Real Estate Spotlight

August 2011

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 Fund Terms Advisor

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The 2011 Preqin Private Equity Fund Terms Advisor

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The Impact of Fund Terms and Conditions

As investors remain cautious and the fundraising market remains tough, we take a look at how GPs can structure their funds to make them more attractive to the real estate investor.
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Performance Update

How have private real estate funds performed over the recent past? The performance update examines the change in NAV of funds over the past 18 months.
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Industry News

Each month Preqin's analysts speak to hundreds of investors and fund managers from around the world, uncovering exclusive intelligence on real estate investment plans. Ohio Police and Fire Pension Scheme, Saint Paul Foundation and FCP Fund III are amongst those featured this month.
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Conference Listings

Details of forthcoming industry events
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You can download all the data in this month's Spotlight in Excel. Wherever you see this symbol, the data is available for free download on Excel. Just click on the symbol and your download will begin automatically. You are welcome to use the data in any presentations you are preparing, please cite Preqin as the source.

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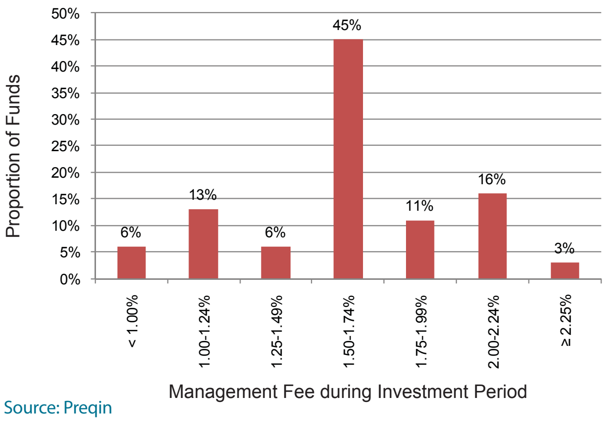
The Impact of Real Estate Fund Terms and Conditions

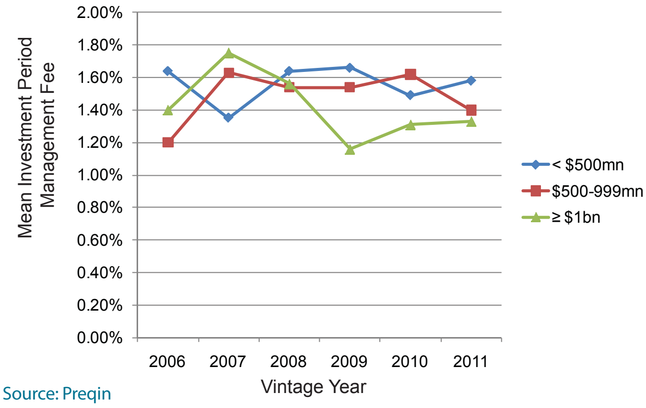
Alex Jones and Andrew Moylan examine how private equity real estate terms have changed since the onset of the global financial crisis.

Fig. 1: Real Estate Funds - Management Fee during Investment Period (Funds Raising & Vintage 2010/2011 Funds Closed)



Source: Preqin

Fig. 2: Real Estate Funds - Mean Management Fee by Fund Size and Vintage Year



Source: Preqin

In the wake of the financial crisis, private equity real estate fund managers have been under increasing pressure as a result of the poor fundraising market. Institutional investors have become more cautious towards real estate investment due to the impact of the crisis on the asset class, which has resulted in an overcrowded and depressed fundraising environment. In such a climate it is vital for fund managers to position their vehicle in the best possible way, and a large part of this is in the terms and conditions offered to potential LPs.

With this in mind, the 2011 Preqin Fund Terms Advisor has been designed to provide an important reference point – showing the benchmark terms and conditions and also the actual terms employed by individual vehicles. Thousands of industry professionals use this important publication to assess the best practices for real estate and private equity funds by type, size and region, with statistics based on analysis of thousands of vehicles. In addition we list the actual terms and conditions employed by 1,600 vehicles (identities disguised), allowing users to compare proposed terms and conditions with peer groups. Individual fund data is also available to purchasers as a data download, allowing readers to perform further analysis.

Evolving Fees

Fig. 1 shows the split of management fees charged during the investment period by real estate funds with a 2010 or 2011 vintage, or those still raising capital as of Q2 2011. Nearly half of all such funds have a management fee of 1.50-1.74%, and 16% have a fee of 2.00-2.24%. Just over one-tenth of funds have a 1.75-1.99% management fee, and 13% use a rate of 1.00-1.24%.

