



The Asian Private Real Estate Fundraising Market

With a number of large Asia-focused funds coming to market in 2013, there are signs of increased confidence among fund managers that they can successfully raise capital to invest in Asia. *Ee Fai Kam* takes a detailed look at the trends within private real estate fundraising in Asia and the outlook for the region.

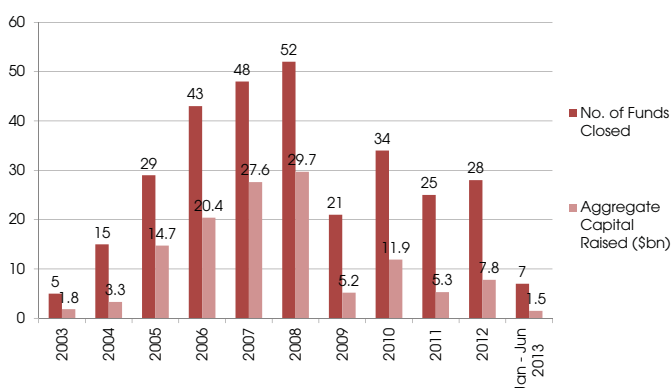
Fundraising

A number of large Asia-focused real estate funds have come to market in recent months, suggesting that fund managers are confident they can successfully raise significant amounts of capital to invest in Asia. Blackstone Group, Carlyle Group, Invesco Real Estate and Aetos Capital Asia are among the 14 firms which have launched new Asia-focused offerings so far in 2013. Asia-focused real estate funds launched in H1 2013 have an aggregate target of \$9.3bn, compared to an aggregate target of \$6.3bn set by funds launched in the whole of 2012 (Fig. 1). After seeing a fall from a peak of 52 funds closed and \$30bn in aggregate capital raised in 2008 to a five-year low in 2009, when only 21 vehicles closed raising an aggregate \$5.2bn, the Asia-focused fundraising market now remains in recovery mode; last year, 28 real estate funds targeting the region held a final close, raising \$7.8bn in total.

The real estate fund management industry has become more established within Asia in recent years, with many Asia-headquartered firms becoming larger, more sophisticated businesses which are able to attract significant levels of institutional capital. In 2007, Asia-headquartered firms accounted for 37% of capital raised by Asia-focused real estate funds but this has increased to 72% in 2012 (Fig. 3).

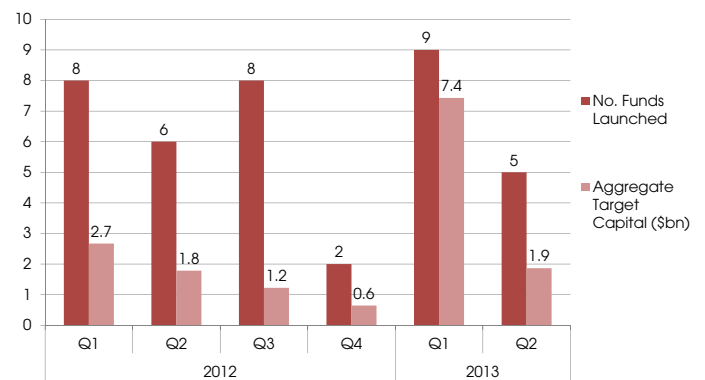
Recent years have also seen a shift in investor preference from pan-Asian funds to country-specific vehicles, with many institutions preferring to invest with firms that are specialists in particular markets. In terms of geographical focus, pan-Asia-focused funds accounted for the majority (54%) of capital between 2006 and 2008, securing \$42bn in total commitments.

