

Content Includes

### **Fundraising Market**

What are the prospects for real estate funds of funds currently in market? What does the market look like historically? We analyze all the key trends and identify the biggest players.

### **Funds of Funds as Investors**

What kind of underlying funds do real estate funds of funds prefer?

### **Performance**

What are the targeted returns of real estate funds of funds? Is performance encouraging?

### **Investor Universe**

What kind of LPs target real estate funds of funds? We break down the universe of likely investors.

# Preqin Special Report: Real Estate Fund of Funds



# Data Source

Preqin Special Report: Real Estate Fund of Funds draws exclusively on data from Preqin's Real Estate Online service. This powerful service includes:

**Real Estate Funds of Funds** – Detailed profiles for all real estate fund of funds managers, including key contacts, funds managed, strategies and geographies targeted, and future plans for investment.

**Fund Managers** – Detailed profiles on over 1,500 fund managers from around the world, including background, key contacts and funds raised.

**Funds** – Detailed profiles for over 3,500 unlisted real estate funds encompassing all strategies including core, core-plus, value added, opportunistic, debt and distressed.

**Performance** – Performance benchmarks for real estate funds, including full performance data for over 900 named funds.

**Investors** – Extensive profiles for over 3,000 institutional investors actively investing in real estate. Includes allocations, sample investments, key contacts, investment plans, fund preferences and much more.

# Contents

Overview of the Real Estate Funds of Funds Market	p. 3	
Fundraising in 2010 - 2012	p. 5	
Current Fundraising Market	p. 6	Editor: Helen Kenyon
Real Estate Funds of Funds as Investors	p. 7	Production Editor: Tim Short
Performance and Targeted Returns	p. 9	
Investors in Funds of Funds	p. 10	Sub-Editor: Sam Meakin
About Preqin	p. 12	Managing Editors: Andrew Moylan

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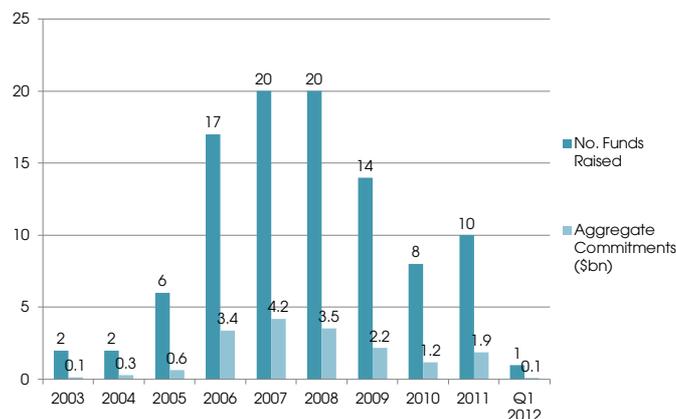
# Overview of the Real Estate Funds of Funds Market

Real estate funds of funds are a small but important part of the private real estate fund universe. They can offer investors exposure to a wide variety of locations and strategies through investments in underlying funds, enabling investors to obtain exposure to a diversified portfolio of fund investments via a single commitment, and gain exposure to locations and strategies that they might otherwise not be able to access. Smaller investors can also gain exposure to larger funds that might have minimum commitment sizes which make them inaccessible to invest in directly. Additionally, fund of funds managers are an important source of capital for private equity real estate fund managers, both through their own investments made through their fund of funds vehicles and, because many such managers are also responsible for the allocation of investor capital, through the separate account mandates they hold or the investments they advise on through their role as investment consultants.

## Historical Fundraising

The first real estate funds of funds date back to the late 1990s, but the market did not really develop significantly for another few years, with small numbers of funds being raised attracting relatively low amounts of capital between 1999 and 2004. Then six closed-end real estate funds of funds held final closes in 2005 having raised \$0.6bn, and 17 vehicles closed the following year having raised an aggregate \$3.4bn. Fundraising peaked in 2007, when 20 real estate funds of funds closed having attracted \$4.2bn in commitments. The same number of funds successfully held final closes in 2008, but raised slightly less capital (\$3.5bn) than the vehicles that closed in 2007. Overall private real estate fundraising dropped in 2009 following the financial crisis, and fundraising for real estate funds of funds suffered similarly, with 14 funds attracting \$2.2bn, the lowest amount of capital since 2005. Fundraising in 2010 saw a further decline, with eight funds

Fig. 1: Closed-End Private Real Estate Fund of Funds Fundraising, 2003 - Q1 2012



Source: Prequin Real Estate Online Service

securing just \$1.2bn from investors. The figures did improve somewhat in 2011, however, when 10 funds successfully closed on \$1.9bn.

## Split of Funds of Funds by Vintage Year

Fig. 2 shows the breakdown of real estate funds of funds, including listed, open-ended and semi-open-ended funds, by the date of their first commitment. The number of vehicles steadily increases by vintage year to a peak in 2007, around the time of peak fundraising. The number of 2008 vintage funds is significantly lower, and the figure drops again for 2009, when just eight vehicles made their first commitments, one of the lowest numbers since the real estate fund of funds market established itself, a reflection of the increasingly challenging fundraising environment.

