

# Preqin Investor Outlook: Real Estate

The Opinions of 100 Leading Private Real Estate LPs on the  
Market and Their Plans in 2011

February 2011



# Methodology:

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Preqin, the alternative assets industry's leading source of data and intelligence, welcomes you to the 2011 edition of Preqin Investor Outlook: Real Estate, a unique look at investors in private real estate, their current opinions of the market and the outlook for fundraising in the year ahead.

Preqin Investor Outlook draws on the results of detailed interviews conducted with over 100 institutional investors from around the world during November and December 2010. The sample of LPs was selected from Preqin's Real Estate Online database, the most comprehensive and accurate source of information on investors in private real estate funds available today, and the interviews were carried out by our skilled teams of multi-lingual analysts.

Speaking directly to institutions located across the globe has enabled us to provide in-depth analysis of their current views and opinions, providing readers with a unique insight into the attitudes of the leading investors in real estate.

We hope that you find the information included within this report useful and interesting and, as always, we welcome any feedback and suggestions you may have for future editions.

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# Breakdown of Respondents

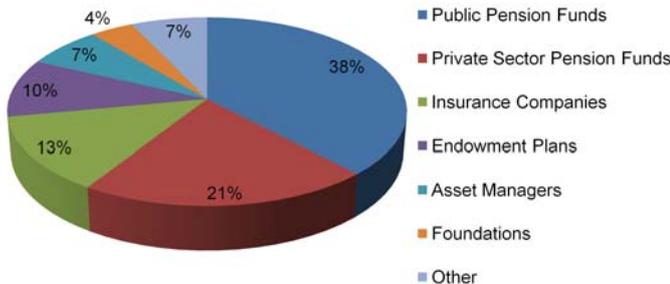
Preqin undertook a series of extensive interviews with 107 private real estate investors in Q4 2010. Investors of varying size, type and geographic location were questioned to examine their intentions and attitudes towards investing in private real estate in 2011.

Fig. 1 shows that 38% of investors Preqin interviewed were public pension funds and 21% were private section pension funds. 13% of respondents were insurance companies and 10% were endowment plans. 7% of investors in the study were asset managers, while foundations constituted 4% of respondents. The remaining 7% of institutions that participated in this survey comprised other investor types such as investment companies and sovereign wealth funds.

*“10% of investors interview had total assets of \$50bn and above...”*

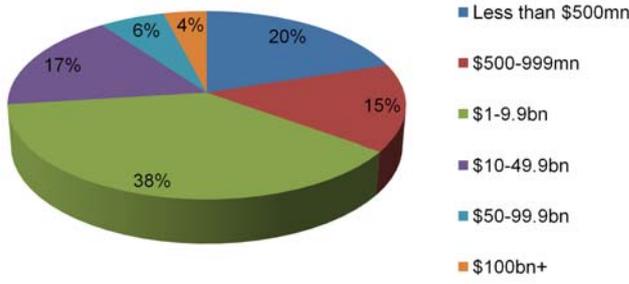
In terms of total assets under management, Fig. 2 shows that 20% of the investors interviewed had less than \$500mn under management and 15% had \$500-999mn in total assets. 38% had between \$1bn and \$9.9bn in total assets and 17% had \$10-49.9bn under management. The remaining 10% had total assets of \$50bn and above.

Fig. 1: Breakdown of Respondents by Institution Type



Source: Preqin

Fig. 2: Breakdown of Respondents by Assets Under Management



Source: Preqin

# Investor Activity in 2010

Private equity real estate fundraising in 2010 has been particularly poor, with both fund managers and investors in the asset class experiencing a number of difficulties. Preqin asked investors whether they made a private real estate fund commitment in 2010 in order to determine activity levels during the year.

Fig. 3 shows that only 37% of the investors that participated in the study had made new private real estate fund commitments in 2010. This is lower than the figure from the study Preqin conducted in Q4 2009, when 45% of investors surveyed had made new commitments in 2009, thus reflecting the downward trend in real estate fundraising.

