Real Estate Spotlight

October 2007 / Volume 1 - Issue 5

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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: Has the Credit Crunch Affected Private Equity Real Estate Fundraising?

With a decrease in private equity real estate fundraising figures we examine how the latest credit crunch has had an effect on fundraising. Does this dip signals the end of the growth of the private equity real estate sector, or is it merely a blip that the industry will recover from?

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:

- West Virginia Investment Management Board
- Teacher Retirement System of Texas
- CalPERS

Please see page 8 for more information

Fundraising

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

- How much has been raised?
- Where is the capital being raised?
- Who has been most successful in Q3 2007?
- How many funds are now on the road?

Please see page 5 for more information

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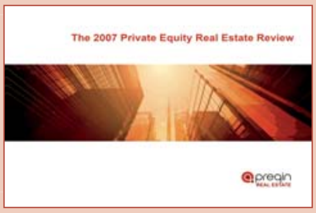
Publisher: Private Equity Intelligence Ltd
Fleet House, 8-12 New Bridge Street, London. EC4V 6AL

Tel: +44 (0)207 822 8500 w: realestate.preqin.com



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Preqin Real Estate Feature Article:
The Credit Crunch

Has the Credit Crunch Affected Private Equity Real Estate Fundraising?

The private equity real estate industry has experienced tremendous growth over the past few years, growing from a niche sector within the industry to become second only to buyout in terms of aggregate capital raised in 2006. The $81bn raised over the course of 2006 was a record for the industry, but with such a strong stock of vehicles on the road at the beginning of the year, and with investor appetite running high, it seemed as if 2007 would be even better in terms of aggregate capital raised.

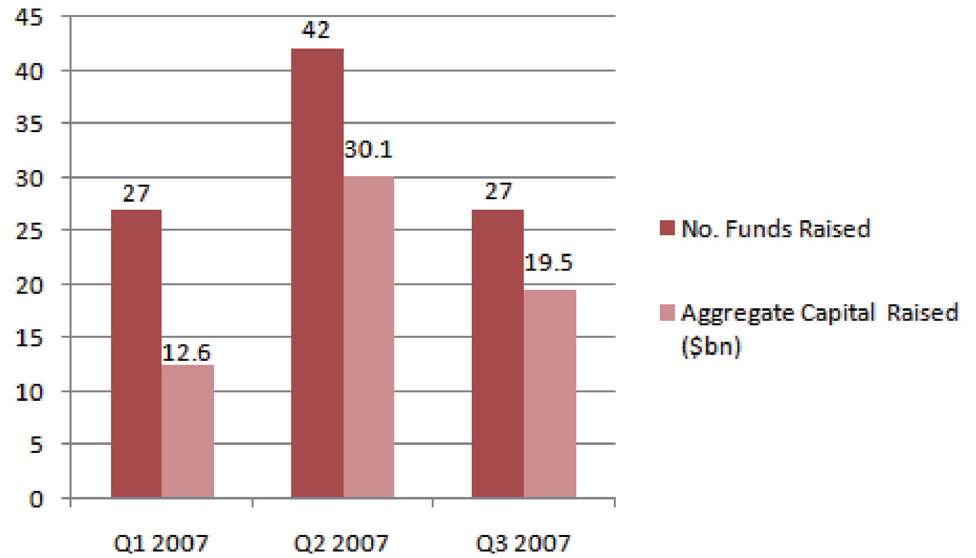
Fundraising for the real estate industry has remained strong throughout the year, especially in Q2, when a massive $30.1bn was raised by a total of 42 funds achieving final closes. However, fundraising has dipped in Q3 2007, with a total of $19.5 being raised by 27 funds with a final close.

At first glance, this dip would certainly suggest that the credit crunch has had an effect on fundraising, but does this dip signal the end of the growth of the private equity real estate sector, or is it merely a blip that the industry can recover from?

In order to address this question we must examine both sides of the supply and demand balance. Are LPs still keen to invest in new funds, and are there enough fund opportunities out there to choose from?

