Content Includes:

Preqin Special Report: Real Estate Deals

Changing Strategies in a Challenging Market

June 2016

Changing Strategies

In the face of record dry powder and more competition from direct investors, how are fund managers changing their strategies to find value?

Real Estate Deals

A breakdown of private equity real estate deals by location.

Asset Types

Which property types account for the most deals?

Regional Breakdown

A look at the largest real estate deals and most prominent asset types in North America, Europe and Asia-Pacific.

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Foreword

The private real estate market in recent years has been characterized by improved fundamentals and increased pricing, which have driven strong returns and, in turn, buoyed investor appetite and led to strong fundraising. But the outlook is more uncertain: there are concerns over pricing and the prospects for the asset class in the coming years. Strong fundraising means fund managers still have record levels of capital available to put to work, but this level of dry powder, and the competition from a range of other buyers, makes finding value in the current market a challenging prospect.

Preqin's **Real Estate Online** has been expanded to include transaction data, and is now the only service to be able to track the private fund market from institutional sources of capital, through funds and fund managers to individual asset- and deal-level data. In our first report exploring real estate deals, we investigate how fund managers are changing their investment approaches to adapt to market conditions. Sixty-seven percent of fund managers interviewed by Preqin stated that it is harder to find attractive opportunities than it was a year ago, and many are moving towards smaller assets, targeting portfolio transactions or niche sectors in order to find pockets of value in the market.

Preqin's newly expanded **Real Estate Online** is an indispensable tool for all firms looking to market funds, develop new business or find new partners in the coming months. Behind every data point in this report is a wealth of individual asset-, deal-, firm- and fund-level data available on Preqin's leading online services. We hope you find this report useful and welcome any feedback you may have. For more information, please visit www.preqin.com or contact info@preqin.com.

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The Leading Source of Intelligence on the Real Estate Industry

Preqin's **Real Estate Online** is the leading source of intelligence on the private real estate fund industry.

This constantly updated resource includes details for all aspects of the asset class, including transaction data, asset-level information, net-to-investor fund performance, fundraising information, institutional investor profiles, fund manager profiles and more.

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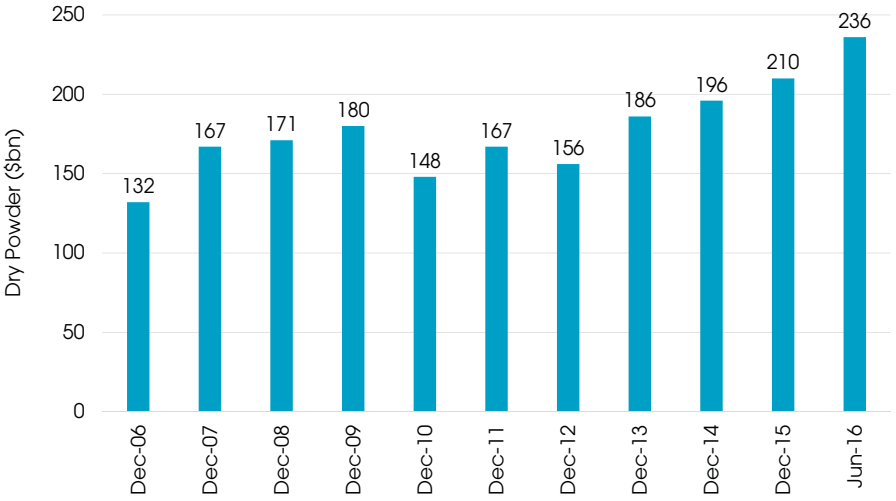
Real Estate Deals: Changing Strategies in a Challenging Market

The real estate market is an extremely challenging one for fund managers today. In a recent Preqin study, over half of fund managers surveyed stated that finding attractive investment opportunities is one of the biggest challenges facing them in 2016, while 67% stated that it was more difficult to find attractive opportunities than 12 months ago. As shown in Fig. 1, dry powder has risen to record levels ($236bn as of June 2016), driven by strong fundraising as a result of considerable institutional demand for real estate exposure, while fund managers are also facing more competition from institutional investors committing capital directly. This 'wall of capital' is pushing up the price of real estate assets and making it increasingly difficult to find value in the market. In this environment, it has become harder to deploy capital raised from investors, with the ratio of year-end dry powder levels to total capital called in the previous year rising for three consecutive years.

