

Preqin Special Report:

Private Equity Real Estate Update
October 2009



Private Equity • Real Estate • Hedge Funds • Infrastructure

Private Equity Real Estate: Changing Fortunes

A Dramatic Turnaround

Figs. 1 and 2 demonstrate the scale of private equity real estate's turnaround in terms of fundraising following the global financial downturn over the past 12 months.

The amount of capital raised quarterly has been consistently declining since Q4 2008, reaching a nadir of \$4.9 billion in Q3 2009, an 88% reduction on the \$41 billion raised one year previously.

Of the funds that have been able to close, an increasingly large proportion are doing so below target. As shown in Fig. B, only 18% of funds closed in 2009 achieved or exceeded their targeted amount, compared with 79% in 2007 and 54% in 2008.

Supply and Demand Balance

Although there has been a reduction in the number of funds on the road, there are still currently 367 vehicles in market seeking an aggregate \$191 billion. This does represent a 16% reduction from the beginning of this year, when a total of \$228 billion was being sought, but clearly a drop in the supply of funds is not the primary contributing factor to the decline in fundraising. With the stock of new vehicles remaining relatively high, it is clearly therefore due to a decline in investor appetite for new fund commitments that fundraising is at a low point.

Loss of Appetite

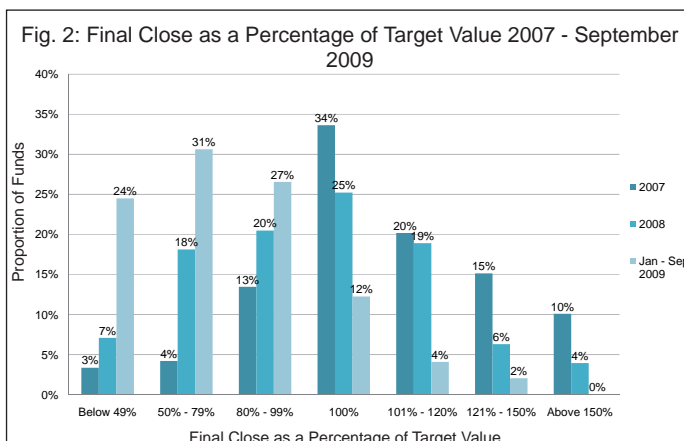
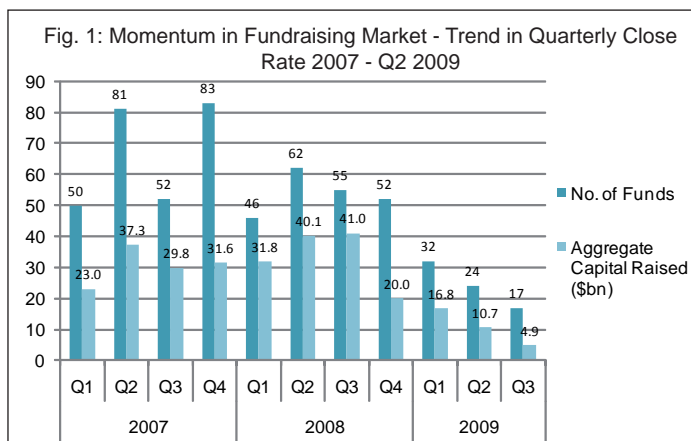
The primary factor driving the unprecedented growth in the PERE market from 2003 to 2008 was the excellent performance that funds of this type were returning. As recently as last year, funds of vintages 1999-2003 all had median IRRs in the range of 15-28%, with top quartile IRRs regularly exceeding 30%. In addition, the range of returns was not as varied as within other private equity fund markets, such as buyout and venture. Investors were seeing excellent returns, with the added bonus of a relatively low level of risk, however this was all about to change.

Change in Fortunes

Of all the different types of private equity, real estate fared worst following the onset of the credit crunch and global economic downturn. Real estate horizon IRR performance was -40% over a one-year period to December 2008. Despite the recent poor performance, over a five year period real estate funds are still the top performers in private equity, which further emphasises the magnitude of PERE's change in fortunes.

