

Real Estate Spotlight

August 2009 : Volume 3 - Issue 8

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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.

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Feature Article: 2009 Mid-year Report

We take a look back at the real estate market over the last six months and predict what might be in store for the rest of the year ahead.

Please see page 3 for more information

Fund Manager Focus: Scandinavia-based Firms

Each month Fund Manager Focus examines a particular fund manager type using Preqin's Real Estate Online. This month we examine Scandinavia-based managers.

Please see page 9 for more information

Preqin Real Estate in the Spotlight

Preqin Real Estate Online is the industry's leading online source of information on private equity real estate, with data on:

- Fundraising
- Fund Performance
- Investor Profiles
- Plus more...

We take an in-depth look at the product, and how it can help you. Includes information on ordering and registering for your free trial.

Please see page 8 for more information

Fundraising Spotlight

This month's Fundraising Spotlight takes an in-depth look at fundraising during Q2 2009, the lowest quarter in terms of private equity real estate fundraising since Q4 2004. And we look ahead to what the future holds for real estate.

Please see page 10 for more information

Investor News:

We take a look at some of the latest news amongst investors in private equity real estate. This month's news includes information on:

- **Elizabethtown College Endowment**
- **Bayerische Versorgungskammer**
- **California State Teachers' Retirement System**

Please see page 13 for more information

If you would like to receive Real Estate Spotlight each month please email respotlight@preqin.com.

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Feature Article:

2009 Mid-year Report

As the first half of the year draws to a close, this month's feature article takes stock of some of the most important issues and trends affecting the industry today. We examine each of the key issues, including difficulties in the fundraising market, a shift in strategic focus for managers, the rise of secondaries market and investor sentiment towards the asset class.

Difficulties in the Fundraising Market

Private equity real estate fundraising data for Q2 2009 is in, with the figures showing that private equity real estate funds are still struggling to raise capital in the current economic environment. Q2 2009 saw 21 real estate funds reach a final close, with aggregate commitments of \$10.3 billion. This represents the lowest fundraising quarter for private equity real estate funds since Q4 2004, when private equity real estate funds raised an aggregate \$10 billion. Clearly fund managers are still struggling to complete fundraising and institutional investors are still hesitant to commit capital.

Interim Closes

Although achieving a final close remains challenging, we have seen managers adapting to the conditions, and there

is an increasing trend of funds holding more interim closes as managers prepare to stay in the market for longer in order to reach their targets. As a result, there is still fresh capital entering the asset class, and fundraising is therefore not quite as bleak as the headline figures suggest. Of the 374 funds on the road, 138 have already held an interim close.

Why Are Conditions So Tough?

The global economic downturn has forced many investors to review their investment portfolios and reconsider their allocations to private equity real estate. Returns for the asset class have taken a big hit, with one-year horizon IRR returns (to Dec-08) of -39.9% being the worst in the private equity industry. This has had a significant influence on investors' decisions to commit to the asset class and caused many to approach it very cautiously.

How Many Funds Are on the Road?

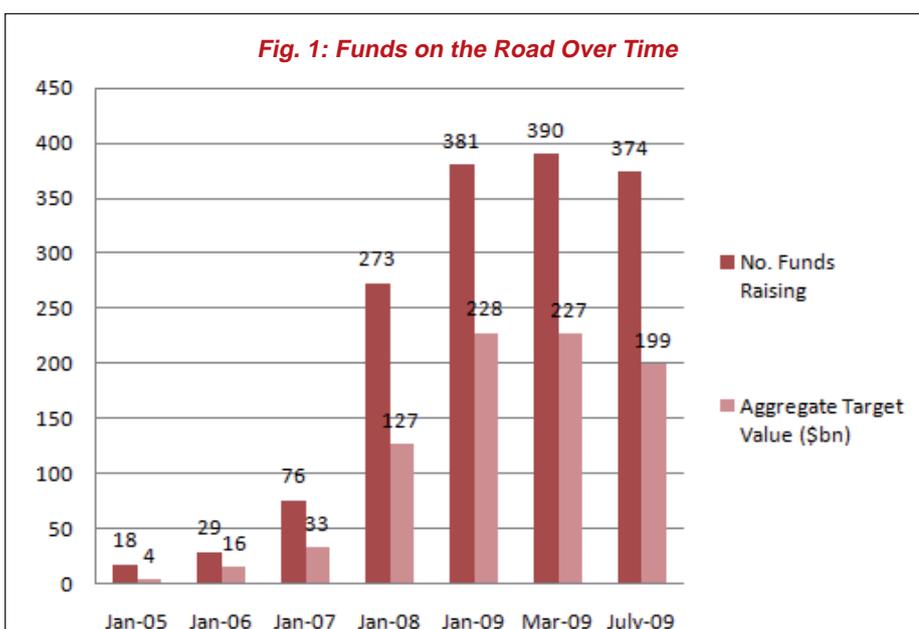
The number of funds on the road has actually decreased since Q1 2009 and the total amount targeted by funds on the road has decreased by \$28 billion over the past three months. This is a result of fund managers reducing their fundraising targets, and in some cases shelving or abandoning their funds altogether.

