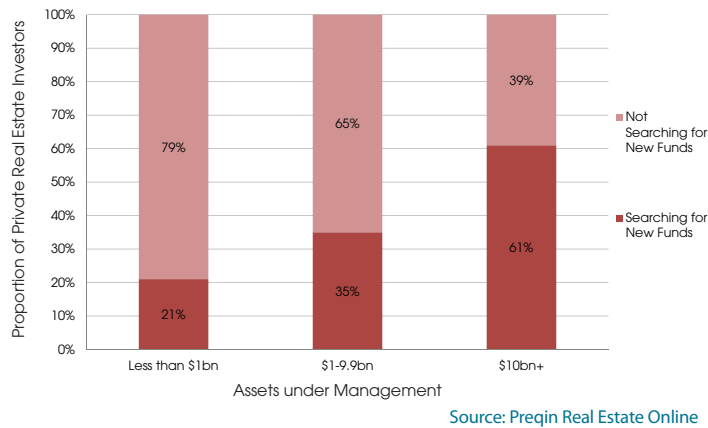


Fig. 4: Strategies Targeted in the Next 12 Months by Private Real Estate Investors

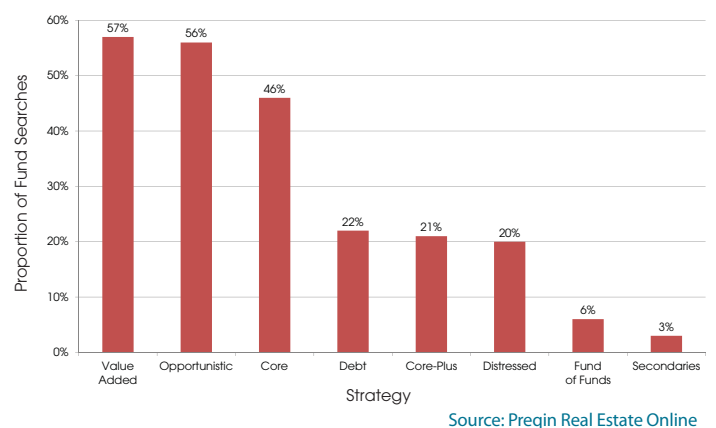
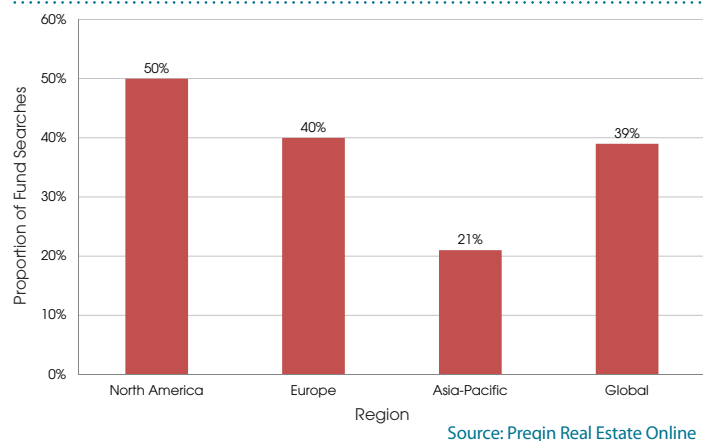


Fig. 5: Regions Targeted in the Next 12 Months by Private Real Estate Investors



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Conferences Spotlight

| Conference | Dates | Location | Organizer |
|---|------------------------|-----------|----------------|
| Real Estate Investment World Latin America 2013 | 18 - 19 June 2013 | Miami | Terrapinn |
| Real Estate Investment World Asia 2013 | 25 - 27 June 2013 | Singapore | Terrapinn |
| GRI Europe Summit 2013 | 10 - 11 September 2013 | Paris | GRI |
| Family Office Real Estate Forum | 25 - 26 September 2013 | Chicago | World Congress |

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