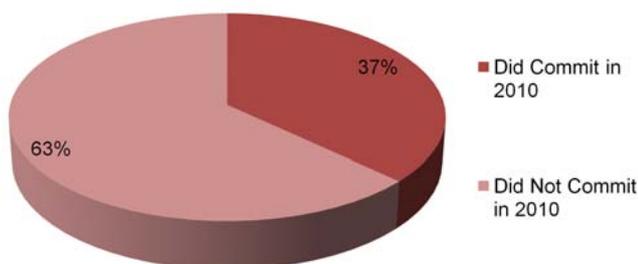
A number of factors have contributed to this prolonged fundraising drought. Investors feel that there is still uncertainty in the market and are concerned about the varying issues that remain. Performance of real estate portfolios has remained poor, failing to show the same levels of improvement as other asset classes. It has left investors reasoning that it may be too early to make sizeable investments in property and instead investors may focus on asset classes generating stronger returns.

*“Many institutions indicated that they have a number of unfunded commitments which they expect to fund in 2011...”*

Another factor that may be influencing investors in their decisions to refrain from fund investments is the cash flow situation within their existing portfolios. In past years, with activity levels at a high, investors were continually having capital called up, and receiving capital back in the form of distributions. Therefore, it was necessary to constantly re-invest capital in new funds in order to maintain a stable allocation. In recent times, fund managers have been calling up committed capital at a slower pace, and with transaction levels low, investors are not seeing distributions from previous investments. As a result, investors have not needed to make new fund investments in order to maintain their allocations to the asset class. Many institutions Preqin spoke with indicated that they have a number of unfunded commitments which they expect to fund in 2011.

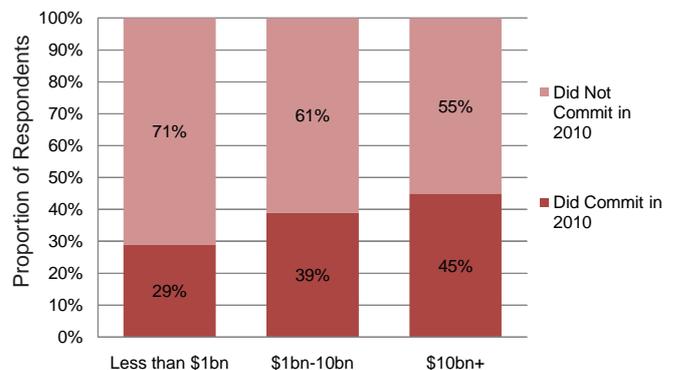
It is important to note that investor activity differed by location and size in 2010. Of the North American investors surveyed, 49% made real estate fund commitments while 51% did not. This relatively even split contrasts with the pattern observed in European investors, where only 31% were active in 2010. In terms of total assets, 29% of investors with assets of less than \$1bn made private real estate fund commitments in 2010; this increased to 39% for those with assets of \$1-10bn and 45% for those with \$10bn or more in assets under management.

Fig. 3: Proportion of Private Real Estate Investors That Committed to Funds in 2010



Source: Preqin

Fig. 4: Investor Activity in Private Real Estate in 2010 (Split by Investor Total Assets)



Source: Preqin

# Investor Activity in 2011

To ascertain whether private real estate fundraising would see improvements in 2011, investors that participated in the study were asked to indicate whether they planned to commit to private real estate funds in 2011.

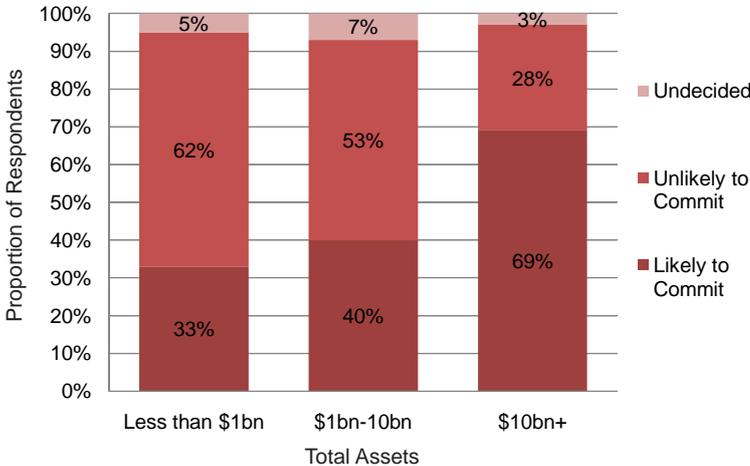
Of the investors in the study, 45% stated that they are likely to commit to private real estate funds in 2011, while 49% are unlikely to invest and 6% are undecided. The state of the real estate market, the drop in property valuations and the poor performance of private equity real estate funds of recent vintages would have influenced the decisions of those that are not planning to invest.

real estate allocations due to market conditions and reduced distributions.