This reduction in the number of new vehicles in market may actually go some way in reducing the competitiveness of fundraising, and may benefit those seeking institutional support for their new offerings with proven strategies and a good track record to rely on.

Growth in the Debt and Distressed Market

2009 has seen a growth in debt and distressed focused real estate strategies. The credit crunch has resulted in a number of real estate managers, operators and owners becoming distressed, and therefore having to refinance projects, sell off properties, or default on loans. In order to take advantage of this market, distressed and debt focused firms have increased fund sizes and become more active, and

Fig. 1: Funds on the Road Over Time



Feature Article:

2009 Mid-year Report

there have been a number of managers moving into this area for the first time. In addition to raising dedicated vehicles, managers of opportunistic funds are also using increasingly large portions of their vehicles to invest in distressed situations.

Historically distressed and debt focused funds have made up a relatively small part of the overall closed-end real estate market. However, funds investing in debt and distressed areas are well suited to the current economic climate, and now make up a significant part of the fundraising market. There are currently 374 funds on the road seeking an aggregate \$199 billion, 134 of which will be committing to debt and distressed deals. It is likely that this will remain a popular strategy with both real estate firms and institutional investors while the economic conditions continue to create an abundance of investment opportunities in this area.

2009 Preqin Real Estate Distressed and Debt Review

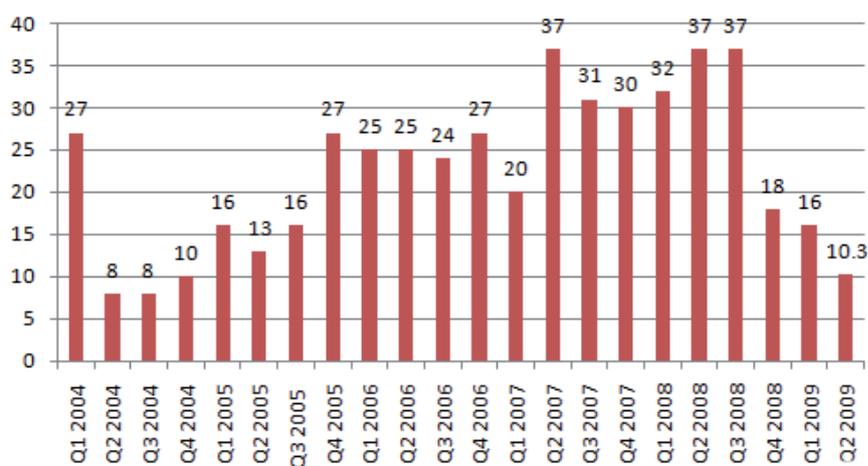
This new for 2009 publication is the ultimate resource for professionals seeking more information on this vital area of the market, featuring profiles for all managers active in the sector, institutional investors with a preference for funds of this type, and analysis on all aspects of the industry.

For more information including an informative executive summary, please visit:
www.preqin.com/REdistressed

Interest in Secondaries

In addition to the growth of the debt and distressed market, the other big story so far in 2009 has been the growing interest among institutional investors looking to buy and sell interests in private equity real estate funds on the secondary market.

Fig. 2: Quarterly Private Equity Real Estate Fundraising 2004 - Q2 2009



There are several reasons why investors might look to sell interests on the secondary market. Some have been hit by the denominator effect, thus becoming overallocated to private equity real estate. Investors seeking some liquidity might be interested in selling private equity stakes on the secondary market in order to free themselves of future capital call obligations. Investors may also use the secondary market to rebalance portfolios and to free up capital so they can reinvest it in new funds following alternative strategies which are more suited to the current financial climate.

