

# Real Estate Spotlight

November 2007 / Volume 1 - Issue 6

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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.

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## Feature Article: Nordic Investors in Private Equity Real Estate Funds

This month's feature article examines the growth in the private equity real estate industry and its implications for Nordic investors and fund managers

Please see page 1 for more information

## 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:

- Montana Board of Investments
- Norwegian Government Pension Fund
- Washington State Investment Board

Please see page 9 for more information

## Fundraising

This month's article examines fundraising over 2007, our in-depth report includes:

- How much has been raised?
- Where is the capital being raised?
- Who has been most successful in 2007?
- How many funds are now on the road?

Please see page 6 for more information

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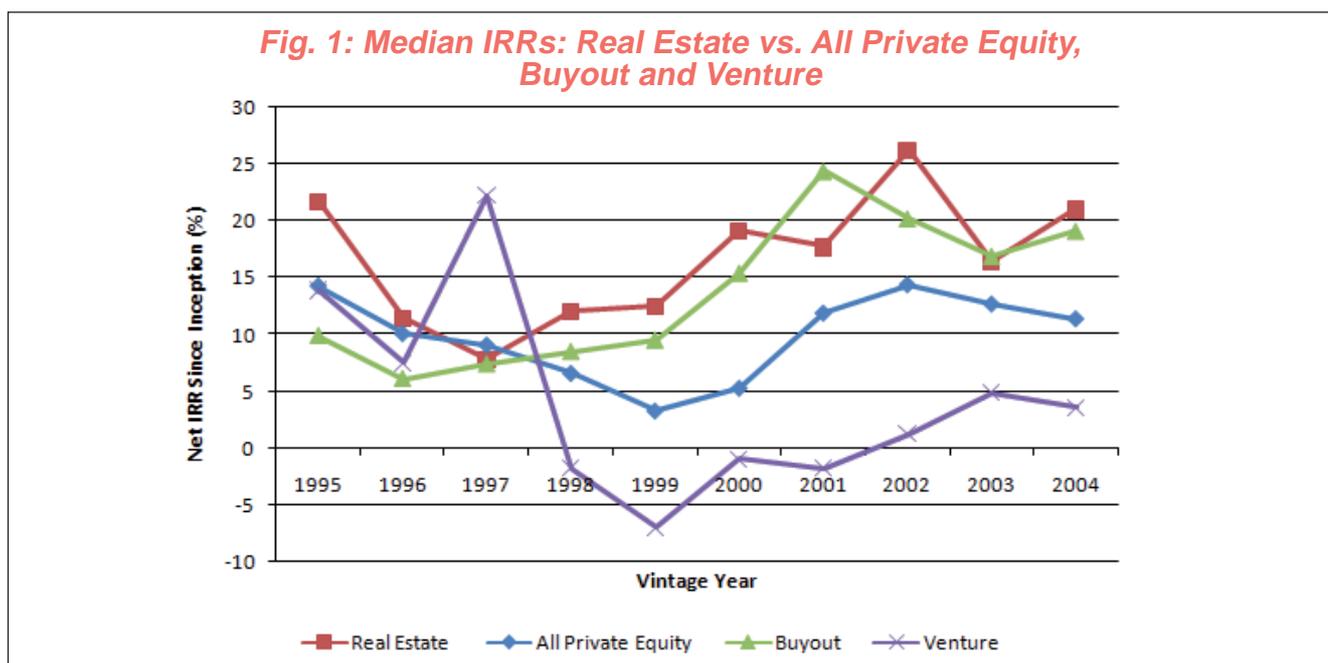
# Preqin Real Estate Feature Article: Private Equity Real Estate Funds and the implications for Nordic Investors and Fund Managers

This month Private Equity Intelligence attended the Real Estate Investment World conference in Stockholm hosted by Terrapin Ltd, in which various aspects of the Nordic real estate market were discussed. Other firms attending the conference included Aberdeen Property Investors, ING Real Estate Investment Management and IPE Real Estate. Head of Real Estate, Ignatius Fogarty, gave a presentation about Private Equity Real Estate Funds and the implications for Nordic Investors and Fund Managers, discussing the growth of the private equity market, why investor appetite has increased, funds investing in the Nordic region and the intentions of Nordic LPs. This month's feature article is the white paper produced for this conference giving a brief outline of the presentation.

