Real Estate Spotlight is the monthly newsletter published by Preqin packed full of vital information and data, all based on our latest research into the private equity real estate industry. Real Estate Spotlight combines information from our online products Real Estate Online and Real Estate Capital Sources, as well as the newly released 2011 Preqin Private Equity Real Estate Compensation and Employment Review.

November 2010
Volume 6 - Issue 11

FEATURED PUBLICATION:

The 2011 Preqin Private Equity Real Estate Employment and Compensation Review

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Real Estate Spotlight

November 2010

Feature

Regulars

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Compensation and Employment in the Private Equity Real Estate Industry

Industry Slowdown

The sub-prime mortgage crisis and the ensuing economic downturn have naturally had consequences for the growth of the private equity real estate industry. Having peaked in 2008, annual fundraising has fallen significantly since, with 129 funds raising an aggregate $48 billion in 2009. From January to October 2010, 64 private equity real estate funds closed, raising an aggregate $31.6 billion, as Fig. 1. shows.

The troubles in real estate markets have also affected the number of firms coming into the private equity real estate sector to raise private, closed-end funds for the first time. Fig. 2 shows the number of new fund managers joining the sector each year (calculated using the vintage of their first fund to represent their year of establishment). Any firms that have not raised a fund in the past 10 years are considered to have become inactive.

The graph shows that the number of new firms peaked in 2006, when just over 100 firms raised a private equity real estate fund for the first time. In the four years since, the number of new firms has declined annually, with just over 40 new firms in January to October 2010. The 2010 figure only includes firms that have reached one or more interim closes on their debut funds in order to begin making investments.

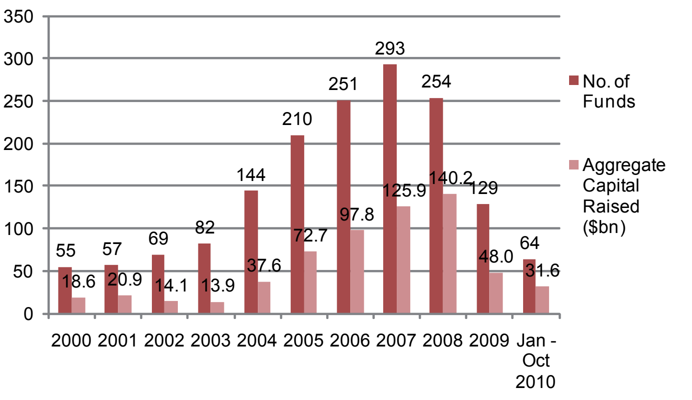
> "The number of staff employed by a private equity real estate firm varies significantly with assets under management"

Employment Figures

The 2010 figure brings the total number of active private equity real estate fund managers to just under 700. When private equity real estate firms that do not raise distinct private equity real estate funds (i.e. those that manage corporate or personal capital and those that manage third-party capital without pooling into commingled private investment vehicles) are included, the figure is closer to 1,000. In total, these firms employ an estimated 12,000 people, as Fig 3 shows. It is important to note that our estimate here constitutes the "core" of the industry, taking into consideration firms managing capital committed by institutional and other large investors. Beneath this lies a further tranche of smaller firms that invest lesser sums of capital, raising money from private sources such as friends and family.

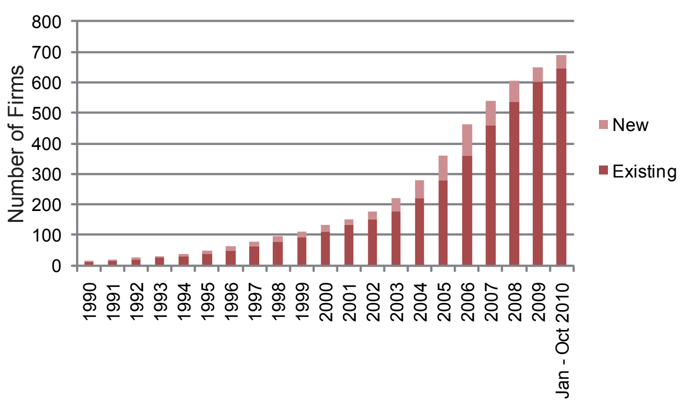
Of the estimated 12,000 employees in private equity real estate globally, the majority (around 60%) work for firms headquartered in the US, home to many of the largest and most established firms active in the sector. The number of staff employed by a private equity real estate firm varies significantly with assets under management, as shown in Fig. 4. Firms with less than $250 million in assets under management have an average of 16.7 employees, while firms with $10 billion or more in total assets employ an average of 127.5 people.