Investors may be interested in buying stakes on the secondary market as they feel that they will be able to pick up funds at discounts to net asset value. Acquiring stakes on the secondary market can be appealing to investors as they are able to mitigate the effects of the J-curve, by gaining access to older vintages. Real estate fund of funds managers are one of the most prevalent groups of investors seeking to trade fund stakes on the secondary market in a bid to rebalance investment portfolios.

Although there has been a big growth in interest on the part of both potential buyers and sellers, the secondary market has not yet experienced a high volume of transactions, which is in part due to the major gap between bid prices and NAVs. To an extent this gulf was due to the delay in performance reporting meaning that

“ ... investors are very cautious when placing their capital, and are looking towards more established markets ... ”

funds were not accurately priced to today's markets. However, as new performance data comes in, we may see a reduction in NAVs to a more realistic level, which may see the gap between NAV and bid prices narrowing, which in turn will lead to a higher volume of sales. We predict that the level of activity will increase dramatically in the second half of this year.

Preqin Secondary Market Monitor

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Investors Stay Close to Home

Although fundraising for private equity real estate funds has been struggling on a global basis, the conditions in Asia and Rest of World have suffered the most. In Q2 2009 only two funds focusing on the region reached a final close, raising an aggregate \$400 million. Asia and Rest of World funds, which were responsible for 25% of the aggregate capital raised in 2008, have accounted for just 9% so far in 2009. During this time of economic instability, investors are especially cautious when making new commitments, and are therefore in many cases looking towards more established markets, rather than emerging markets which are perceived as being higher risk. In addition, the popular debt and distressed market is predominantly focused on the developed markets of Europe and North America.

Although investors are cautious in the

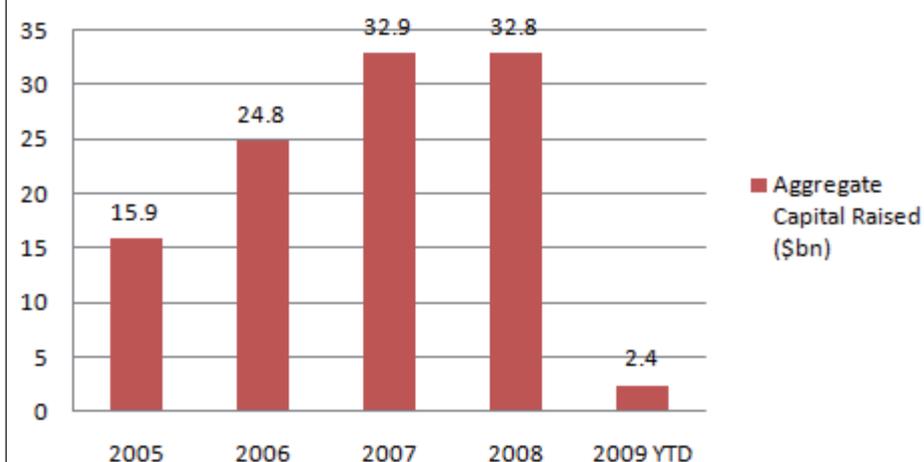
current market, our conversations suggest that a large proportion of institutions are still committed to achieving a globally diversified portfolio and once there are signs of a recovery, it is expected that investor confidence in these regions will be restored.

When is Fundraising Going to Pick Up?