The growth experienced by the private equity real estate industry over recent years is unparalleled in the history of the asset class. From a niche sector in the overall private equity universe, real estate funds have now grown in stature, and are currently second only to buyout funds in terms of capital raised. 2006 proved to be a record breaking year for real estate fundraising, with a total of 116 funds achieving final closes, raising an aggregate

\$72bn in commitments. This record looks set to be beaten again however, as by November 2007 a total of \$68bn had already been raised.

An excellent indication of investor appetite can be seen in how successful managers are in achieving the target fundraising figure they set for their new vehicles. Using data from the 2007 Private Equity Real Estate Review,



**“...82% of real estate funds raised since 2006 have reached or exceeded their original target...”**

our latest publication featuring data and analysis on fund raising, performance, fund terms and investors in private equity real estate, we can see this enthusiasm clearly; 82% of real estate funds raised since 2006 have reached or exceeded their original target, with 49% actually exceeding their target and only 18% failing to reach their target fund size. A significant 7% exceeded their initial target by 60% or more. Many managers reacted to investor appetite by increasing their initial targets in order to meet the high demand for exposure to their funds.

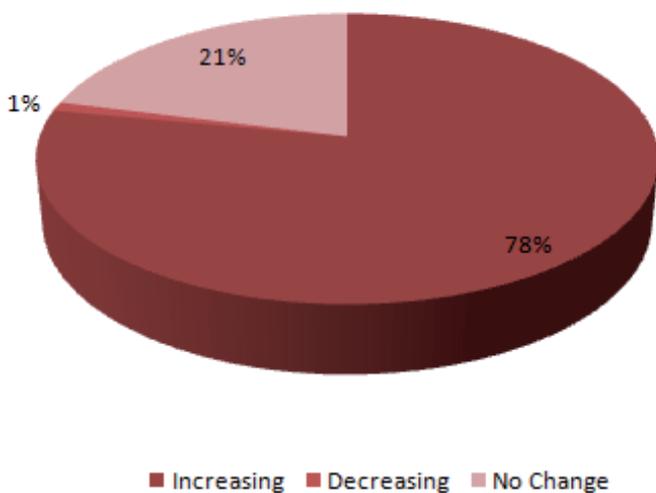
The forces driving this growth in appetite are clear: strong, steady performance. The median IRRs of private equity real estate funds have been excellent, varying between 8% and 12% for funds of vintages 1996-1999 and between

16% and 26% for funds of vintages 2000 to 2004. These returns are amongst the best in the private equity and real estate industry, with the median performance constantly exceeding the Preqin All Private Equity Benchmark and also beating the median buyout performance for funds of all but two vintage years since 1998.

Private equity real estate has been providing its investors with consistently strong returns and both its reliability and its stability have made it an increasingly popular alternative asset class. The global aggregate capital allocation to real estate funds looks set to increase over the coming years as target allocations of investors are set to increase. 75% of all investors surveyed for the 2007 Private Equity Real Estate Review said that they intended to increase their target allocation to private equity real estate in the long-term. This is 10% higher than the proportion reported in 2006. In contrast only 1% of investors are considering decreasing their exposure to the asset class. The growth in capital committed to the industry is also due to several new investors making their maiden investments into the asset class.

Nordic investors follow these general trends very closely, with many actively increasing their allocations to the asset class and a number making their maiden allocation within the last 12 months. Ilmarinen Mutual Pension Insurance Company, for example, in the last 12 months has decided to increase its allocation to private equity real estate funds