Figures from our newest publication, the recently released 2007 Private Equity Real Estate Review, certainly show that investor appetite for the asset class has not declined, with a significant 78% of all investors polled indicating that

Fig. 1: Quarterly Fundraising in 2007



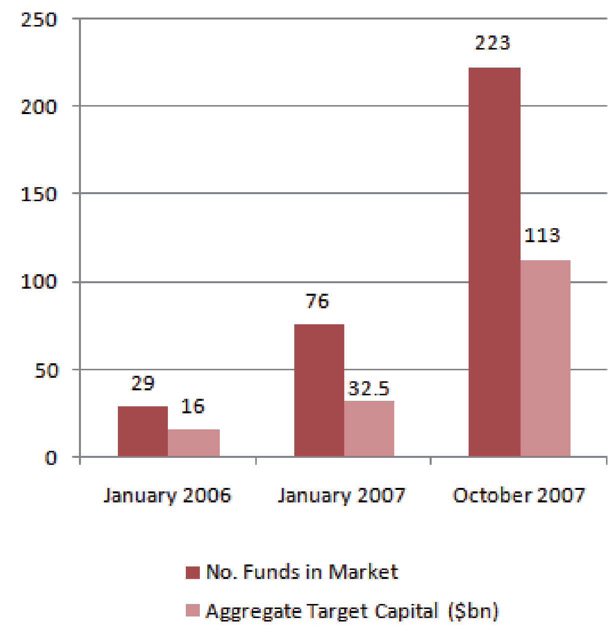
> ***“...78% of all investors polled indicated that they intended to increase their allocations to private equity real estate”***

they intended to increase their allocations to private equity real estate over the long term, and only 1% intending to decrease their allocations.

This is hardly surprising when the excellent performance record of real estate funds is examined: real estate funds of vintage years 2000 – 2004 have provided median net IRRs ranging between 16% and 26% - amongst the best in the whole private equity industry. Distributions from real estate funds have been strong, with existing investors having to invest in more funds just in order to maintain a static allocation to the asset class.

Over the past few years the supply side of the equation has struggled to keep pace with the huge increase in enthusiasm for real estate funds. Fig. 2 shows the increase in funds in market between January 2006 and October 2007. As the graph shows, in January 2006 there were only 29 funds in market targeting an aggregate $16bn. This only represented around 3 months of fundraising at the time. Funds were closing in record time, and even lesser experienced managers were able to find investors keen to invest in their vehicles. In fact, first time funds make up 28% of all funds closed in 2006 – compared with a figure of 13% for the overall private equity industry, showing just how strong investor appetite for real estate has been.

Fig. 2: Rise in Funds in Market



The current levels of funds in market has now grown to an unprecedented $113bn – which represents about 18 months of fundraising at current levels – a healthy stock of new funds for investors to choose from. So if the stock of funds is excellent, and investor appetite for new funds is high, what has caused fundraising to drop in Q3 2007?

Clues to the future of long-term fundraising and the short-term effects of the credit crisis lie in the number of funds in market that have held an interim close, but are yet to hold a final close on their latest vehicles.

Although fundraising has slipped slightly in Q3 from the record levels witnessed in Q2, the number of funds with an interim close has risen dramatically in this time. At the end of Q2 2007, the aggregate target for funds which had already held a interim close – and were therefore likely to

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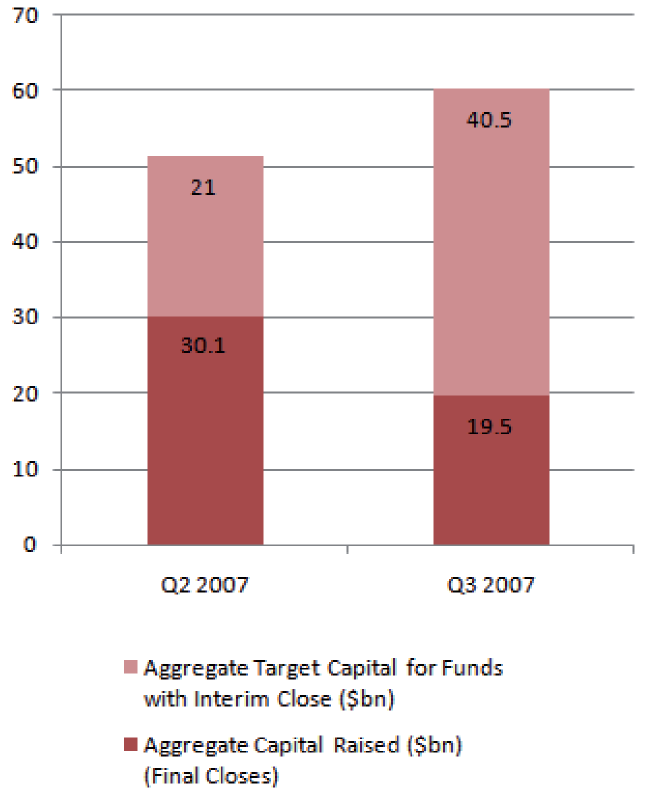
The Credit Crunch

have a final close in the next few months – was $21bn, representing 25% of the total aggregate target for all funds raising. At the end of Q3 2007 the aggregate target for funds which had already held an interim close had risen to $40.5bn, representing 36% of the total aggregate target. As fig. 3 shows, when the figures for funds that have actually closed, and funds that are due to close in the near future are taken together, fundraising levels in Q3 2007 are stronger than they might first appear.