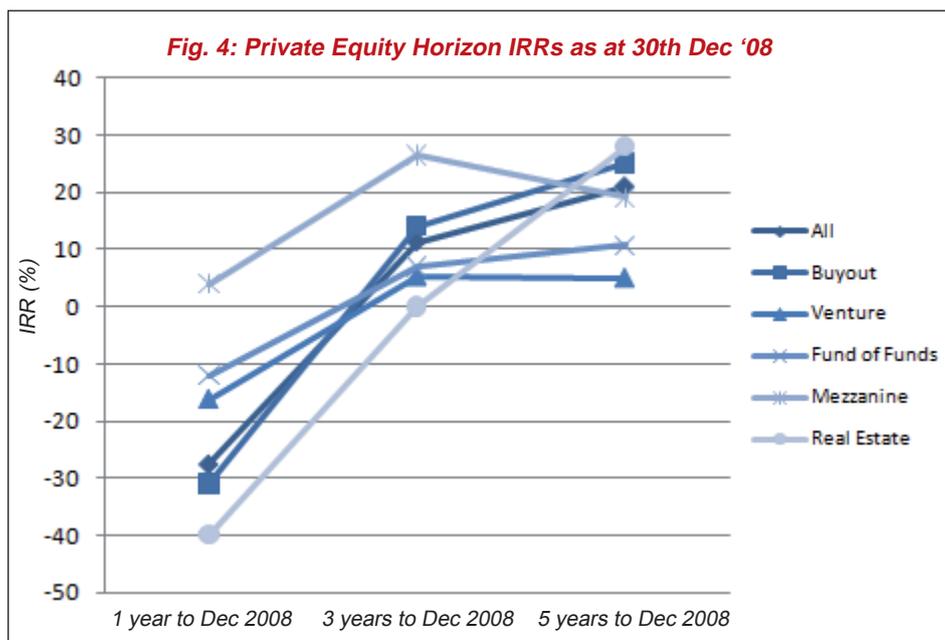
Investors are generally positive towards the long-term future of the asset class. In a survey conducted by Preqin, 84% of investors polled indicated that they would be returning to invest in the medium to long term, with a significant proportion suggesting that they will return to the market in late 2009 and early 2010. The next three months may still be a struggle for the asset class and we will probably see similar levels of fundraising in Q3 to those we saw in the first half of 2009. It is clear that investors are choosing to delay making new investments until the long-term economic outlook becomes clearer, but many predict that this will happen at the end of the year.

An example of investors looking to return to the market towards the end of the year include Montgomery County Employees' Retirement System, which is reluctant to make commitments at present. It feels that in the current market some managers may struggle to deploy all their capital and achieve the high returns of the past. Similarly IGFCSS, a public pension fund based in Portugal, decided to halt its private equity real estate investment

Fig. 3: Asia and Rest of World Fundraising, 2005 - 2009 YTD



Feature Article: 2009 Mid-year Report



Preqin's Real Estate Online

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program in Q1 2009 with a view to resuming in Q4 2009. There is a clear desire among investors to invest in the asset class but many are simply biding their time. Confidence in the industry is returning with the possibility that 2010 will be a great fundraising vintage in the long term.

Although one-year real estate returns to the end of 2008 are deep into the red, over five years the asset class has outperformed every other area of private equity, with a five-year horizon IRR of 28%. This highlights the potential profit that can be made within private equity real estate and demonstrates what it is that has driven record interest in the asset class in recent years.

Although there are difficulties to be faced there is a feeling that the private equity real estate market will begin to recover within the next six months. However, fund managers with vehicles in market are going to have to work harder than ever to get attention from institutional investors and will need to market their fund with great effectiveness to ensure that they survive these difficult times. Initiating communication with potential investors now will be the key to gaining commitments in the future, as fund managers need to be prepared for fundraising to take considerably longer than it has done in the past.

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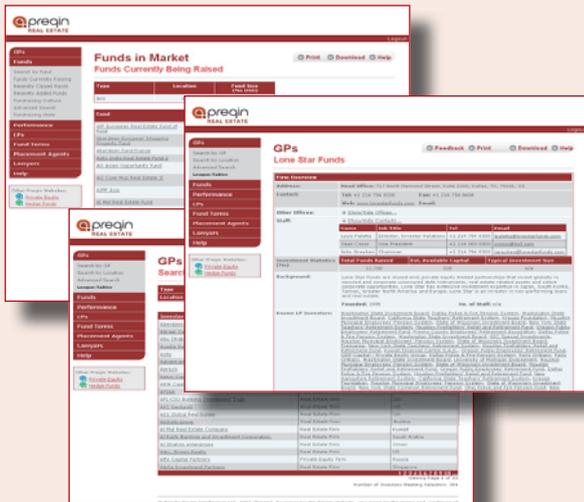
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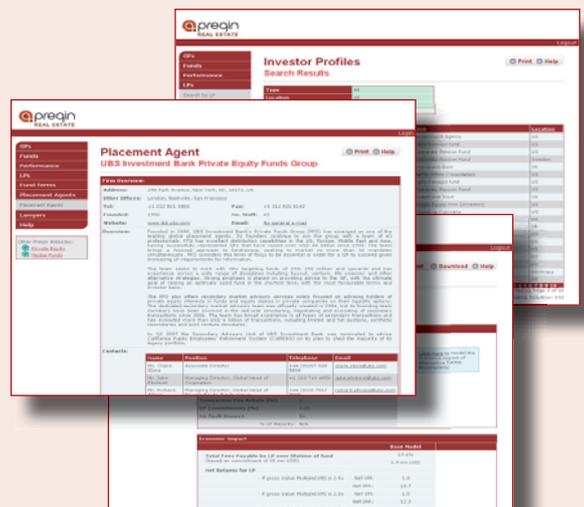
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- **Lawyers:** Which lawyers are the most active with real estate private equity funds currently? Which lawyers have worked with real estate funds previously? See detailed profiles for each lawyer.