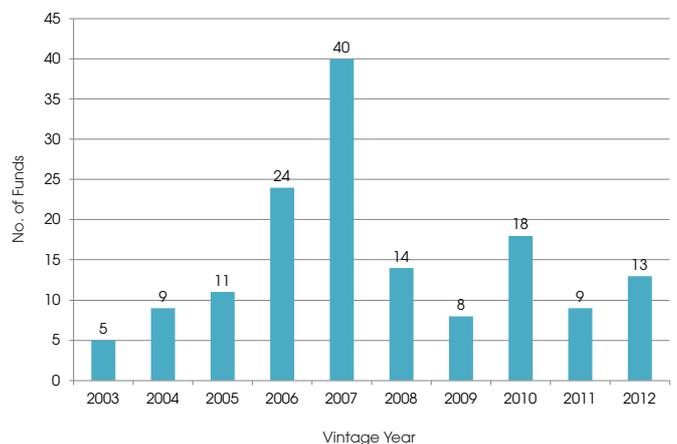
## Funds of Funds by Structure

The majority of real estate funds of funds targeting private funds are unlisted closed-end vehicles, as can be seen in Fig. 3. Sixteen percent are unlisted open-ended funds and 3% are listed fund of funds vehicles.

## Size of Funds of Funds

Fig. 4 shows how the mean and median sizes of real estate funds of funds have varied over time. The mean and median figures are relatively close to each other for vehicles that closed in 2008, 2009 and 2010, while the mean significantly exceeds the median for funds closed in 2006, 2007 and 2011, suggesting that some large fund of funds closes skewed the mean figures in those years.

Fig. 2: Real Estate Funds of Funds by Vintage Year, 2003 - 2011



Source: Prequin Real Estate Online Service

Real Estate Fund of Funds Managers by Capital Raised 2007 – 2011

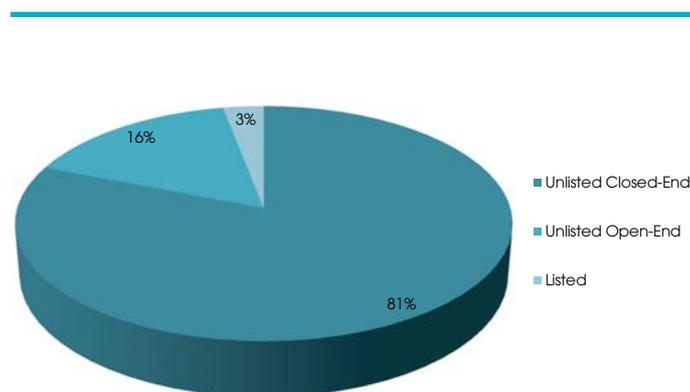
Half of the top 10 managers by capital raised for closed-end private real estate funds of funds in the last five years are based in Europe, and half are based in the US. The fund of funds manager to raise the most capital in recent years is US-based Metropolitan Real Estate Equity Management. The firm successfully closed nine real estate funds of funds between 2007 and 2011, raising an aggregate \$1.76bn. One of its largest funds is Metropolitan Real Estate Equity Partners V; the fund closed in 2007 with \$349mn in commitments and invested in value added and opportunistic funds focusing on the US.

Aberdeen Asset Management: Property Division is another highly successful real estate fund of funds manager. The firm has raised three real estate funds of funds in the past five years with an aggregate \$1bn in investor commitments. Aberdeen Indirect Property Partners (AIPP), which closed in 2006 and therefore does not contribute towards the capital raised in the last five years figure, is also the largest real estate fund of funds ever raised. The €623mn fund was the first pooled pan-European real estate fund of funds and it made commitments to 15 different core-plus and value added funds.

Preqin's Real Estate Online contains fundraising data for over 2,600 historically closed funds, including over 90 real estate funds of funds. Want to analyze the historic market by numerous criteria including vintage year, fund focus/strategy, GP location and more? We can help.

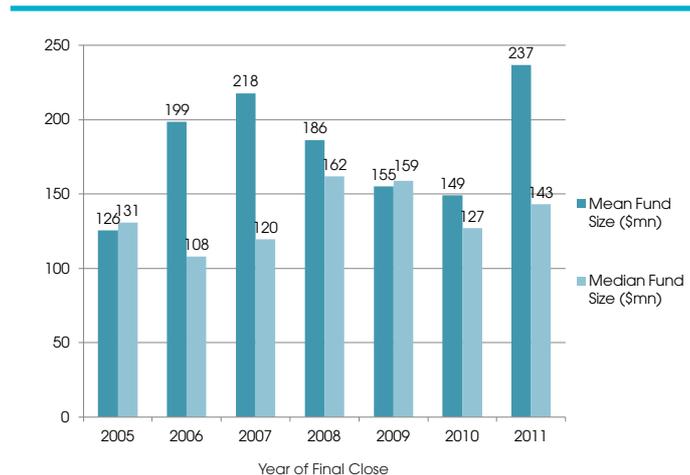
[www.preqin.com/realestate](http://www.preqin.com/realestate)

