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PE Real Estate: Compensation & Employment

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PE Real Estate: Compensation & Employment

In this month's feature article we examine employment and compensation in the private equity real estate industry and look at how the global financial crisis has changed both salaries and management fees.

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This month we take a look at private equity real estate fundraising over the past month.

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Debt Managers

Each month Fund Manager Spotlight examines a particular fund manager type using Preqin's Real Estate Online. This month we look at managers raising private equity real estate debt vehicles.

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This month we look at investors in private equity real estate debt funds.

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All the latest news on real estate investors:

Including...

- New York State Teachers' Retirement System
- Brockton Contributory Retirement System
- Signature Financial Management

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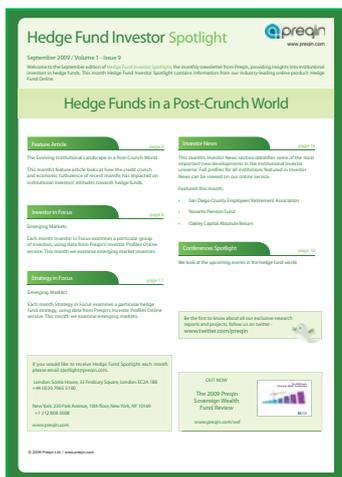


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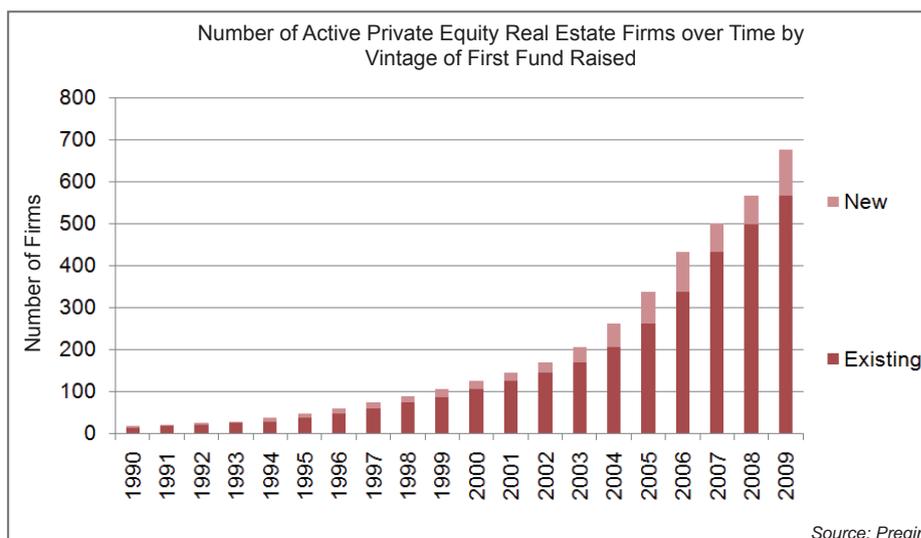
Private Equity Real Estate: Compensation & Employment

How Big is the Private Equity Real Estate Industry?

The number of firms active in private equity real estate has grown consistently year on year since the emergence of this specific sector of the private equity industry. Despite the difficulties in real estate markets worldwide for the past couple of years, the trend has not been affected, as Fig. 1 shows, with 180 new private equity real estate fund managers established over 2008 and 2009, bringing the total to approximately 680. When private equity real estate firms that do not raise distinct funds (i.e. those that manage corporate or personal capital and those that manage third-party capital without pooling into a commingled private investment vehicle) are included, the figure is closer to 770. It is important to note that 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.

In total, the 770 private equity real estate firms employ an

Fig. 1:



estimated 11,100 people worldwide, the majority of which are based in the US, as shown in Fig. 2. The 7,100 people employed by US-based firms represent 64% of the global total, a larger proportion than the country's share across the private equity industry as a whole (56%).