Fig. 2: Annual Asia-Focused Closed-End Private Real Estate Fundraising, 2003 - June 2013



Source: Preqin Real Estate Online

Fig. 1: Asia-Focused Closed-End Private Real Estate Funds Launched, Q1 2012 - Q2 2013

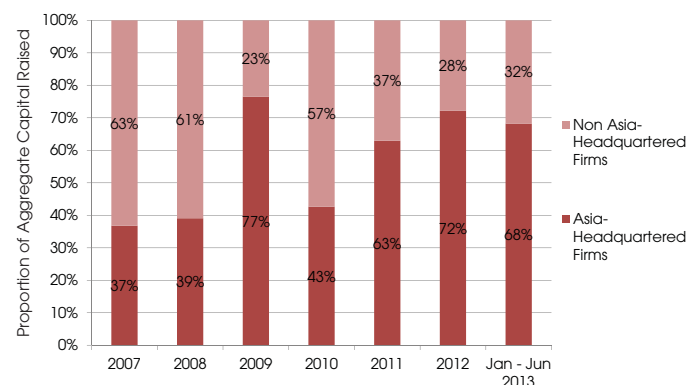


Source: Preqin Real Estate Online

In this period, fundraising by pan-Asia-focused funds reached a peak in 2008, when these funds accounted for 62% of the total capital raised by Asia-focused funds (Fig. 4). However, in 2011 no pan-Asian real estate funds completed fundraising, while in 2012 only 21% of Asia-focused capital was raised by pan-Asian funds.

China-focused funds have accounted for a growing proportion of capital raised in recent years; funds investing predominantly in China raised just 4% of the aggregate capital of Asia-focused real estate vehicles in 2009, but they made up 31% of the capital base in 2012. Between 2006 and 2009, \$12.5bn was raised by China-focused private real estate funds, representing 15% of all capital raised by Asia-focused funds, while the \$7.8bn raised

Fig. 3: Breakdown of Annual Asia-Focused Closed-End Private Real Estate Fundraising by Manager Headquarters, 2007 - June 2013



Source: Preqin Real Estate Online



between January 2010 and June 2013 accounts for 32% of all Asian fundraising.

Not all country-specific funds have enjoyed the same fortunes however; capital raised by India-focused funds has seen a drop from \$14.6bn in the period 2006 to 2009 to just \$2.2bn between January 2010 and June 2013 and no India-focused private real estate fund held a final close in H1 2013.

There are signs that fundraising by pan-Asia-focused funds may be set to increase. Fourteen of the 52 Asia-focused real estate funds currently in market are pan-Asian offerings, with these funds seeking \$12.9bn in aggregate commitments (Fig. 5). Encouragingly, five of the pan-Asian funds in market have held interim closes, raising an aggregate \$3bn towards their fundraising targets. With 11 vehicles targeting \$3.6bn, China-focused funds account for the largest amount of capital targeted by country-specific vehicles, with \$3.2bn sought by 16 India-focused vehicles.

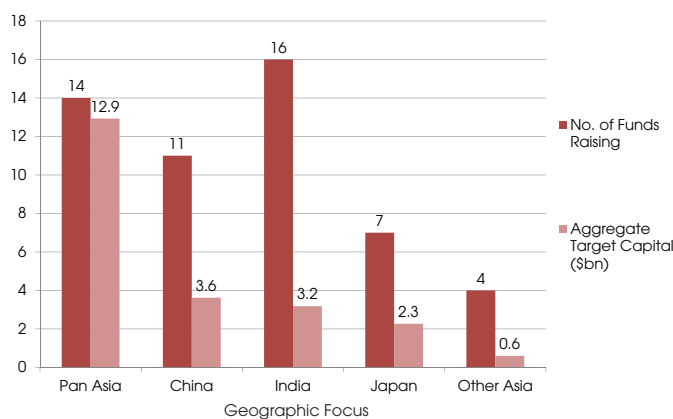
Investor Appetite

There is considerable institutional investor appetite for Asian real estate exposure. Of the non-Asia-based investors searching for new private real estate commitments in the coming 12 months, a significant 20% will invest in Asia-focused funds. As would be expected, Asia-based investors are more likely to target the region, with 64% of the Asia-based institutions planning new commitments targeting Asia-focused funds. Fig. 9 shows a sample of investors that are looking to make new investments in Asia-focused real estate funds in the coming months.

