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Spotlight on PERE Performance

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Private Equity Real Estate Performance

In this month's feature article we examine the latest private equity real estate performance figures and compare the performance of the asset class with both the public market and other types of private equity.

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Asian Fund Managers

Each month Fund Manager Spotlight examines a particular fund manager type using Preqin's Real Estate Online. This month we look at managers based in Asia.

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- Nobel Foundation
- Minnesota State Board of Investment

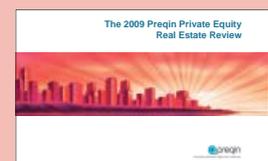
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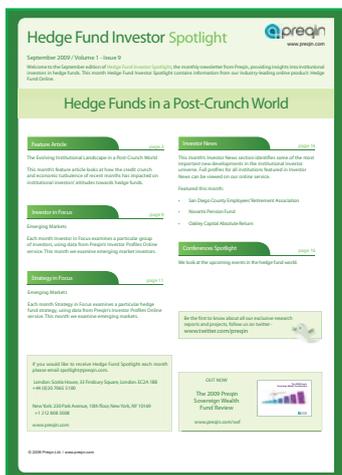
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Private Equity Real Estate Performance: Horizons are in the Red, but for How Long?

Private equity real estate fund performance has been the focus of a great deal of discussion in recent months as the asset class has been subject to significant write downs resulting from declining property values. This means that it is more important than ever to monitor the performance trends and developments of the industry. Preqin has analysed returns to 31st March 2009 in order to provide an independent and unbiased description of the industry's performance.

Private Equity Real Estate Horizon IRR

Fig. 1 demonstrates that private equity real estate returns are deep in the red over the 12-month period to March 2009. The asset class only performed marginally worse than the public markets, however, with returns of -40.5% compared with -38.1% for Standard & Poor's 500 index. Furthermore, horizon IRRs for private equity real estate have

outperformed the public markets over the three- and five-year periods. Over the five-year period, private equity real estate has outperformed the S&P 500 index by 35.8 percentage points.

"...Private equity real estate has outperformed public real estate markets..."

Private equity real estate has also outperformed public real estate markets. The Wilshire REIT index returned -60.7% in the 12 months to March 2009 and the difference in performance remains pronounced over three- and five-year periods, with private equity real estate returns exceeding REIT returns by 40.5 percentage points over five years.

It should be noted, however, that comparisons made between the public indices and private equity real estate at March 2009 are made at a particularly difficult period as the public markets bottomed out at this time. The performance of public REITs has also improved significantly: the Wilshire REIT Index performance in Q3 2009 was 35.4%. It is also important to note that private equity real estate is an illiquid investment and investors in these funds are unable to exit their investments until the end of the fund's life, unless they sell on the secondaries market, which can be subject to significant discounts. Horizon returns are therefore not as relevant as they are for listed equities.

It is also interesting to compare the performance of private equity real estate with other types of private equity. As Fig. 2 demonstrates, real estate was the worst performing fund type in the one- and three-year periods to March

Fig. 1:

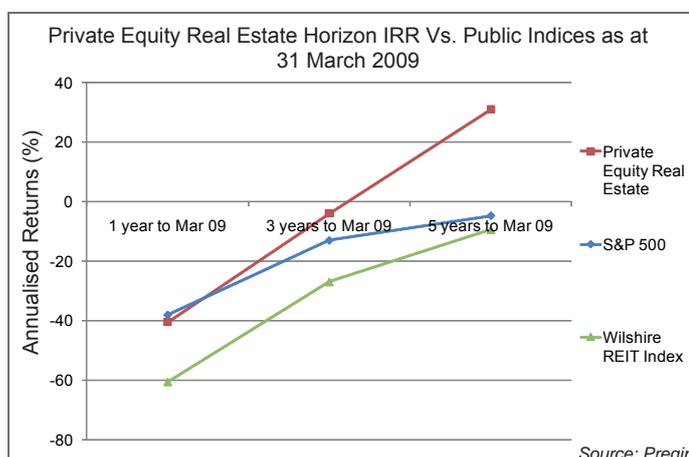


Fig. 2:

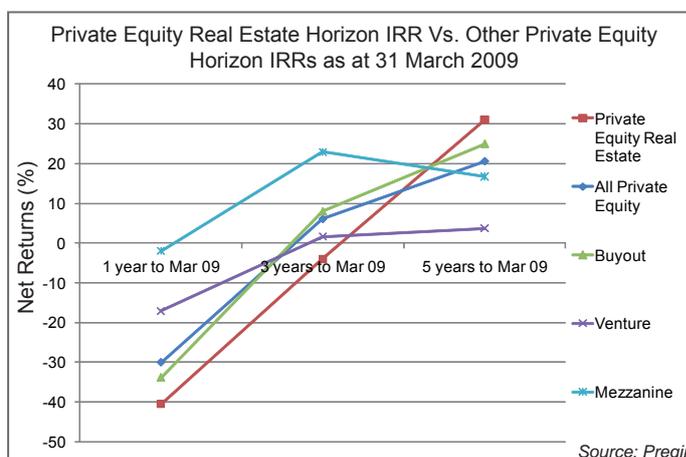
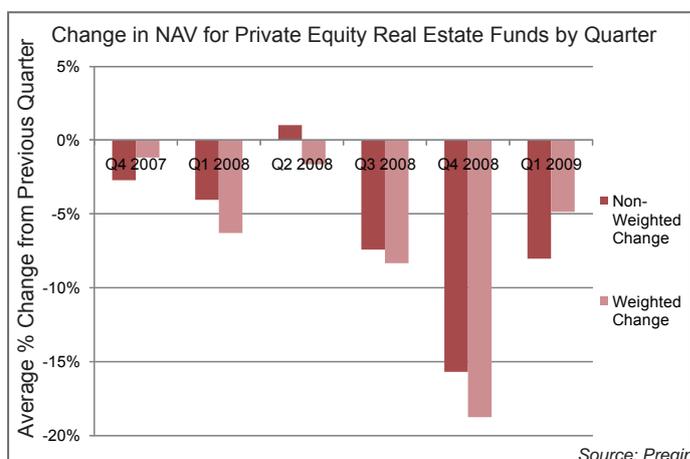


Fig. 3:



Fig. 4:



2009. Real estate's performance over 12 months was 10.5 percentage points lower than the figure for all private equity funds and over three years it was 10 percentage points lower. Over a five-year period however, real estate outperforms all private equity fund types, including buyout vehicles.

Fig. 3 shows that it was Q4 2008 that saw the most significant write-downs. Q1 2009 continued to see negative performance, with returns of -9.0%, but these were not as dramatic as the previous quarter. Again it should be noted that private equity real estate is a long-term asset class and short-term returns should not be viewed as anything more than a guide to the industry's

performance.

Change in Net Asset Value

In the current volatile environment, portfolio valuations are very unstable, as highlighted by Fig. 4. Preqin calculated the changes in private equity net asset value between successive quarters, making adjustments for the capital called and distributions received during that period. When analysing the quarterly change in net asset value, we see that private equity real estate funds began to experience write-downs in Q4 2007, following the subprime mortgage crisis. The non-weighted data registers a 2.7% decline, with weighted data showing a 1.2% fall. There was an improvement in Q2 2008 but the asset class has

value of their investments by a further 8.0%.

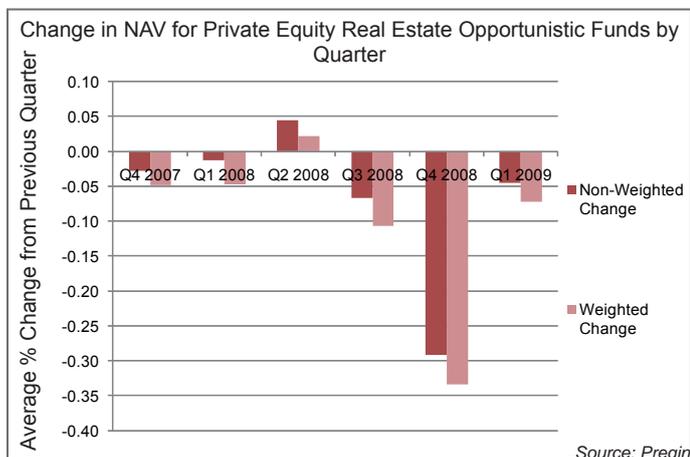
Fig. 5 shows the quarterly change in net asset value for opportunistic real estate funds, showing the weighted and non-weighted change. It is interesting to note that the weighted change has typically shown a greater percentage fall than the non-weighted figure, suggesting that the larger funds have seen the greatest percentage fall in their net asset values. The weighted figures for opportunistic funds show a NAV decline of 33.4% for the last quarter of 2008.

