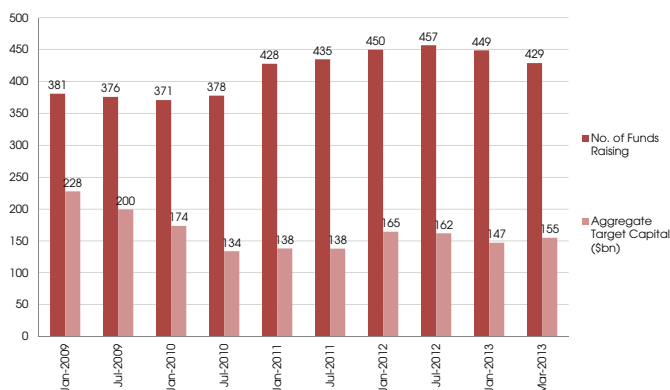




Real Estate Fundraising: Time on the Road

With fundraising for private real estate funds now a long process for many firms, Farhaz Miah takes a detailed look at the time taken to close funds and which managers have been able to exceed their fundraising targets.

Fig. 1: Closed-End Private Real Estate Funds in Market, January 2009 - March 2013 (As at 25 March 2013)

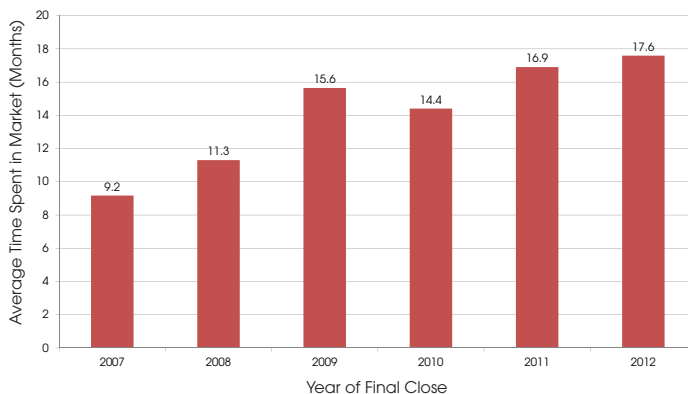


Source: Preqin Real Estate Online

The fundraising environment for managers raising private real estate funds has remained particularly challenging in recent years, with funds taking an increasingly long time to reach a final close. While there has been a small decline in the number of private real estate funds on the road since July 2012, the fundraising market remains very overcrowded, with 429 funds in market targeting an aggregate \$155bn (Fig.1). Considering the fact that over the last three years, private real estate funds reaching a final close raised an aggregate \$161bn, fund managers on the road may find it difficult to reach a final close on target.

Amid fierce competition, funds closing in 2012 spent an average of 17.6 months in market (Fig. 2), almost double the time taken

Fig. 2: Average Time Taken for Closed-End Private Real Estate Funds to Achieve a Final Close, Funds Closed 2007 - 2012

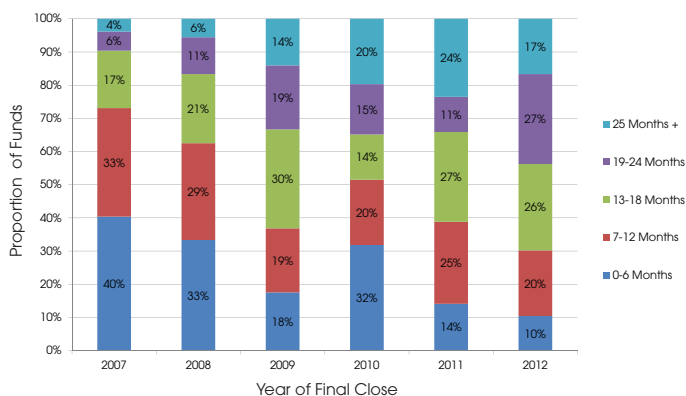


Source: Preqin Real Estate Online

in 2007 (9.2 months). As shown in Fig. 3, for funds that held a final close between 2007 and 2012, there has been a decline in the proportion of funds that closed within six months from 2010 to 2012, and an increase in the proportion of funds that took over 18 months to reach a final close. Only 10% of funds that achieved a final close in 2007 were in market for more than 18 months, but by 2012 this figure had risen to 44%.

As demonstrated in Fig. 4, the proportion of funds targeting Asia that achieved a final close within six months in 2011-2012 was considerably higher than for funds focusing on North America and Europe. At the other end of the spectrum, while 43% of funds that achieved a final close in 2007 were in market for more than 18 months, but by 2012 this figure had risen to 44%.