*“64% of the investors surveyed were below their target allocations to real estate...”*

Private real estate activity in 2011 is also likely to differ by investor size and location. Fig. 5 shows that the likelihood of investing in private funds in 2011 increases as the total assets of the investors increase. 33% of investors with total assets of less than \$1bn are likely to invest in private funds in 2011; this increases to 40% for those with assets of \$1-10bn and 69% for those with assets of \$10bn and above. A significant 62% of investors with assets of less than \$1bn will be inactive in private real estate in 2011. Smaller institutions, which typically make commitments less frequently, are more likely to halt private

Fig. 5: Investors' Intentions for Private Real Estate Investment in 2011 (Split by Investor Total Assets)



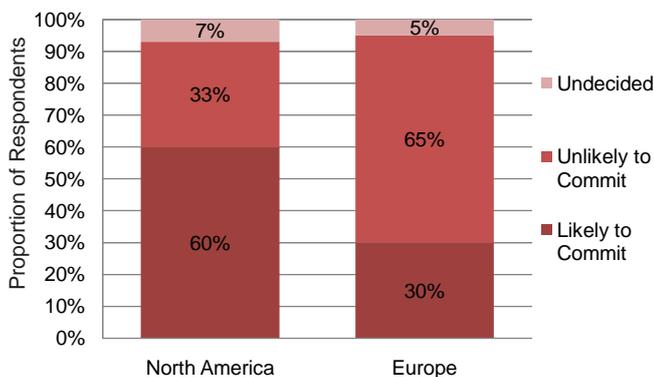
Source: Preqin

# Investor Activity in 2011

Fig. 6 shows that North American institutions are more likely to make new fund commitments in 2011, with 60% expecting to invest in 2011. Only 31% of European institutions surveyed made commitments in 2010, and 65% do not anticipate making new commitments in 2011. In addition to the factors influencing all institutions, this decline in activity of European investors also reflects the impact of a number of new investment regulations in the region. This includes the Solvency II legislation, which will affect European insurance companies and certain asset managers.

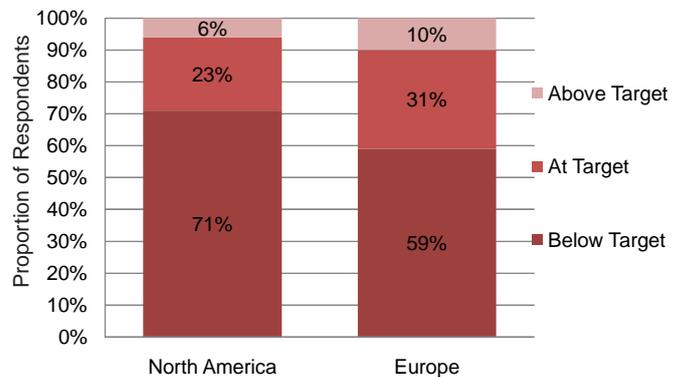
64% of the investors surveyed were below their target allocations to real estate, while 28% were at their target allocation and 8% were above their targets. Fig. 7 shows that a higher proportion of investors based in North America were below their targets compared to their European counterparts. Investors are likely to maintain their targets to real estate in the long term but, unlike previous years, under-allocation to the asset class is no longer coercing investors into making further commitments to real estate in the short term.

Fig. 6: Investors' Intentions for Private Real Estate Investment in 2011 (Split by Investor Region)



Source: Preqin

Fig. 7: Investors' Current Real Estate Allocations Compared to Target Allocations (Split by Investor Region)



Source: Preqin

# Timing of Next Commitment and Capital Outlay in 2011

Investors that stated they are looking to make new fund commitments in 2011 were asked when they would make their next commitment. Fig. 8 shows 32% expect their first commitment of the year to occur by the end of Q1 2011, and 27% expect to make their first commitment of 2011 in the second quarter.