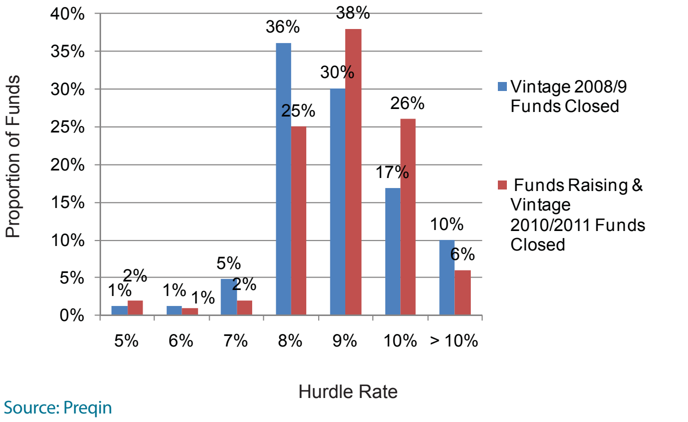
While the largest proportion of funds do still charge a 1.50% management fee, which has typically been seen as the industry standard, there have been changes in recent years. Fig. 2 shows that the largest real estate funds of the most recent vintages have had significantly lower average management fees than vintage 2007 and 2008 funds. The mean management fee for vintage 2011 funds (including those still fundraising and yet to begin investing as of Q2 2011) of $1 billion or more in size is 1.33%. There has been criticism of the management fees charged in the industry, particularly of the largest firms which, by nature of the amount of capital they raised, receive significant sums from management fees. It is these firms which, as a result of the economies of scale involved, are most able to operate with lower management fees and will have come under more pressure to lower these. The management fees for funds which raised less than $1 billion have remained more consistent, although interestingly the mean management fee for 2011 vintage funds in the $500-999 million bracket has also fallen significantly.

Real estate funds tend to have higher hurdle rates than other types of private equity fund. As Fig. 3 shows, 38% of real estate funds use a hurdle rate of 9% and over a quarter use a hurdle rate of 10%. Here again there has been a move towards more LP-friendly terms. 70% of funds in market or closed funds with a 2010/2011 vintage have a hurdle rate of 9% or more. In contrast for closed funds of 2008/9 vintage years, 43% had a hurdle rate of less than 9%.

Aligning Interests

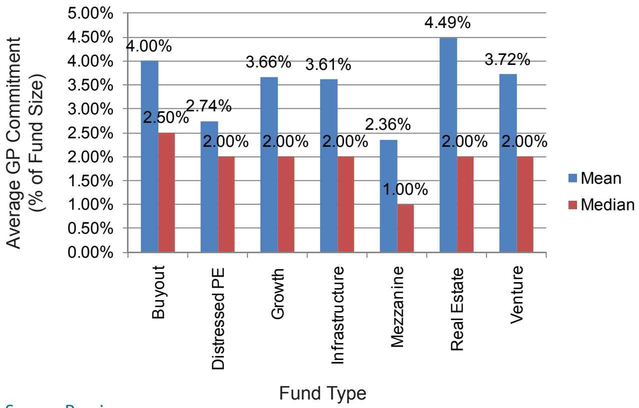
GPs can ensure interests are aligned by making a more sizeable commitment to their own vehicle. Such an investment can come through a traditional commitment model, or can be structured through keeping various fees due to the GPs committed to the fund itself. LPs have told us repetedly that this is a major issue, with many seeing no better way to align interests than having their managers

Fig. 3: Hurdle Rate Used by Real Estate Funds



Source: Preqin

Fig. 4: Average Minimum LP Commitment by Fund Type (Funds Raising & Vintage 2010/2011 Funds Closed)



Source: Preqin

with skin in the game. Fund managers that are able to structure a larger GP commitment can really elevate themselves above the competition in the current competitive fundraising landscape.

As can been seen in Fig. 4, real estate funds have the highest mean level of GP commitments when compared with various other private equity fund strategies. Many real estate managers make sizeable commitments to their funds, above 10% in several cases. The median commitment of 2.0% is in line with most of the private equity market.

There has certainly been evolution in the fees charged by real estate funds since the global financial crisis. Hurdle rates have increased and management fees, particularly for the largest funds, have declined. Limited partners will, of course, want to invest on the best terms possible, but most importantly they want to see terms that are fair and align the interests of the GP and LP. Investors want firms that can deliver superior returns and want to incentivize talented people. If higher management fees are necessary to operate a superior firm effectively then many investors will see this as a price worth paying.

This article has covered some of the main headline trends for fees and terms in private real estate funds. Further detail can be found in the 2011 Preqin Fund Terms Advisor.