Fig. 1: Annual Private Equity Real Estate Fundraising, 2000 - October 2010



Source: Preqin

Fig. 2: Number of Active Private Equity Real Estate Firms over Time (by Vintage of First Fund Raised)



Source: Preqin

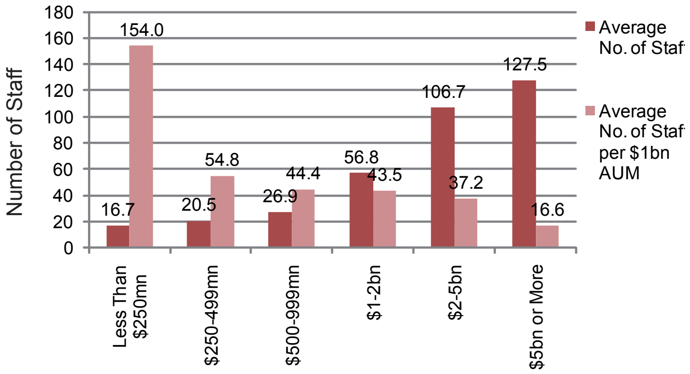
Fig. 3: Estimated Private Equity Real Estate Employment by Country

Source: Preqin

Country*	Estimated Total Employment
US	7,400
UK	1,400
France	400
Australia	240
Hong Kong	240
India	240
Singapore	240
Canada	180
Germany	180
Netherlands	140
Other	1,540
Total	12,200

*Based upon location of head office for each firm

Fig. 4: Average Number of Staff by Firm Assets under Management



Source: Preqin

"There are significant economies of scale to be enjoyed by the larger private equity real estate firms"

Economies of Scale

There are significant economies of scale to be enjoyed by the larger private equity real estate firms, and such firms typically have fewer staff per $1 billion in assets under management than their smaller counterparts. Fig. 4 shows that firms with less than $250 million in assets under management employ, on average, the equivalent of 154 members of staff per $1 billion in assets, i.e. $6.5 million managed per employee. For firms with $10 billion or more in total assets, this falls to just 16.6 employees per $1 billion, or one employee for every $60.2 million managed.

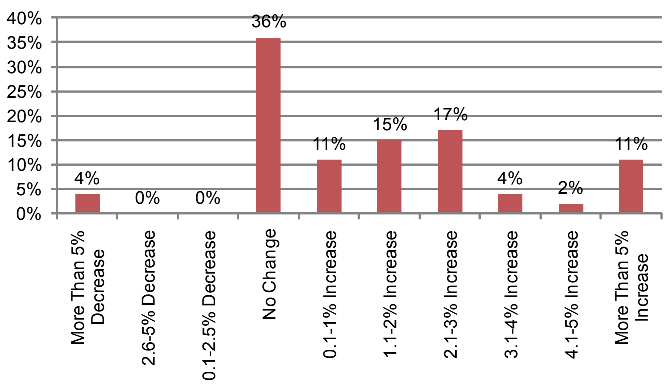
Since the management fees that private equity real estate firms collect are usually calculated as a percentage of total investor commitments to a firm's funds, one would expect that the percentage rates charged by firms managing the largest funds would be less than those charged by firms managing smaller funds. This is generally the case, but the slightly lower fees only partially reflect the economies of scale that the larger firms benefit from. As a result, the operating economics of the largest funds are very favourable and the management fees earned by these vehicles have become a significant source of profit for their managers.

Individual Compensation

The benchmark individual compensation figures demonstrate that the favourable operating economics of the largest firms channel through to individual remuneration at such firms. For example, the average total remuneration for the CEO at participating firms with less than $2 billion in assets under management stands at just under $800,000, but for a CEO at a firm managing more than $10 billion in assets the average total remuneration is $1.65 million.

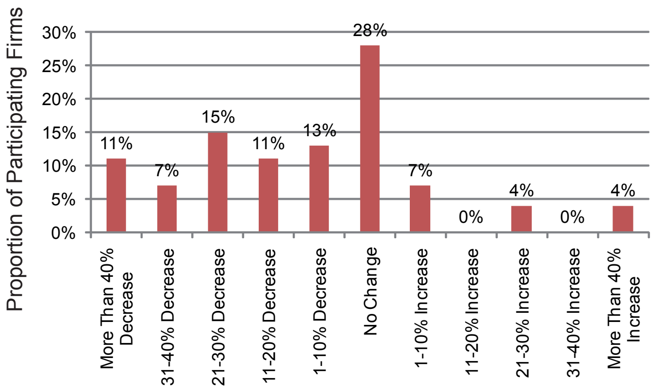
The downturn in real estate markets has naturally had an effect on the performance of private equity real estate funds – the latest available performance data from Preqin's Performance Analyst reveals that the median IRRs of real estate funds with vintages 2005-2007 are all in negative territory – and this has

Fig. 5: Breakdown of Average Firm-Wide Changes in Base Salaries at Participating Firms between 2009 and 2010



Source: Preqin

Fig. 6: Breakdown of Average Firm-Wide Changes in Annual Incentive Award Payouts at Participating Firms between 2008 and 2009

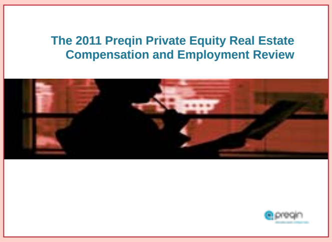


Source: Preqin

had a knock on effect on compensation. While base salaries have remained relatively stable from 2009 to 2010 at many firms, the majority of firms paid out less in annual incentive awards to their employees than in the previous year.

