

# Real Estate Spotlight

July 2008 / Volume 2 - Issue 6

realestate.preqin.com

Real Estate Spotlight is the monthly newsletter published by Preqin Real Estate packed full of vital information and data all based on our latest research into the private equity real estate industry.

Preqin Real Estate Online is an online service providing constantly updated data and analysis, with information on fundraising, fund performance and institutional investor profiles. For more information and to register for a free trial, please visit: [realestate.preqin.com](http://realestate.preqin.com)

## Feature Article: Private Equity Real Estate Funds Taking Longer to Raise

Private equity fundraising has remained strong in 2008 in terms of the level of aggregate capital raised. However, the number of firms on the road seeking capital for new vehicles has hit record levels, and we are starting to see the increased levels of competition having a negative effect on how long it is taking firms to achieve a final close.

Please see page 3 for more information

## Infrastructure Special Report:

We examine the growing unlisted infrastructure market, and look at the prospects for the sector in the future. Features exclusive analysis from our new publication, The 2008 Preqin Infrastructure Review

Please see page 6 for more information

## Fundraising News:

We take a look at global real estate private equity fundraising, including recently closed global funds and those which are hitting the road.

Please see page 10 for more information

If you would like to receive Real Estate Spotlight each month please email [respotlight@preqin.com](mailto:respotlight@preqin.com).

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## Investor News:

We take a look at some of the latest news amongst investors in private equity real estate. This month's news includes information on:

- Penn Square Real Estate
- Government Pension Fund – Global
- Texas Permanent School Fund

Please see page 13 for more information

## Preqin Real Estate in the Spotlight

Preqin Real Estate Online is the industry's leading online source of information on private equity real estate, with data for:

- Fundraising
- Fund Performance
- Investor Profiles
- Plus more...

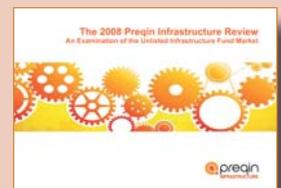
We take an in-depth look at the product, and how it can help you. Includes information on ordering and registering for your free trial.

Please see page 11 for more information

OUT NOW

The 2008 Preqin  
Infrastructure Review

More information available at:  
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- Private Equity Spotlight
- Hedge Fund Research

Real Estate Spotlight is just one of the regular free publications produced by Preqin. Below are details of other publications regularly released by Preqin, Preqin Real Estate and Preqin Hedge, along with details on how to register for your free copy.



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Hedge Fund Research is Preqin Hedge's free quarterly report into the institutional investor community. Institutional investors are a growing force in the hedge fund world, and are accounting for a rapidly-increasing share of new capital flowing into the asset class. At Preqin Hedge we undertake vital research, and carry out regular surveys and polls of investors and other hedge fund professionals to ascertain what the latest trends and appetites of the institutional investor are.