Fig. 3: Time Taken to Reach Final Close, Closed-End Private Real Estate Funds Closed 2007 - 2012



Source: Preqin Real Estate Online

Fig. 4: Time Taken to Reach Final Close by Region Focus, Closed-End Private Real Estate Funds Closed 2011 - 2012



Source: Preqin Real Estate Online



took more than 18 months to reach a final close, only 22% of Asia-focused funds that closed in the same period took longer than 18 months to achieve a final close.

Time Taken to Reach First Close

Examining the time taken for funds to reach a first close shows fairly limited change in recent years and suggests that a degree of momentum is important when it comes to successfully raising funds. The majority of funds that held a final close between 2007-2012 did so having held a first close within 12 months; 91% of funds that held a final close in 2007 reached a first close within 12 months while 88% of funds that held a final close in 2012 achieved a first close within 12 months (Fig. 5).

Time Spent in Market by Funds on the Road

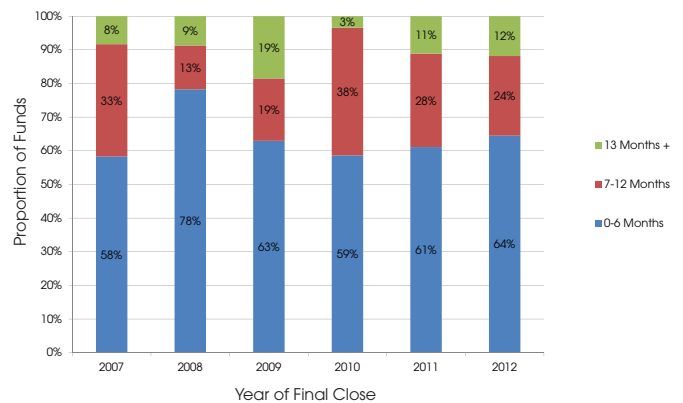
With funds taking an increasingly long time to reach a final close, are the funds currently on the road seeing any improvement in the time taken to hold an interim close? Interestingly, the proportion of funds on the road which have held an interim close has risen in recent years; 47% of funds currently in market have held at least one interim close, compared to 40% in March 2012 and 37% in March 2011. This suggests that there is more momentum in the fundraising market, with more managers able to secure enough capital to hold an interim close and begin investing. However, of the funds in market that are yet to hold an interim close, 57% have been fundraising for more than a year (Fig. 6). Fundraising for these firms is likely to be particularly challenging given that the majority of firms to close funds in recent years did so having held a first close within 12 months. Of all funds in market, a significant 42% have been fundraising for more than 18 months.

Success in Achieving Fundraising Target

Recent years have seen a significant number of funds meeting or exceeding their fundraising targets, a reversal of the trend observed between 2007 and 2009 when there was a steep increase in the proportion of funds closing below target. Fig. 7 shows that half of all funds that closed in Q1 2013 exceeded their target size. Although this can partly be explained by fund managers lowering their fundraising expectations, this nonetheless suggests that there has been an improvement in the fundraising climate. Some managers have had considerable success fundraising and Fig. 8 shows a sample of those firms that were able to close funds above target in 2012.

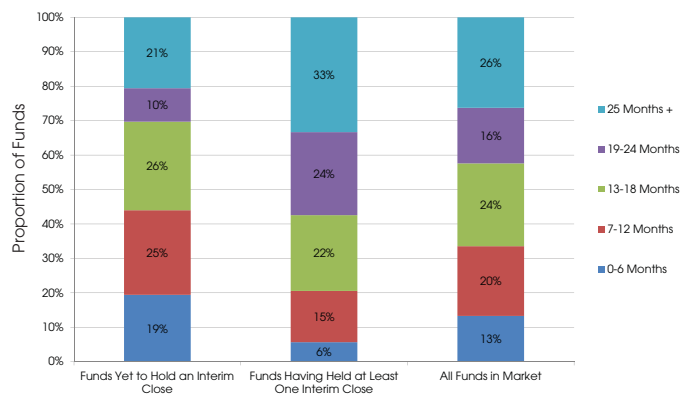
Performance of previous funds appears to have a significant impact on fundraising success. Of the funds closing on or above target in the period 2011 – March 2013, 63% were follow-up offerings to a top quartile predecessor fund, while just 14% had predecessor funds ranked as third or bottom quartile (Fig. 9). It is interesting to note that, of the funds that closed below target, a significant 47% still had top quartile predecessor vehicles. This shows that, given how challenging it is for firms to raise capital in the current market, it is generally the better performing managers that are successful.