Fig. 2:

Estimated Private Equity Real Estate Employment by Country	
Country*	Estimated Total Employment
US	7,100
UK	1,300
France	400
India	200
Singapore	200
Australia	180
Hong Kong	170
Germany	160
Canada	140
UAE	120
Other	1,130
Total	11,100

*Based upon location of head office for each firm

Source: Preqin

Number of Employees at Private Equity Real Estate Firms by Assets under Management

The number of staff employed by a private equity real estate firm varies significantly with assets under management, as shown in Fig. 3. Firms with less than \$250 million in assets under management employ an average of 10 staff, while firms with \$10 billion or more in total assets employ an average of 154 people. 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. 3 shows that firms with less than \$250 in assets under management employ, on average, the equivalent of 159 members of staff per \$1 billion in assets, i.e. \$6.3 million managed per employee. For firms with \$10 billion or more in total assets, this falls to just 13 employees per \$1 billion, or one employee for every \$76.9 million managed.

Since the management fees that private equity real estate firms collect are almost universally calculated as a percentage of the

Fig. 3:

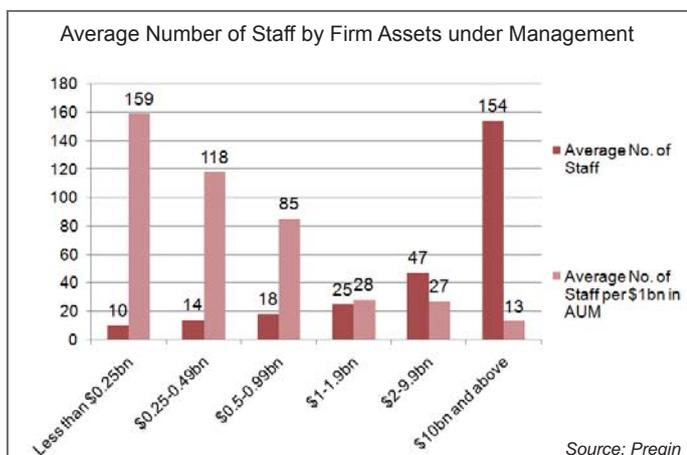
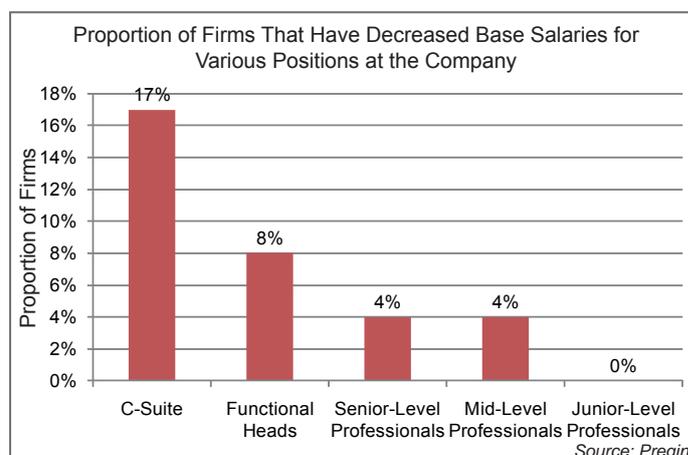


Fig. 4:



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 only marginally so, and 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.

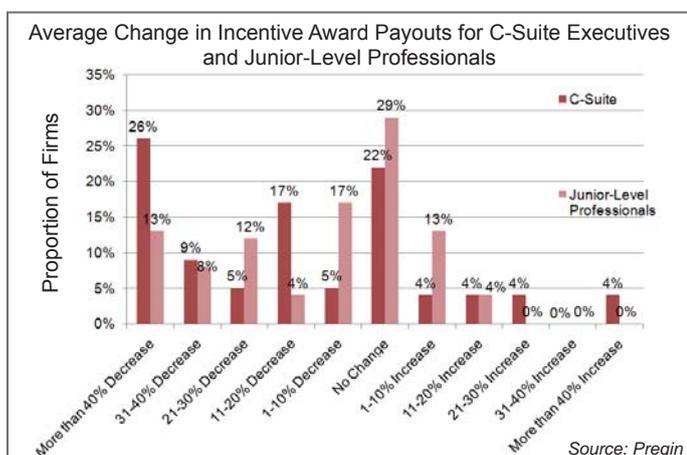
Individual Employee Remuneration at Private Equity Real Estate Firms