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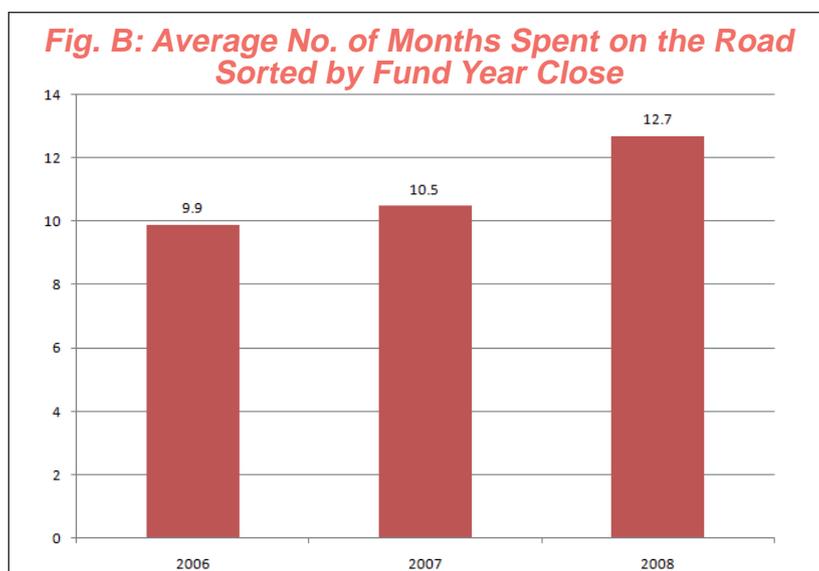
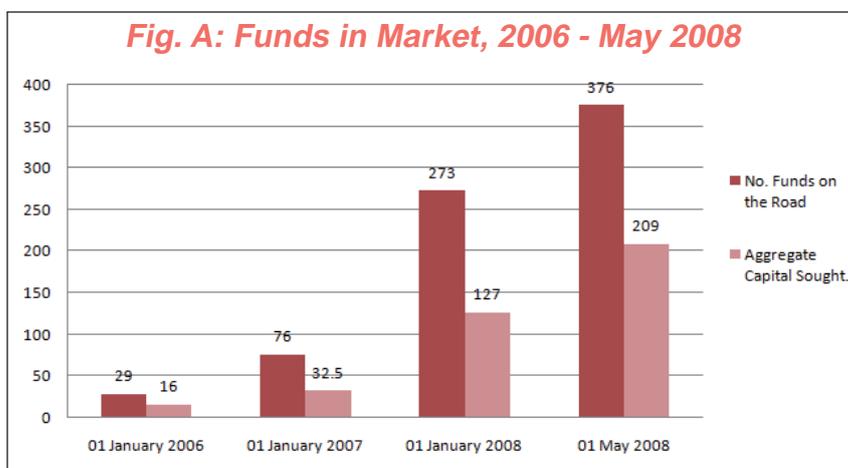
# Feature Article: Real Estate Funds Taking Longer to Raise

**Private Equity Real Estate fundraising hit record levels in 2007 with 175 funds raising an aggregate \$97 billion. This strong fundraising performance looks set to carry on into 2008 with fundraising figures to date exceeding \$50 billion. However, do these headline figures mask a more worrying trend in the fundraising market?**

Although fundraising has remained strong in terms of capital raised, the actual number of funds achieving a final close has not been as impressive. It is mostly due to the continued investor appetite for mega funds that headline fundraising figures remain in a healthy state. To date in 2008 a total of 50 funds have reached a final close, with the 17 funds that raised in excess of \$1bn accounting for 70% of the total capital raised. Significant funds that have closed this year include the \$3.9 billion MGPPA Asia Fund and the \$10.9 billion Blackstone Real Estate Partners IV.

Over the years as investor enthusiasm has increased for private equity real estate funds, more and more managers have been hitting the road with new vehicles in response to the increased demand. There are currently a significant 376 funds on the road seeking an aggregate \$203 billion in capital. This is a 38% increase from January 2008 and a massive 394% increase from January 2007. Although fundraising has been increasing steadily over time, the number of vehicles on the road has been increasing at a much faster rate. This has led to a significant rise in competition amongst managers on the road raising funds.

This congestion in the fundraising market has had a significant effect on the amount of time it is taking managers to raise their funds. Fig. B shows the average amount of time that it has taken for firms closing funds in each year to raise their vehicles. The industry has seen a rise in the average time taken to raise funds in every year, with funds closed in 2008 having spent an average 12.7 months in market, an increase of 28% from 2006, when the average fund closed had spent just 9.9 months in market.



The private equity real estate market is becoming increasingly competitive and fund managers are finding it increasingly more difficult to raise capital in today's market. Investors today are overwhelmed with investment opportunities, with some having to find third party help just to analyse all the opportunities on the road. One example of this in recent

# Feature Article: Real Estate Funds Taking Longer to Raise

months was the Pennsylvania State Employees' Retirement System, which committed USD 75 million to the Oculus Small Cap Real Estate Fund I, a real estate fund of funds, as the pension fund did not believe it had enough staff to research the multitude of funds on the road.