Fig. 3: Breakdown of Real Estate Funds of Funds by Structure



Source: Preqin Real Estate Online Service

Fig. 4: Mean and Median Private Closed-End Real Estate Fund of Funds Size, 2005 - 2011



Source: Preqin Real Estate Online Service

Fig. 5: Top 10 Managers by Capital Raised for Closed-End Private Real Estate Funds of Funds in Last Five Years (2007 - 2012)

Manager	Number of Funds Raised in Last Five Years	Aggregate Capital Raised in Last Five Years (\$mn)	Firm Headquarters	Geographic Focus
Metropolitan Real Estate Equity Management	9	1,762	US	Global
Aberdeen Asset Management: Property Division	3	1,026	UK	Europe, Asia
CBRE Global Multi Manager	2	911	UK	Global
Portfolio Advisors	3	663	US	Global, US
Siguler Guff	1	630	US	Global, US
Partners Group	3	613	Switzerland	Global
Goldman Sachs Merchant Banking Division	1	566	US	US
Schroder Property Investment Management	2	543	UK	Europe
Composition Capital Partners	2	462	Netherlands	Asia, Europe
Franklin Templeton Real Asset Advisors	2	434	US	Global

Source: Preqin Real Estate Online Service

# Fundraising in 2010 – 2012

## Fundraising by Regional Focus

During the period 2010 to May 2012, \$3.2bn was raised by 19 funds of funds that reached a final close. Seven global funds raised \$2,022mn, 65% of the aggregate capital raised in the period. Eight North America-focused funds raised \$639mn, two Europe-focused funds raised \$130mn and two Asia-focused funds raised \$378mn. The largest global-focused vehicle to close was Siguler Guff Distressed Real Estate Opportunities Fund. It closed in December 2011 on \$630mn and invests in distressed and opportunistic funds.

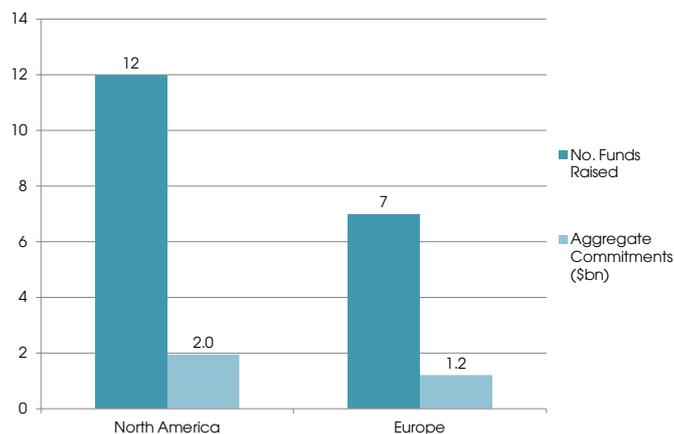
Sparinvest Property Fund II, managed by Sparinvest Property Investors, is another notable global-focused fund to have closed between 2010 and May 2012. The fund closed on €200mn in June 2011 and was fully committed as of October 2011. It targeted core-plus, distressed, opportunistic, secondaries and value added vehicles on a global basis.

CBRE Asia Alpha Plus Fund, an Asia-focused fund, closed in April 2010 having raised \$269mn, and it was the largest region-specific fund to close between 2010 and May 2012. It was followed by Pohjola Real Estate Fund of Funds II, a Europe-focused vehicle which closed on €90mn, and Metropolitan Real Estate Partners VIII, a North America-focused fund which closed on \$129mn.

## Fundraising by Location of Manager Headquarters

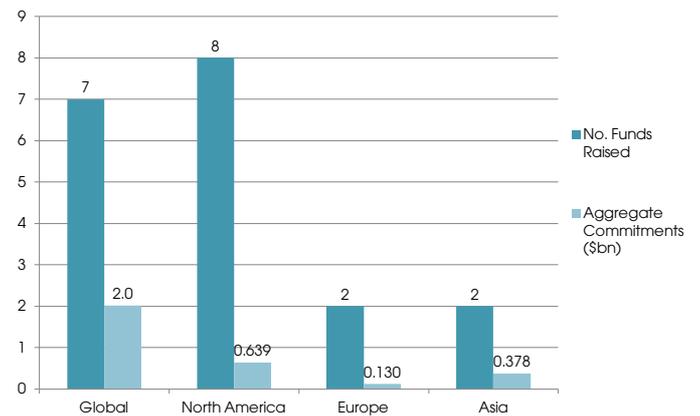
Between 2010 and May 2012, funds raised by North America-headquartered firms outnumbered those raised by Europe-headquartered firms. Twelve funds raised by North America-based firms raised \$2bn and seven funds raised by Europe-based firms raised \$1.2bn. No funds of funds to close in this period were raised by firms headquartered outside of the US or Europe.