Performance

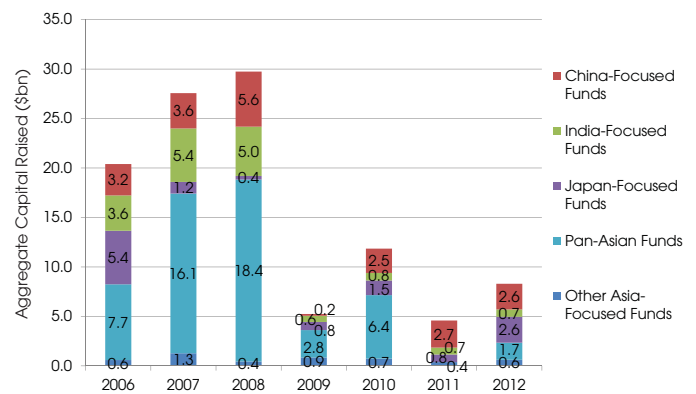
The appeal of Asia-focused funds for investors is evident when we compare their performance with that of North America-focused funds. The median IRR of Asia-focused funds exceeds that of their North America-focused counterparts for four of the five vintage years from 2005 to 2009 (Fig. 6). The largest difference in median IRR is for 2005 vintage funds, with the median IRR for Asia-focused funds standing at 7.2%, while the figure for North America-focused funds stands at -4.0%. With Asian property markets typically faring better than those in Europe or North

Fig. 5: Asia-Focused Closed-End Private Real Estate Funds in Market by Geographic Focus



Source: Preqin Real Estate Online

Fig. 4: Breakdown of Annual Asia-Focused Closed-End Private Real Estate Fundraising by Geographic Focus, 2006 - June 2013



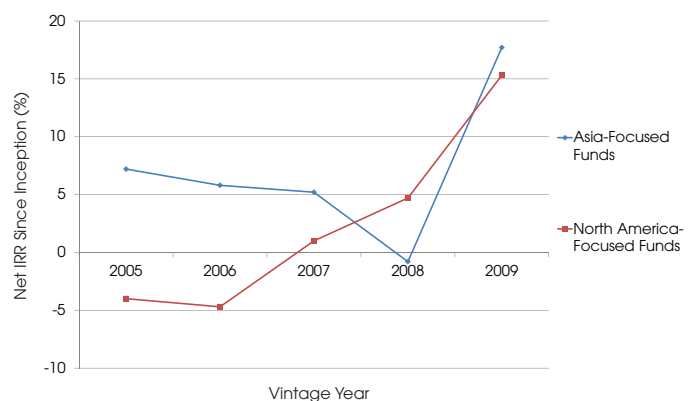
Source: Preqin Real Estate Online

America in 2009 and 2010, Asia-focused funds did not experience the same declines in value that many funds focused elsewhere saw.

Outlook

Fundraising for Asia-focused funds in H1 2013 has been relatively slow, with six funds holding final closes, having secured \$1.5bn in capital commitments. While the fundraising market is likely to remain challenging for the remainder of 2013, there are signs that fund managers believe they can raise significant amounts of capital to invest in Asia and several big-name firms have brought new offerings to market in 2013. Recent years have seen more capital raised for country-specific funds, and managers raising pan-Asian real estate funds will need to convince investors they have the requisite in-depth knowledge in all of their target markets if they are to achieve their fundraising goals. In the medium to long term, the private real estate fund industry in Asia looks set to grow significantly. More Asia-based institutional investors are entering the real estate asset class, and with many investors based in Europe and North America targeting globally diversified portfolios, we will likely see more capital flowing into the region.