Due to the increased levels of competition, investor commitments are becoming more difficult and time-consuming to source, and fund managers are having to wait longer than ever before to reach their targets. Some funds are even being forced to revise their targets and close below their initial targets.

Even though there is still a significant interest in private equity real estate funds from existing investors and new LPs entering the market, the sheer number of different investment opportunities available to investors has extended the length of time they are taking to evaluate opportunities, and this is having a negative effect on the amount of time required to close a fund in today's market.

An additional factor is that many investors are becoming

increasingly cautious before making new investments in the current economic climate. Although investors are still keen on private equity real estate, especially for funds focusing on emerging regions, current conditions are causing many to become reluctant to invest. Many investors have yet to reach their target real estate private equity allocations, but will not be keen on making new investments until the global economic outlook becomes more clear.

The private equity real estate market is in serious danger of becoming over-saturated. If the market were to become any more congested, then increasing numbers of fund managers may be unable to secure enough commitments in order to reach a final close, resulting in funds having to revise targets or even being abandoned. In order to avoid this managers are going to have to work increasingly hard in order to focus their fundraising efforts and successfully identify appropriate investors in order to complete fundraising for their fund. They will need to include clear plans on how they intend to deal with any potential downfall in the global real estate markets in order to quell investor concerns in these increasingly uncertain times.

## 2008 Real Estate Private Equity Compensation Survey

Sponsored by Preqin Real Estate and FPL Associates L.P.

Preqin Real Estate and FPL Associates L.P. are pleased to partner together to conduct the 2008 Real Estate Private Equity Compensation Survey. Over 300 real estate private equity firms, spanning 38 countries, are being invited to participate in the survey, which aims to capture current trends and up-to-date information on compensation programs and practices.

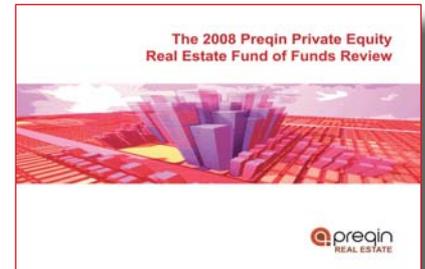
The survey collects data on the three main components of compensation: base salary, annual incentive (cash bonus), and long-term incentive (promote/carried interest) value. Data will also be gathered on general company, financial, and portfolio/investments information. Only participating companies will receive a complimentary copy of the report of findings. Furthermore, the survey report will not be sold to non-participants. To learn more about the survey and access the online questionnaire please visit: [realestate.preqin.com/survey](http://realestate.preqin.com/survey)



# 2008 Preqin Private Equity Real Estate Fund of Funds Review: Order Form

The 2008 Preqin PERE Fund of Funds Review is the most comprehensive guide to the private equity real estate fund of funds industry ever created. Preqin Real Estate has contacted managers, investors and real estate professionals from around the world in order to ensure that this year's 200 page publication is as accurate as possible, featuring exclusive information not available anywhere else.

- Comprehensive profiles for all PERE fund of funds managers, including contact details, history, sample investments, plus detailed investment plans at a fund specific level.
- Profiles for over 50 current investors in PERE fund of funds, with contact details, sample investments made and investment plans for the future.
- Detailed analysis on all aspects of the market, identifying trends in fundraising, fund terms and conditions, investors, fund focus and much more.



