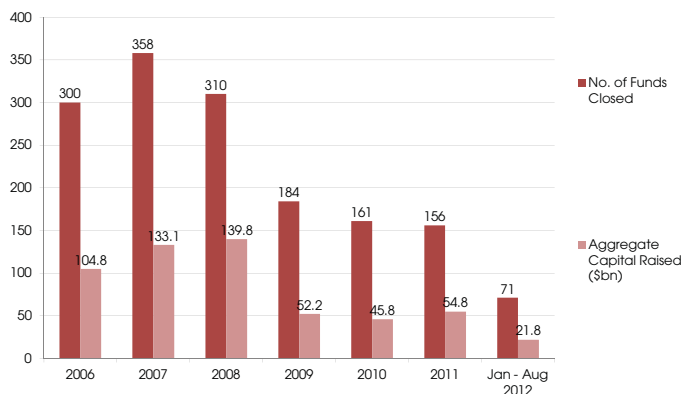




Investor Outlook: Appetite for Private Real Estate

Preqin recently interviewed over 100 institutional investors in private real estate in order to find out about their current views on the asset class and their appetite for new investments. [Carla Henry](#) and [Farhaz Miah](#) examine the results of the study and their implications for the future of the private real estate fundraising market.

Fig. 1: Annual Closed-End Private Real Estate Fundraising, 2006 - August 2012



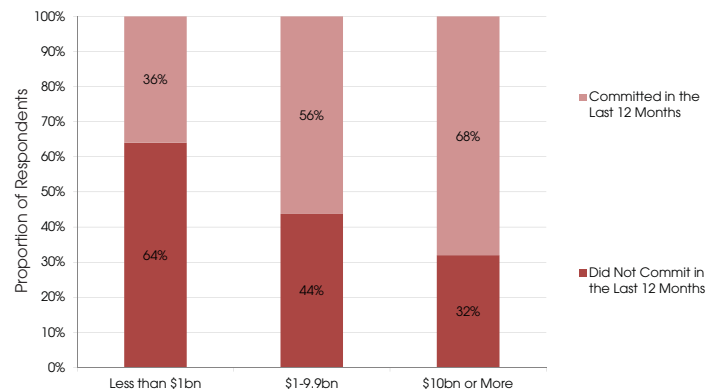
Source: Preqin Investor Outlook: Real Estate, H2 2012

Fundraising for private real estate funds has remained slow since the economic downturn (Fig. 1), with just \$45.8bn in capital raised in 2010. 2011 saw a small increase in aggregate fundraising to \$54.8bn, but 2012 has continued to be slow, with only \$21.8bn raised in the first eight months of the year. The challenging fundraising environment is the result of many institutional investors reducing their capital outlay to the real estate asset class, or halting commitments altogether. However, the results of Preqin's latest investor study reveal a potential shift – while there are still a large number of institutions content to remain on the sidelines, investor appetite for private real estate funds appears to have increased in the first half of 2012.

Investor Activity in the Last 12 Months

Fifty-four percent of the investors interviewed by Preqin had made new commitments to private real estate funds in the last 12 months. Levels of investor activity in the asset class varied by region, with 69% of the North America-based investors interviewed by Preqin committed to private real estate funds in the past 12 months, compared to 76% of Asia and Rest of World-based investors in the same time period. Among the Europe-based investors interviewed, just 27% had made private real estate fund commitments in the past year. The proportion of Europe-based investors committing to the asset class is still low, suggesting that these investors continue to be affected by the ongoing volatility in financial markets and the European sovereign debt crisis, both of which have led to a lack of investor confidence in the challenging real estate market.

Fig. 2: Proportion of Investors that Committed to Private Real Estate Funds in the Last 12 Months by Assets under Management



Source: Preqin Investor Outlook: Real Estate, H2 2012

Larger investors were far more likely to have committed capital to private real estate funds in the past year. Fig. 2 shows that 68% of investors with \$10bn or more in total assets committed to real estate funds during this period, compared to just 36% of investors with less than \$1bn in total assets. Smaller institutions are more likely to halt investments due to market conditions and also typically make investments less frequently. Fifty-six percent of investors with \$1-9.9bn in total assets made new commitments to private real estate funds in the past 12 months.