Fig. 5 shows the breakdown of average firm-wide changes in base salaries at participating firms between 2009 and 2010, revealing that firm-wide base salary levels remained unchanged at more than one-third of firms, and that at 43% of firms there was a small increase in base salary levels of 0.1-3%. Senior employees at a firm were more likely to have been subject to a base salary freeze than junior employees. Fig. 6 shows the breakdown of average changes in firm-wide annual incentive award payouts, demonstrating that it was here where individuals' remuneration took the hit. Nearly 60% of firms reduced their overall annual incentive awards payouts for performance in 2009 from the previous year's payouts, and just 15% of participating firms paid out more. Junior professionals were the most likely to receive an increased annual incentive award, as is explained in further detail in the 2011 Preqin Private Equity Real Estate Compensation and Employment Review.

Data Source:



The information from this month's feature article is based on data from the 2011 Preqin Private Equity Real Estate Compensation and Employment Review.

In order to analyze the latest trends in compensation in the private equity real estate industry, Preqin, in conjunction with FPL Associates, conducted a survey of more than 50 leading real estate firms managing an estimated aggregate $300 billion in assets, to collect data on their compensation practices and remuneration levels over the past year, as well as projections for next year's rates of remuneration. This has allowed us to compile meaningful statistics covering all the different types of positions at these firms, from senior executives through to junior-level professionals.

Another key feature of this publication is the information on employment within the private equity real estate industry worldwide. Our Real Estate Online Database allows us to provide meaningful estimates on levels of employment, and to break this down by various criteria including country, city and firm size. The 2011 Preqin Private Equity Real Estate Compensation and Employment Review also provides information on the firm-level compensation received by private equity real estate firms based on the fees charged to their investors, which is based on data on the terms and conditions of over 100 of the latest private equity real estate funds – those currently fundraising and those closed with a 2009 or 2010 vintage.

For more information or to order a copy, please visit: **www.preqin.com/recompensation**

2011 Preqin PE Real Estate Compensation & Employment Review

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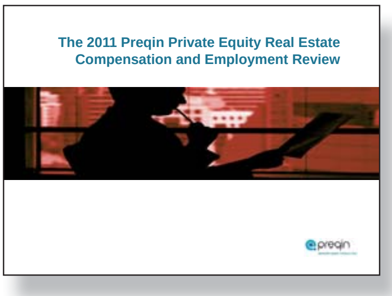
The 2011 Preqin PE Real Estate Compensation and Employment Review is a source of reliable and accurate information on the latest trends in private equity real estate compensation and employment is a vital tool in enabling decision-makers and advisors to examine existing compensation practices against wider industry benchmarks.

Key content includes:

- Private equity real estate compensation by position
- Survey of compensation practices at private equity real estate firms
- Overview of firm-level compensation
- Current employment within the private equity real estate industry
- Growth of the PERE industry over time
- Centres of employment activity



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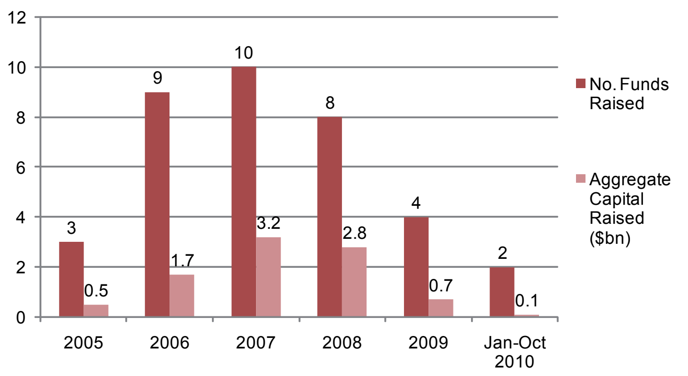
Indian Fund Managers

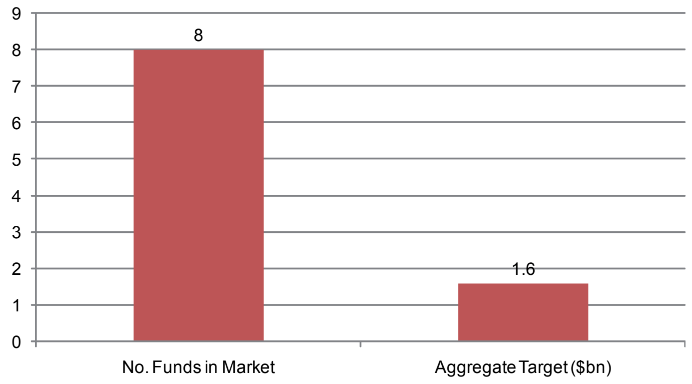
Andrew Herman examines fundraising by Indian Fund Managers.

Fig. 1: Annual Fundraising by India-Based Firms, 2005 - October 2010



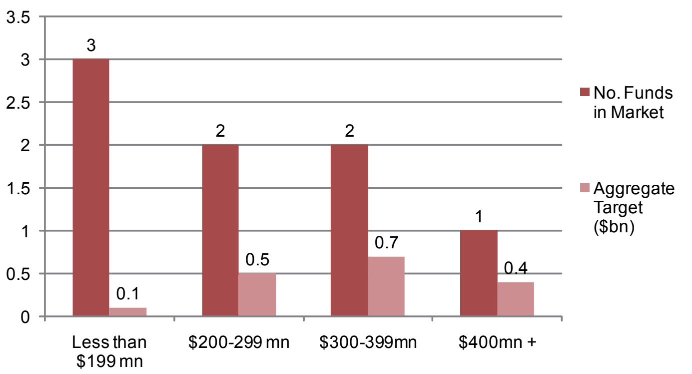
Source: Preqin

Fig. 2: Funds in Market Managed by India-Based Firms



Source: Preqin

Fig. 3: Breakdown of Funds in Market by Fund Target Size



Source: Preqin

Data Source:

Real Estate Online

Preqin's industry-leading product Real Estate Online features detailed profiles on 25 Indian Fund Managers.
For more information please visit:

www.preqin.com/reo

Fig. 4: 10 Largest Indian-Based Firms by Capital Raised for Private Equity Real Estate Funds in the Last 10 Years

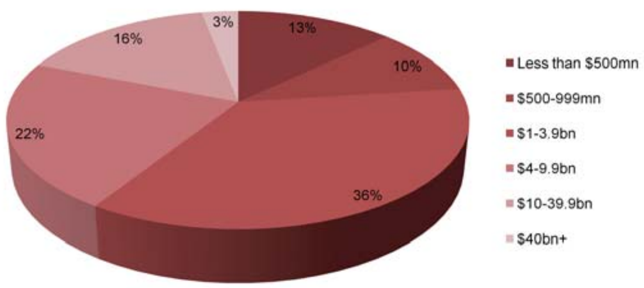
Firm	Total Capital Raised for Private Equity Real Estate Funds in Last 10 Years ($bn)
IL&FS Investment Managers	1.4
Urban Infrastructure Venture Capital	1.3
GRIHA Investments	1.0
Kotak Realty Funds Group	0.8
Tata Realty and Infrastructure	0.8
Everstone Capital	0.7
ICICI Venture Funds Management	0.6
Milestone Capital Advisors	0.5
Indiareit Fund Advisors	0.4
Red Fort Capital	0.4

Source: Preqin

Private Sector Pension Funds

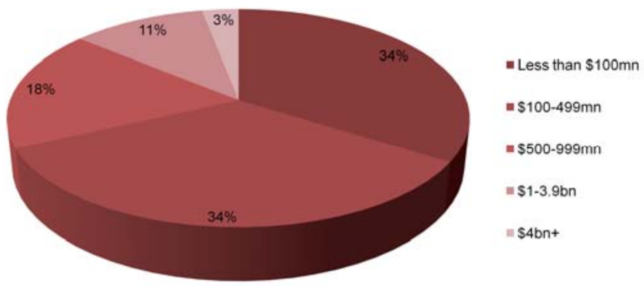
Many private sector pension funds allocate a significant proportion of their assets under management to private real estate funds, Forena Akthar examines the investment preferences of these institutions.

Fig. 1: Breakdown of Private Sector Pension Funds by Assets under Management



Source: Preqin

Fig. 2: Breakdown of Private Sector Pension Funds by Real Estate Allocation



Source: Preqin

Key Facts:

Average Allocation to Real Estate:
$504mn (8.8% of Total Assets)

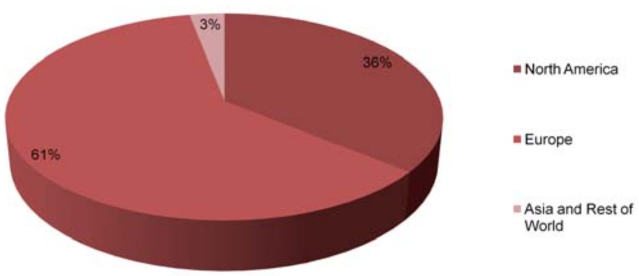
Average Target Allocation to Real Estate:
$660mn (10.3% of Total Assets)

Private sector pension funds are active investors in real estate, and as of October 2010 the average real estate allocation of these institutions is $504 million. The average target allocation to real estate of private sector pension funds is $660 million.

81% of private sector pension funds that invest in real estate have total assets of less than $10 billion. For example Finnair Pension has just over $500 million (€380 million) in total assets and is looking to invest in a Finland-focused private real estate fund in the next 12 months. 16% have assets of between $10 billion and $39.9 billion and 3% have $40 billion or more in assets under management. An example of which is Sweden's Alecta Pensionsförsäkring, which is one of the largest private pension funds in the world with over $70 billion (SEK 466.9 billion) in assets. The private pension has a 6% allocation to property and invests predominantly in direct real estate.

In terms of overall allocations to real estate, 34% have less than $100 million invested in