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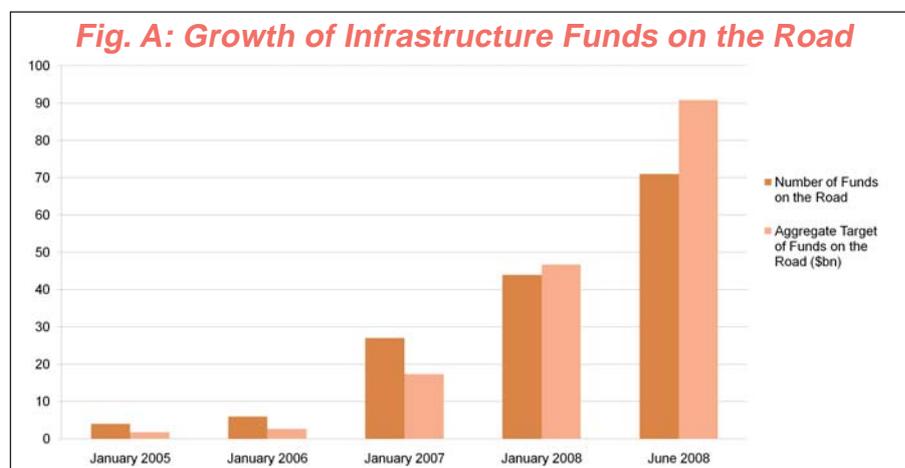
# Special Report: Unlisted Infrastructure Funds

**The unlisted infrastructure market has been one of the fastest growing sector of the alternative assets industry in recent years, as stable returns and the emergence of new markets and opportunities has attracted significant levels of institutional investment. Is this growth sustainable, and what does the future hold for the infrastructure sector?**

The market for unlisted infrastructure funds has grown dramatically in recent years, as an abundance of new opportunities in both developed and emerging markets has paved the way for increasing numbers of vehicles to successfully raise capital. Investor appetite for infrastructure and the increase in opportunities available for managers has seen the average size of infrastructure funds increase significantly, from \$159 million in 2003 to \$3.3 billion in 2008 year to date.

Fundraising for the sector remains strong in 2008, and even before the midway point of the year a total of \$13.1 billion had already been raised. Fund managers appear confident that there are more opportunities available, and this has led to a record number of firms hitting the road with new offerings. There are currently 71 funds on the road seeking an aggregate \$90.8 billion – a dramatic increase on 2005 when there were four funds seeking \$1.8 billion (Fig. A).

Some sections within the industry have expressed alarm at the current levels of capital being raised by new vehicles, and have questioned whether there might be too much capital chasing too few opportunities. While such concerns certainly merit consideration, there is good evidence that although the number of infrastructure funds is rapidly increasing, these funds will be more wide reaching and global than ever before, as new markets and opportunities present themselves in the coming years. Although fund managers may have to widen their horizons and consider new regions and types of investments, they still remain confident that they can source the investments to create strong returns in the future.



Evidence of the increasingly global nature of unlisted infrastructure fund investing can be seen in the growth of vehicles focusing on more than one region. As fund sizes have increased, managers are now considering investments that are further afield, often in addition to the more established regions which form their primary investment focus. The difference can be seen between funds that have already closed, and funds that are currently in market, with only 22% of funds closed between 2003 and 2008 focusing on more than one main region, compared with 32% of vehicles that are currently in market with a multi-regional focus.

However, this trend of managers taking on a more multi-regional investment remit is mostly seen amongst those managing larger vehicles, and it is also the case that some managers have responded to claims of increased competition for opportunities by raising very specific vehicles. Such vehicles might focus on only one country or small region, or focus on only one specific type of investment, such as renewable energy, with the highly

**“Fund managers appear confident that there are more opportunities available, and this has led to a record number of firms hitting the road with new offerings....”**

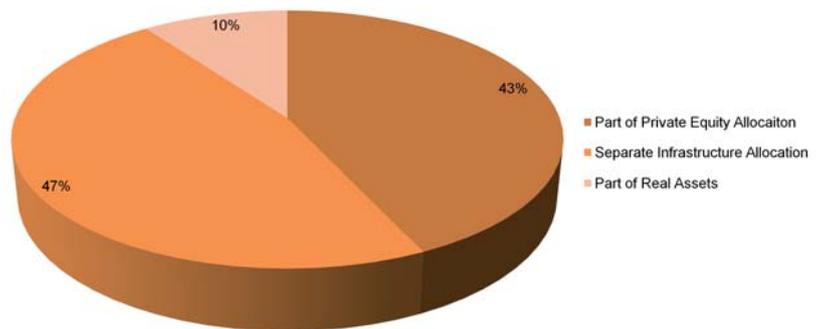
specialised nature of their investments enabling them to source investments that more broadly encompassing fund managers might find harder to pick up.