Fig. 7: Closed-End Private Real Estate Fund of Funds Fundraising by Manager Location, 2010 - May 2012



Source: Preqin Real Estate Online Service

Fig. 6: Closed-End Private Real Estate Fund of Funds Fundraising by Regional Focus, 2010 - May 2012

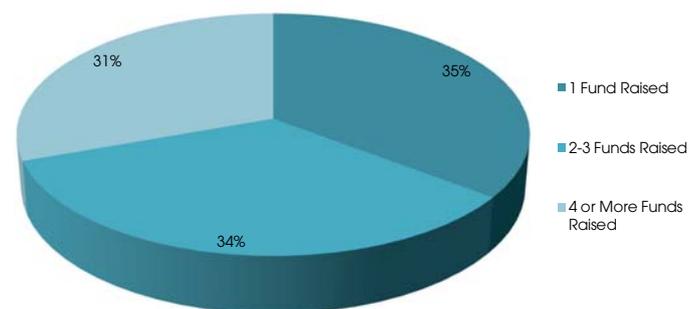


Source: Preqin Real Estate Online Service

## Fundraising by Manager Experience

Aggregate capital raised by first-time fund managers accounted for 35% of all capital that was raised by funds of funds closed between 2010 and May 2012. Aggregate capital raised by fund managers closing their second or third funds comprised 34% of capital raised, while fund managers on their fourth fund or more accounted for 31%. This demonstrates that despite the continued economic uncertainty and fundraising difficulties, first-time fund managers are still capable of picking up commitments from investors if they offer a compelling proposition.

Fig. 8: Breakdown of Aggregate Capital Raised for Closed-End Private Real Estate Funds of Funds by Manager Experience, 2010 - May 2012



Source: Preqin Real Estate Online Service

# Current Fundraising Market

## Geographic Focus of Funds in Market

As of Q2 2012, 23 funds of funds are on the road targeting an aggregate \$4.2bn, a decrease of \$1.2bn from Q2 2011, when 26 funds of funds were in market targeting an aggregate \$5.4bn. There are 12 vehicles targeting \$2,612mn that intend to invest globally, while five North America-focused funds of funds are targeting \$795mn, two Europe-focused funds are targeting \$141mn and four Asia-focused funds are targeting \$650mn.

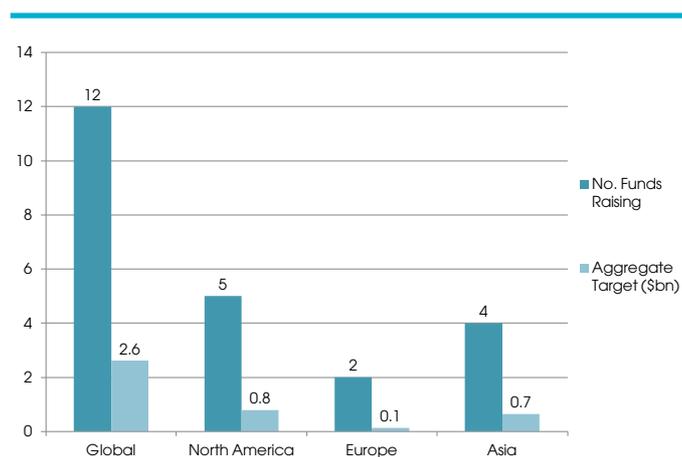
The largest global fund of funds on the road is Clerestory Small Cap Real Estate Fund II. Managed by Clerestory Capital Partners, the fund is targeting \$400mn and it will invest in opportunistic real estate funds on a global basis.

Aberdeen Asset Management: Property Division manages the largest Asia-focused fund of funds currently fundraising – Aberdeen Asia III Property Fund of Funds. This vehicle is also the second largest fund of funds on the road overall. The vehicle will consider investing in all strategies and it is targeting \$350mn. Other region-specific funds include Investors Diversified Realty Fund, which is targeting \$250mn to invest in US-focused funds, and LFP European Fund of Funds, a Europe-focused fund targeting €100mn that will invest in core, opportunistic and value added funds.

## Length of Time Spent in Market

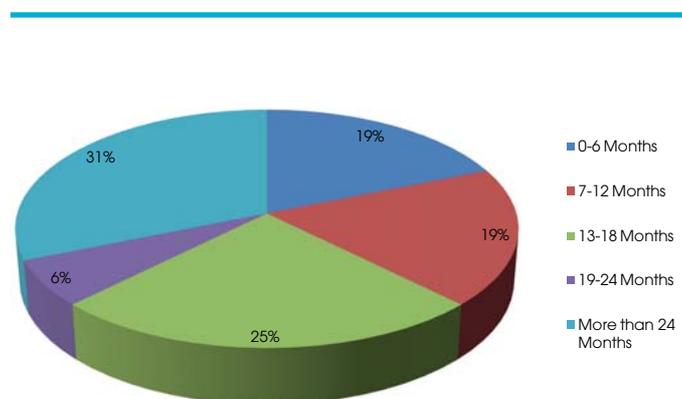
Fig. 10 shows the length of time that funds of funds on the road have spent in market, providing an insight into the current fundraising environment. Thirty-seven percent of firms have been in market for over 18 months, indicating that fundraising remains slow and difficult. Thirty-eight percent of firms have spent less than a year in market, showing that fund managers are continuing to bring funds to market despite the fundraising difficulties. The remaining quarter comprises funds that have spent 13-18 months in market.