Investor Attitudes: Short-Term Hiatus or Long-Term Shift?

With recent performance for the fund type at an all time low, and with the wider real estate market remaining extremely unstable and unpredictable, it is understandable that investors are not as keen to invest in new vehicles as in previous years.



Private Equity Real Estate: Changing Fortunes

The industry's problems have been compounded by the direct effects of the credit crunch which has left uncertainty hanging over real estate markets worldwide. Liquidity issues have hit the real estate industry hard and part of the fall-out has been for investors in the asset class having to take a step back until the market stabilises.

There is a strong feeling amongst investors that they need to be more selective; most still want to commit to private real estate, they just have to be more vigilant when doing so. Private equity real estate investors of all sizes are taking fund manager selection even more seriously than they would have done in the recent past. Such sentiment is likely to continue whilst markets try to find their feet again, however, commitments to the private equity real estate market will resume, with many investors indicating to Preqin that Q4 2009 and 2010 will see them returning to the market.

A Good Time to Invest?

Many fund managers and industry professionals are reasoning that the near future could turn out to be an excellent time to commit to the asset class as fallen property prices and the distressed environment has left the market rife with potential bargains. The greater the bargain, the greater the potential opportunity for positive returns. This is being emphasised by real estate firms and rather than shy away from the industry, certain investors have reasoned that it will soon be good time to enter the private equity real estate fold. However, there is certainly a prevailing concern over investing before prices bottom out, as a more cautious investor universe is keen to avoid being stung for a second time.

A New Approach

The market for private equity real estate has changed dramatically, with the days of cheap debt and highly leveraged deals now departed. A shift in focus and investment style will be necessary in order to adapt to the new real estate landscape, and when speaking with investors, it is essential that managers are able to communicate that they understand the new environment, and have adapted their approach to suit.

Fundraising is becoming a much longer, more complex procedure than in recent years, and the average time taken for funds to achieve a final close has increased dramatically. A longer dialogue

with existing and potential new investors will be more important than ever in securing a successful fundraising.

From our conversations with institutional investors we understand that investor appetite has not been lost for private equity real estate. Despite the negative returns recorded over the last year and the current lapse in the fundraising market, the asset class still appeals to a wide range of investors. Although they may not be committing to funds right now, many investors are still open to potential opportunities, and furthermore many are actively seeking distressed and debt real estate opportunities.

The 2009 Preqin Private Equity Real Estate Review

New for 2009, the Preqin Private Equity Real Estate Review is the ultimate publication outlining this important sector, featuring detailed analysis and profiles for all different aspects of the industry, including:

- Detailed analysis examining the history and development of the PERE market; recent funds closed; the current fundraising market; fund terms and conditions; investors; performance; plus separate sections showing key facts and figures for the most important sub-sectors (opportunistic, value add, debt etc).
- Profiles for 350 most important active PERE firms and details for over 1,500 funds, including investment strategies and key information.
- Profiles for over 250 active institutional investors in the sector, including investment preferences and key contact details.
- Detailed listings for all funds recently closed, plus funds currently raising.
- Fund terms and conditions analysis and listings for over 180 vehicles, plus transparent performance data for 650 PERE funds (all performance data is net to investors).

For more information on the Review, including sample pages, and details on how to order your copy, please visit:

www.preqin.com/rer

Private Equity Real Estate: Institutional Investors

Investor Location

- Institutional investors from around the globe participate in private equity real estate investing. A large majority (58%) of investors in the private equity real estate investment class are from North America.
- Within North America 96% of investors are based in the US with the remainder in Canada.
- 31% of investors are from Europe and 11% are from Asia and Rest of World. Representation from the different regions remains similar to that of a year ago, which is hardly surprising given the relative inertia of many institutions over the last few quarters.