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Preqin Real Estate Spotlight

Fund Manager Focus: Scandinavia

Fig. 1: Biannual Fundraising by Scandinavian Fund Managers, 2007-2009

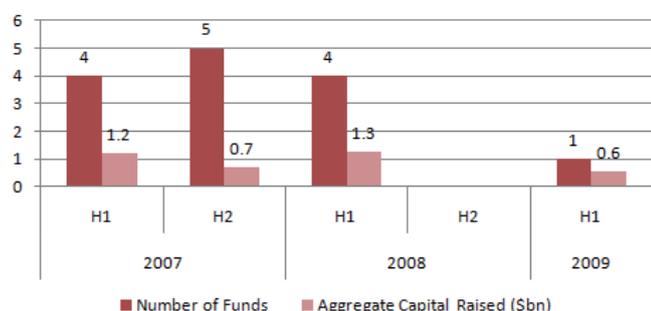


Fig. 2: Funds Currently Raising by Scandinavian Fund Managers Sorted by Location Focus

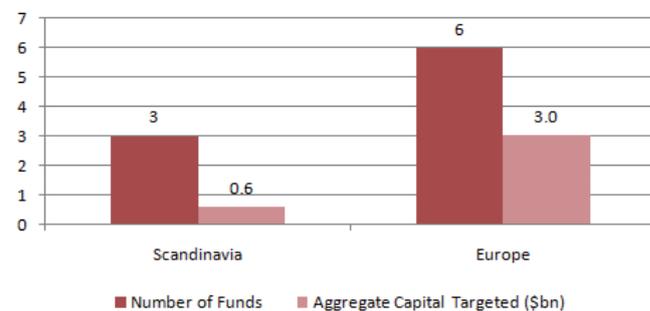


Fig. 3: Average Fund Size Raised by Scandinavian Fund Managers, 2005 - 2008

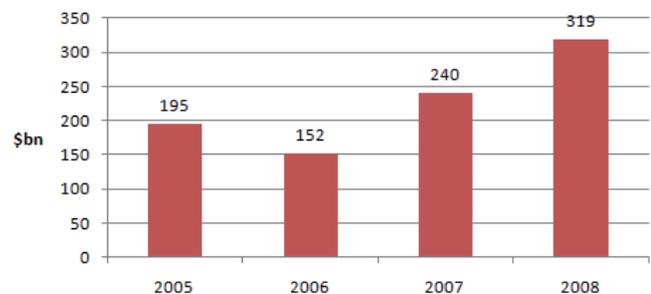


Fig. 4: Aggregate Capital Raised in Last 10 Years Sorted by Manager Location

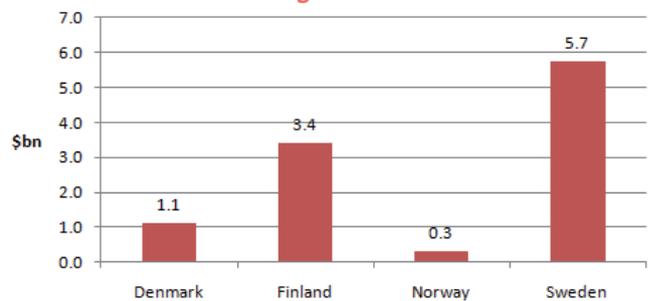


Fig. 5: Top Scandinavian Fund Managers by Capital Raised

Firm Name	Head Office Location	Capital Raised Last 10 Years (\$bn)
Aberdeen Property Investors	Stockholm	3.22
CapMan Real Estate	Helsinki	1.87
Niam	Stockholm	1.41
ICECAPITAL Real Estate Asset Management	Helsinki	0.80
BPT Asset Management	Copenhagen	0.38
Andersson Real Estate Investment Management	Stockholm	0.32
Sponda	Helsinki	0.31
EVLI Property Investments	Helsinki	0.31
Genesta Property Nordic	Stockholm	0.24
Sveafastigheter	Stockholm	0.22