Fig. 9: Closed-End Private Real Estate Funds of Funds on the Road by Primary Geographic Focus



Source: Preqin Real Estate Online Service

Fig. 10: Length of Time Spent in Market by Closed-End Private Real Estate Funds of Funds Currently on the Road



Source: Preqin Real Estate Online Service

Fig. 11: Largest Closed-End Private Real Estate Funds of Funds on the Road

Fund	Firm	Target Size (mn)	Firm Headquarters	Geographic Focus
Clerestory Small Cap Real Estate Fund II	Clerestory Capital Partners	400 USD	US	Global
Aberdeen Asia III Property Fund of Funds	Aberdeen Asset Management: Property Division	350 USD	UK	Asia
Franklin Templeton Asian Real Estate Fund 2	Franklin Templeton Real Asset Advisors	300 USD	US	Asia
Franklin Templeton Private Real Estate Fund	Franklin Templeton Real Asset Advisors	300 USD	US	Global
MFIRE Global Real Estate Investment Program II	Mesirow Financial Institutional Real Estate	300 USD	US	Global

# Real Estate Funds of Funds as Investors

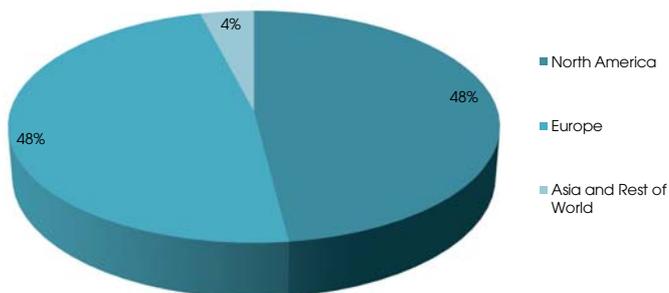
Funds of funds constitute an important segment of the private real estate investor universe and are a valuable source of capital for many managers looking to raise real estate funds. The specialized skill set, experience and resources possessed by fund of funds managers enable them to undertake extensive due diligence and invest in niche funds, such as first-time funds or emerging markets-focused vehicles.

## Regional Breakdown

Fig. 12 shows the regional breakdown of fund of funds managers. North America and Europe are equally represented, with 96% of the fund managers split between these regions, while Asia and Rest of World fund of funds managers represent just 4% of this universe. Franklin Templeton Real Asset Advisors, a North America-based fund of funds manager, has raised \$1.2bn through five funds to date. It currently has two funds in market seeking \$300mn each. Franklin Templeton Private Real Estate Fund will target global opportunities, while Franklin Templeton Asian Real Estate Fund 2 will focus on value added and opportunistic vehicles located throughout Asia.

Although many fund of funds managers commit to Asia and Rest of World-focused vehicles, surprisingly there are only two active fund of funds managers located outside the US or Europe: China-based Noah Holdings and Profimex, which is located in Israel. Profimex has raised \$65mn for a fund of funds targeting underlying opportunistic and value added vehicles in developed and emerging markets. Noah Holdings is currently marketing a vehicle that aims to attract capital from high-net-worth investors

Fig. 12: Breakdown of Real Estate Fund of Funds Managers by Location of Headquarters



Source: Preqin

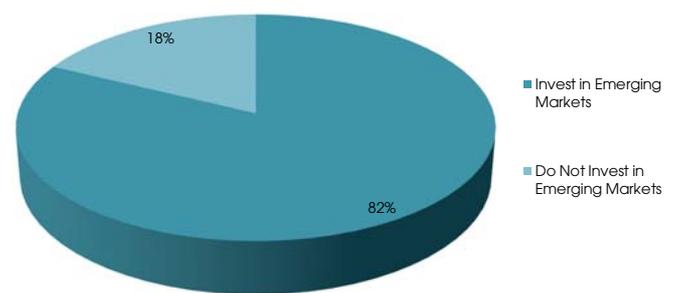
to deploy to China-focused private real estate funds targeting commercial, residential and retail property.

The appetite for emerging markets exhibited by fund of funds managers is illustrated in Fig. 13, which shows that 82% of fund of funds managers invest in these markets, thus representing a critical source of capital for emerging markets-focused funds.

## Appetite for First-Time Funds

Fig. 14 demonstrates the attitudes of fund of funds managers towards committing to first-time funds in comparison to the attitudes of all other investors towards this segment of the private fund industry. Sixty-three percent of fund of funds managers make commitments to first-time funds, while 21% would consider doing so and a further 2% invest with spin-off teams. Only 17% of the overall institutional investor universe, excluding fund of funds managers, invest with first-time managers, while almost two-thirds would not invest in first-time funds at all. Just 14% of fund of funds managers do not consider first-time funds in any form. This highlights the importance of fund of funds managers as a source of capital for emerging managers.