Current concerns regarding infrastructure and the wider global economic climate have led to a degree of plateauing in the fundraising market, with 2008 fundraising unlikely to exceed the record breaking levels experienced in 2007. However, the long term indications in the infrastructure market are for growth, and Preqin Infrastructure data would certainly suggest that the lack of further growth in 2008 is due more to some investors delaying making new investments rather than investors decreasing their allocations to the asset class.

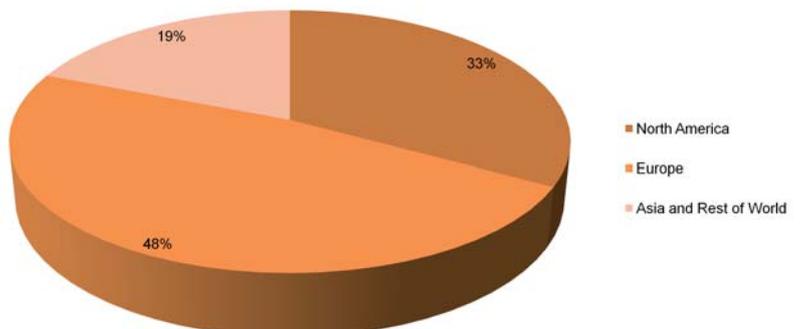
The high level of importance that investors are attaching to this emerging sector is demonstrated in the way in which investors class infrastructure fund investments. Many investors now treat the sector completely independently to other private equity and unlisted fund investments, as Fig. B shows, 47% of active investors in the sector now have a separate allocation specifically for infrastructure, while 43% include infrastructure funds in their private equity portfolio and 10% include it in their real assets allocation. For those that have a separate infrastructure allocation, in the majority of cases this is made up of unlisted funds rather than direct investments, as the prices that infrastructure assets demand can be restrictive for most investors, and the level of expertise required to manage such assets can be difficult to acquire.

Fig. C showing the geographical breakdown of investors in infrastructure funds indicates that European investors are actually the most active in this sector, making up a larger percentage of the overall market than their North American

**Fig. B: Source of Infrastructure Allocation**



**Fig. C: Make-up of Investor Universe by Investor Location**



counterparts. Drilling down further into the figures shows that within North America, 33% are from Canada, leaving only 67% of investors in this region from the US. This make up of the investor universe differs substantially from the wider institutional investor community for private equity, where the US provides by far the largest number of investors. So why is there a disparity between the two, and is this likely to change in the future?

The US market has thus far not seen the same levels of investment as Europe and emerging markets, where private infrastructure investment legislation and the PFI/

# Special Report: Unlisted Infrastructure Funds

PPP model are well established. However, in the US the situation is now changing, as well-publicised shortfalls in US infrastructure have prompted authorities to change their stance on private and foreign investment in infrastructure assets. In the future, with new initiatives being developed there are likely to be more firms successfully raising funds focusing on the region, which in turn will undoubtedly lead to increasing numbers of institutional investors from the US allocating capital to the sector.

With new investors from the US and around the world entering the market, and with new regions and industries being opened up to the infrastructure market all the time, the future for the industry looks strong. However, there are more infrastructure funds on the road than ever before,

and this has led to ever increasing levels of competition amongst managers seeking investment for their vehicles. Current economic conditions have led to some investors delaying their decisions on making new investments, with fund managers finding it harder to find investors as a result. Our prediction is for continued growth in the sector, but that this will come with increased competition for fund managers. Awareness of competition in the market and a good understanding of the infrastructure investor universe will be essential for all those fund managers hitting the road and seeking investments in years to come.