The median IRRs for value added and opportunistic real estate funds by vintage year are shown in Fig. 6. Real estate funds have historically been strong performers; funds with vintages 2000 to 2003 show the highest returns, with a median IRR in excess of 25%. Performance falls steadily, however, for funds with vintages of 2004 onwards. 2006 vintage opportunistic funds are showing negative returns, with a median IRR of -12.8%, and value added funds are showing returns of 4.3%. It is important to note that these funds are still relatively immature and so their performance will change over time.

Conclusions

The latest performance data shows that private equity real estate funds have suffered significant losses. The 12-month

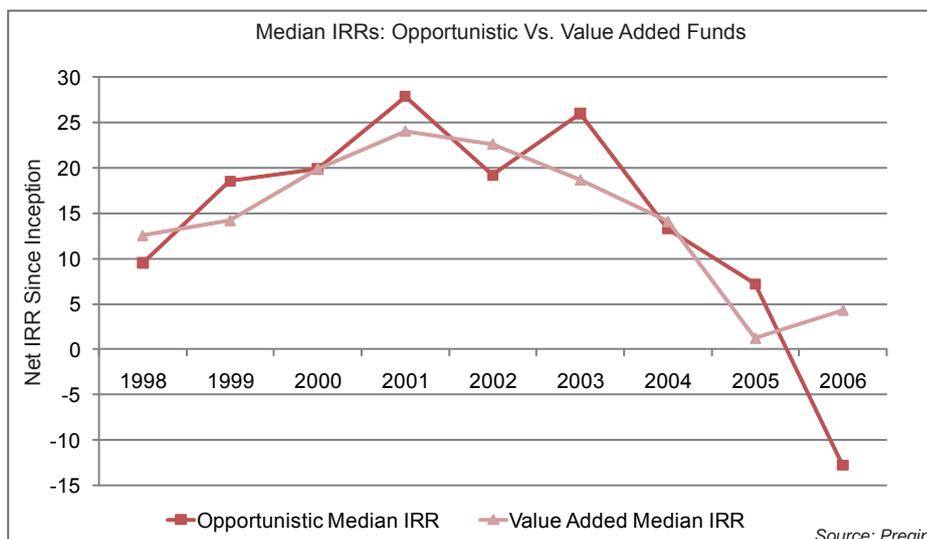
Fig. 5:



horizon IRR for private equity real estate funds stands at -40.5%, which although better than returns from public markets or public REITs at March 2009, is worse than any other type of private equity fund. Real estate fund managers have been writing down the value of their investments in every quarter since Q4 2007, with Q4 2008 seeing the most significant percentage change in net asset value. There are some indications, however, that the asset class may be picking up. Whilst returns are still extremely poor, short-term return figures suggest that the worst may be over, as Q1 2009 performance, although still negative, was not as bad as that from the fourth quarter of 2008. Private equity real estate is still performing well over the longer term, with five-year horizon IRRs beating the public markets, REITs and other private equity strategies.

Andy Moylan

Fig. 6:



The information and data used in this month's feature article has been taken from Preqin's industry leading product, Real Estate Online.

Subscribers to Real Estate Online can view performance benchmarks for real estate funds including details of the performance of individual funds. They can also see which fund managers have the best track records.