Fig. 3: Q2 and Q3 Fundraising including Interim Closes and Final Closes



These figures would suggest that the credit crunch has affected investors by making them more cautious and delaying fund closes. It is likely that investors are waiting to see what the longer term affects of the credit crunch are, and as a result have been holding off from making commitments rather than changing their investment strategies to include less private equity real estate. Funds are therefore taking longer to close, and are having to wait longer between an interim close and final close than has previously been the case.

With such a large volume of funds on the road with an interim close, and with these funds likely to close in the near future if uncertainties surrounding the future of the credit market are resolved, it is likely that fundraising will remain strong in the long term. It is possible that we could even see a mini-boom in fundraising towards the end of 2007 and start of 2008, where a number of these funds that are far along in their fundraising process all close in a relatively short period of time.

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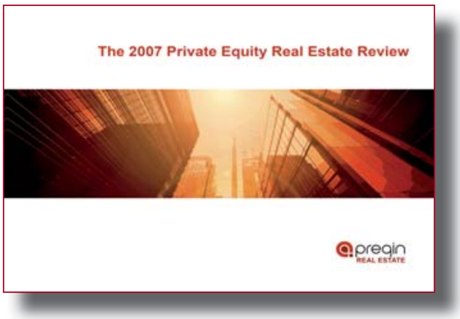

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Fundraising Update - Q3 2007

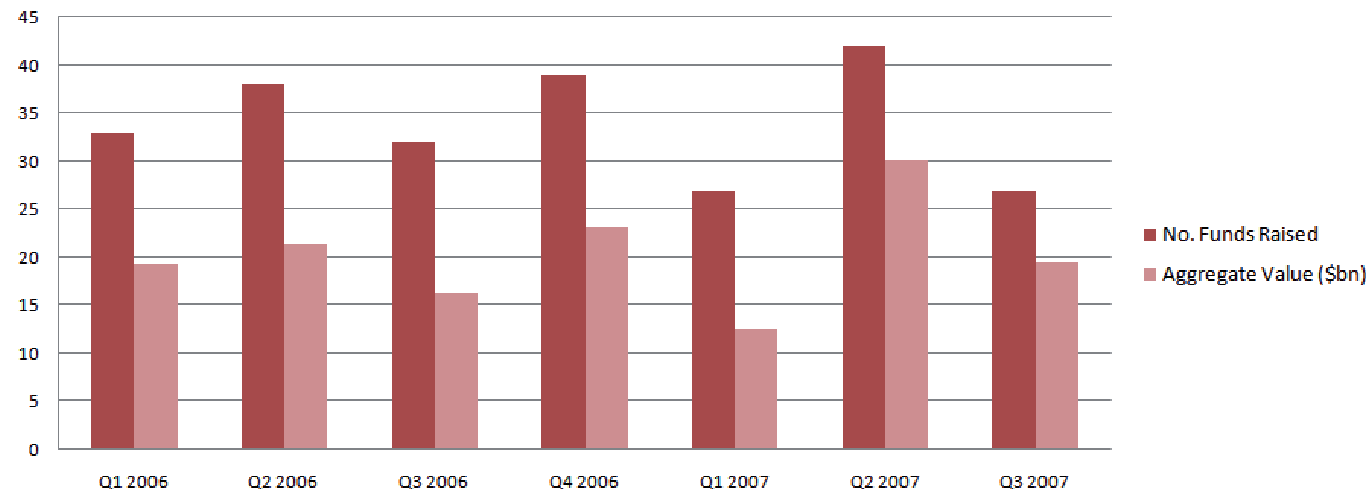
In the third quarter of 2007 a total of 27 funds reached a final close, receiving an aggregate total of USD 19.5 billion in capital commitments. Although this represents a decrease from Q2 2007, when 42 funds raised a total of $30.1 billion, more capital was raised than in Q1, when 27 funds raised an aggregate of $12.5 billion.