Fig. 13: Proportion of Real Estate Fund of Funds Managers that Invest in Emerging Markets



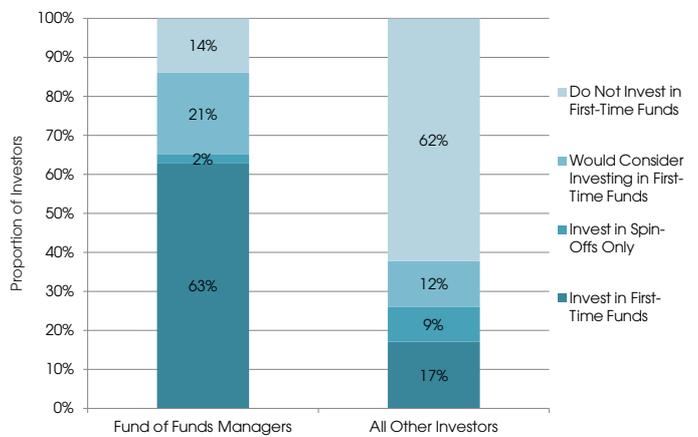
Source: Preqin

Fund Strategy Preferences

The targeted fund strategies of funds of funds closed between 2010 and May 2012 are compared with the targeted strategies of funds of funds currently in market in Fig. 15. Opportunistic funds are highly favoured by both funds of funds which have recently closed and vehicles currently raising. Eighty-eight percent of funds of funds closed from 2010 to May 2012 target opportunistic funds, while 72% of funds in market have a preference for such funds. Value added funds are targeted by three-quarters of funds of funds closed in 2010 to May 2012, while 56% of funds in market will invest in value added vehicles.

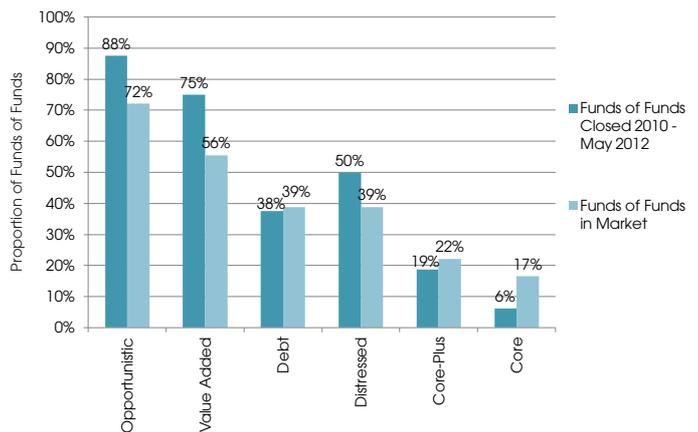
Half of funds closed recently have demonstrated a preference for distressed funds, with 39% of funds in market considering distressed vehicles. Only 6% of funds of funds closed from 2010 to May 2012 target core funds, while 17% of funds in market would consider such funds. Core-plus funds are considered by 19% of funds of funds that have closed recently, while 22% of funds of funds in market would consider core-plus vehicles. This demonstrates increased risk aversion among fund of funds managers, with a preference for higher-risk funds decreasing while appetite for low-risk funds has increased. Furthermore, fund of funds managers are responding to market shifts, with more emphasis on debt strategies to take advantage of dislocations and opportunities presented in the post-financial crisis climate.

Fig. 14: Appetite for First-Time Funds: Real Estate Fund of Funds Managers vs. All Other Investors



Source: Preqin Real Estate Online Service

Fig. 15: Targeted Strategies of Closed-End Private Real Estate Funds of Funds



Source: Preqin Real Estate Online Service

Preqin's Real Estate Online features in-depth, searchable investor profiles for over 50 real estate funds of funds. Want to draw up a target list of multi-managers that would be interested in your fund? View the contact details of the key decision makers at a specific fund of funds? We can help.

Want to find out more information or arrange a walkthrough of the product? Please contact us at any of our offices or visit:

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# Performance and Targeted Returns

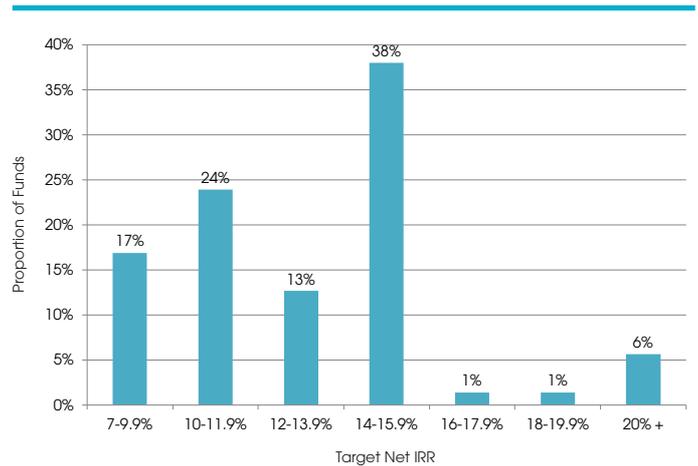
## Target IRRs

There are a diverse range of real estate funds of funds targeting a wide variety of underlying funds, with the aim of providing a range of different risk/return profiles for their investors. Fig. 16 shows the breakdown of the net IRRs targeted by real estate funds of funds. There is a particular concentration of funds of funds that target IRRs of 14-15.9%, with 38% of vehicles falling into this category. Twenty-four percent of funds of funds target a net IRR of 10-11.9%, while 17% target a net IRR of 7-9.9%. Eight percent of real estate funds of funds target a net IRR of 16% or more.