Investor Type

- The private equity real estate universe is attractive to a number of different types of institutions with the industry attracting commitments from a range of investors.
- The most important investor type in private equity real estate funds are public pension funds with this group accounting for 26% of investors interested in the investment type. Some of the most prolific and established private equity real estate investors are public pension funds.
- Endowments and family offices/foundations each equate to 12% of investors interested in private equity real estate funds.

Fig. 3: Make-up of Investors in Private Equity Real Estate Funds by Investor Location (Sorted by Number of Investors)

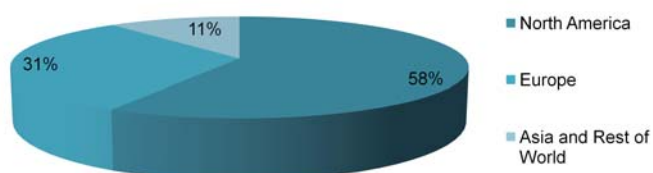
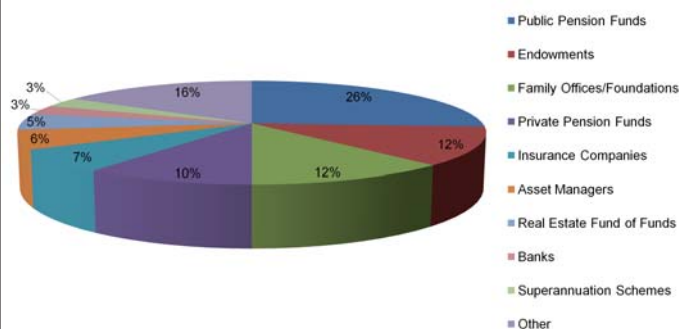


Fig. 4: Make-Up of Investors in Private Equity Real Estate Funds by Investor Type (Sorted by Number of Investors)



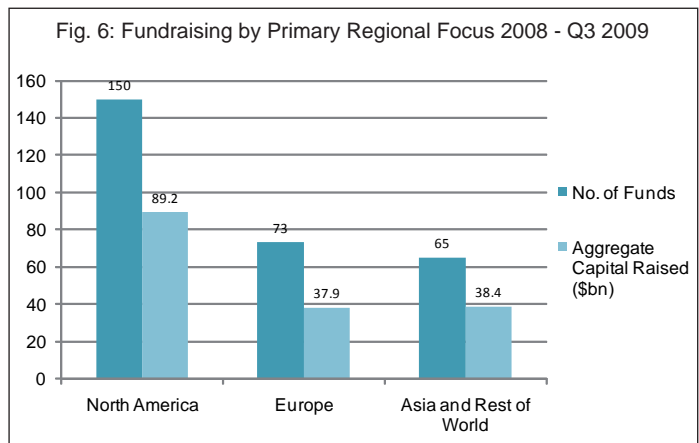
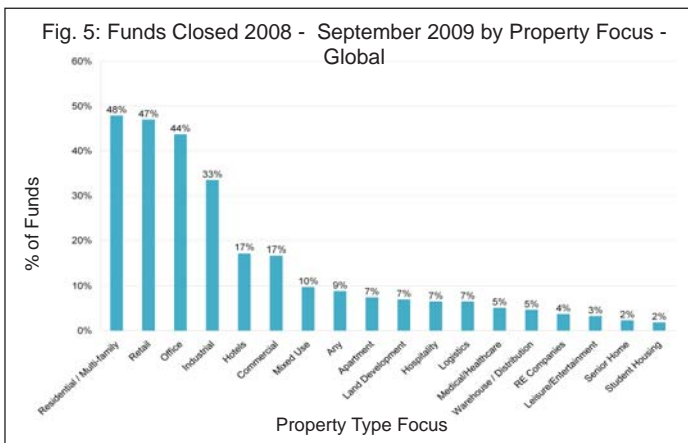
Private Equity Real Estate: Funds

Property Focus

- Nearly half of all real estate funds raised (48%) include residential and/or multi-family properties in their investment focus. Retail and office properties are also popular investment choices, with 47% and 44% of funds respectively, including these property types in their investment preferences.
- Residential properties are the most commonly targeted real estate type for both North America and Asia and Rest of World focused funds. European focused funds favour retail, with 55% of funds considering this property type. 42% of European focused funds favour office properties and the third most popular property type is residential, with 38% of funds interested in investing in this type of real estate.
- It is important to note that 9% of real estate funds do not have property preferences and will consider investing in any type of real estate.