Fig. 3: Breakdown of Private Sector Pension Funds by Region



Source: Preqin

Fig. 4: Unlisted Fund Location Preferences of Private Sector Pension Funds

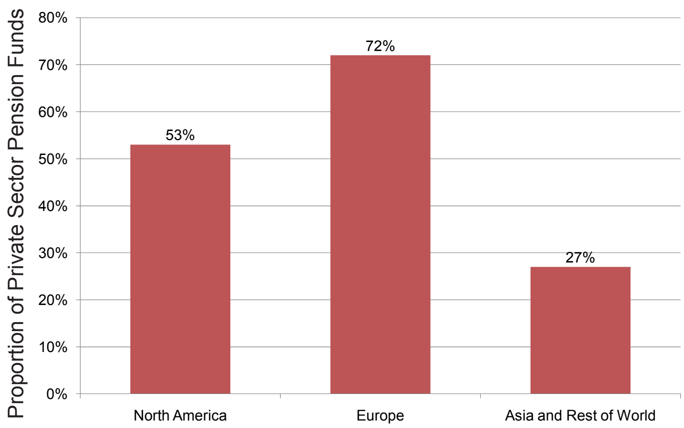


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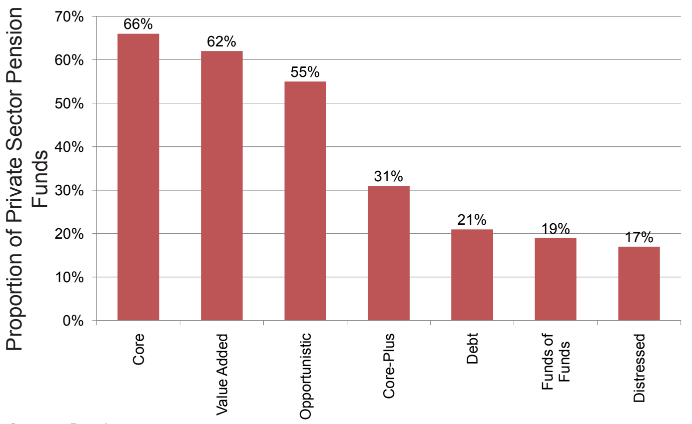
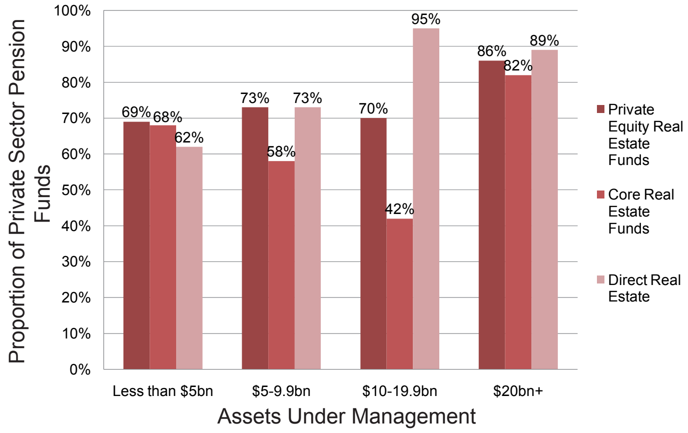
Fig. 5: Strategic Preferences of Private Sector Pension Funds



Source: Preqin

Fig. 6: Real Estate Investment Preferences of Private Sector Pension Funds by Assets under Management



Source: Preqin

property. The same proportion have $100-499 million invested, and 18% have real estate portfolios worth $500-999 million. 3% have $4 billion or more invested in the real estate asset class, and this includes TIAA-CREF which has a real estate allocation of over $14 billion.

Of the private pension plans that invest in private real estate funds, 72% have a preference for Europe-focused vehicles. This is no surprise considering that the majority of private pension plans that invest in real estate are based in Europe. Just over half of the private pension funds that commit to unlisted property funds target North America-focused funds and 27% are interested in funds investing in Asia and Rest of World.

With regards to the fund strategies that private sector pension plans are interested in, core and value added funds are the most prevalent, with 66% of private pension plans having a preference for core vehicles and 62% having an interest in value added funds. 55% are interested in opportunistic strategies and 31% favour core-plus strategies. Debt and distressed strategies are appealing to 21% and 17% of private sector pension plans that invest in private real estate funds.

62% of private sector pension funds that have less than $5 billion in total assets invest directly, and this figure increases to 73% for those with assets of $5-9.9 billion. 95% of private pension plans that have assets under management of between $10 billion and $19.9 billion invest directly and 89% of those with $20 billion or more in assets have direct property portfolios. The proportion of private pension plans investing in core funds follows a different pattern as assets under management increase. 68% of private pension funds with assets of less than $5 billion commit to private core vehicles, and this is reduced to 58% and 42% for those in the $5-9.9 billion and $10-19.9 billion groups respectively. 82% of private pensions that have over $20 billion in assets have exposure to core funds.

The proportion of private pension funds investing in private equity real estate does not differ significantly between those with assets of less than $5 billion, $5-9.9 billion and $10-19.9 billion. However, 86% of private pension plans with $20 billion or more in assets invest in unlisted closed-end funds. This group of private pension funds are more likely to invest via all three methods, with similar proportions investing in each. For pension funds with assets of less than $20 billion, some differences can be seen in investment style preferences as the total assets base increases.

Data Source:

Real Estate Online

The information in Investor Spotlight is taken from Preqin's Real Estate Online product. There are currently profiles for 359 private sector pension funds with an active interest in real estate.