Andrew Moylan

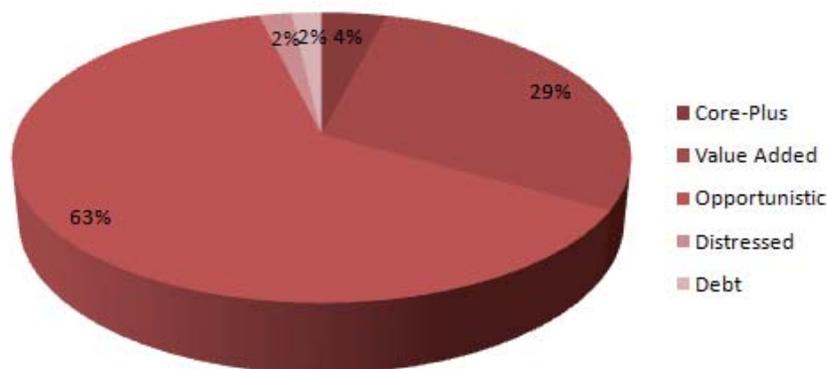
Preqin Real Estate Spotlight

Q2 Fundraising Update

The second quarter of 2009 saw 21 real estate funds reach a final close, receiving aggregate commitments of \$10.3 billion. This represents a fall from Q1 2009 fundraising, when \$15.2 billion was raised by 27 funds, and is the lowest quarter in terms of private equity real estate fundraising since Q4 2004.

The largest fund to close in the quarter was Blackstone Real Estate Partners Europe III, which received total commitments of €3.1 billion. It is the largest European private equity real estate fund ever and the seventh largest globally. The fund was responsible for over 40% of the aggregate capital raised in Q2, although it is important to note that much of the fund's capital was raised before September last year. The fund focuses on over-leveraged traditional real estate that had been bought at peak levels and aggressively financed. Investments the fund is pursuing include the creation of investment platforms, the acquisition of irreplaceable assets in prime locations and the expansion, renovation, development and re-use of existing properties. Amongst the investors in the fund are CPP Investment Board, Teacher Retirement System of Texas, Ohio Public

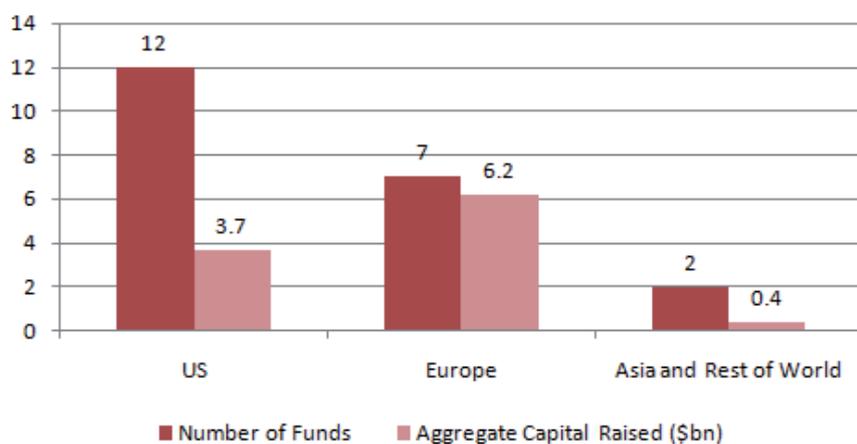
Fig. 2: Market Share of Capital Raised by Fund Type



Employees' Retirement System, Pennsylvania Public School Employees' Retirement System, State of Connecticut Retirement Plans and Trust Funds, and New Mexico Public Employees' Retirement Association.