Current Fundraising

- North America is the most significant geographical focus for real estate funds. Between January 2008 and Q3 2009, funds with a primary focus on North America raised \$89.2 billion equating to 54% of the capital raised during this period. It is important to note, however, that many of the largest funds with a primary focus on North America do also make investments on a global basis.
- 65 funds focused on Asia and Rest of World closed, raising a total of \$38.4 billion, whilst 73 funds focused on Europe reached a final close having received equity commitments of \$37.9 billion.
- Although fundraising fell across the entire market in 2009, this was particularly notable for Asia and Rest of the World funds, which raised \$4 billion in Q1 2009 - Q3 2009, equivalent to 12% of the aggregate total. This is compared to 2008 when Asia and Rest of World funds made up 26% of the total market.



Private Equity Real Estate: Fund Manager Universe

Fund Manager Location

- 476 managers are based in North America, accounting for 60% of all firms globally. The majority of these firms (465) are located in the US, making it the most important real estate fund manager location.
- 186 firms are located in Europe, meaning that the region has nearly a quarter share of the private equity real estate market.
- 138 firms are headquartered in Asia and Rest of World which accounts for 17% of the global total. This figure, although still relatively low, is growing as the real estate industry develops within these regions.

Fund Manager Experience

- Many investors consider the fund manager's experience as an important factor when deciding which fund to invest in. It is interesting to note then that 77% of firms have managed three or fewer funds.
- Most firms are relatively inexperienced, with 44% managing only one fund. The huge growth in the private equity real estate asset class in recent years has seen many new players enter the market for the first time.
- Firms which manage 10 or more real estate funds, make up 6% of all firms. These firms, however, are some of the most important and are responsible for raising the largest funds.

Fig. 7: Global Distribution of Real Estate Firms by Region

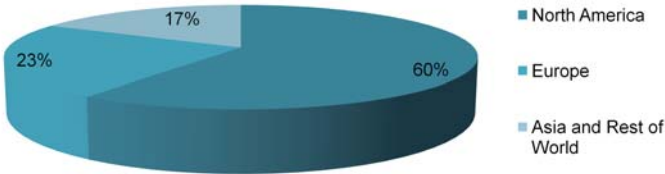
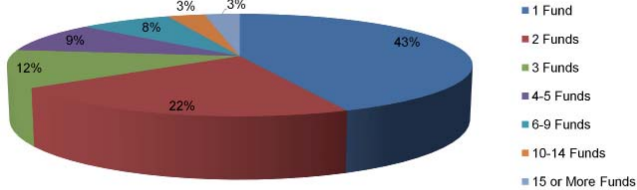


Fig. 8: Firm Experience by Number of Funds Managed



Private Equity Real Estate: Biggest Firms

Fig. 9: Top 20 Real Estate Firms by Total Capital Raised (\$mn)