## Net Multiple Dispersion

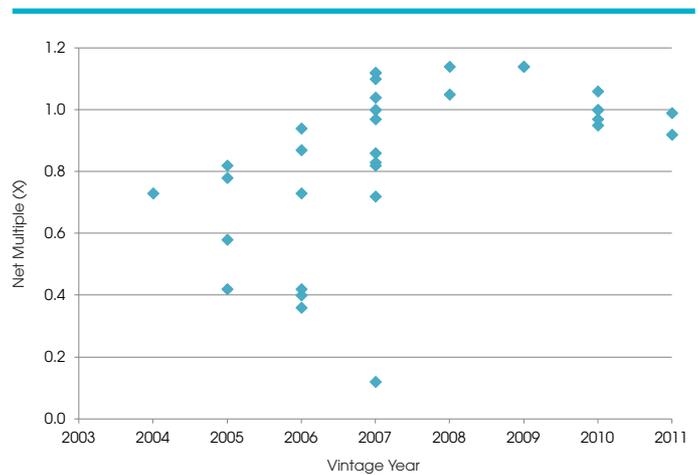
Investors utilize the net multiple to determine how much they have gained or are likely to gain on an investment. The net multiple does not take into account the timings of capital calls and distributions, although it is a useful indicator of fund performance. Fig. 17 illustrates the dispersion of net multiples by vintage year by plotting the individual multiples of funds of funds for which data is available. A number of funds of funds have a net multiple of less than 1.0x, since many funds of funds of vintages 2005 to 2007 invested capital at the peak of the market and performance has suffered as a result. There are more encouraging signs for more recent vintage funds, with a number of funds posting multiples above 1.0x. It is important to note that many funds of more recent vintages have significant amounts of committed capital that has not yet been called up, and so the performance of these funds will depend to a large extent on the success of future investments.

Fig. 16: Real Estate Funds of Funds - Breakdown of Target Net IRRs



Source: Preqin Real Estate Online Service

Fig. 17: Real Estate Funds of Funds - Net Multiples by Vintage Year



Source: Preqin Real Estate Online Service

Preqin's Real Estate Online features transparent, searchable performance metrics for over 900 real estate vehicles, which can be broken down by fund type, size, vintage year, focus, property type and more. Want to benchmark a specific vehicle? View industry level metrics? We can help.

Real Estate Online is a vital tool for attaining your goals, for more information please contact us at any of our offices or visit:

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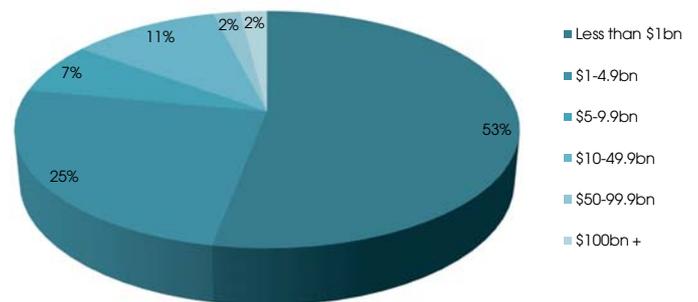
# Investors in Funds of Funds

It is typically the small and medium-sized investors that commit to funds of funds. As can be seen in Fig. 18, 78% of institutions that invest in such vehicles have total assets of less than \$5bn. These investors utilize funds of funds to access a range of underlying vehicles which they may not be able to gain exposure to directly due to the minimum commitment sizes of individual funds or because they do not have the resources to source and maintain a diversified direct private real estate fund portfolio.

Fig. 19 demonstrates how appetite for funds of funds decreases with increasing investor size. Eighteen percent of private real estate fund investors that have less than \$1bn in assets will invest in funds of funds, while the figure decreases to 10% for institutions with \$10bn or more in assets under management. The larger institutions are more likely to have the resources required to build an extensive and diverse portfolio of individual direct funds and so are less inclined to commit to funds of funds.

Investors in real estate funds of funds are also more likely to have smaller overall real estate portfolios. Over half of these institutions have total real estate allocations of less than \$100mn, as shown in Fig. 20. Twenty-six percent of fund of funds investors have real estate portfolios worth \$100-499mn and 9% have \$500-999mn allocated to the asset class. Seven percent of investors in funds of funds have more than \$2.5bn allocated to real estate overall. This last group of investors includes large investors that have made the occasional fund of funds commitment and do not actively pursue this strategy, as well as institutions that have used such vehicles to acquire exposure to unfamiliar markets or regions that they cannot, or are unwilling to, access through

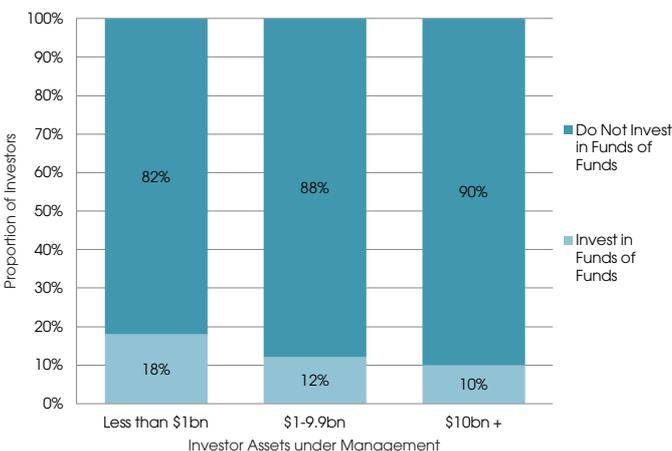
Fig. 18: Breakdown of Investors in Real Estate Funds of Funds by Assets under Management