The largest percentage of capital raised in the quarter is focused on Europe. Seven Europe focused funds raised \$6.2 billion, equating to 60% of the aggregate capital raised. 12 North America-focused funds raised \$3.6 billion, whilst two funds targeting Asia and Rest of World closed with commitments of \$0.4 billion.

Fig. 1: Q2 2009 Fundraising by Primary Geographic Focus



The largest US focused fund to close in Q2 was Rockwood Capital Real Estate Partners Fund VIII, which received commitments of \$964 million. The value added fund focuses on hotel, retail, office and residential properties in supply-constrained markets across the US. New York State Teachers' Retirement System, Maryland State Retirement and Pension System, Illinois Municipal Retirement Fund, Kansas Public Employees' Retirement System and Santa Barbara County Employees' Retirement System are amongst the investors in the fund.

Preqin Real Estate Spotlight

Q2 Fundraising Update

In terms of strategy, 63% of the aggregate capital raised is focused on opportunistic investments, and 29% on value added investments. 4% of capital is targeting core-plus investments and 2% is targeted at both distressed and debt investments. The average fund size in Q2 was \$515 million, a fall from the \$607 million average in Q1, and significantly lower than the average \$679 million in 2008.

Fig. 3: Top 5 Real Estate Funds Closed in Q2

Fund	Firm	Strategy	Size (mn)
Blackstone Real Estate Partners Europe III	Blackstone Real Estate Advisors	Opportunistic	3,116 EUR
Rockwood Capital Real Estate Partners Fund VIII	Rockwood Capital	Value Added	964 USD
LBA Realty Fund IV	LBA Realty	Core-Plus and Value Added	750 USD
ICECAPITAL Housing Fund II	ICECAPITAL Real Estate Asset Management	Value Added	400 EUR
Mountgrange Real Estate Opportunity Fund	Mountgrange Investment Management	Opportunistic	300 GBP

Other significant funds to close in the quarter included LBA Realty Fund IV, which raised \$750 million in commitments. University of Michigan Endowment is one of the investors in the core-plus and value added fund, which is focused on acquiring a diversified portfolio of office and industrial properties in the Western US.

ICECAPITAL Real Estate Asset Management raised €400 million for its ICECAPITAL Housing Fund II. The fund invests in new, privately financed and renovated rental apartment buildings in Finland.

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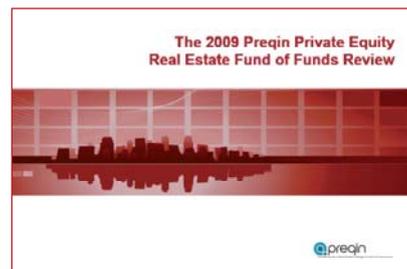
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- Comprehensive profiles for all PERE fund of funds managers, including contact details, history, sample investments, plus detailed investment plans at a fund specific level.
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- Detailed analysis on all aspects of the market, identifying trends in fundraising, fund terms and conditions, investors, fund focus and much more.



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Preqin Real Estate Spotlight

Investor News

Each month Investor News brings you the latest institutional investor news from around the globe. All information comes from our Preqin Real Estate Online database.

Stichting Bedrijfstakpensioenfonds Zorgverzekeraars (SBZ) to start investing in private real estate funds

SBZ will sell its whole real estate portfolio, which is comprised entirely of direct properties, and start committing to private real estate funds instead. The EUR 2.2 billion pension fund currently has a 10% allocation to direct property, but wants to sell its assets and start a new 6% allocation to property vehicles. It has yet to invest in a fund and the timing of its maiden commitment depends on the sale of its portfolio. SBZ hopes to sell its property as soon as possible, but is not willing to do so at unfavourable prices. Subsequently, although it may start allocating to funds in Q4 2009, it is more likely to begin investing in 2010.

Bayerische Versorgungskammer to continue investing capital in spezialfonds

Bayerische Versorgungskammer is looking to commit approximately EUR 500 million across its existing spezialfonds over the next 12 months. The EUR 45 billion pension fund has commitments to four vehicles, each managed by different firms. All four funds allocate to Europe excluding Germany, three also commit to North America and two invest in Asia. BVK will not allocate to further vehicles, but will make new investments in direct German property.