To find out more information about this product, or to arrange a demo, please visit:
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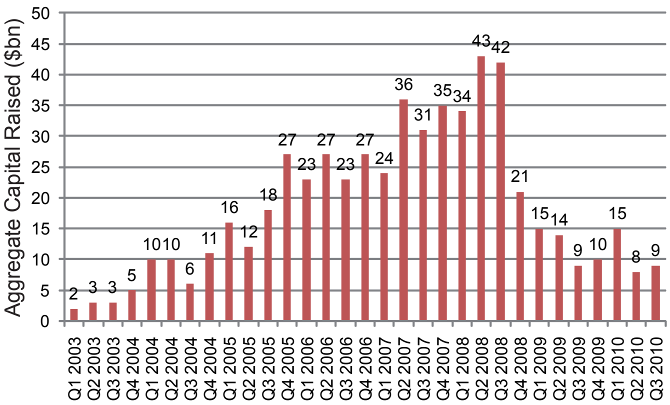
Private Equity Real Estate Fundraising

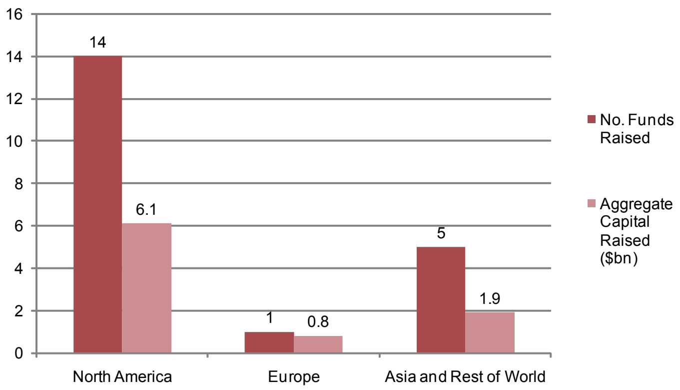
Fundraising for private equity real estate funds is still slow, Andrew Moylan looks at the activity that has taken place in Q3 2010.

Fig. 1: Global Private Equity Real Estate Fundraising, Q1 2003 - Q3 2010



Source: Preqin

Fig. 2: Private Equity Real Estate Fundraising by Primary Regional Focus, Q3 2010



Source: Preqin

20 private equity real estate funds closed during Q3 2010, raising an aggregate $8.7 billion. While this did represent a small increase on the $7.6 billion raised in Q2 2010, fundraising remains slow. Q3 2010 fundraising equates to just 21% of the capital raised in Q3 2008. Fundraising throughout 2009 and 2010 to date has remained significantly lower than 2007 and 2008.

Regional Focus

Funds primarily focused on North America raised the most capital in Q3 2010, with 14 funds raising a total of $6.1 billion. Five Asia and Rest of World funds raised $1.9 billion, while just one fund with a primary focus on Europe closed, raising $0.8 billion.

Largest Funds to Close

The largest funds to close in Q3 2010 are shown in Fig. 3. The largest of these was Fortress Credit Opportunities Fund II, which received $2.6 billion in commitments to invest in a range of distressed and undervalued credit investments including, but not limited to, opportunistic corporate loans and securities, residential loans and securities, commercial mortgage loans and securities, and other consumer or commercial assets and asset-backed securities. TA Associates Realty raised $1.7 billion for TA Realty Associates IX. The fund primarily makes core-plus and value added investments focusing on office, industrial, multi-family and retail properties.

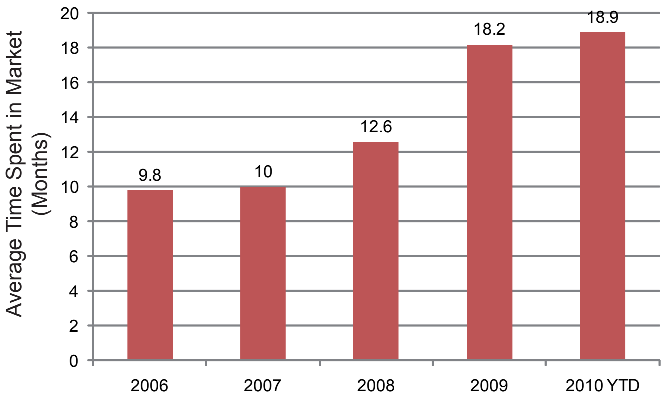
London-based Brockton Capital raised £496 million for Brockton Capital II, which invests in distressed commercial property in the UK.

Fig. 3: Five Largest Private Equity Real Estate Funds Closed in Q3 2010

Fund	Firm	Strategy	Size (mn)	Manager Country	Fund Focus
Fortress Credit Opportunities Fund II	Fortress Investment Group	Debt and Distressed	2,600 USD	US	Global
TA Realty Associates IX	TA Associates Realty	Core-Plus, Debt, Distressed and Value Added	1,700 USD	US	US
Brockton Capital II	Brockton Capital	Debt, Distressed and Opportunistic	496 GBP	UK	UK
AG Asia Realty Fund II	Angelo, Gordon & Co	Distressed and Op-portunistic	625 USD	US	Asia
AG Net Lease Realty Fund II	Angelo, Gordon & Co	Value Added	550 USD	US	US

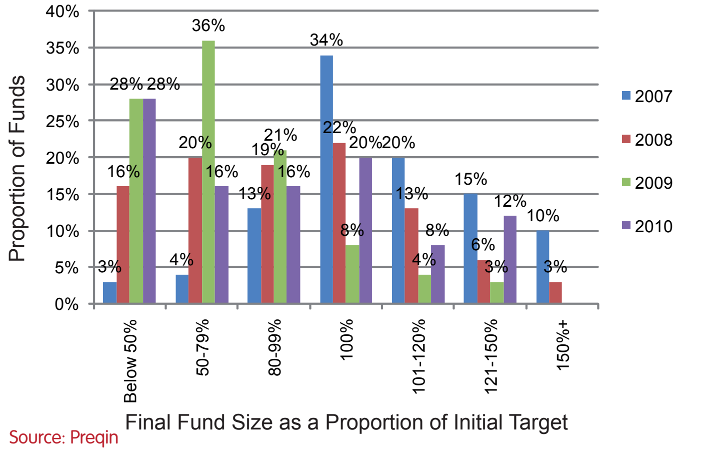
Source: Preqin

Fig. 4: Average Time Taken for PERE Funds to Achieve a Final Close by Year Fund Closed