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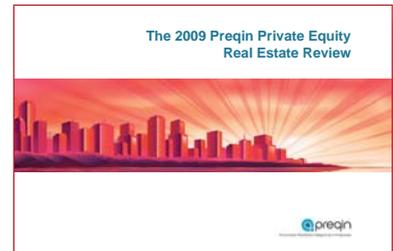
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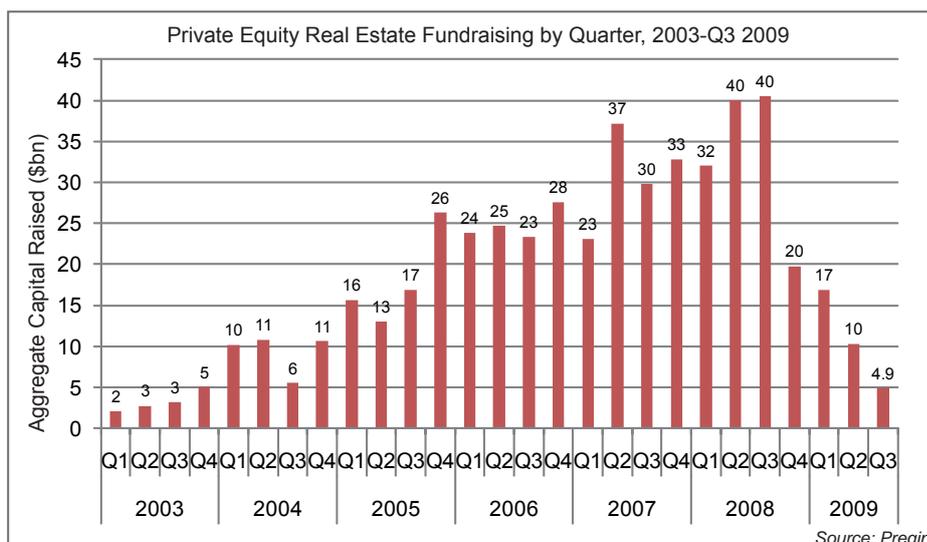
Fundraising Spotlight: Private Equity Real Estate in Q3 2009

The third quarter of 2009 saw 16 private equity real estate funds and one real estate fund of funds hold a final close, raising an aggregate \$4.9 billion. This was the lowest fundraising total for a quarter since Q3 2003, when 17 funds raised \$3.2 billion. The figures for Q3 2009 also represent a significant fall from earlier in the year, equating to 48% of the total raised in Q2 2009. The decline from the same quarter in 2008, however, is even more dramatic, as Q3 2009 fundraising represents just 12% of the \$40.5 billion which was raised in Q3 2008.

North American funds accounted for the largest proportion of capital raised during Q3 2009, with five funds raising an aggregate \$1.9 billion. Seven funds targeting Asia and Rest of World closed, receiving commitments of \$1.5 billion, and five European focused funds raised \$1.4 billion.

The largest fund to close in the quarter was Dune Real Estate Fund II. Dune Capital Management raised \$800 million for the fund, which targets investments in direct property and operating companies. The majority of the fund's capital is focused on the US, with 15-25% allocated to Western Europe. Another

Fig. 1:



notable US focused fund to close was the \$700 million Broadway Real Estate fund III; a value added fund that invests in Class A and high-quality Class B office properties in select US markets. Targeted regions include Boston, Northern and Southern California, New York City and the Washington DC area.

The largest Asia and Rest of World

focused fund to close was Secured Capital Japan Real Estate Partners IV, which raised \$525 million to make opportunistic investments in Japan. It may also invest up to 30% in China and the capital cities of other Asian countries. The largest European fund was CapMan Real Estate's Capman Hotels RE, a core-plus fund which received €332.5 million in equity commitments to invest in hotels in

Fig. 2:

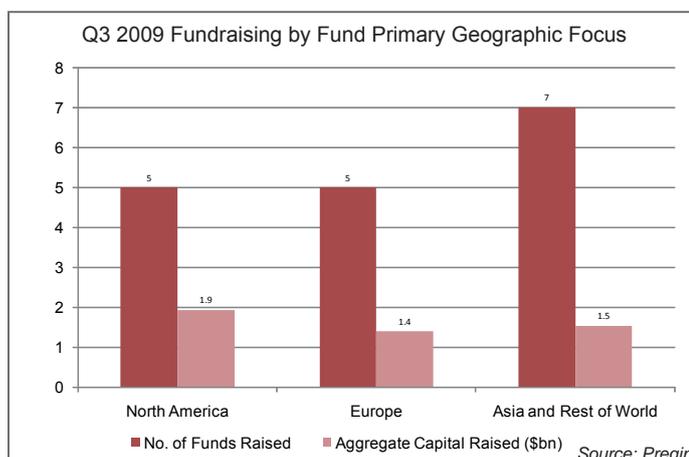
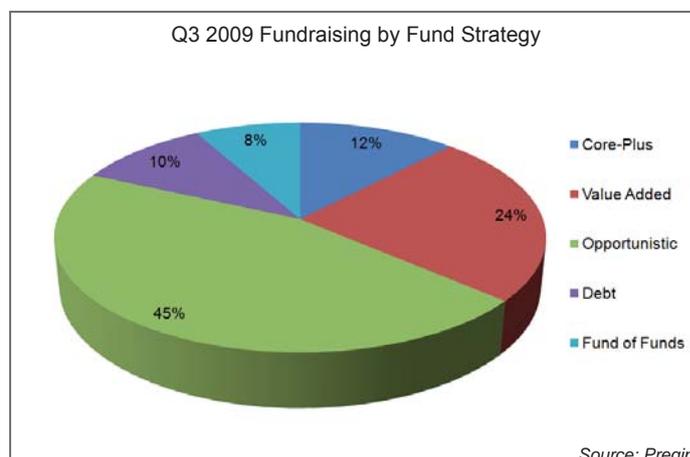


Fig. 3:



Scandinavia.

In terms of strategy, nearly half (45%) of capital raised in Q3 2009 is focused on opportunistic investments, and nearly a quarter (24%) is allocated to value added investments. 12% of capital raised is focused on core-plus investments and 10% on debt. The only fund of funds to close in the quarter, Partners Group's Global Real Estate 2008, raised €275 million and accounts for 8% of the aggregate total for the quarter.

The number and aggregate value of real estate funds on the road has been steadily decreasing in recent months. There are now 363 real estate funds in market, targeting an aggregate \$178 billion in capital commitments. The aggregate target of funds in market fell by \$21 billion over the course of Q3, as fund managers reduced their fundraising targets in response to investor activity, or in some cases abandoned their fundraising efforts altogether.

Andy Moylan

Fig. 4:

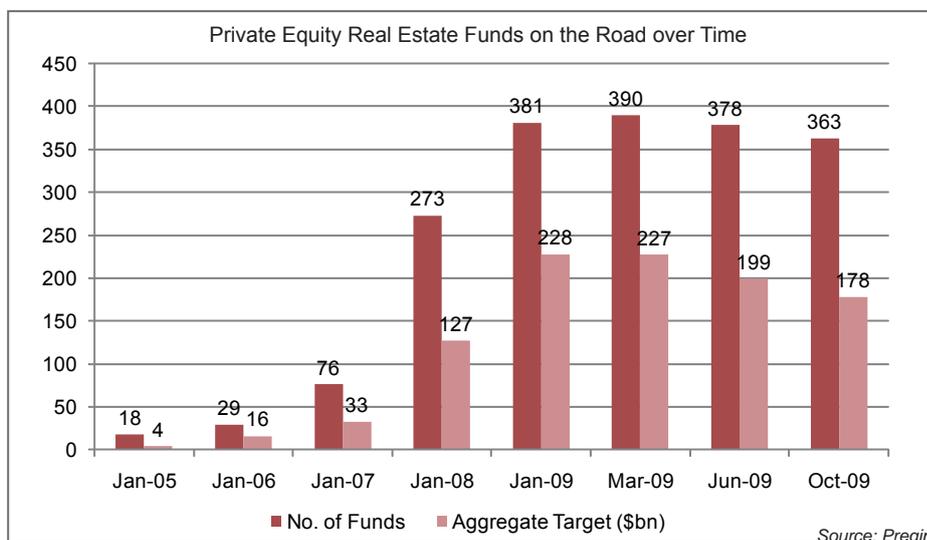


Fig. 5:

Top Five Real Estate Funds Closed in Q3 2009					
Fund	Firm	Strategy	Amount Closed (mn)	Manager Country	Fund Focus
Dune Real Estate Fund II	Dune Capital Management	Debt and Opportunistic	800 USD	US	US
Broadway Real Estate Fund III	Broadway Partners	Value Added	700 USD	US	US
Secured Capital Japan Real Estate Partners IV	Secured Capital Japan Co.	Opportunistic	525 USD	Japan	ROW
CapMan Hotels RE	CapMan Real Estate	Core-Plus	333 EUR	Finland	Europe
Partners Group Global Real Estate 2008	Partners Group	Real Estate Fund of Funds	275 EUR	Switzerland	Europe