This month's special report was written using data from the newly released Preqin 2008 Infrastructure Review. The 2008 Preqin Infrastructure Review is the most comprehensive examination of the unlisted infrastructure fund market ever produced. With exclusive information on 120 firms, 200 funds and over 180 investors in the sector, plus detailed analysis reviewing every aspect of the industry, the Preqin Infrastructure Review is a vital purchase for fund managers, fundraising professionals, advisors, consultants, legal firms and investors in this rapidly growing market.

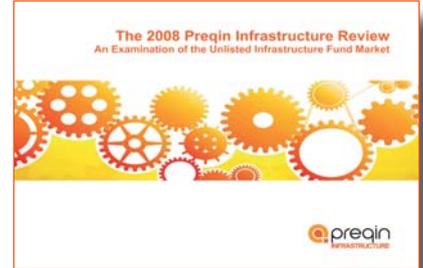
The 2008 Preqin Infrastructure Review is currently available to pre-order, with all orders received before July 12th benefiting from a 25% pre-publication discount, making copies available for just \$595 / £295 / €375.

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- Detailed analysis examining the history and development of the infrastructure market; recent funds closed; the current fundraising market; fund terms and conditions; investors; plus separate sections showing key facts and figures for the most important regions.
- Profiles for 120 infrastructure firms, and 200 funds, including detailed investment strategies and key information.
- Profiles for over 180 investors in the sector, including investment plans and key contact details.
- Detailed listings for all funds ever closed, plus funds currently raising.
- Fund terms and conditions listings for 19 vehicles, plus transparent performance data for 40 infrastructure funds (all performance data is net to investors)



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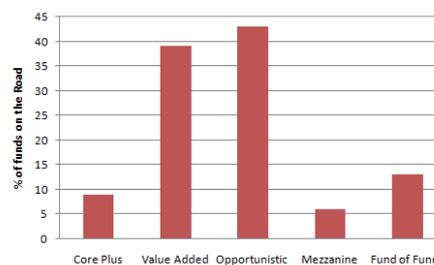
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# Preqin Real Estate: Fundraising Review

## REAL ESTATE FUNDS ON THE ROAD

Funds on Road	US	Europe	Asia & RoW	Total
Number	170	109	97	376
Total Target Value (\$bn)	91	57	55	203
Average Target Size (\$mn)	639	655	673	652

## Funds Currently In the Market By Strategy



(Note: Some funds have multiple strategies)

## REAL ESTATE FUNDS ON THE ROAD

Fund	Firm	Strategy	Fund Target (Mn)
Morgan Stanley Real Estate Fund VII Global	Morgan Stanley Real Estate	Opportunistic	10,000 USD
Lone Star Fund VI	Lone Star Funds	Opportunistic	6,500 USD
Beacon Capital Strategic Partners VI	Beacon Capital Partners	Value Added	6,000 USD
Blackstone Real Estate Partners Europe III	Blackstone Real Estate Group	Opportunistic	3,000 EUR
Lehman Brothers Real Estate Partners III	Lehman Brothers' Global Real Estate Group	Opportunistic	4,000 USD
Germany Aktiv Property Fund	Valad Property Group - Europe	Value Added	2,000 EUR
NN Advanced Property Fund	Nauerz & Noell AG	Opportunistic	2,000 EUR
Blackacre Institutional Partners 2	Blackacre Advisors	Opportunistic	3,000 USD
DLJ Real Estate Capital Partners IV	Credit Suisse Alternative Investments	Opportunistic	2,500 USD
Goldman Sachs Real Estate Mezzanine Partners	Goldman Sachs Real Estate Principal Investment Area	CMBS and Mezzanine	2,500 USD