Source: Preqin Real Estate Online Service

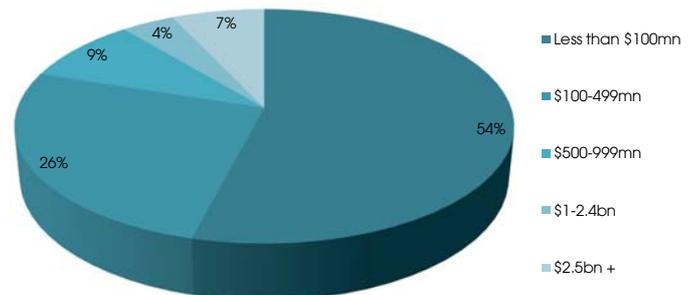
direct fund investments. Some investors also use funds of funds to gain exposure to emerging managers.

Fig. 19: Proportion of Private Real Estate Investors in Each Size Group that Invest in Real Estate Funds of Funds



Source: Preqin Real Estate Online Service

Fig. 20: Breakdown of Investors in Real Estate Funds of Funds by Overall Real Estate Allocation



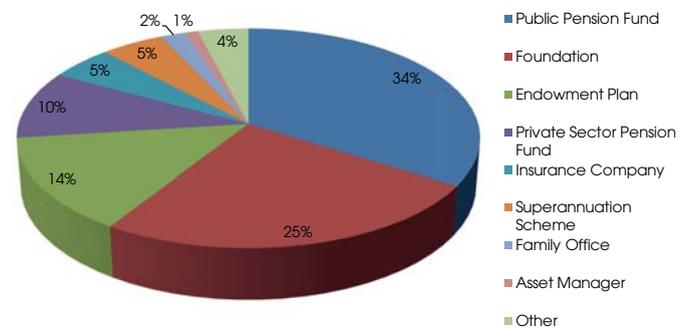
Source: Preqin Real Estate Online Service

Public pension funds account for 34% of all fund of funds investors, as shown in Fig. 21. Foundations make up 25% of institutions investing in these vehicles and endowment plans represent 14% of the fund of funds investor universe. These two groups of investors are typically smaller in terms of total assets base and many use funds of funds to allow them to acquire a diverse portfolio of direct funds through a single commitment.

Private sector pension plans also make commitments to funds of funds and comprise 10% of the fund of funds investor universe. Five percent of fund of funds investors are insurance companies and a further 5% of the total number is accounted for by superannuation schemes. Asset managers, family offices and other investor types, such as banks, investment companies and sovereign wealth funds, are less likely to invest in fund of funds vehicles.

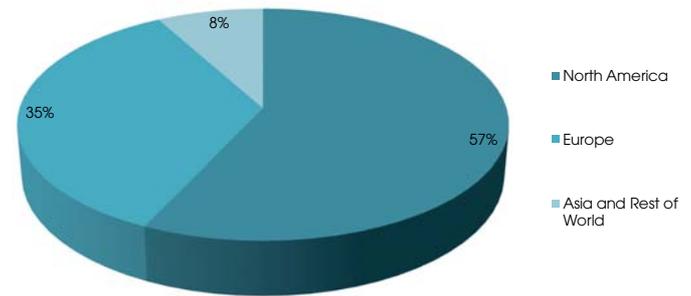
In terms of the location of investors that commit to funds of funds, Fig. 22 shows that 57% are based in North America. Investors from North America, particularly the US, are the most prominent investors in private real estate funds in general, and therefore it is unsurprising that these institutions account for such a large proportion of fund of funds investors. Thirty-five percent of investors that are interested in funds of funds are located in Europe and the remaining 8% are based in Asia and Rest of World.

Fig. 21: Breakdown of Investors in Real Estate Funds of Funds by Type



Source: Preqin Real Estate Online Service

Fig. 22: Breakdown of Investors in Real Estate Funds of Funds by LP Location



Source: Preqin Real Estate Online Service

Preqin's Real Estate Online contains detailed and up-to-date information covering over 3,000 LPs - including allocations, assets under management, specific investment preferences, future plans and more.

In a difficult fundraising market this intelligence can be the vital edge you need, helping save time and identify the institutional investors of most interest to your vehicle. Use our detailed search to pinpoint LPs for your target list, get their key personnel's contact details and be updated via email of any changes to their investment policies.

Real Estate Online is a vital tool for attaining your goals, for more information please contact us at any of our offices or visit:

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# About Preqin

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Preqin provides information, products and services to real estate firms, funds of funds, investors, placement agents, law firms, investment banks and advisors across the following main areas:

- Fund Performance
- Fundraising
- Investor Profiles
- Fund Terms
- Fund Manager Profiles
- Employment and Compensation

Our customers can access this market intelligence in three different ways:

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