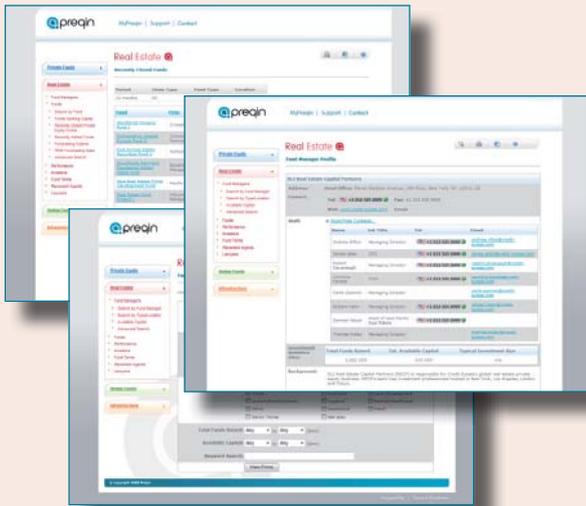
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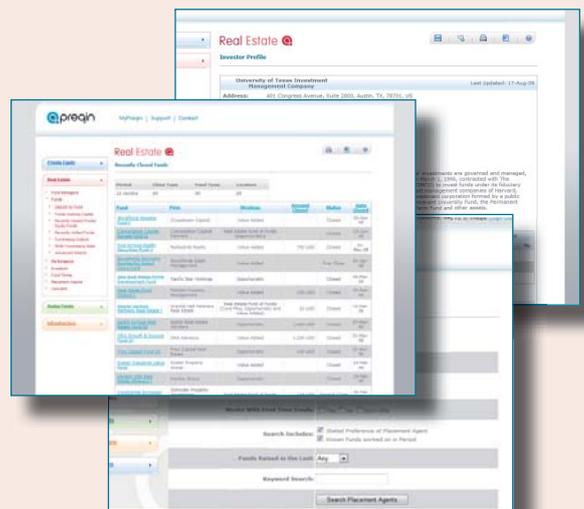
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Fund Manager Spotlight: Asian Real Estate Fund Managers

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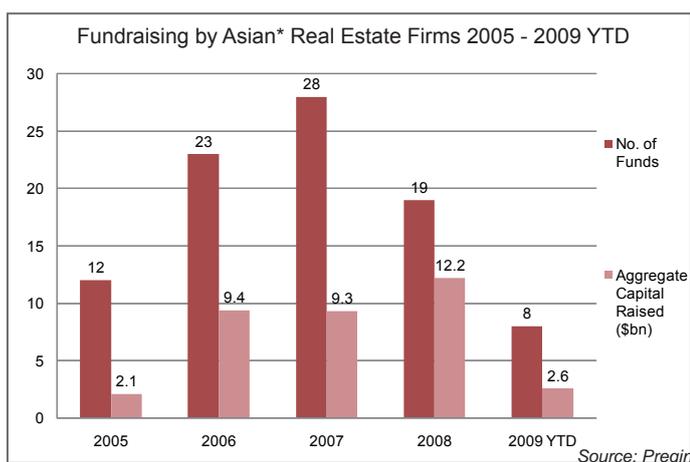


Fig. 2:



Fig. 3:



* excluding Middle East

Fig. 4:

Firm Name	Head Office	Capital Raised Last 10 years (\$bn)
Capitaland	Singapore	5.7
KK DaVinci Advisors	Japan	4.5
Merrill Lynch Commercial Real Estate	Hong Kong	2.7
Ascendas	Singapore	2.0
Secured Capital Japan Co.	Japan	1.9
Alpha Investment Partners	Singapore	1.8
IL & FS Investment Managers	India	1.4
Urban Infrastructure Venture Capital	India	1.3
Mapletree Investments	Singapore	1.3
ARA Asset Management	Singapore	1.2

Source: Preqin

Forena Akthar

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Conferences Spotlight: Forthcoming Events