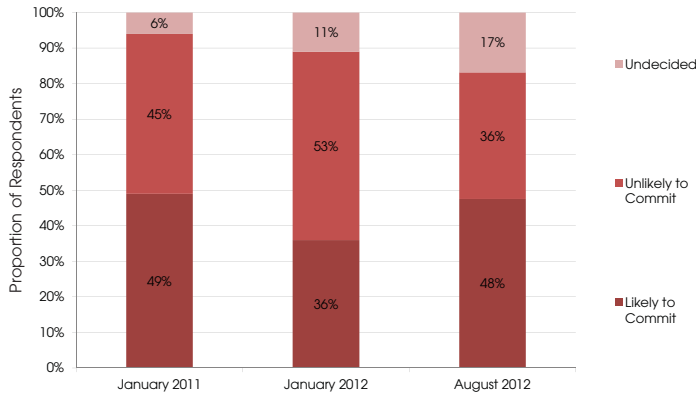
Investor Activity in the Next 12 Months

Fig. 3 highlights the evolution of investor intentions between January 2011 and August 2012. Investor appetite for private funds has increased since January 2012, when only 36% of investors stated that they would commit to funds in the following 12 months. The proportion now likely to commit to funds has increased to 48%, moving closer to levels seen in January 2011. Thirty-six percent of investors interviewed are unlikely to commit to private real estate funds in the next 12 months, while a further 17% remain undecided. Given that almost two-thirds of the investors interviewed in January 2012 stated that they were unlikely to consider a commitment to private real estate, current trends suggest increasing investor appetite, which could lead to increasing momentum in the private real estate fundraising market.

Investor intentions towards future commitment levels to private real estate funds vary according to geographic location and assets under management. As Fig. 4 demonstrates, larger investors are more likely



Fig. 3: Investor Intentions for Private Real Estate Investments in the Next 12 Months, January 2011 - August 2012

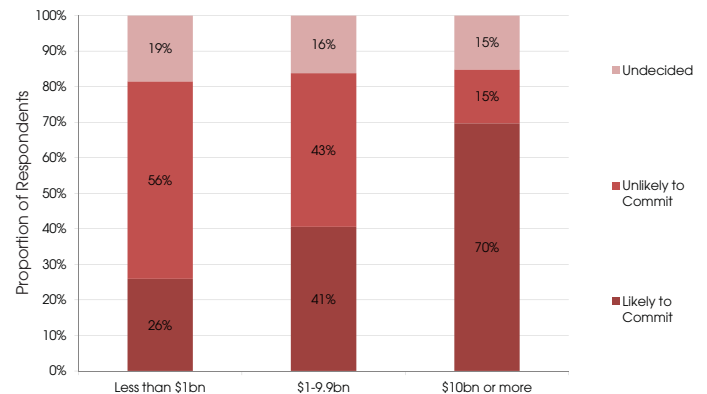


Source: Preqin Investor Outlook: Real Estate, H2 2012

to commit to private real estate funds in the next 12 months. Seventy percent of investors with \$10bn or more are likely to invest, while only 26% of investors with less than \$1bn in assets under management are looking to commit. Larger investors appear more likely to be willing to commit to the asset class than their smaller counterparts, which may be discouraged from planning to make future investments by the uncertain economic conditions.

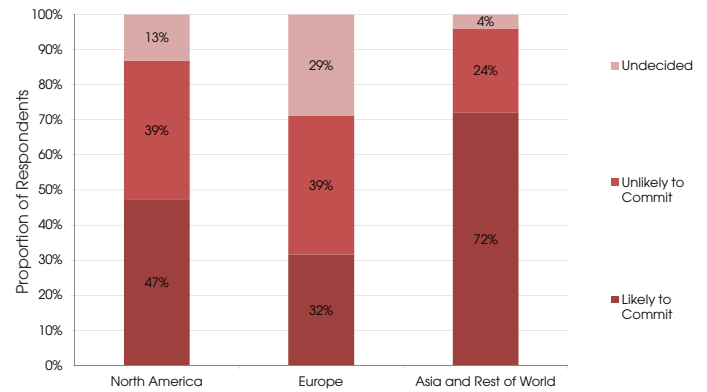
An analysis of investor intentions by investor location reveals that Asia and Rest of World-based investors are more likely to commit to private real estate funds in the next 12 months than their North American and European counterparts. Seventy-two percent of Asia and Rest of World-based investors are likely to commit to private funds in the next 12 months, while only 47% and 32% of investors in North America and Europe respectively are likely to consider fund commitments in the

Fig. 4: Investor Intentions for Private Real Estate Investments in the Next 12 Months by Assets under Management



Source: Preqin Investor Outlook: Real Estate, H2 2012

Fig. 5: Investor Intentions for Private Real Estate Investments in the Next 12 Months by Investor Location



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WITH KEYNOTE INTERVIEW BY **Lee S. Neibart, Global CEO, AREA PROPERTY PARTNERS**

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same period. A number of factors may be affecting European investor appetite, including the European sovereign debt crisis and increased regulation.