**Fig. 2: Investors' Attitudes - Future Allocation to Private Equity Real Estate**



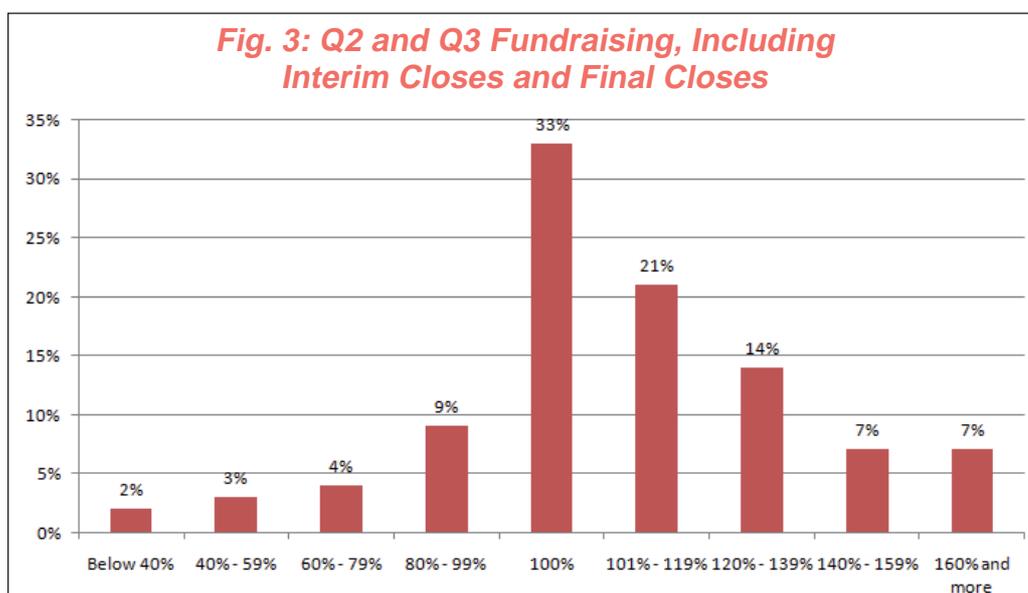
# Preqin Real Estate Feature Article: Private Equity Real Estate Funds and the implications for Nordic Investors and Fund Managers

at the expense of directly held domestic property. For many Nordic investors an additional attraction of private equity real estate funds is the ease which the investment class can help them to achieve international diversification, using the asset class as a means of investing outside their locality. Many of these investors possess extensive direct holdings in the domestic areas but will find it impossible to gain direct access to international property investments.

Creating a diverse and balanced portfolio of real estate fund investments can be a time consuming and challenging process. As a result, recent years have seen private equity real estate fund of funds vehicles grow in prominence including amongst Nordic investors. Fund of funds offer investors diversified exposure to property funds, which can be especially beneficial for investors who find it difficult or

too time consuming to gain access to fund opportunities directly. For many Nordic investors real estate fund of funds are a key component of their portfolio. Folksam in Sweden for example has invested in several real estate fund of funds feeling that this method is the best way of achieving a diverse and as extensive portfolio as possible. Notable fund of funds include the AIPP Asia fund, managed by Swedish firm Aberdeen Property Investors which received commitments from Folksam, Handelsbanken Liv and Ilmarinen Mutual Pension Insurance Company.

There is also capital being committed by both global and domestic investors direct into funds with a Nordic focus. Investors contribute through two means; pan-European funds with a Nordic component and Nordic specific funds. Pan-European funds are an attractive option for investors



# Preqin Real Estate Feature Article: Private Equity Real Estate Funds and the implications for Nordic Investors and Fund Managers

coming from areas such as the US as they can offer investors a diverse and extensive portfolio of European property. The Carlyle Europe Real Estate Partners III for example will be investing in France, Germany, Italy, Scandinavia, Spain, Portugal and the United Kingdom. Nordic focused funds are popular with both international and domestic investors. Niam Fund III, which has a focus on Scandinavia, received commitments from several US pension funds including California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System. CapMan Real Estate I which invests in Finland received commitments from several Nordic investors including Varma Mutual Pension

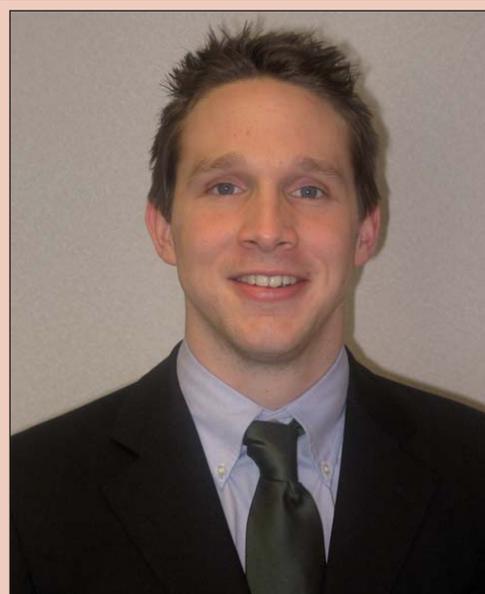
Insurance Company and Finnish State Pension Fund.