Fig. 5: Time Taken to Reach First Close, Closed-End Private Real Estate Funds Closed 2007 - 2012



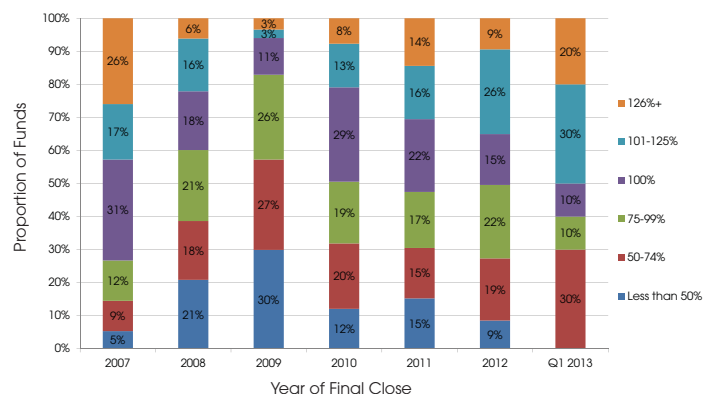
Source: Preqin Real Estate Online

Fig. 6: Time Spent on the Road by Closed-End Private Real Estate Funds Currently in Market



Source: Preqin Real Estate Online

Fig. 7: Breakdown of Closed-End Private Real Estate Funds by Proportion of Target Size Achieved, Funds Closed 2007 - Q1 2013



Source: Preqin Real Estate Online



Fig. 8: Sample of Closed-End Private Real Estate Funds Exceeding Fundraising Target in 2012

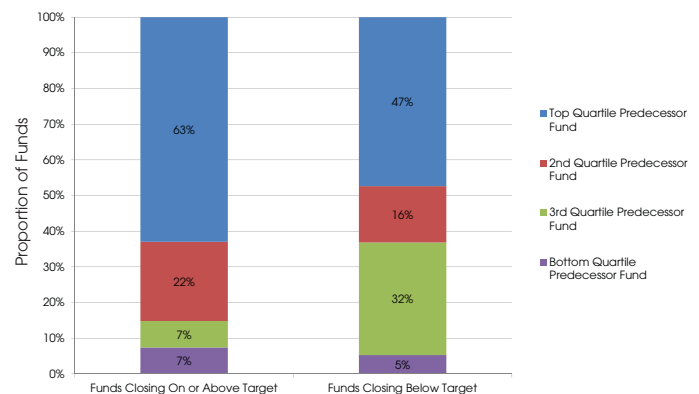
Fund	Firm	Initial Target (mn)	Final Close Size (mn)	Focus	Strategy
AG Core Plus Realty Fund III	Angelo, Gordon & Co	1,000 USD	1,014 USD	North America, Europe, Asia	Core-Plus, Debt
AG Realty Fund VIII	Angelo, Gordon & Co	1,250 USD	1,265 USD	North America, Europe, Asia	Debt, Opportunistic
Almanac Realty Securities VI	Almanac Realty Investors	800 USD	819 USD	US	Value Added
Blackstone Real Estate Partners VII	Blackstone Group	10,000 USD	13,300 USD	North America, Global	Opportunistic
Carmel Partners Investment Fund IV	Carmel Partners	700 USD	820 USD	US	Debt, Distressed, Opportunistic, Value Added
CBRE Strategic Partners US Value 6	CBRE Global Investors	750 USD	1,100 USD	US	Value Added
Fortress Japan Opportunity Fund II	Fortress Investment Group	100,000 JPY	130,000 JPY	Japan	Debt
Niam Nordic V	Niam	600 EUR	719 EUR	Nordic	Opportunistic
Patron Capital Fund IV	Patron Capital	750 EUR	880 EUR	UK, West Europe	Distressed, Opportunistic
Related Real Estate Recovery Fund	Related Companies	750 USD	825 USD	US	Debt, Distressed, Opportunistic

Source: Preqin Real Estate Online

Outlook

Competition remains intense among fund managers raising capital. Although the results of Preqin's H1 2013 Real Estate Investor Outlook study show that a greater proportion of investors expect to commit to private real estate funds in 2013 than those interviewed concerning their investment intentions for 2012, fundraising is likely to remain challenging. Fund managers need to be prepared for a long fundraising process, as funds are increasingly spending more than a year on the road, and a significant proportion of funds in market have been fundraising for over 18 months. However, recent years have seen a number of funds reaching or exceeding their fundraising targets, indicating increasing momentum in the fundraising environment. Nonetheless, as investors are increasingly selective and often form fewer fund manager relationships, it is likely that the better performing fund managers will continue to attract larger levels of investor capital and may therefore take less time to reach a final close than those fund managers with weaker or shorter track records.

Fig. 9: Quartile Ranking of Predecessor Fund, Closed-End Private Real Estate Funds Closed 2011 - March 2013



Source: Preqin Real Estate Online

Data Source:

Interested in how long a fund has spent on the road? Subscribers to Preqin's [Real Estate Online](https://www.preqin.com/real-estate-online) can access detailed profiles of private real estate funds in market, including fundraising launch date, target size, anticipated closings, strategy, geographic focus, property focus and more.

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