*“66% of investors expect to commit more capital to real estate funds in 2011 than they did in 2010...”*

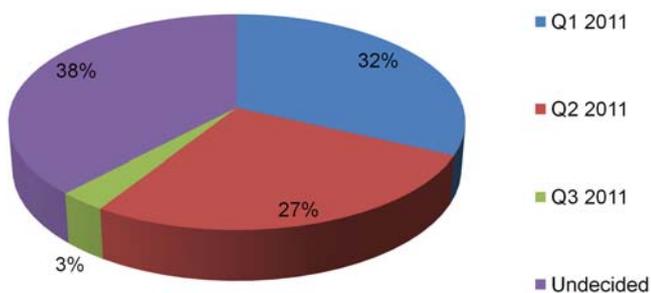
3% expect their next commitment to be made in Q3 2011 and the remaining 38% are unsure, or have not decided the exact timing of their next commitment. This shows that many investors are still being defensive and are waiting for the right opportunities to arise rather than being proactive and setting timeframes for fund commitments.

Investors were asked to estimate the number of fund commitments they will make in 2011 and how much capital they expect to deploy. The majority stated that they will have an opportunistic outlook and determine commitment sizes on a case-by-case basis. However, most investors were able to

indicate how their capital outlay in 2011 would compare to that in 2010.

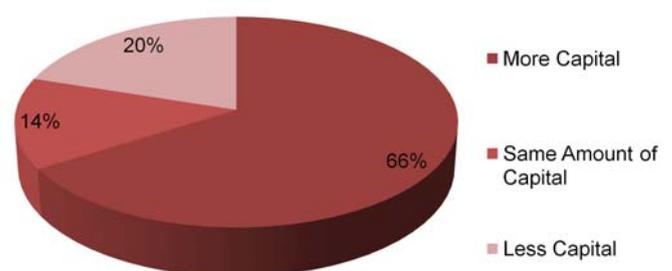
Fig. 9 presents data relating to the responses of investors that had either made private real estate commitments in 2010 or are likely to invest in 2011. 66% of investors expect to commit more capital to real estate funds in 2011 than they did in 2010. A little over half of the investors in this group did not commit to real estate funds in 2010 but are hoping to resume investments in 2011. 14% of investors that had either made private real estate commitments in 2010 or are likely to invest in 2011 stated that they will commit the same amount of capital to private funds in 2011 as they had in 2010. These findings suggest that there may be an increase in the amount of capital entering the market in 2011, and that fundraising may therefore improve. The remaining 20% comprise those that invested in 2010 but do not expect to do so in 2011.

Fig. 8: Anticipated Timing of Next Private Real Estate Fund Commitment of Those Expecting to Invest in 2011



Source: Preqin

Fig. 9: Expected Capital Outlay to Private Real Estate in 2011 Compared to 2010 (of Those Active in Either of the Two Years)



Source: Preqin

# Key Issues in Private Real Estate

The results of this survey reflect the number of issues and concerns surrounding the private real estate market. Prequin therefore asked investors which issues they thought were of key concern to them.

Fig. 10 shows that the economic climate and the resulting volatility in the real estate market was the most prevalent issue cited by investors, with 28% of those surveyed feeling apprehensive about the state of the market. 26% said that the illiquid nature of private real estate investments is an issue for them and 21% of investors are worried about current real estate valuations.

Another issue that investors consider to be of increasing importance in the private real estate market is the misalignment of interest between fund managers and investors. 18% of investors believe that the interests of fund managers and investors need to be better aligned.

The level of leverage utilized by private real estate fund managers and prevailing debt financing issues were cited by 16% of investors, and 15% feel that transparency levels need to increase. Fund terms and conditions and the fees charged by real estate firms were of concern to 10% of investors surveyed, and 10% thought that the poor performance and returns generated by private real estate funds were key issues.

8% of investors stated there is a strategy-to-market fit discrepancy, reasoning that a significant proportion of funds in market are not well positioned to succeed in the current market. Investors thought that funds utilizing strategies which were suited to the current market were difficult to locate and the right opportunities were not readily available.

Finally, 8% of investors are concerned about changing investment regulations. This includes the Solvency II legislation