| Rank | Firm Name | Headquarters | Number of Funds in Market | Number of Funds Raised | Total Capital Raised (\$mn) |
|------|---|--------------|---------------------------|------------------------|-----------------------------|
| 1 | Blackstone Real Estate Advisors | US | 1 | 10 | 27,455 |
| 2 | Lone Star Funds | US | 2 | 8 | 21,500 |
| 3 | Morgan Stanley Real Estate | US | 1 | 15 | 21,274 |
| 4 | Goldman Sachs Real Estate Principal Investment Area | US | 0 | 17 | 19,668 |
| 5 | Fortress Investment Group | US | 1 | 11 | 18,653 |
| 6 | Colony Capital | US | 0 | 15 | 11,187 |
| 7 | LaSalle Investment Management | US | 2 | 25 | 10,728 |
| 8 | Carlyle Group | US | 2 | 9 | 10,566 |
| 9 | Beacon Capital Partners | US | 1 | 6 | 10,128 |
| 10 | ING Real Estate Investment Management | Netherlands | 5 | 33 | 9,498 |
| 11 | Lehman Brothers Real Estate Private Equity* | US | 0 | 4 | 8,300 |
| 12 | AREA Property Partners | US | 1 | 19 | 8,032 |
| 13 | Tishman Speyer | US | 0 | 13 | 7,962 |
| 14 | MGPA | UK | 0 | 6 | 7,830 |
| 15 | CB Richard Ellis Investors | US | 0 | 18 | 6,461 |
| 16 | Westbrook Partners | US | 0 | 8 | 6,444 |
| 17 | Rockpoint Group | US | 0 | 5 | 5,704 |
| 18 | Capitaland | Singapore | 0 | 16 | 5,671 |
| 19 | TA Associates Realty | US | 1 | 8 | 4,919 |
| 20 | Hines | US | 0 | 16 | 4,883 |

* In June 2009, it was announced that Lehman Brothers Real Estate Private Equity would be spun out in a management buyout led by the group's global heads, Brett Bossung and Mark Newman. The buyout would involve the management team of Lehman Brothers Real Estate, and would oversee the management of the opportunistic real estate vehicles transfer to the newly established independent fund managers. Mezzanine funds would not be transferred.

More information on institutional investors in real estate, real estate fundraising and fund managers can be found in our new publication

2009 Preqin Private Equity Real Estate Review

For more information please visit: www.preqin.com/rer

The 2009 Preqin Private Equity Real Estate Review

The newly released 2009 Preqin Private Equity Real Estate Review is the most comprehensive examination of the PERE fund market ever produced. With exclusive information on 350 firms, 1,500 funds and over 250 investors in the sector, plus detailed analysis reviewing every aspect of the industry, the 2009 Preqin Private Equity Real Estate Review is a vital purchase for fund managers, fundraising professionals, advisors, consultants, legal firms and investors in this rapidly growing market.

Key features of this year's publication include:

- Detailed analysis examining the history and development of the PERE market; recent funds closed; the current fundraising market; fund terms and conditions; investors; performance; plus separate sections showing key facts and figures for the most important regions.
- Profiles for 350 infrastructure firms and 1,500 funds, including detailed investment strategies and key information.
- Profiles for over 250 investors in the sector, including investment plans and key contact details.
- Detailed listings for all funds ever closed, plus funds currently raising.
- Fund terms and conditions listings for 181 vehicles, plus transparent performance data for 650 PERE funds (all performance data is net to investors).

Benefits of this year's publication include:

- Wide-ranging analysis will help you understand the latest market trends and is essential for producing reports, presentations and marketing materials.
- Our detailed profiles will save hundreds of research hours looking for firm or investor backgrounds and contact details.
- Most comprehensive report available today, with exclusive information all compiled by our team of dedicated analysts via direct contact with firms and investors.
- Industry's most trusted source of data with over 800 firms worldwide using our data, including 39 of the top 50 PERE firms by size.

More information:
www.preqin.com/rer

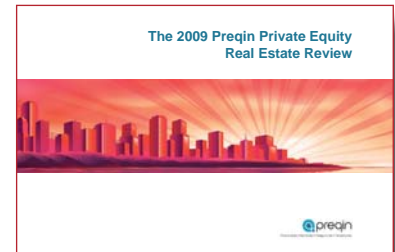
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2009 Preqin Private Equity Real Estate Review: Order Form

Preqin's Review is the ultimate guide to the PE real estate industry, with comprehensive profiles and analysis gathered via direct contact by our analysts with hundreds of leading firms and investors worldwide. Highlights of this year's edition include:

- Detailed analysis examining the history and development of the PERE market; recent funds closed; the current fundraising market; fund terms and conditions; investors; performance; plus separate sections showing key facts and figures for the most important sub-sectors (opportunistic, value add, debt etc).
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