Using information from the Private Equity Real Estate Online Database, it is possible to identify 14 funds with an aggregate target value of €10 billion currently on the road which will be seeking investments in the Nordic region through pan-European funds and Nordic specific funds. This is 30% of the total value of European focused real estate funds on the market.

This article was based on a white paper presented at the Real Estate Investment World Nordic 2007 conference by Ignatius Fogarty, Head of Real Estate at Preqin Real Estate.

All the data is taken from Preqin Real Estate Online, the newest product from Preqin Real Estate giving comprehensive information on private equity real estate fund performance, fundraising, fund terms, investor profiles, placement agents and lawyers.

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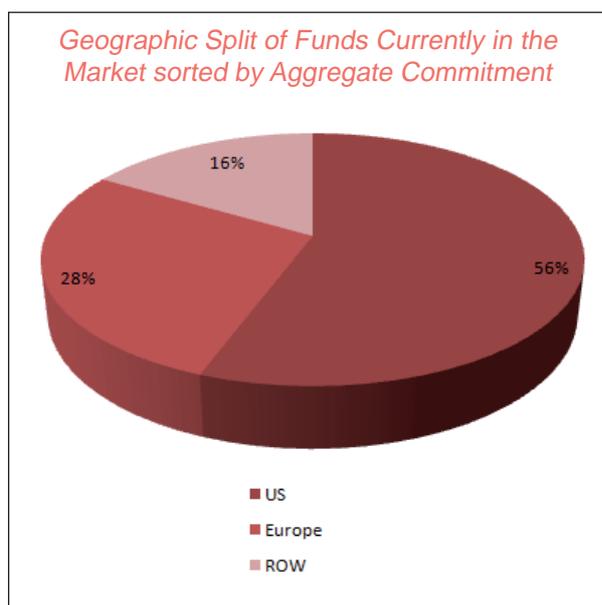
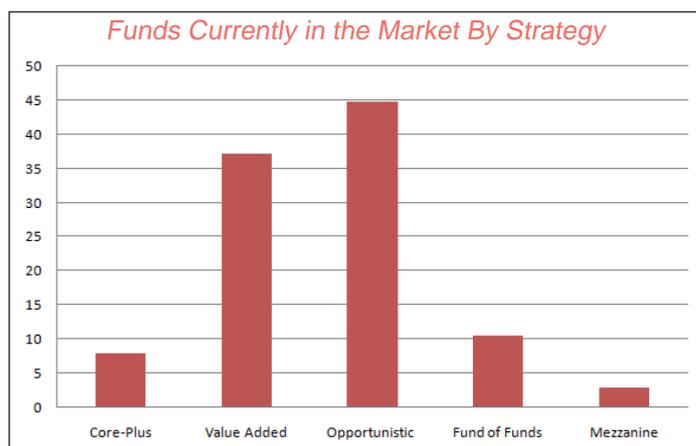
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# Preqin Real Estate: Funds on the Road

2007 has seen a record number of private real estate funds hit the road. There are currently 239 funds on the road, targeting aggregate commitments of \$115 billion. This is more than double the number of funds that were in the market at the end of the first quarter of this year, when 107 funds were targeting aggregate commitments of \$52 billion. In terms of geographical focus, funds investing in the US are the most numerous, 126 US-focused funds targeting a total of \$64 billion, 56% of the aggregate total. There are 71 European focused funds in the market, targeting an aggregate total of \$32 billion and 42 funds focused on the rest of the world, targeting commitments of \$19 billion. It is important to note that many funds primarily focused on the US will also make investments globally. There are currently more funds on the road with an opportunistic element than any other strategy. 45% of all funds in the market will be making opportunistic investments, whilst 37% of funds will have a value added element. Fund of funds account for 11% of vehicles on the road, 8% of funds will have core-plus element and 3% will be making mezzanine investments.