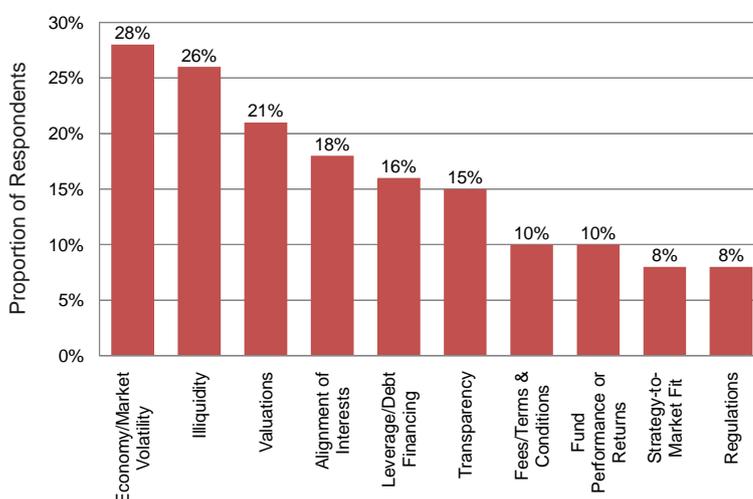
primarily affecting European insurance companies. Solvency II is a fundamental review of the capital adequacy regime for the European insurance industry, aiming to establish a revised set of EU-wide capital requirements and risk management standards that will replace the current solvency requirements. A number of Europe-based insurers believe that this legislation will have an impact on their private real estate portfolios and compel them to make fewer fund commitments.

The survey reveals a number of important issues affecting the private real estate market, with the low proportion of respondents that have allocated to funds in 2010 underlining the extent to which uncertainty and caution is influencing investor appetite for new funds.

There are, however, some encouraging signs. Although only 45% of all respondents are likely to commit to new vehicles in 2011, of those investors that committed in 2010 or expect to do so in 2011, 66% are intending to invest more in the current year than they did in 2010. The results also suggest that it is the larger investors, and those based in the US, that will be more active in 2011, and H1 2011 may see an increase in investor commitments.

In order to be successful in the current fundraising market, it is necessary for fund managers to successfully convey how they intend to overcome market conditions, and why their strategy is well suited to achieve successful returns in the current investment climate.

Fig. 10: Investors' Perception of Key Issues in the Private Real Estate Market



Source: Prequin

*“...economic climate and the resulting volatility in the real estate market was the most prevalent issue cited by investors.”*

# Investors to Watch in 2011

<b>Alcatel-Lucent Pension Fund</b>	<b>Private Sector Pension Fund</b>	<b>Location: US</b>
Alcatel-Lucent Pension Fund committed \$30mn to one private real estate fund in 2010 and plans to commit between \$50mn and \$75mn across one to two private real estate funds in 2011. It feels that it would make its first commitment of 2011 by the end of H1 2011.		
<b>ATP Real Estate</b>	<b>Asset Manager</b>	<b>Location: Denmark</b>
ATP Real Estate is looking to increase its exposure to US-focused funds in 2011 but will also continue investing in Europe. It will look to make four fund commitments, deploying €250mn across these vehicles. 50% of the capital will be earmarked for core vehicles and 50% for non-core vehicles such as opportunistic and value added funds.		
<b>Pension Fund of the Christian Church</b>	<b>Private Sector Pension Fund</b>	<b>Location: US</b>
Pension Fund of the Christian Church invests in the real estate asset class solely through private equity real estate vehicles, predominantly funds of funds. It committed \$10mn to real estate in 2010 and will continue to invest in the asset class in 2011. It plans to invest between \$20mn and \$25mn globally.		
<b>Strathclyde Pension Fund</b>	<b>Public Pension Fund</b>	<b>Location: UK</b>
Strathclyde Pension Fund invests in private real estate funds primarily through its £200mn global multi-manager mandate with Partners Group. It is looking to invest in both direct and indirect real estate in 2011, and could invest up to £150mn in the asset class. It will commit more capital to private real estate funds in 2011 than it did in 2010.		
<b>Tokio Marine and Nichido Fire Insurance</b>	<b>Insurance Company</b>	<b>Location: Japan</b>
Tokio Marine and Nichido Fire Insurance (TMNF) did not invest in real estate funds in 2010 due to unstable market conditions. However, it intends to commit to new funds in 2011. While the insurance company will continue to diversify its real estate investments across the globe, its new risk-adverse stance has restricted its preference of fund types to core and value added funds. As a result, it will not consider opportunistic and distressed strategies.		
<b>University of Alberta Endowment</b>	<b>Endowment Plan</b>	<b>Location: Canada</b>
University of Alberta Endowment plans to invest its entire 6% target allocation to real estate during the course of 2011. It is looking to invest approximately C\$50mn in yield-orientated, core and core-plus funds with a focus on properties located domestically. Alberta prefers highly experienced fund managers and was therefore unlikely to commit to a first-time fund.		