Fig. 1: Closed-End Private Real Estate Fund Dry Powder, December 2006 - June 2016



Source: Preqin Real Estate Online

As shown in Fig. 2, fund managers have been net sellers in recent years, distributing more capital back to investors than they have been calling up, yet the amount of capital being invested remains considerable. How are fund managers changing their strategies to find value in today's challenging market? Preqin's **Real Estate Online** has expanded to cover deals for the first time, and using data from this powerful platform, we can explore the changing approaches of real estate private equity firms.

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Asset Focus

Transactions for office properties account for the largest proportion (34%) of the total number of private equity real estate deals since 2015, followed by deals for residential (22%), retail (17%), mixed use (11%) and industrial (9%) assets. Similarly, in terms of total deal value, office assets represent 38% of transactions involving private equity real estate firms since 2015.

Interestingly, 2016 YTD has seen a smaller proportion of deals involving office assets compared with 2015, decreasing from 38% to 28%, while the proportion accounted for by retail assets has increased from 15% to 21% in the same period (Fig. 3).

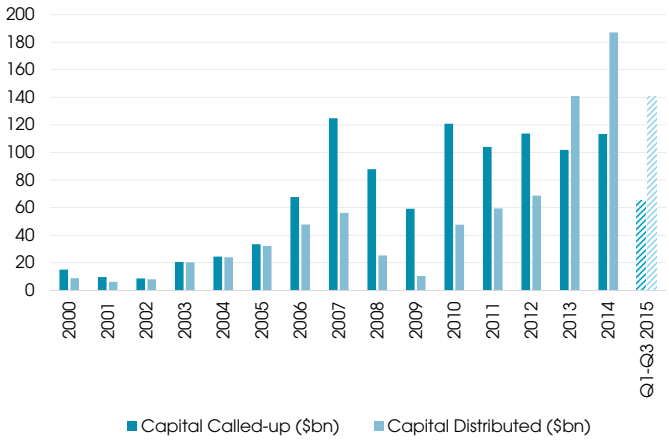
Correspondingly, the proportion of aggregate deal value accounted for by office transactions has reduced by seven percentage points to 33% in 2016 so far, while for the retail sector this share has increased to 15% of total value up from 12% in 2015. Despite only increasing two percentage points to represent 12% of the number of deals, transactions for mixed use property represent a fifth of deal value in 2016 so far, up from 10% in 2015. While still representing just a fraction of all deals, niche assets such as student housing and senior homes represent 3% of all deals completed in 2016 to date, up from 1% in 2015. This suggests that some firms are looking outside the traditional real estate sectors to source attractive opportunities.

Changing Approaches

Also notable is the increase in portfolio transactions in recent years (Fig. 4), suggesting fund managers are looking to these more complex transactions as areas in which they can use their skill and network to find value in deals that other buyers might overlook, or not have the resources to execute.

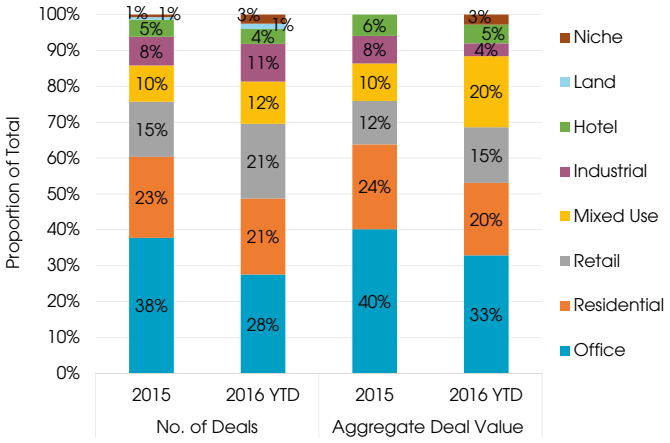
Fund managers also appear to be altering their strategy in terms of the size of assets targeted. Recent years have seen managers move away from the largest assets, with smaller properties accounting for a growing proportion of total deal flow (Fig. 5), perhaps a reflection of fund managers avoiding the high levels of competition for trophy assets, and instead looking for opportunities that might fly below the radar of other buyers.