The average size of funds raised during Q3 was $724 million, a similar figure to the average of $718 from Q2 but is significantly higher than the $464 million average from Q1 2007 or 2006, where the average fund size in all quarters was below $600 million. Whilst this highlights LP enthusiasm for the asset class, it also suggests that larger funds are becoming more significant to the market as a whole and are taking a greater share of LP commitments; a trend likely to continue with the likes of Blackstone Real Estate Partners VI on the road. This opportunistic fund looks set to be the largest real estate fund of all time, having set a fundraising target of $10 billion.

With larger funds becoming even more significant to the overall market, conditions for managers of smaller, less experienced firms are more challenging than ever. There are currently 223 funds on the road, targeting aggregate commitments of $113 billion. This represents a significant increase on the 135 funds on the road seeking a combined $91 at the end of Q2 2007 and is almost 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.

Of the funds currently raising, 67% will have an opportunistic element, 40% will be making value added investments and 10% will have a core-plus element. 23 of the funds

Fundraising by Quarter 2006 - Q3 2007



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currently raising are funds of funds, highlighting their growing importance to the private real estate industry as a whole. A total of 6 fund of funds have reached a final close to date this year compared with the 9 that reached a final close in 2006. 118 of the funds on the road have a primary focus on the US, 61 will be investing in Europe and 32 are focused on the Rest of the World. This does not reflect however the numerous funds, including Blackstone Real Estate Partners VI and Rockpoint Real Estate Fund III, that although primarily focused on the US will be making investments globally.

In terms of fund focus, it was vehicles targeting the US that raised the most capital during Q3. 18 US-focused funds reached a final close, raising a total of $12.4 billion. Whilst US-focused funds have tended to dominate the market, this was especially pronounced during Q3 as a result of two mega funds closing. Beacon Capital Strategic Partners V and Carlyle Realty Partners V alone account for $7 billion of the total raised. Rest of the World funds raised a total of $4.8 billion showing that LPs have lost none of their enthusiasm for emerging markets, whilst Europe-focused vehicles raised $2.3 billion.

The largest fund to close during Q3 was Beacon Capital Strategic Partners V, a value added fund which is investing in office properties in urban markets. Although primarily focused on the US, 35% of the fund's capital will be allocated to Western Europe. Investors in the fund include California State Teachers' Retirement System, Pennsylvania Public School Employees' Retirement System, Teachers' Retirement System of the State of Illinois, Pennsylvania State Employees' Retirement System, Portfolio Advisors, San Bernardino County Employees' Retirement Association, Purdue University Endowment and Oryx Global Capital.

Largest Real Estate Funds Closed in Q3 2007

Fund	Manager	Close Size (Mn)	Manager Country
Beacon Capital Strategic Partners V	Beacon Capital Partners	4,000 USD	US
Carlyle Realty Partners V	Carlyle Group	3,000 USD	US
CB Richard Ellis Strategic Europe Fund III	CB Richard Ellis Investors	1,000 USD	US
CB Richard Ellis Strategic Partners UK Fund III	CB Richard Ellis Investors	877 USD	US
BPG Investment Partnership VIII	BPG Properties	850 USD	US

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Global Fundraising Update - Q3 2007

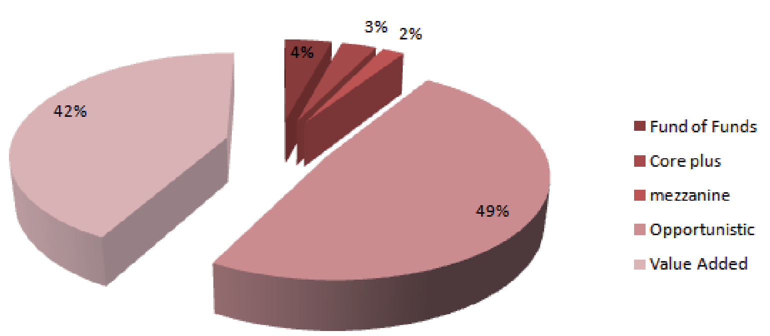
Carlyle Realty Partners V was another significant fund to close during the quarter. The opportunistic fund which is investing in hotel, office, residential, retail and senior home properties in major US markets reached a final close with $3 billion in commitments, doubling its $1.5 billion target.

Several other funds exceeded their targets during the quarter including BPG Investment Partnership VIII which raised $850 million, $200 more than its $650 million target and Hines US Office Value Added Fund II, which exceeded its $650 million target, raising a total of $828 million.