The favourable operating economics of the largest funds channel through to the remuneration for employees at these firms to some extent. For example, the median total annual cash compensation for a CEO of a private equity real estate firm with less than \$2 billion in assets under management is \$594,000, compared to \$1.65 million for a CEO of a firm with more than \$10 billion in total assets.

However, it has been a difficult couple of years for the real estate industry as a whole, and this is reflected in the fact that many private equity real estate employees have seen cuts between 2008 and 2009 in the overall remuneration provided to them. Despite this, base salaries have generally remained relatively stable, with only a few firms making cuts to employees' basic rate of pay. Overall at a company-wide level, just 14% of firms have decreased base salaries, while Fig. 4 shows the proportions of firms in our survey that have made cuts to base salaries for C-suite executives, functional heads, and senior-, mid- and junior-level professionals.

Fig. 4 also suggests that it is the more senior professionals who have tended to take the biggest hit in compensation as a result of the economic downturn, with 17% of firms cutting base salaries for C-suite executives compared to no firms doing so for junior-level professionals. This hypothesis is backed up by the figures for changes to annual incentive awards, shown for C-suite vs. junior-level in Fig. 5. More than one-quarter of C-suite executives have seen their annual incentive award payouts fall by more than 40%, twice the proportion of junior-level professionals that have had their award cut by this much. Moreover, 62% of C-suite executives have seen some level of decrease to their awards, compared to 54% of junior-level professionals.

Fig. 5:



Sam Meakin

The information and data used in this month's feature article has been taken from the newly released 2010 Preqin Private Equity Real Estate Compensation and Employment Review.

To view sample pages, or to order the publication, please visit:
www.preqin.com/recompensation

2010 Preqin Private Equity Real Estate Compensation & Employment Review: Order Form

A source of reliable and accurate information on the latest trends in private equity real estate compensation and employment is a vital tool enabling decision-makers and advisors to examine existing compensation practices against wider industry benchmarks.

Preqin's Private Equity Real Estate Compensation and Employment Review has been produced in collaboration with leading compensation consultants FPL Associates.

Full contents include:

- Compensation data for 31 different positions at PERE firms
- Survey of compensation practices at PERE firms
- Overview of firm level compensation
- Current employment within the PERE industry
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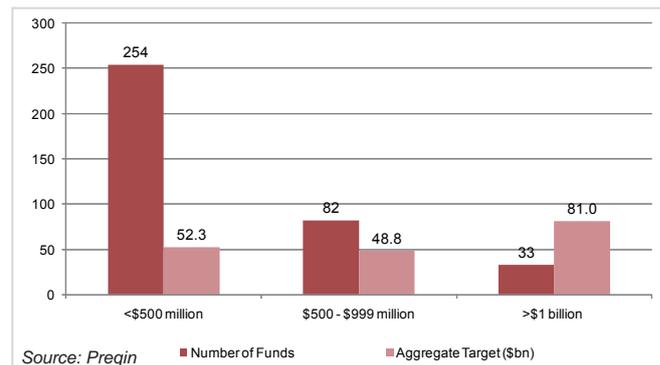
Fundraising Spotlight: Private Equity Real Estate

Funds on the Road

Funds on the Road	US	Europe	ROW	Total
Number of Funds	206	95	68	369
Aggregate Target Size (\$bn)	106.9	39.9	35.3	182.1
Average Target Size (\$mn)	535	439	560	515