Source: Preqin

Fig. 5: Final Fund Size as a Proportion of Target Size, 2007 - November 2010



Source: Preqin

Angelo, Gordon & Co raised the fourth and fifth largest funds to close in the quarter. The firm raised $625 million for AG Asia Realty Fund II, which targets sub-performing and troubled real estate assets in Asia, and $550 million for AG Net Lease Realty Fund II, a value added fund which targets single-tenant, net leased real estate.

Time Taken to Close Funds

Funds closed in 2010 to date have spent an average of 18.9 months in market, demonstrating how hard it has been for fund managers to secure commitments. In contrast, funds closed in 2006 spent only 9.8 months in market on average. The average time taken to raise funds has been steadily increasing in recent years, as investors have made fewer commitments and the market has become increasingly competitive.

Final Close as a Proportion of Target Size

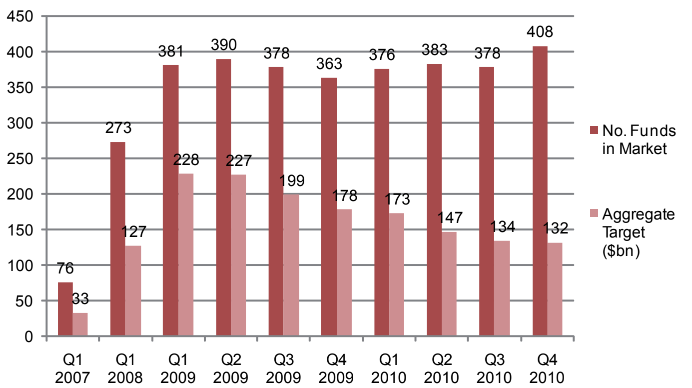
While 60% of funds to close in 2010 to date have done so below their target size, there are some signs that fund managers have had more success in raising capital. In 2009, 85% of funds closed below their original target size and just 7% exceeded their targets. In 2010 to date, however, 20% of funds have closed above their target, while 20% have met their fundraising targets. Funds which have closed above target include Fortress Credit Opportunities Fund II, which raised $600 million more than its $2 billion target, and JBG Fund VII, which originally targeted $500 million but closed on $577 million in February 2010.

Funds in Market

There are currently 408 funds in market targeting aggregate commitments of $132.4 billion. Fig. 6 demonstrates how the number and aggregate target of funds on the road has changed over time. The aggregate target of funds in market has fallen steadily since Q1 2009, as managers have reduced fundraising targets or abandoned funds. The number of funds in market increased during Q3 2010, however, perhaps suggesting improved fund manager confidence in the prospects for fundraising in the coming months. More funds are coming to market, with fund managers believing that they can successfully raise capital from institutional investors in the current fundraising environment.

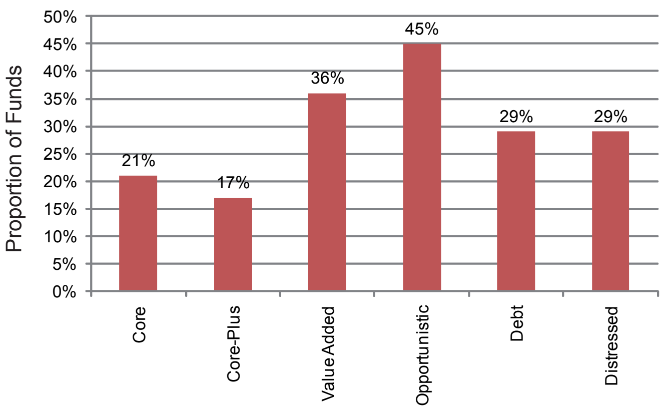
Fig. 7 demonstrates the strategies employed by real estate funds (both closed- and open-ended) which have commenced fundraising in 2010. In many cases funds will utilize a combination of two or more strategies. It shows that opportunistic and value added remain popular strategies, but also illustrates that 29% of funds expect to target distressed real estate and a similar proportion will invest in real estate debt. A smaller proportion of funds which have started raising capital expect to make core and core-plus investments, but the number of core funds launched in 2010 is significantly larger than in previous years. 50 core funds have been

Fig. 6: Private Equity Real Estate Funds on the Road over Time, Q1 2007 – Q4 2010



Source: Preqin

Fig. 7: Strategies Employed by Funds Commencing Fundraising in 2010



Source: Preqin

launched in 2010 to date, compared with 32 in 2009 and 27 in 2008. Additionally, several existing open-ended funds have received new equity commitments in recent months. Stichting Pensioenfonds Unilever Nederland 'Progress' recently committed €35 million to the core and core-plus Aberdeen European Balanced Property Fund, while San Diego County Employees Retirement Association committed $200 million to JP Morgan Strategic Property Fund.