Fig. 2: Annual Capital Called-up and Distributed by Closed-End Private Real Estate Fund Managers, 2000 - Q1-Q3 2015



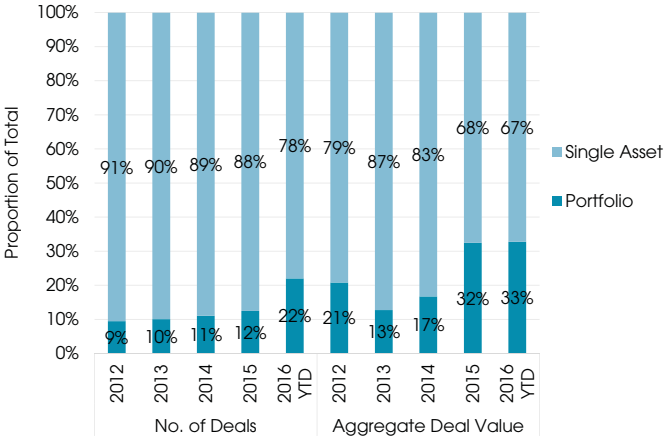
Source: Preqin Real Estate Online

Fig. 3: Private Equity Real Estate Deals by Primary Asset Type, 2015 vs. 2016 YTD (As at 6 June 2016)



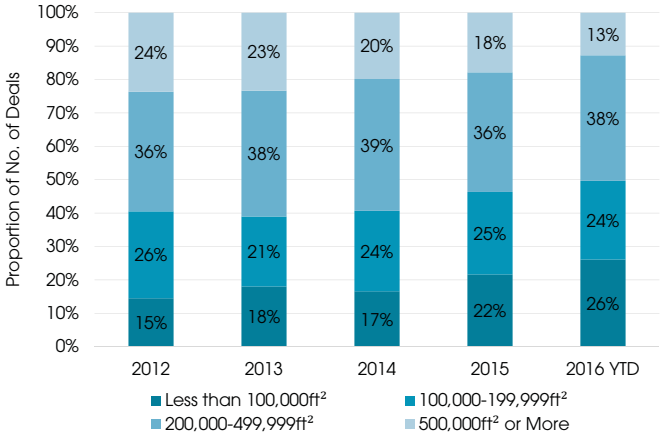
Source: Preqin Real Estate Online

Fig. 4: Private Equity Real Estate Deals by Transaction Type, 2012 - 2016 YTD (As at 6 June 2016)



Source: Preqin Real Estate Online

Fig. 5: Private Equity Real Estate Deals by Asset Size, 2012 - 2016 YTD (As at 6 June 2016)



Source: Preqin Real Estate Online

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North America

$2bn

Value of the largest North American private equity real estate transaction in 2016, Blackstone Group's acquisition of a portfolio of apartment buildings across the US from Greystar Real Estate Partners.

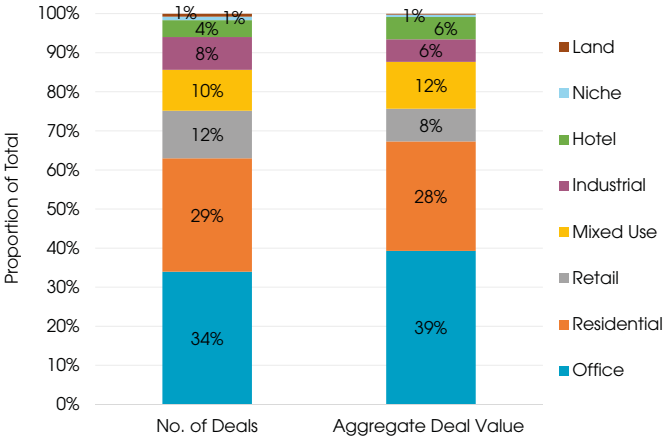
27%

Proportion of value of North American deals completed in New York, despite the state representing only 11% of private equity real estate deals.