CB Richard Ellis Investors closed two large Europe focused vehicles during Q3. Its CB Richard Ellis Strategic Europe Fund III and CB Richard Ellis Strategic Partners UK Fund III funds raised $1 billon and $877 million respectively. The largest fund investing outside the US or Western Europe to reach a final close was HIREF International, an opportunistic fund investing in India. The fund closed in August with $800 million in capital commitments.

In the year 2007 to date, it has been funds with an opportunistic strategy that have garnered the most in commitments, accounting for 49% of the aggregate total raised by all private real estate vehicles. Value added funds have been responsible for 42% of the capital raised, whilst fund of funds, including Aberdeen Property Investors' AIPP Asia which closed on $600 million in September 2007, made up 4% of all commitments. Core-plus and mezzanine funds account for 3% and 2% of all funds respectively.

Market Share of Capital Raised in Q3 2007 by Fund Type



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The USD 248 billion **California Public Employees' Retirement System (CalPERS)** has committed USD 500 million to ARA Asia Dragon Fund, an opportunistic fund which is targeting commitments of USD 1.5 billion to invest in underperforming retail, office and residential assets. CalPERS is a prolific investor in private real estate and its real estate advisor, Pension Consulting Alliance, recently recommended that the pension fund dedicate 50% of its overall real estate allocation to global investments with a specific focus on emerging markets.

San Diego City Employees' Retirement System has approved its first ever target allocation to non-US real estate investments. The USD 4.7 billion public pension fund will allocate up to 40%, or USD 220 million, of its real estate portfolio into this strategy. San Diego City Employees' Retirement System believes that by investing in international real estate it will have the opportunity to achieve higher risk-adjusted returns as well as having an additional level of diversification. As part of this strategy the pension fund made a commitment of USD 20 million to AIG Asian Real Estate Partners II.

The USD 67 billion **Pennsylvania Public School Employees' Retirement System** has committed USD 200 million to MGP Asia Fund III, an opportunistic fund managed by Macquarie Global Property Advisors, which will make investments across Asia. Pennsylvania Public School Employees' Retirement System also allocated a further USD 200 million to European funds, committing USD 100 million to both MGP Europe Fund III and Apollo Europe Real Estate Fund III.

West Virginia Investment Management Board has hired Courtland Partners as its real estate consultant. Following a change of legislation in March 2007, West Virginia Investment Management Board was given authorisation to invest in alternatives and may now invest up to 25% of its total assets in real estate. It is not yet clear what form these investments will take.

Rhondda, Cynon, Taff County Council Superannuation Fund has awarded a GBP 100 million property mandate to **ING Real Estate Investment Management**. ING was appointed to implement a multi-fund investment strategy and will invest in real estate funds, predominantly in the UK, on behalf of the GBP 1.3 billion pension fund. Rhondda, Cynon, Taff County Council Superannuation Fund is also considering gaining exposure to the wider European real estate market. It is planning to do this either through the same multi-fund strategy, or by committing to a pan-European fund of funds vehicle.

The USD 112 billion **Teacher Retirement System of Texas** has made a commitment of USD 200 million to Carlyle Europe Real Estate Partners III, an opportunistic fund which will invest primarily in Western Europe. It will also finalise a commitment of USD 200 million to Rockpoint Real Estate Fund III in the next few weeks. The pension fund is also considering two further commitments to Capmark Commercial Realty Partners III and CIM Urban Real Estate Fund III. Teacher Retirement System of Texas revived its dormant real estate private equity programme in 2006.

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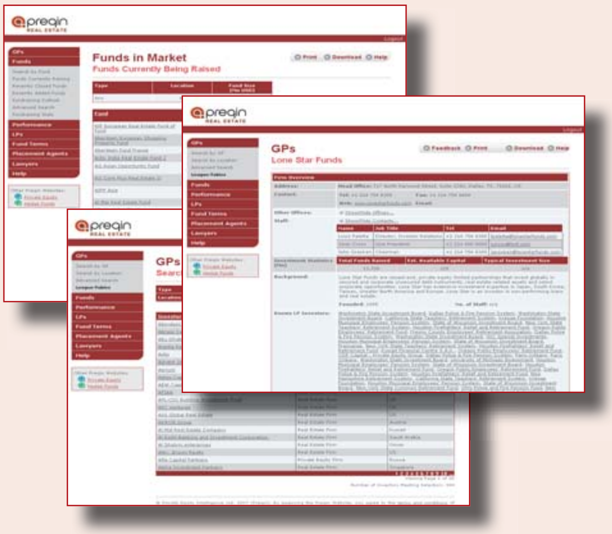

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