While fundraising remains extremely challenging, there are some signs that the situation for fund managers is improving. The number of new funds coming to market does suggest a renewed confidence from fund managers that they can raise capital successfully. Many funds to close in 2010 have done so below target, but 40% of funds to close have hit or exceeded their original targets, a significant improvement on 2009, when only 15% of funds did so.

Data Source:

Real Estate Online

The information in Fundraising Spotlight is taken from Preqin's Real Estate Online product.

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Conferences Spotlight: Forthcoming Events

Conference	Dates	Location	Organizer
AIS 2010 Abu Dhabi Showcase of Alternative Investment Funds	3 - 4 November 2010	Abu Dhabi	Leoron Events
European Real Estate Opportunity & Private Fund Investing Forum	8 - 9 November 2010	London	IMN
Real Estate Investment World India 2010	22 - 24 November 2010	Mumbai	Terrapinn
Real Estate Mezzanine Lending & Distressed Debt Forum	30 November - 1 December 2010	New York	IMN
Real Estate Investment China Summit 2010	1 - 2 December 2010	Beijing	IQPC
Real Estate Investment World USA	1 - 3 December 2010	New York	Terrapinn
Western Non-Traded REIT Industry Symposium	8 - 9 December 2010	San Diego	IMN

Real Estate Investment World India 2010

Date: 22-24 November 2010
Location: JW Marriott Mumbai, India
Organiser: Terrapinn Pte Ltd

REIW India 2010 is THE solution-driven platform that will offer key takeaways in uncovering sector opportunities and realising investment yields abound this emerging yet overlooked Asian 'giant'.

Information: www.terrapinn.com/2010/reiwindia/

Investor News

Farhaz Miah takes a look at the latest real estate investor news.

Nobel Foundation to consider core-plus and Chinese funds in six months' time

The SEK 3 billion foundation is currently not investing in alternative assets, including private equity real estate funds, and will not be doing so for another six months. However, the foundation is hoping to return to the real estate asset class thereafter. It will consider committing to core-plus funds focusing on the domestic Swedish real estate market. It will also consider committing to a China-focused fund. This will be dependent on improving macroeconomic variables and positive market sentiment.

Barmenia considering private equity real estate investments in long term

The EUR 8.3 billion insurance company is considering making a maiden allocation to private equity real estate funds, but this is not likely to take place in the next 12 months. It is currently reviewing its real estate portfolio and is also expecting a company restructuring process, and therefore it has not yet finalised its intentions for private fund investments. The insurance company feels that the Solvency II legislation will not have an impact on its real estate investments and the regulations will not affect the kinds of private real estate funds it commits to in the future. Barmenia's 3.5% allocation to real estate is split 67% to direct real estate and 33% to mutual funds.

Highmark Pension Plan to remain active in private real estate funds in next 12 months

The USD 1.3 billion Highmark Pension Plan is looking to increase its exposure to real estate through private real estate funds in the next 12 months. The pension fund is aiming to deploy USD 40 million across four high-quality funds. It is also interested in building a globally diversified portfolio and will commit to funds focused on international markets, providing it is presented with excellent opportunities.

Dow Chemical Company Pension Fund to remain active in private real estate funds in next 12 months

The USD 10 billion Dow Chemical Company Pension Fund has already made two US-focused real estate fund commitments so far this year, and is hoping to make further investments in the next 12 months. It invests mainly in US-focused core, value added and opportunistic funds and will maintain these strategic and geographic preferences. The pension fund has not earmarked a set amount of capital for fund investments in the next 12 months, but may commit to 3-4 vehicles.

Los Angeles City Employees' Retirement System (LACERS) issues RFI for separate account manager

The USD 9.5 billion public pension fund has issued an RFI for a real estate manager to create a core separate account. The investment manager will have an estimated initial allocation of USD 75 million and will explore the acquisition of office real estate in Los Angeles. Leverage of up to 50% can be used to acquire the properties. RFIs are to be received by Courtland Partners by 22nd October 2010. The public pension fund has a 7% target allocation to real estate with a policy range of 4-10%.

Municipal Employees' Annuity & Benefit Fund of Chicago makes additional USD 50 million allocation to core real estate

The USD 4.7 billion Municipal Employees' Annuity & Benefit Fund of Chicago (MEA&B) has committed an additional USD 25 million to AFL-CIO Building Investment Trust and a further USD 25 million to American Core Realty Fund. Both vehicles are open-ended core funds investing in the US. It had initially committed USD 15 million to each vehicle. The pension fund has a target allocation of 10% to real estate and currently has around 4.7% allocated to the asset class.

California Public Employees' Retirement System (CalPERS) commits USD 190 million to third Brazil-focused joint venture with Hines

The USD 205.1 billion California Public Employees' Retirement System (CalPERS) has committed USD 190 million to a USD 200 million joint venture with Hines to invest in Brazilian real estate. Hines CalPERS Brazil III (HCB III) is the third Brazil-focused joint venture between the two organizations. CalPERS has gained exposure to office, industrial and residential properties in Brazil through its previous partnerships with Hines. It allocated USD 95 million to HCB I, and USD 285 million to HCB II. Hines also makes investments in global markets on behalf of CalPERS, including Mexico, China and Europe.