34%

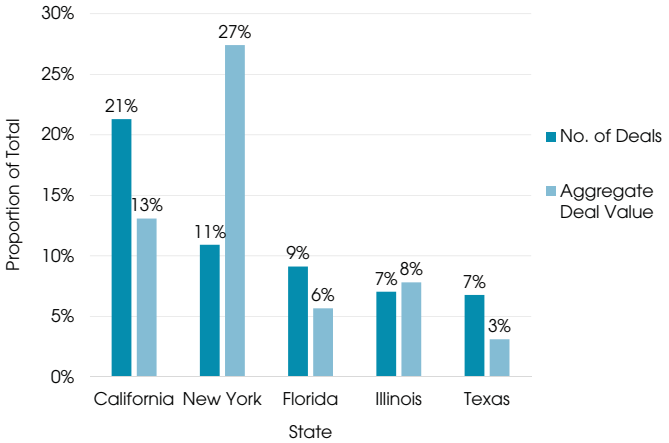
Proportion of North American private equity real estate deals since 2015 involving office assets, the largest proportion of any asset type.

Fig. 6: North American Private Equity Real Estate Deals by Primary Asset Type, 2015 - 2016 YTD (As at 6 June 2016)



Source: Preqin Real Estate Online

Fig. 7: Top Five States by Number of Private Equity Real Estate Deals, 2015 - 2016 YTD (As at 6 June 2016)



Source: Preqin Real Estate Online

Fig. 8: Five Largest North American Single-Asset Private Equity Real Estate Deals, 2015 - 2016 YTD (As at 6 June 2016)

Asset	Asset Type	Buyer(s)	Seller(s)	Deal Size (mn)	Location	Deal Date
Three Bryant Park	Office	Callahan Capital Partners, Ivanhoe Cambridge	Blackstone Group	2,200 USD	New York, NY	Jan-15
787 Seventh Avenue	Office	California Public Employees' Retirement System (CalPERS), CommonWealth Partners	AXA Investment Managers – Real Assets	1,900 USD	New York, NY	Feb-16
1285 Avenue of the Americas	Mixed Use	RXR Realty	AXA Investment Managers – Real Assets, Unidentified Seller/s	1,650 USD	New York, NY	May-16
UBS Tower	Office	China Life Insurance, RXR Realty, Unidentified Buyer/s	AXA US, JP Morgan Asset Management	1,650 USD	New York, NY	May-16
Willis Tower	Office	Blackstone Group	American Landmark Properties, Unidentified Seller/s	1,300 USD	Chicago, IL	Mar-15

Source: Preqin Real Estate Online

Fig. 9: Five Largest North American Private Equity Real Estate Portfolio Deals, 2015 - 2016 YTD (As at 6 June 2016)

Asset	Primary Asset Type	Buyer(s)	Seller(s)	Deal Size (mn)	Location	Deal Date
Stuyvesant Town-Peter Cooper Village, New York	Residential	Blackstone Group, Ivanhoe Cambridge	BlackRock, Tishman Speyer	5,456 USD	New York, NY	Oct-15
US, Multi-Family Portfolio	Residential	Starwood Capital Group	Equity Residential	5,365 USD	US	Oct-15
US, Industrial Portfolio	Industrial	Global Logistic Properties	Industrial IncomeTrust	4,500 USD	US	Nov-15
US, Multi-Family Portfolio	Residential	Blackstone Group	Greystar Real Estate Partners	2,000 USD	US	Jan-16
Boston, MA, Office Portfolio	Office	JP Morgan Asset Management, Oxford Properties	Blackstone Group	1,290 USD	Boston, MA	Nov-15

Source: Preqin Real Estate Online

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Europe

€1.3bn

Value of the largest European transaction in 2016, Brookfield Property Partners' and Korea Investment Corporation's acquisition of 17 buildings on Potsdamer Platz from Germany-based Savills Fund Management GmbH.

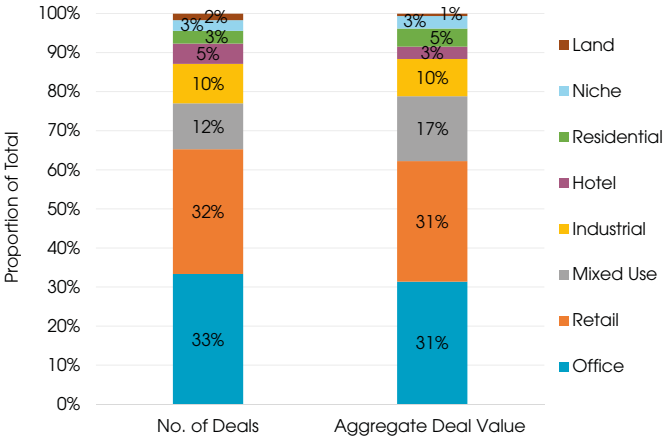
38%

Proportion of European private equity real estate deals completed in the UK, the largest proportion of any single European country.