Capital Outlay and Key Strategies in the Next 12 Months

Thirty-seven percent of investors interviewed by Preqin stated they would deploy more capital to private real estate funds in the next 12 months than in the previous 12 months (Fig. 6). Compared to the results from January 2012, when only 26% of investors stated that they would commit more capital throughout 2012 than they had in 2011, investor confidence appears to have improved in the first half of 2012. Nonetheless, a sizeable 32% of investors interviewed did not commit to funds in the last 12 months and do not anticipate making commitments in the next 12 months. Fifteen percent of investors will invest less capital in the next 12 months than in the last 12 months, and 17% intend to commit the same amount in the next 12 months as they did in the last 12 months.

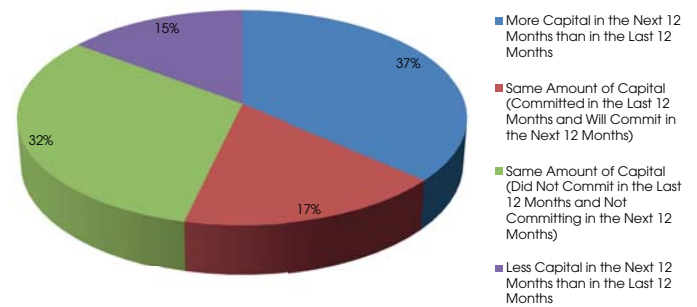
Core and opportunistic are the strategies that are attracting the most interest from investors committing to funds in the next 12 months. Forty-six percent of investors interviewed said they planned to invest in core funds and 35% said they would invest in opportunistic funds (Fig. 7). Value added, debt, and core-plus funds will be targeted by a smaller proportion of investors, with 24%, 22% and 19% of investors interviewed intending to invest in these strategies respectively.

Outlook

With 37% of investors planning to commit more capital in the next 12 months than they did in the past year, we could see an increase in fundraising for private real estate funds in the coming year. However, with 52% of investors not planning investments or adopting a wait-and-see policy, it is clear that fundraising for private real estate funds is likely to remain very challenging for fund managers in the coming months. The fundraising market remains extremely competitive, with 461 funds currently being marketed; the \$164bn aggregate target of these funds represents more than three times the amount of capital raised for private real estate funds in 2011.

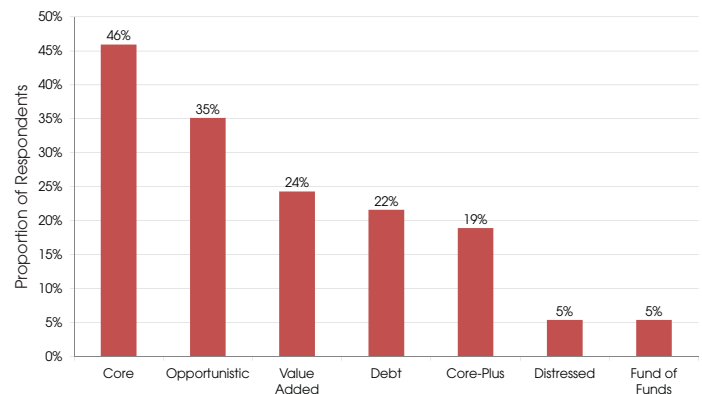
Fund managers are going to have to work very hard to raise capital in this climate. One Australian investor, echoing the sentiments of

Fig. 6: Expected Capital Outlay to Private Real Estate Funds in the Next 12 Months Compared to the Last 12 Months



Source: Preqin Investor Outlook: Real Estate, H2 2012

Fig. 7: Strategies Targeted by Investors in the Next 12 Months



Source: Preqin Investor Outlook: Real Estate, H2 2012

many other respondents, said those managers with a “consistent performance track record and an investment strategy that suits the current environment” would stand out. Many of the investors interviewed want to see a strong track record from fund managers, with excellent local knowledge following closely as a top priority.

Data Source:

This month’s feature article uses data presented in the [H2 2012 Preqin Investor Outlook: Real Estate](#) report. Click [here](#) to download your free copy and access the full results of Preqin’s interviews with over 100 investors in private real estate.

This report, and others like it, represent a small portion of the valuable data that our research analysts gather on a daily basis for Preqin’s Real Estate Online database. We contact investors directly to ensure that our information on their investment preferences, future fund searches and mandates, and contact details for key personnel is accurate, up to date, and reliable.

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