Source: Preqin

Funds in Market by Target Size



Value Added Funds on the Road

Fund	Manager	Target Size (mn)	Strategy
Beacon Capital Strategic Partners VI	Beacon Capital Partners	3,500 USD	Value Added
Walton Street Real Estate Fund VI	Walton Street Capital	2,500 USD	Debt, Distressed, Opportunistic and Value Added
Pacific Star Asia Fund Select	Pacific Star Fund Management	2,000 USD	Core and Value Added
TA Realty Associates IX	TA Associates Realty	1,850 USD	Core-Plus, Debt, Distressed and Value Added
Evans Randall Opportunity Fund	Evans Randall	1,000 GBP	Value Added
ING Property Fund Central and Eastern Europe	ING Real Estate Investment Management	1,000 EUR	Core and Value Added
Kennedy Wilson Property Fund III	Kennedy Wilson	1,250 USD	Value Added
Blumberg Strategic Asset Fund	Blumberg Capital Partners	1,000 USD	Debt, Distressed and Value Added

Source: Preqin

Recently Closed Funds

ING Clarion Debt Opportunity Fund III

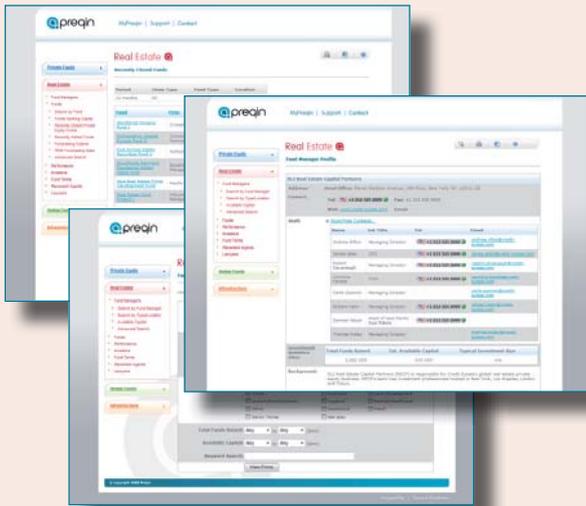
Manager: ING Clarion
Strategy: Debt
Debt Types: CMBS, B-Notes, Mezzanine, CRE CDOs
Geographic Focus: North America
Target IRR (Net): 15%
Maximum Leverage: 60%
Final Close: 750 USD (Nov-2009)
Law Firm: Shearman & Sterling
Known Investors: Kansas Public Employees' Retirement System, Arkansas Teachers' Retirement System, Los Angeles City Employees' Retirement System, Contra Costa County Employees' Retirement Association

Carlyle Asia Real Estate Fund II

Manager: Carlyle Asia Real Estate Fund II
Strategy: Opportunistic
Geographic Focus: Asia, China, India, Japan
Property Types: Hotels, Office, Operating Companies, Residential, Retail, Senior Home
Target IRR (Net): 20%
Final Close: 485 USD (Nov-2009)
Known Investors: State Teachers' Retirement System of Ohio, School Employees' Retirement System of Ohio, Merseyside Pension Fund

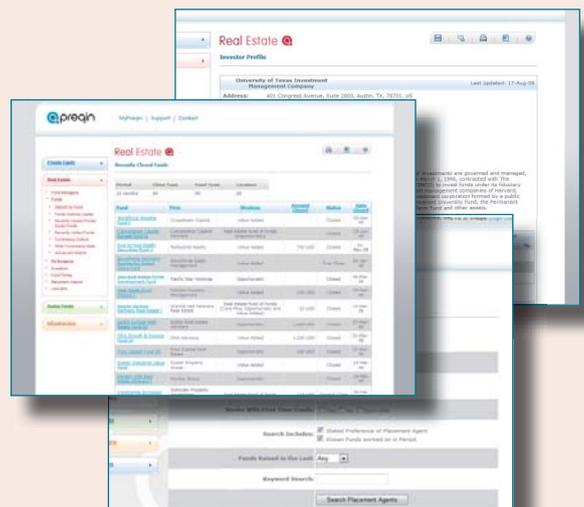
Preqin Real Estate Online

Real Estate Online is the most comprehensive resource available to private equity real estate professionals today. Whether you're a GP, LP, fund of funds, placement agent, lawyer, consultant or advisor this is a vital information service for you.