33%

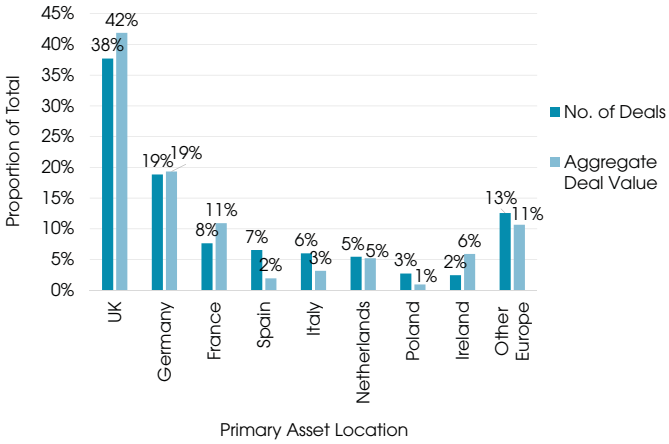
Proportion of European private equity real estate transactions since 2015 involving office assets.

Fig. 10: European Private Equity Real Estate Deals by Primary Asset Type, 2015 - 2016 YTD (As at 6 June 2016)



Source: Preqin Real Estate Online

Fig. 11: European Private Equity Real Estate Deals by Primary Asset Location, 2015 - 2016 YTD (As at 6 June 2016)



Source: Preqin Real Estate Online

Fig. 12: Five Largest European Single-Asset Private Equity Real Estate Deals, 2015 - 2016 YTD (As at 6 June 2016)

Asset	Asset Type	Buyer(s)	Seller(s)	Deal Size (mn)	Location	Deal Date
Blanchardstown Centre	Mixed Use	Blackstone Group	Unidentified Seller/s	950 EUR	Dublin, Ireland	Apr-16
Tour First	Office	AXA Investment Managers – Real Assets	Beacon Capital Partners	800 EUR	Courbevoie, France	Jan-16
Green Park	Mixed Use	Mapletree Investments	Oxford Properties	560 GBP	Reading, UK	May-16
Vinopolis	Retail	Meyer Bergman, Sherwood Family	Unidentified Seller/s	300 GBP	London, UK	Feb-15
Festival Place	Retail	AEW Europe, Teacher Retirement System of Texas	TH Real Estate	290 GBP	Hampshire, UK	Sep-15

Source: Preqin Real Estate Online

Fig. 13: Five Largest European Private Equity Real Estate Portfolio Deals, 2015 - 2016 YTD (As at 6 June 2016)

Asset	Primary Asset Type	Buyer(s)	Seller(s)	Deal Size (mn)	Location	Deal Date
France, Retail Portfolio	Retail	AEW Europe, China Investment Corporation	CBRE Global Investors	1,300 EUR	Arcueil & Toulon, France	Jul-15
Potsdamer Platz, Berlin, Mixed-use Portfolio	Mixed Use	Brookfield Asset Management, Korea Investment Corporation	Savills Investment Management	1,300 EUR	Germany	Jan-16
Aqua Portfolio	Office	Amundi Real Estate	Union Investment Real Estate	1,000 EUR	France; UK	Aug-15
RPG Residential Portfolio	Residential	Round Hill Capital	-	700 EUR	Czech Republic	Aug-15
UK, Diversified Portfolio	Retail	Kennedy Wilson	Aviva plc	503 GBP	UK	Feb-15

Source: Preqin Real Estate Online

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Asia-Pacific

AUD 613mn

Value of the largest private equity real estate deal in Asia-Pacific in 2016, Blackstone Group's acquisition of a portfolio of Australian retail assets from Vicinity Centres in May 2016.