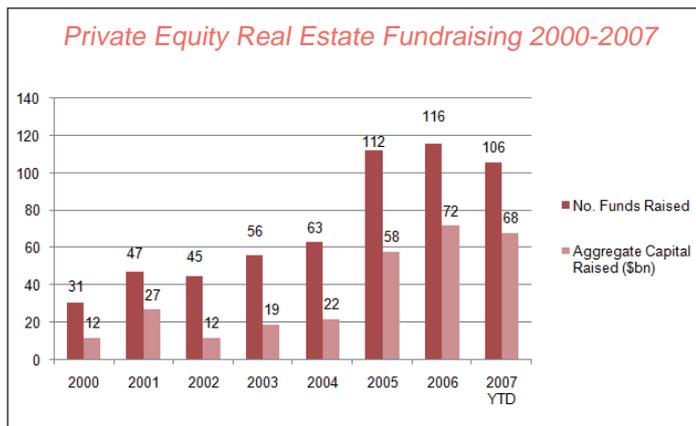
- Blackstone Real Estate Partners VI looks set to become the largest real estate fund of all time, having set a fundraising target of \$10 billion. It hopes to achieve its target net IRR of 20% by making opportunistic investments on a global basis. The fund has already received commitments from a range of LPs including; Allstate Real Estate, AZ Public Safety Personnel Retirement System, AZ State Retirement System, IL State Board of Investment, NJ SIC, OH Police and Fire Pension Fund, OPERS, OPERF, PA Public School ERS, PASERS, Portfolio Advisors, Sports Venture Partners Real Estate, State of CT Retirement Plans and Trust Funds, TX TRS and Teachers' Retirement System of the State of IL.
- Stockbridge Real Estate Fund III is an opportunistic fund that will invest in office, residential, retail, hospitality and leisure and mixed use properties. Targeting commitments of \$2.5 billion, the majority of its investments will be made in the US but up to 15% of the fund's capital may be invested in Canada, Mexico, Europe and Asia. PA Public School Employees' Retirement System is amongst the LPs which have committed to the fund.
- Walton Street Real Estate VI is targeting \$2.5 billion and will have a value added and opportunistic strategy. It will invest approximately 80% in the US, 10% in Mexico, 5% in India and 5% elsewhere. IL State Board of Investment, NJ SIC, NY State Teachers' Retirement System and Teachers' Retirement System of the State of IL are investors in the fund.



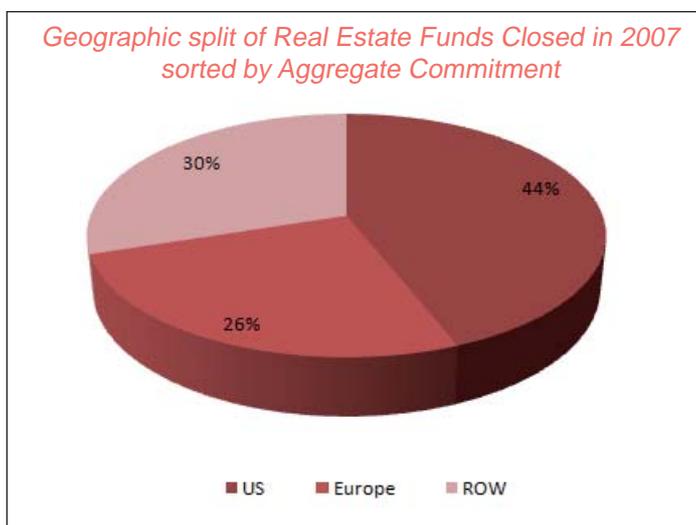
# Preqin Real Estate: Funds Closed 2007

The appetite for private equity real estate funds has grown significantly over recent years. Last year was a record breaking year for the asset class with 116 funds achieving a final close, raising an aggregate \$72 billion in commitments. 2007 could also be another record breaking year for the popular asset class. As of November the year has seen 106 funds close with aggregate commitments of \$68 billion. With Q4 traditionally a time which sees the number of final closes at a high, the figure for 2006 could yet be surpassed. To date, funds focusing on the US have accounted for \$30.2 billion of aggregate commitments for the year which equates to 44% of the overall total. European focused funds have accounted for \$17.4 billion which equates to 26%. 2007 has seen funds focusing on the Rest of the World gain increasing popularity with investors compared to previous years. So far funds focusing on these regions have raised \$20.4 billion accounting for 30% of the overall market, a significant increase from 2006 which saw \$15.8 billion raised accounting for 22% of the market. In the last 12 months investors have increasingly become attracted to emerging markets property in order to add diversification to their property portfolio as well as take advantage of favourable market conditions in places such as China and India.