- **Fund Managers:** View detailed profiles on over 900 fund managers from around the world including background, key contacts and funds raised. Carry out advanced searches to find GPs who focus on particular property types, strategies or locations.
- **Funds:** Detailed profiles for over 2,700 unlisted real estate funds including Limited Partnerships, Property Unit Trusts, LLCs, FCPs etc encompassing all strategies including core, core-plus, value added, opportunistic, mezzanine and fund of funds.
- **Performance:** View performance benchmarks for private real estate funds including details of the performance of individual funds. See which firms have the best track records.
- **Investors:** See detailed profiles for over 1,500 investors who are actively investing in private real estate. Investors include Real Estate Fund of Funds, Pension Funds, Endowments, Family Offices and other asset managers. Detailed profiles include background, contact details, investment plans, preferred fund strategies and known previous investments in real estate funds.

- **Fund Terms:** What are the typical terms that a real estate fund charges? What are the implications of making changes to different fees? How do these fees vary between fund type and strategy? Model fee changes in our unique online Fund Terms Calculator.
- **Placement Agents:** Which agents are currently working with or have previously worked with real estate funds and which are willing to work with them in future? Includes detailed profiles for each placement agent.
- **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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Fund Manager Spotlight: Debt Fund Managers

Fig. 1:

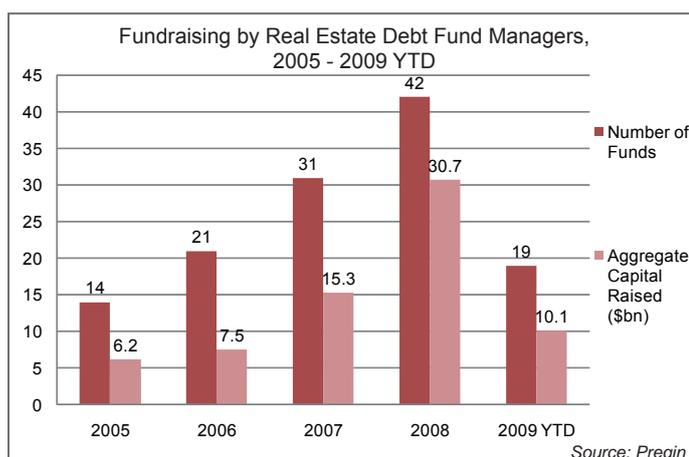


Fig. 2:

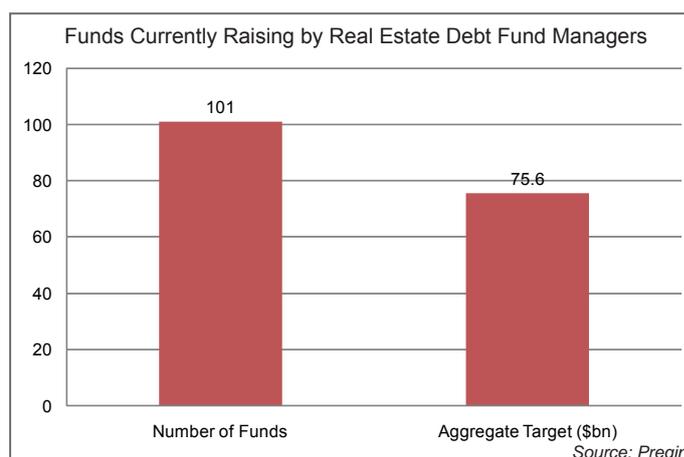


Fig. 3 & 4:

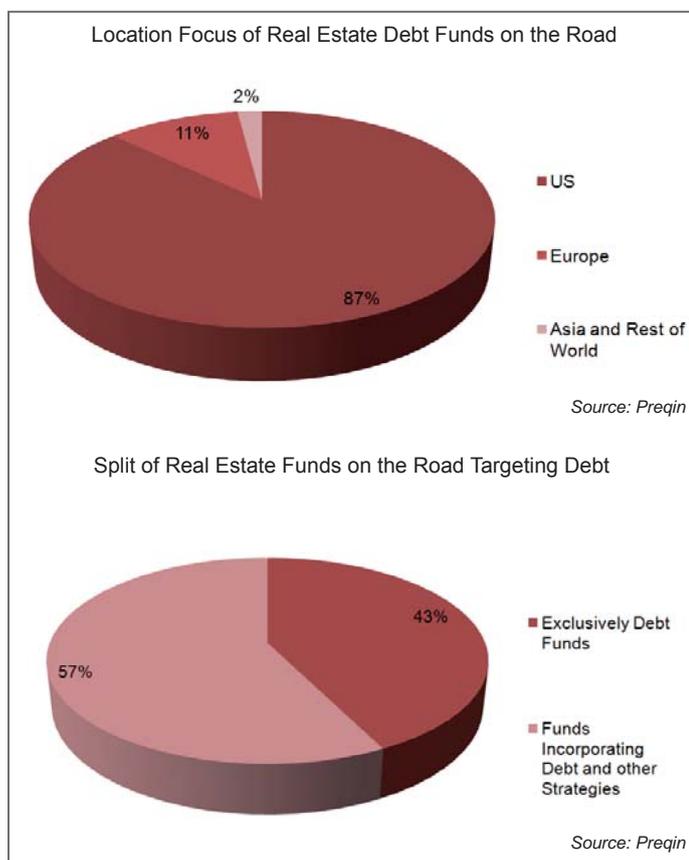


Fig. 5:

Top 10 Real Estate Debt Fund Managers by Capital Raised		
Firm Name	Head Office	Total Capital Raised for Real Estate Debt (\$bn) Historically
Lone Star Funds	US	12.1
Fortress Investment Group	US	3.1
Rockpoint Group	US	3.0
Aetos Capital	US	2.9
Goldman Sachs Real Estate Principal Investment Area	US	2.6
Guggenheim Structured Real Estate Advisors	US	2.4
Colony Capital	US	2.4
Five Mile Capital Partners	US	2.2

Source: Preqin

Forena Akhtar

The information in Fund Manager Spotlight, is taken from Preqin's Real Estate Online product. To find out more information about this product, or to arrange a demo, please visit: www.preqin.com/realestate

Conferences Spotlight: Forthcoming Events

Featured Conferences:

Conference	Dates	Location	Sponsor
UBS Global Real Estate Conference 2009	1 - 3 December 2009	London	UBS
Western Non-Traded REIT Industry Symposium	2 - 3 December 2009	Los Angeles	IMN
Borrowers' & Investors' Forum On Real Estate Mezzanine Loans & Real Estate Distressed Debt	9 - 10 December 2009	New York	IMN
NAREIM Annual Symposium	10 - 12 January 2010	NAREIM	Miami
Winter Forum On Real Estate Opportunity & Private Fund Investing	13 - 15 January 2010	Laguna Beach, CA	IMN
Turkey GRI 2010	19 January 2010	Istanbul	GRI Events
Real Estate Investment World Brasil 2010	2 - 4 February 2010	Sao Paulo	Terrapinn
The PERE Forum: Asia 2010	2 - 3 February 2010	Hong Kong	PEI Media
ULI Europe Annual Conference	2 - 3 February 2010	Paris	ULI
2010 AFIRE Winter Conference	10 - 11 February 2010	New York	AFIRE
USA GRI 2010	25 February 2010	New York	GRI Events
Global Real Assets Investment Forum	2 - 3 March 2010	New York	Institutional Investor
Asia GRI 2010	3 March 2010	Singapore	GRI Events
Asset Allocation Summit Asia 2010	15 - 17 March 2010	Hong Kong	Terrapinn

Investor Spotlight: Investors in PERE Debt Funds

The real estate debt fund market has been one of the few areas of the private real estate fund market that has benefited from the global economic downturn. As traditional sources of liquidity have dried up, fund managers have stepped in to provide the industry with capital relief. Whether providing financing or relieving the burden of bad debt, managers have seen the opportunities available in the dislocated market and have constructed funds that are positioned to make money from debt plays. Investors have followed suit by allocating to the industry in increasing numbers. 35% of all investors that have an allocation to private equity real estate are interested in debt vehicles, with most of those already having invested in such a fund. This number has increased significantly since 2008, when only 14% were interested in this type of fund.