California State Teachers' Retirement System's Q1 2009 commitments significantly lower than Q1 2008's

California State Teachers' Retirement System's outlook on real estate for 2009 has been highlighted by its relative inactivity when comparing its Q1 2009 investment strategy with that of the corresponding quarter from the previous year. In Q1 2008 the retirement system committed USD 1 billion to real estate markets. However, a year on CalSTRS committed only USD 41 million in 2009's first quarter. An example of a Q1 2009 commitment is the USD 20 million to Fortress Investment Fund III. The capital was invested through a PIK Note to help clear some of the vehicle's debt. CalSTRS's modest approach to real estate is indicative of investor sentiment to the asset class in 2009. Investors allocated USD 16 billion to private equity real estate, exactly 50% less than committed in Q1 2008.

Opplysningsvesenets Fond to re-up with existing managers

Opplysningsvesenets Fond is looking to make various follow-on commitments to existing private equity real estate funds in the next 12 months. It is unlikely to allocate to any managers it has not allocated to before. It has previously allocated to Nordic, European and Asian focused funds. Most of its private equity real estate funds are sector specific. It has invested in office, logistics, hotel and apartment funds.

Elizabethtown College Endowment to increase real assets allocation

Elizabethtown College Endowment is looking to increase its real assets allocation from 5% to between 7.5% and 10%. The USD 55 million endowment plan invests in real estate through its real assets allocation and wants to commit to funds targeting real assets in the next few months. It is also hoping to increase its overall exposure to emerging markets through fund commitments. It thinks that these regions are growing despite the global recession and will continue to grow at a more rapid rate when developed markets recover. The endowment would like to hire at least one emerging markets manager in the next three to four months and two to three managers by the end of this year.

Alaska Permanent Fund Corporation to allocate up to USD 2 billion to real assets

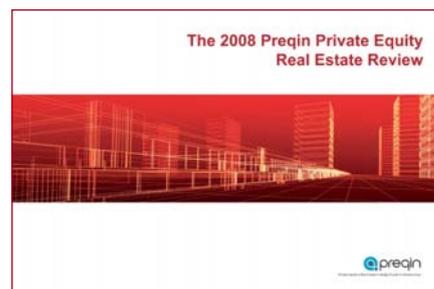
Alaska Permanent Fund Corporation is hoping to hire up to four managers for its real assets portfolio. It is expected that the managers would each be awarded a USD 500 million mandate, therefore a total of USD 2 billion would be allocated to real assets. Following a recent rebalancing of its portfolio allocations, the sovereign wealth fund established a target allocation of 12% to real estate. The USD 26.7 billion sovereign fund currently has around 14% of its total assets allocated to real estate.

Stuart Taylor

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Conferences Spotlight

Forthcoming Events

Featured Conferences:

IMN Western Distressed 2009

Date: 15-16th September 2009
Location: Millennium Biltmore Hotel, Los Angeles, CA
Organiser: Information Management Network

IMN are pleased to announce their 2nd Western Symposium on Distressed Residential & Multifamily Real Estate. Covering distinct asset classes, the series uncovers the latest real estate opportunities throughout the US. Delegates will be provided with a real-time reflection of events, as the program is continually updated to mirror changes in the market.

Information:
www.imn.org/disresi_pqnrw

Real Estate Investment World Japan 2009

Date: 27-28th October 2009
Location: Ritz-Carlton, Tokyo, Japan
Organiser: Terrapinn

The 4th Real Estate Investment World Japan 2009 comes at a particularly opportune time, as crisis in the credit, securitisation and real estate markets force industry players and investors to seek sound intelligence.

REIW JAPAN is Japan's most powerful and forefront real estate investment management forum where international industry experts and Japanese property pioneers converge

Information:
www.terrapinn.com/2009/reiwjapan/

Other Conferences:

Conference	Dates	Location	Sponsor
EPRA Annual Conference	3 - 4 September 2009	Brussels	EPRA
Real Estate Investment World Latin America	8 - 10 September 2009	Coral Gables	Terrapinn
9th Annual European Hotel Finance & Investment Summit	10 - 11 September 2009	London	Euromoney Seminars
The PEI Real Estate CFOs and COOs Forum	7 - 8 October 2009	New York	PEI Media
Real Estate Investment World Middle East 2009	2 - 4 November 2009	Dubai	Terrapinn
Real Estate Investment World Australia 2009	16 - 18 November 2009	Sydney	Terrapinn
PERE Forum: New York	18 - 19 November 2009	New York	PEI Media