- Morgan Stanley Real Estate Fund VI Intl was the largest private equity real estate fund to close so far in 2007. The fund which closed on \$8 billion in June is a global real estate fund targeting assets, portfolios and property companies in Western Europe, Japan and Australia as well as emerging markets like China, India, Russia, Turkey and Latin America. The fund saw commitments from investors from all parts of the globe including; MT Board of Investments, WA State Investment Board, PA Public School Employees' Retirement System, MI Department of Treasury, Irish National Pensions Reserve Fund and Dancap Bank in Barbados.



- Beacon Capital Strategic Partners V closed on \$4 billion, exceeding its target of \$3 billion with investments from several notable US public pension funds including the CalSTRS, PA Public School Employees' Retirement System, San Bernardino County Employees' Retirement Association and the Teachers' Retirement System of the State of IL. The fund is a global real estate fund with 35% of total equity being invested in Western Europe. The fund will be investing in property in urban areas including Boston, Chicago, London, Los Angeles, New York, Paris, San Francisco, Seattle and the Washington DC area.



- Carlyle Realty Partners V is an opportunistic fund focusing on real estate investments in the US. The fund exceeded its original target of \$1.5 billion and reached a final close of \$3 billion in September. It will principally

# Preqin Real Estate: Fund Raising over 2007

invest in hotel, office, residential, retail and senior home properties. It will focus on major markets such as New York City, San Francisco and Southern California. Investors include AZ State Retirement System, Immofinanz, NJ State Investment Council, OPERS, and PA Public School Employees' Retirement System.

## *Largest Real Estate Funds on the Road*

Fund	Manager	Strategy	Fund Size (Mn)	Fund Focus
Blackstone Real Estate Partners VI	Blackstone Real Estate Group	Opportunistic	10,000 USD	US
DLJ Real Estate Capital Partners IV	Credit Suisse Customized Fund Investment Group	Opportunistic	2,500 USD	US
Rockpoint Real Estate Fund III	Rockpoint Group	Opportunistic	2,500 USD	US
Stockbridge Real Estate Fund III	Stockbridge Capital Partners	Opportunistic	2,500 USD	US
Walton Street Real Estate Fund VI	Walton Street Capital	Opportunistic & Value Added	2,500 USD	US

## *Largest Real Estate Funds Closed in 2007*

Fund	Manager	Strategy	Close Size (Mn)	Fund Focus
Morgan Stanley Real Estate Fund VI Intl	Morgan Stanley Real Estate	Opportunistic	8,000 USD	ROW
Whitehall Street Global Real Estate 2007	Goldman Sachs / Archon Group	Opportunistic	4,007 USD	US
Beacon Capital Strategic Partners V	Beacon Capital Partners	Value Added	4,000 USD	US
Carlyle Realty Partners V	Carlyle Group	Opportunistic	3,000 USD	US
LaSalle Asia Opportunity Fund III	LaSalle Investment Management	Opportunistic	2,500 USD	ROW

# 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.

## **Norwegian Government Pension Fund is seeking a real estate investment consultant.**

The EUR 249 billion Norwegian Government Pension Fund, which comprises the Government Petroleum Fund and the National Insurance Scheme Fund, is considering establishing a separate allocation of its assets to invest in real estate. It will hire a specialist consultant to prepare a report for the government on formulating a real estate mandate, along with a set of evaluation criteria for the operational management of the portfolio. Norwegian Government Pension Fund has not previously made investments in real estate. The closing date for tenders is 18 December.