Preqin research shows that, even in an uncertain market, investors are keen to invest in debt funds. Church Commissioners for England is one such investor actively looking to commit to debt funds. In Q3 2009, the GBP 4.4 billion foundation was readying itself to commit approximately GBP 80 million across two or three debt vehicles during Q4 2009 and H1 2010. Church Commissioners for England wanted to gain access to debt markets in both the US and Europe.

As Fig. 3 shows, there are a number of ways in which investors have so far committed to real estate debt funds. 45% of active debt fund investors have committed to vehicles that are exclusively focused on debt. Another popular type of investment is in vehicles targeting both opportunistic markets and debt, with 26% of debt investors having committed to this fund type. However, the most popular way of investing in debt is through committing to vehicles that include debt as one of at least three strategies. 60% of investors have committed to multi-strategy

Fig. 1:

Top 10 Real Estate Debt Investors by Overall Real Estate Allocation		
Real Estate Debt Fund Investor	Country	USD (bn)
Government of Singapore Investment Corporation (GIC)	Singapore	30.0
APG - All Pensions Group	Netherlands	27.5
CDP Real Estate Group	Canada	24.7
Allstate Investment Management	US	20.7
California Public Employees' Retirement System (CalPERS)	US	19.0
PGGM	Netherlands	17.9
Immofinanz	Austria	14.9
California State Teachers' Retirement System (CalSTRS)	US	12.8
TIAA-CREF	US	10.4
British Columbia Investment Management Corporation	Canada	10.1

Source: Preqin

funds that include debt. Many investors allocate to more than one type of debt fund. Los Angeles City Employees' Retirement System, for example, has invested in all of the fund types displayed in Fig. 3.

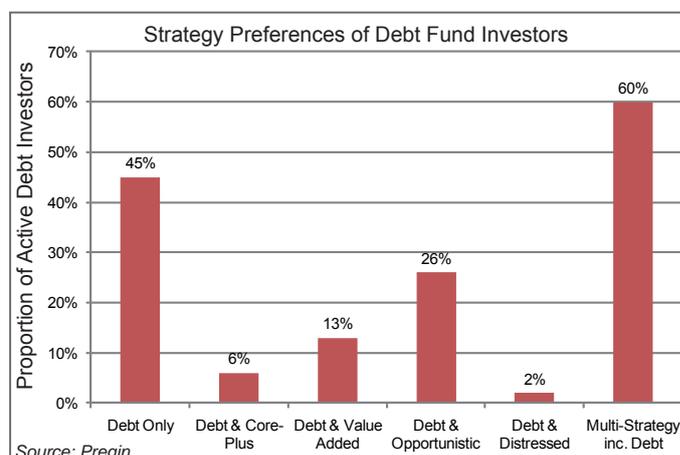
Stuart Taylor

Fig. 2:

Investors Interested in Debt Fund Commitments		
Investor	Investor Location	Geographic Preference
Church Commissioners for England	UK	Europe, North America
Evangelical Lutheran Church of America Pension Board	US	Global, North America
Harel Insurance Investments	Israel	Europe, North America
Oregon State Treasury	US	Global
Kuwait Fund For Arab Economic Development	Kuwait	Europe, North America

Source: Preqin

Fig. 3:



Source: Preqin

Investor Spotlight: Investor News

Signature Financial Management to invest in private equity real estate funds in 2010

The USD 2 billion asset manager has not made any private equity real estate fund commitments in 2009 but is hoping to resume its investment in the asset class next year. It is looking to continue investing in funds targeting office properties in New York and Washington DC and the surrounding areas. The asset manager will consider investing with both existing managers and those it has yet to form relationships with. Signature Financial Management has around 5% of its total assets committed to real estate and this allocation consists solely of commitments to private equity real estate.