## RECENTLY CLOSED REAL ESTATE FUNDS

### MGP Asia Fund III

Manager: MGPA

Structure: Limited Partnership

Strategy: Opportunistic

Property Types: Hotels, Retail, Office, Residential, Industrial

Geographic Focus: Asia, Australasia

Target IRR (Net): 17-20%

Final Close: 3,900 USD (Jun-2008)

Known Investors: CPP Investment Board, Pennsylvania Public School Employees' Retirement System, Teachers' Retirement System of the State of Illinois, Maryland State Retirement and Pension System, Immofinanz, Montana Board of Investments, IVG Immobilien

### Quinlan Private European Strategic Real Estate

Manager: Quinlan Private

Structure: LLC

Strategy: Value Added, Core-Plus

Property Types: Hotels, Retail, Office, Residential, Land Development

Geographic Focus: Europe

Final Close: 725 EUR (May-2008)

### Carlyle Europe Real Estate Partners III

Manager: Carlyle Group

Structure: Limited Partnership

Strategy: Opportunistic

Property Types: Hotels, Retail, Office, Residential, Industrial

Geographic Focus: Europe

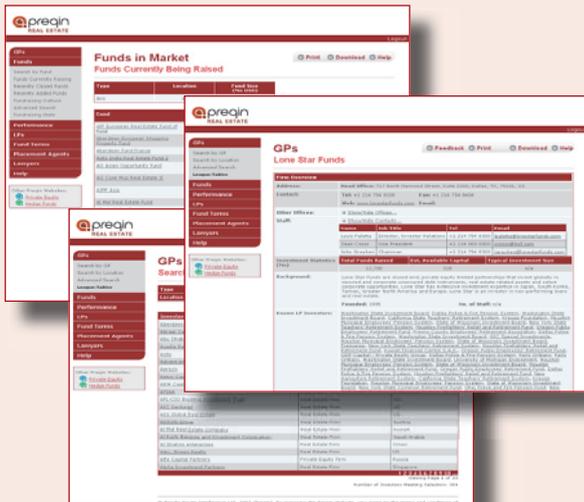
Target IRR (Net): 20%

Final Close: 2,200 EUR (Jun-2008)

Known Investors: Teacher Retirement System of Texas, Pennsylvania Public School Employees' Retirement System, Los Angeles County Employees' Retirement Association, Teachers' Retirement System of the State of Illinois, Montana Board of Investments, District of Columbia Retirement Board, Penn Square Real Estate Group

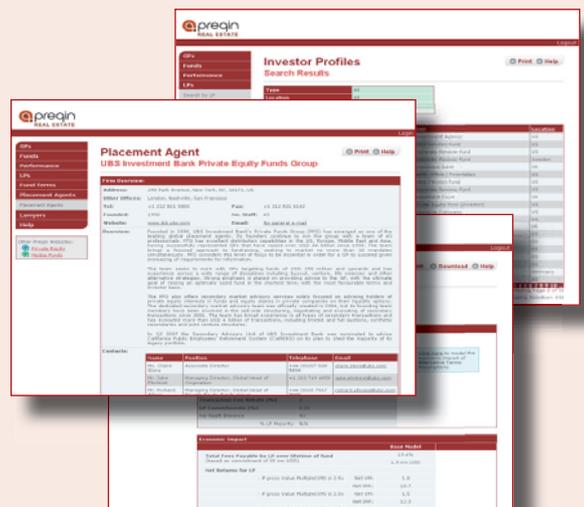
# Preqin Real Estate Online

Real Estate Online is the most comprehensive resource available to private equity real estate professionals today. Whether you're a GP, LP, fund of funds, placement agent, lawyer, consultant or advisor this is a vital information service for you.