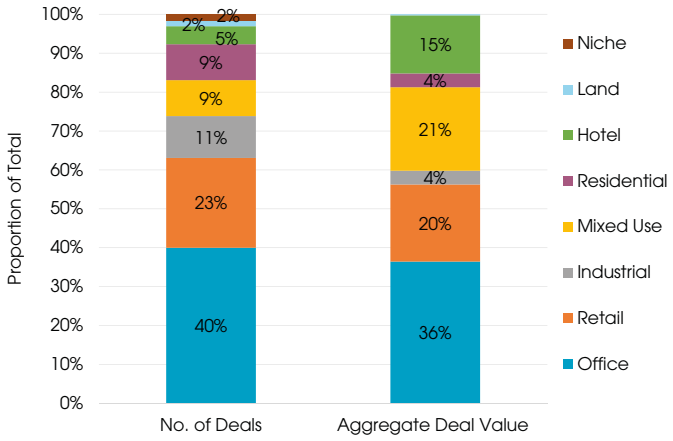
57%

Proportion of Asia-Pacific private equity real estate deals completed in Australia since 2015, the largest proportion of any single country.

40%

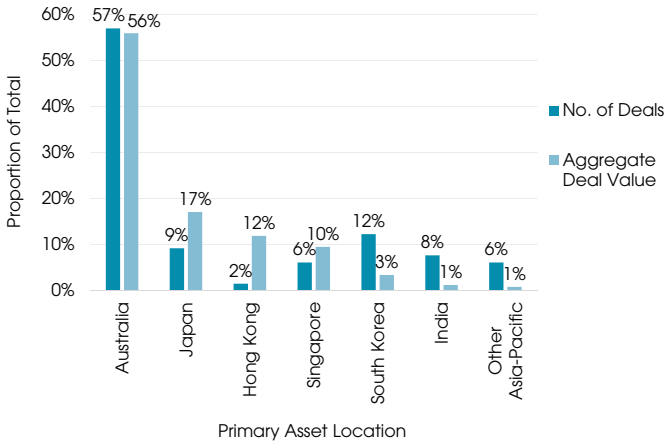
Proportion of Asia-Pacific private equity real estate deals involving office assets, the largest share of any single asset type.

Fig. 14: Asia-Pacific Private Equity Real Estate Deals by Primary Asset Type, 2015 - 2016 (Ast at 6 June 2016)



Source: Preqin Real Estate Online

Fig. 15: Asia-Pacific Private Equity Real Estate Deals by Primary Asset Location, 2015 - 2016 YTD (As at 6 June 2016)



Source: Preqin Real Estate Online

Fig. 16: Five Largest Asia-Pacific Single-Asset Private Equity Real Estate Deals, 2015 - 2016 YTD (As at 6 June 2016)

Asset	Asset Type	Buyer(s)	Seller(s)	Deal Size (mn)	Location	Deal Date
Meguro Gajoen	Mixed Use	China Investment Corporation, LaSalle Investment Management	Unidentified Seller/s	140,000 JPY	Tokyo, Japan	Feb-15
InterContinental Hong Kong Hotel	Office	Gaw Capital Partners	Intercontinental Hotels UK Pension Plan	938 USD	Hong Kong	Jul-15
Southern Cross Tower	Retail	Blackstone Group	Brookfield Asset Management	675 USD	Melbourne, Australia	Dec-15
Adelaide's Rundle Place	Office	Blackstone Group	Unidentified Seller/s	400 USD	Adelaide, Australia	Jan-16
One Shelley Street	Mixed Use	Charter Hall Group, Morgan Stanley Real Estate Investing	Unidentified Seller/s	525 AUD	Sydney, Australia	May-16

Source: Preqin Real Estate Online

Fig. 17: Five Largest Asia-Pacific Private Equity Real Estate Portfolio Deals, 2015 - 2016 YTD (As at 6 June 2016)

Asset	Primary Asset Type	Buyer(s)	Seller(s)	Deal Size (mn)	Location	Deal Date
Australian Retail Portfolio	Retail	Blackstone Group	Vicinity Centres	613 AUD	Australia	May-16
South Korea, Lotte Mart, Retail Portfolio	Retail	IGIS Asset Management, M&G Real Estate	KTB Asset Management Company	218 USD	Daejeon City, Incheon & Jeju-do, South Korea	Jul-15
New South Wales, Australia, Office Portfolio	Office	Mapletree Investments	Goodman	250 AUD	Sydney, Australia	Mar-15
Japan, Residential Portfolio	Residential	AXA Investment Managers – Real Assets	Unidentified Seller/s	150 EUR	Japan	Sep-15
Australian Retail Portfolio	Retail	Aventus Property Group	Blackstone Group	220 AUD	Australia	May-16

Source: Preqin Real Estate Online

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June 2016

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