Orange County Employees' Retirement System is planning to hold off on further private equity real estate investments until capital is called on existing commitments

The USD 7.3 billion retirement system is unsure when it will return to the private equity real estate market due to its lack of liquidity in that portfolio. It has not made any new commitments in H2 2009 and is over-weighted because many of its capital commitments have not been drawn down. However, it has not lost confidence in the asset class and if its liquidity situation eases, it is possible that it will invest again at some point in 2010.

Basellandschaftliche Pensionskasse (BLPK) likely to invest in 2010

BLPK will discuss its real estate investment program for H1 2010 with its real estate asset manager Adimmo in early December. Adimmo is likely to assist the public pension fund with seeing through a commitment to an Australian logistics fund. Adimmo will also look for fund commitments in the UK and Asia Pacific and will possibly commit to a continental European vehicle. However, it is unlikely that all of these investments will go through as Basellandschaftliche Pensionskasse is unsure of investing too much abroad in the current economic climate.

Employees' Retirement System of Texas close to making its maiden commitment to private real estate funds

The USD 20 billion pension fund is looking to commit to a private real estate fund by the end of this year or the end of Q1 2010 at the latest. The pension fund has a 2% allocation to real estate, below its current target of 8%. Its real estate portfolio solely comprises listed REITs but it is looking to add diversification by investing in a mixture of unlisted core and private equity real estate funds in the next 12-18 months. It anticipates investing in 20-30 private funds as part of its private fund program, and will initially target funds focusing on domestic

markets. It will eventually invest on a global basis. The pension fund is interested in an array of fund types, including real estate funds of funds.

Pennsylvania State Employees' Retirement System (PASERS) not looking to invest in private equity real estate in 2010 due to over-allocation

The USD 23.3 billion pension fund is two percentage points above its 8% target allocation to real estate and therefore will not be making any commitments to private real estate funds in the rest of this year or in 2010. The pension fund will be looking to re-balance its portfolio so that it can fall within its target to the asset class. The pension fund's real estate allocation is split three ways, with 55% to direct property and the remainder in unlisted core vehicles and private equity real estate funds.

New York State Teachers' Retirement System (NYSTRS) extends relationship with Callan Associates

The USD 75.3 billion pension fund has renewed its contract with its real estate consultant Callan Associates for a further year. Callan, which has advised the pension fund since 2005, will remain with NYSTRS until at least February 2011. NYSTRS is a significant investor in the private equity real estate market, with 21% of its USD 7.5 billion allocation to real estate in private equity real estate vehicles.

Brockton Contributory Retirement System issues RFP

Brockton Contributory Retirement System, the USD 208 million pension fund, has issued a RFP for a new private equity real estate manager. It has not limited its search by geography, but is accepting proposals on a global basis. It expects to invite firms to discuss investments in December, with a view to making a commitment in Q1 2010. The pension fund expects to undertake another search at some point in 2010.

Aviva Investors Real Estate Multi-Manager to take over management of two real estate funds of funds from BlackRock Realty

The transfer follows the move of John Gellatly, former Head of Real Estate Fund of Funds at BlackRock, to Aviva in September. The two funds, BlackRock European Property Fund of Funds and BlackRock UK Property Fund of Funds, were transferred on 24th November 2009. They will be renamed Aviva Investors European Real Estate Fund of Funds and Aviva Investors UK Real Estate Fund of Funds. Aviva Investors Real Estate Multi-Manager has GBP 3.5 billion invested in indirect real estate.

Forena Akthar

Each month Investor News brings you the latest institutional investor news from around the globe.
More information is available online for Real Estate Online subscribers. Contact us for more information - info@preqin.com