# Preqin Real Estate Publications

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## Private Equity Real Estate Review

Do you need key facts on the global unlisted real estate market at your fingertips? Do you need insightful analysis of the trends and developments behind the numbers? Preqin's annual Private Equity Real Estate Review is for you:

- Listings and analysis for fundraising, with predictions for the future
- Profiles for the leading private equity real estate firms, including contacts, focus and performance data for individual vehicles
- Details and listings for real estate fund terms and conditions
- Analysis and profiles for investors in private equity real estate funds

**More info:** [www.preqin.com/rereview](http://www.preqin.com/rereview)

## Private Equity Real Estate Fund of Funds Review

Do you need to keep track of the real estate fund of funds business? Preqin's annual Private Equity Real Estate Fund of Funds Review is for you.

- Overview of industry, with analysis of fundraising, firm location, fund size and more
- Profiles for all PERE fund of funds firms, including contacts, focus, investment plans, sample investments
- Details and listings for PERE fund of funds terms and conditions
- Analysis and profiles for investors in PERE fund of funds

**More info:** [www.preqin.com/refof](http://www.preqin.com/refof)

## Preqin Real Estate Distressed and Debt Review

The Preqin Real Estate Distressed and Debt Review is your guide to the emerging debt and distressed asset class which has taken the real estate market by storm.

- Profiles for all distressed and debt fund managers, including contact details, history, funds raised, debt strategies employed
- Profiles for institutional investors currently investing in this sector
- Fundraising listings, plus fund-specific performance data listings and terms and conditions listings
- Detailed analysis covering the history and make-up of the market, performance, fundraising, investors and fund terms

**More info:** [www.preqin.com/redistressed](http://www.preqin.com/redistressed)

## Preqin Private Equity Real Estate Compensation and Employment Review

The Preqin Private Equity Real Estate Compensation and Employment Review is a vital source of reliable and accurate information on the latest trends in private equity real estate compensation and employment.

- Compensation data for 31 different positions at PERE firms
- Survey of compensation practices at PERE firms
- Overview of firm level compensation
- Current employment within the PERE industry

**More info:** [www.preqin.com/recompensation](http://www.preqin.com/recompensation)



# Preqin Real Estate Online Services

Preqin maintains a series of online and in-print products focusing on the institutional private real estate market, with a dedicated team of analysts constantly updating and adding new information.

Preqin's real estate products are renowned within the industry for the scope and depth of the data that they contain, with the majority of the leading names in this industry regularly relying on our products and services.

## Real Estate Online

Real Estate Online is our flagship online product featuring all the information necessary to stay abreast of the latest developments affecting the industry.

- View profiles and details for over 1,100 real estate fund managers, including fund details for over 3,000 funds, performance data, investment plans and key contacts.
- Profiles for over 2,200 investors in private real estate, with investment plans, sample investments, plus key contact details.
- Details for all funds in market, plus funds closed with all key information included.
- Data for terms and conditions levied on real estate vehicles.
- Information on placement agents, law firms and more.
- Premium subscribers can download data to Excel for further analysis.

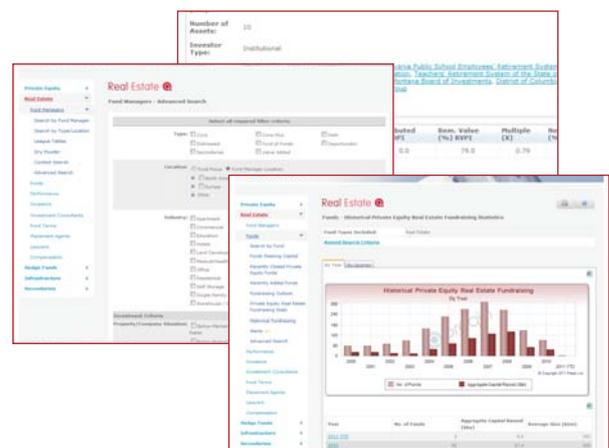
[www.preqin.com/reo](http://www.preqin.com/reo)

## Real Estate Capital Source

Real Estate Capital Source is a powerful interactive database designed to help real estate developers, intermediaries, and firms to find sources of private equity real estate capital to partner with.

- Find the right capital sources via a comprehensive advanced search. Select the most appropriate fund managers by filtering them using extensive criteria.
- Search for fund managers by type and location.

[www.preqin.com/recs](http://www.preqin.com/recs)



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