Fig. 6: Closed-End Private Real Estate Funds Median Net IRR by Primary Region Focus and Vintage Year: Asia vs. North America



Source: Preqin Real Estate Online



Fig. 7: 10 Largest Asia-Focused Closed-End Private Real Estate Funds in Market by Target Size

Fund	Firm	Target Size (mn)	Strategy	Geographic Focus
Blackstone Real Estate Partners Asia	Blackstone Group	4,000 USD	Opportunistic	Asia, Australasia
Aetos Capital Asia V	Aetos Capital Asia	1,000 USD	Debt, Distressed, Opportunistic and Value Added	China, Japan
Secured Capital Real Estate Partners V	Secured Capital Japan	1,000 USD	Debt, Distressed and Opportunistic	Asia, Australia
Invesco Asia Real Estate Partners III	Invesco Real Estate	800 USD	Opportunistic	Asia, Australia
Carlyle Asia Real Estate Fund III	Carlyle Group	750 USD	Opportunistic	Asia
LaSalle Asia Opportunity Fund IV	LaSalle Investment Management	750 USD	Opportunistic	Asia, Australia
Tokyo Office Property Fund	AXA Real Estate	50,000 JPY	Core and Core-Plus	Japan
Phoenix Asia Real Estate Investments V	Phoenix Property Investors	600 USD	Opportunistic and Value Added	Asia
AEW Value Investors Asia II	AEW Capital Management	500 USD	Value Added	China, Hong Kong, Malaysia, Singapore, Thailand, Vietnam
CBRE China Opportunity Fund II	CBRE Global Investors	500 USD	Opportunistic	Greater China

Source: Preqin Real Estate Online

Fig. 8: 10 Largest Asia-Focused Closed-End Private Real Estate Funds Closed, 2011 - June 2013

Fund	Firm	Final Close Size (mn)	Strategy	Geographic Focus
Fortress Japan Opportunity Fund II	Fortress Investment Group	130,000 JPY	Debt	Japan
Macquarie Chinese Real Estate Fund II	Macquarie Infrastructure and Real Assets	1,000 USD	Core	China
CapitaMalls China Development Fund III	CapitaLand	1,000 USD	Opportunistic	China
GLP Japan Income Partners I	Global Logistic Properties	550 USD	Core	Japan
Real Estate Capital Asia Partners III	Real Estate Capital Asia Partners	530 USD	Opportunistic and Value Added	Asia
Red Fort India Real Estate Fund II	Red Fort Capital	500 USD	Opportunistic	India
SPARX Japan Residential Fund I	SPARX Asia Capital Management	500 USD	Core	Japan
ATAbax Special Situations Real Estate RMB Fund	ATAbax Investment Management	3,000 CNY	Debt, Distressed and Opportunistic	China
CR China Retail Real Estate Development Fund I	Harvest Capital Partners	466 USD	Opportunistic	China
ARA Asia Dragon Fund II	ARA Asset Management	441 USD	Opportunistic	Asia

Source: Preqin Real Estate Online

Fig. 9: Sample Investors Targeting Asia-Focused Real Estate Funds in Next 12 Months

Investor	Location	Type	Overview of Future Plans
Challenger	Australia	Asset Manager	Challenger intends to invest approximately \$2.6bn in the real estate asset class in 2013. The asset manager is interested in private funds, listed vehicles and direct assets, and focuses mainly on the Australian and Japanese markets.
Employees' Retirement System of Texas	US	Public Pension Fund	Employees' Retirement System of Texas is planning to invest approximately \$150mn in two to three real estate funds in the next 12 months. It is interested in Asia and Europe-focused funds, especially those utilising the core strategy.
HUK Coburg	Germany	Insurance Company	HUK Coburg is looking to commit €80-200mn across four to five private real estate funds. It will target funds investing in Asia, Europe and the US.
Lotte Insurance	South Korea	Insurance Company	Lotte Insurance is looking to commit \$50mn in real estate, private equity and infrastructure funds in the next 12 months. It will consider private real estate funds employing all strategies except for fund of funds vehicles. The insurance firm is predominantly interested in Asian, European and North American properties.
Sutter Health Retirement Plan	US	Private Sector Pension Fund	Sutter Health Retirement Plan is underallocated to the property asset class and intends to invest in Asia-focused private real estate funds in the next 12 months. It has committed to core and value added strategies previously, and is likely to maintain a similar focus going forward.

Source: Preqin Real Estate Online

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