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Date: 9-10 November 2009
Location: Al Faisaliah, Riyadh, KSA
Organiser: naseba

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Information:
www.reis-saudi.com

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Date: 16-17 November 2009
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Organiser: Terrapinn Pte Ltd

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

Other Conferences:

Conference	Dates	Location	Sponsor
Distressed Commercial Real Estate Summit East	4 - 6 November 2009	New York	Infocast
Real Estate Investing Forum	9 - 10 November 2009	Carlsbad	Opal Group
Real Estate Investment World Summit	9 - 10 November 2009	Riyadh	Naseba
Real Estate Investment World Australia 2009	16 - 18 November 2009	Sydney	Terrapinn
IPD IREI REALTIME: Global Property Conference	16 - 18 November 2009	New York	IREI
Gulf Real Estate Fundamentals Conference 2009	16 - 17 November 2009	Bahrain	EPRA
PERE Forum: New York	18 - 19 November 2009	New York	PEI Media
European Real Estate Opportunity & Private Fund Investing Forum	18 - 19 November 2009	London	IMN
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

Investor Spotlight: European Public Pension Funds

Fig. 1:

Top 10 European Public Pension Funds by Overall Real Estate Allocation		
Private Equity Real Estate Investor	Country	EUR (bn)
Stichting Pensioenfonds Zorg en Welzijn	Netherlands	10.7
MP Pension	Denmark	7.3
Finnish Local Government Pensions Institution	Finland	2.2
Dutch Doctors' Pension Funds Services	Netherlands	1.9
AP-Fonden 3	Sweden	1.6
AEVWL	Germany	1.6
Universities Superannuation Scheme	UK	1.4
Sampension	Denmark	0.9
AP-Fonden 1	Sweden	0.7
Greater Manchester Pension Fund	UK	0.6

Source: Preqin

European public pension funds account for 6.4% of all investors in private closed-end real estate funds. 2009 has been a difficult year for real estate and many European public pension funds, along with other types of investors in the asset class, have had to reassess their approach to real estate. Some European pension funds have decided against investing in private equity real estate in the short to mid term, preferring to wait until real estate markets stabilise. Despite this widespread caution, interest in private equity real estate investments does still exist amongst Europe's pension funds and there are investors still looking for private

equity funds to commit to.

As Fig. 2 shows, there are still several European public pension funds actively looking for private closed-end funds to invest in. Merseyside Pension Fund is one such example of a European public pension fund that is planning to commit to these vehicles over the coming months. The UK-based pension fund is open to all private closed-end real estate fund strategies and geographies, but its primary focus will be on domestic funds and vehicles targeting Latin America.

Stichting Bedrijfstakpensioenfonds Zorgverzekeraars (SBZ) is also interested in investing in private equity real estate over the next 12 months. In Q3 2009, SBZ had a 10% allocation to real estate, all of which was focused on direct property, but it now wants to sell its entire portfolio and reinvest up to 6% of its assets under management in private real estate funds. In addition to core funds, the public pension fund will target value added and opportunistic private equity real estate vehicles.

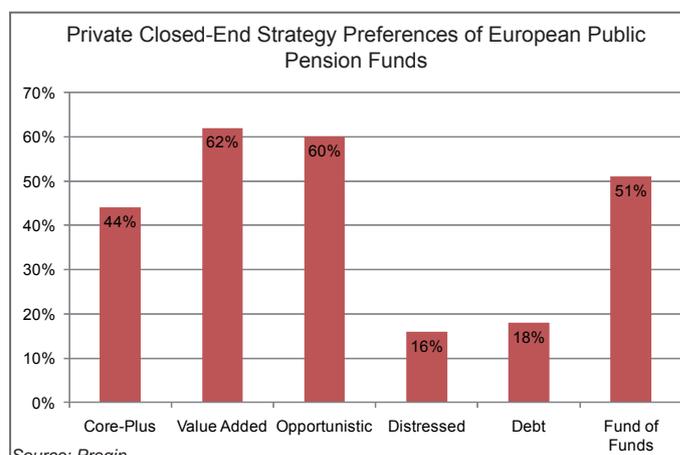
Stuart Taylor

Fig. 2:

Investors Interested in Private Closed-End Fund Commitments		
Investor	Investor Location	Geographic Preference
AEVWL	Germany	Global
Finnish State Pension Fund	Finland	Asia
Merseyside Pension Fund	UK	Global, Latin America, UK
Stichting Bedrijfstakpensioenfonds Zorgverzekeraars	Netherlands	Europe, North America
West Midlands Pension Fund	UK	Europe

Source: Preqin

Fig. 3:



Source: Preqin

Investor Spotlight: Investor News

Schindler Pensionskasse hopes to invest in domestic private real estate funds in the next 12 months

The Swiss-based pension fund is planning to invest in domestic private real estate in the next year. It has previously invested on a global basis but is now narrowing its focus to the domestic market. Despite being fully committed to real estate having reached its 25% target allocation to the asset class, Schindler Pensionskasse is still willing to commit to further funds. It has 80% of its real estate portfolio allocated to direct property and the remainder to listed and unlisted funds. The pension fund's indirect private portfolio consists mainly of funds of funds and core funds, but it is also interested in other strategies.

Board of Regents State of Iowa commits to Metropolitan Real Estate Partners Global III

The USD 2 billion endowment plan has committed to Metropolitan Real Estate Partners Global III in order to increase its allocation to real estate. Board of Regents State of Iowa has a target allocation to real estate of 10% and currently has 5% invested in the asset class. Metropolitan Real Estate Partners Global III is a fund of funds vehicle with a global focus.

Walt Disney Company Retirement Plan Master Trust to commit further to real estate funds in the next 12 months

The USD 4 billion private pension fund is planning to commit to real estate funds in the next 12 months. The pension fund currently has 7% of its total assets invested in real estate, and has a target allocation of 10%. It commits all of its real estate allocation to private equity real estate funds, and generally employs a global opportunistic strategy, which it will continue to use for future commitments.

Real estate fund of funds vehicle Sparinvest Property Fund II holds first close with commitments from Danish investors PenSam and Kirk Kapital

Sparinvest Property Investors' second real estate fund of funds vehicle has held a first close on EUR 100 million, with commitments from four investors including Danish pension fund PenSam and Danish family office Kirk Kapital. The investors will gain exposure to a wide range of geographic regions through the globally focused Sparinvest Property Fund II. The vehicle invest in core, core-plus, debt, distressed, opportunistic and value added funds, although its primary focus will be on value added funds.

1Malaysia Development Berhad forms joint venture with PetroSaudi International to invest in a range of sectors including real estate

The MYR 11 billion Malaysian sovereign wealth fund, 1Malaysia Development Berhad (1MDB), has formed multiple joint ventures with Middle Eastern organisations in order to invest in a wide range of sectors in Malaysia, including real estate. 1Malaysia Development Berhad (formerly known as Terengganu Investment Authority) has entered into a USD 2.5 billion joint venture with Saudi Arabia's PetroSaudi International (PSI) in order to invest in renewable energy and sectors that will attract foreign direct investments. Therefore it is expected that the joint venture will also target real estate projects. 1MDB intends to capitalise on the real estate asset class and sees it as a key contributor to the economic development of the country. It will set up further relationships with established foreign partners to undertake projects that will improve Malaysia's profile internationally and attract vital foreign direct investments. It formed a similar joint venture with Mubadala Development Company in July.

Minnesota State Board of Investment unsure on year ahead

Minnesota State Board of Investment is not sure how it will confront the real estate market in the next 12 months. Many of its real estate investments are performing poorly and it is hesitant to invest in a troubled market. The USD 47.9 billion pension fund only invests in real estate via private equity real estate funds and it has committed to a range of strategies. It had a USD 4 billion allocation to real estate in October 2009, but only USD 1 billion had so far been called.

Nobel Foundation board of directors decide against illiquid investments

The SEK 3 billion foundation has decided that it will not be investing in real estate for at least 12 months. Nobel Foundation traditionally invests in real estate via private equity real estate funds and although the foundation is happy with how its real estate portfolio has performed in the past, it will not invest in the asset class whilst the market is in its current state. The board of directors does not want to invest in private equity real estate or any form of illiquid fund during these tough economic conditions.

Forena Akthar

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