## **New York State Teachers' Retirement System withdraws capital from core open ended real estate funds to focus on private real estate funds.**

In November 2007 the USD 103.4 billion pension fund withdrew a total of USD 225 million from the UBS Global Real Estate's RESA and Prudential Real Estate Investors' PRISA I. The fund then committed a total of USD 375 million to six real estate funds, partly funded by this extra capital. It committed USD 75 million each to DLJ Real Estate Capital Partners IV, Guggenheim Structured Real Estate Fund III and Walton Street Real Estate Fund VI. The pension fund made commitments of USD 50 million to CB Richard Ellis Strategic Partners US Opportunity 5 and Value 5 and also USD 50 million to LaSalle Asia Opportunity Fund III. At the same time the pension fund renewed its contract with real estate consultants, Callan Associates and four international real estate managers.

## **Montana Board of Investments commits to international focused real estate funds.**

In November 2007 the USD 134 billion Montana Board of Investments made commitments of USD 30 million to Carlyle Europe Real Estate Partners Fund III and MGP Asia Fund III. The pension fund also made a commitment of USD 35 million to DRA Growth & Income Fund VI, which will be making value-added investments in the US.

## **Washington State Investment Board increases allocation to real estate.**

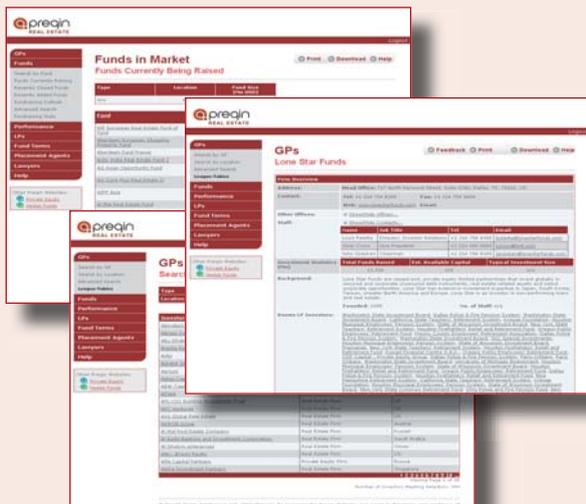
In November 2007 the USD 82 billion pension fund decided to increase its allocation to real estate to 13%. The pension fund also decided to increase its allocation to infrastructure to 5%. In the same month the pension fund made commitments of USD 200 million and USD 50 million respectively to Fillmore West Fund and Fillmore East Fund.

## **US public pension funds continue to see hotel properties as a good investment opportunity.**

In November 2007, both the **San Diego City Employees' Retirement System** and the **Teachers' Retirement System of the State of Illinois** made commitments to Cornerstone Hotel Income and Equity Fund II. The pension funds are both hoping to take advantage of the increase in revenue per available room in the hospitality sector due to the lack of new development occurring. The fund, which is targeting USD 600 million, will invest in existing business hotels around the United States that have not had any new capital invested in them for several years.

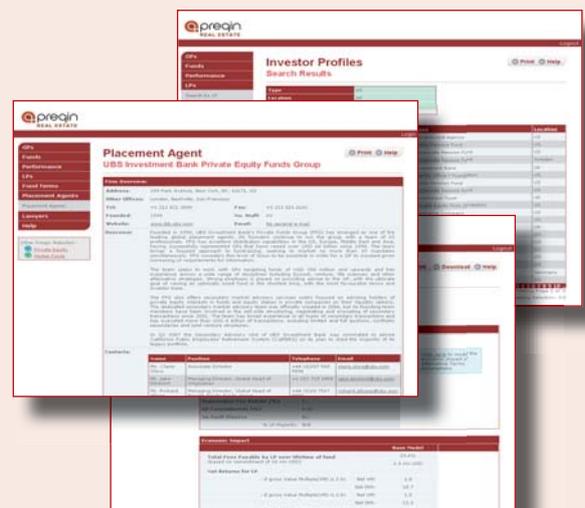
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- **Fund Terms:** What are the typical terms that a real estate fund charges? What are the implications of making changes to different fees? How do these fees vary between Opportunistic and Value-added funds? Model fee changes in our unique online Fund Terms Calculator.
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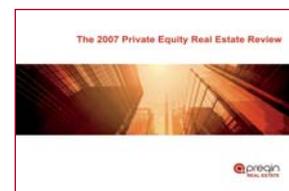
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