- **Fund Managers:** View detailed profiles on nearly 700 fund managers from around the world including background, key contacts and funds raised. Carry out advanced searches to find GPs who focus on particular property types, strategies or locations.
- **Funds:** Detailed profiles for nearly 2,000 unlisted real estate funds including Limited Partnerships, Property Unit Trusts, LLCs, FCPs etc encompassing all strategies including core, core-plus, value added, opportunistic, mezzanine and fund of funds.
- **Performance:** View performance benchmarks for private real estate funds including details of the performance of individual funds. See which firms have the best track records.
- **Investors:** See detailed profiles for over 1,000 investors who are actively investing in private real estate. Investors include Real Estate Fund of Funds, Pension funds, Endowments, Family Offices and other asset managers. Detailed profiles include background, contact details, investment plans, preferred fund strategies and known previous investments in real estate funds.

- **Fund Terms:** What are the typical terms that a real estate fund charges? What are the implications of making changes to different fees? How do these fees vary between fund type and strategy? Model fee changes in our unique online Fund Terms Calculator.
- **Placement Agents:** Which agents are currently working with or have previously worked with real estate funds and which are willing to work with them in future? Includes detailed profiles for each placement agent.
- **Lawyers:** Which lawyers are the most active with real estate private equity funds currently? Which lawyers have worked with real estate funds previously? See detailed profiles for each lawyer.



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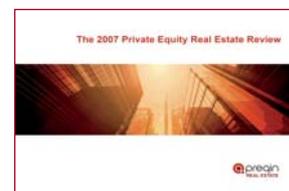
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# Preqin Real Estate: Investor News

Each month Investor News brings you the latest institutional investor news from around the globe. All information comes from our online Preqin Real Estate Online database.

## **Penn Square Real Estate Group closes real estate fund of funds.**

The real estate fund of funds sponsor has closed Penn Square Global Real Estate Fund I, having received capital commitments of USD 231.4 million, significantly more than its initial USD 100 million target. The Townsend Group will act as sub-adviser to the fund, which will seek opportunistic returns by investing in a multi-strategy, globally diverse portfolio. Target markets include the US, Germany, Japan, Brazil, India, China and Mexico.

## **Government Pension Fund – Global to adopt ethical measures in real estate portfolio.**

Government Pension Fund – Global will enter into a public consultation process with the Norwegian Finance Ministry in order to establish a set of environmentally responsible regulations that its real estate portfolio will have to abide by. The sovereign wealth fund wants to enhance its credibility by being seen as a more ethically conscious investor. The conventions will include greater care within the real estate portfolio for energy efficiency, water consumption and waste handling and the promotion of these values by the sovereign wealth fund's investment manager, Norges Bank, to the outside world. Government Pension Fund – Global has to formulate a response to the specifics of the real estate investment regulations by 15th September. The rules are provisionally set to be legislated in Q2 2009.

## **Ohio Public Employees' Retirement System (OPERS) to invest in international REITs for the first time.**

Ohio Public Employees' Retirement System is set to announce in July that it will make a maiden allocation to international REITs. The USD 86.3 billion public pension fund will ratify a decision to commit USD 550 million to the new addition to its real estate portfolio. The Townsend Group will help OPERS search for approximately 5 external managers to manage the pension fund's international REITs investments. The hiring of managers outside of the pension fund differs from its domestic REITs' strategy where internal managers look after the mandate.

## **Washington State Investment Board (WSIB) allocates to supplemental real estate vehicle.**

Washington State Investment Board has made a USD 50 million commitment to KSL Capital Partners Supplemental II. The USD 84.8 billion pension fund invested in this vehicle which provides capital support for KSL Capital Partners' previous vehicle KSL Capital Partners II, which closed in 2006. This allocation will give WSIB further exposure to leisure/entertainment markets. Oregon State Treasury was another pension fund to invest in KSL Capital Partners' latest real estate offering.

## **Texas Permanent School Fund selects Courtland Partners as its first real estate consultant.**

The USD 32 billion government agency hired Courtland Partners to help reach its 6% target allocation to real estate. Texas Permanent School Fund has approximately USD 1 billion allocated to private real estate funds.