2011 Preqin Private Equity Fund Terms Advisor

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The 2011 Preqin Fund Terms Advisor is a vital tool for all private equity firms, placement agents and law firms involved with the fund formation process. It also contains valuable intelligence for all those investing in private equity, and for those advising LPs.

Key features include:

- Actual terms and conditions data for over 1,600 funds, including management fees and mechanisms for reduction after the investment period, carry, carry distribution methods, hurdles, preferred return, fee rebates, no-fault divorce clause, GP commitments, investment period.
- Benchmark terms and conditions data for funds of all different types: buyout, venture, real estate, distressed, mezzanine, fund of funds, secondaries and more…
- Results of our LP survey - the most comprehensive study of current opinions on fund terms and conditions ever conducted.
- Data and analysis on the actual fees and costs incurred by LPs, with listings showing costs for 1,100 named vehicles.
- Full access to our updated Fund Terms Advisor Online product, which enables you to model the real economic impact of fund terms and conditions, and download detailed fund terms for further analysis.
- Comprehensive analysis on all aspects of private equity fund terms and conditions including how conditions have changed over time and what variations exist amongst funds of different type, size and region.

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Performance Update

Forena Akhtar takes a look at private real estate fund performance and change in net asset values

Fig. 1: Private Equity Real Estate Change in NAV by Quarter

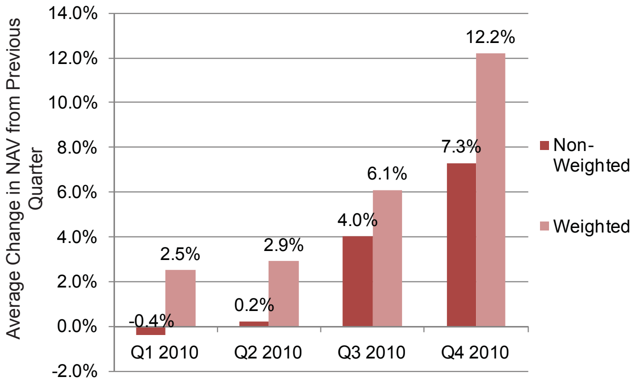

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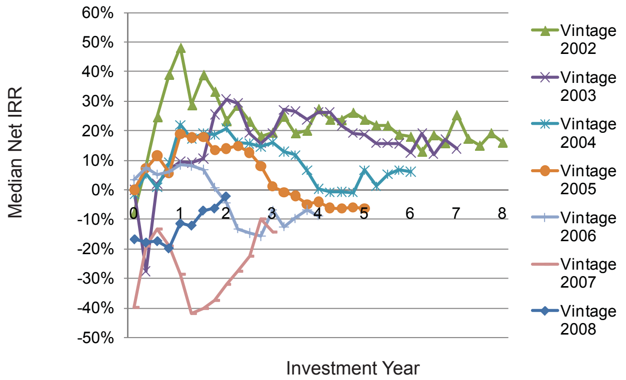
Fig. 2: J-Curves: Annual Median Net IRRs by Vintage Year, as of 31 Dec 2010



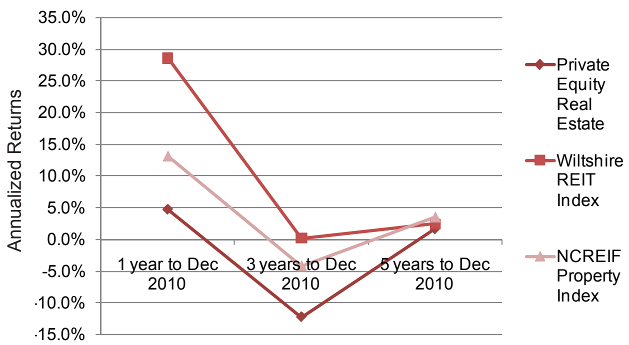
Source: Preqin

The change in net asset value (NAV) of private equity real estate funds in successive quarters from Q1 2010 to Q4 2010 is shown in Fig. 1. The non-weighted data shows a small decline in NAV in Q1 2010, but in the following three quarters it increased. Q4 2010 saw a significant 7.3% increase in NAV. Fund managers' portfolios are increasing in value as global property markets begin to recover. The weighted data, which takes fund size into account, showed positive change in NAV in all quarters during 2010, including a 12.2% increase in Q4 2010. This suggests that valuations of the larger funds are showing more of an improvement, although it should be noted that these funds were more adversely affected by the financial crisis.

Fig. 2 plots the annual median net IRR at each quarter end for funds of 2002 to 2008 vintages. The median IRRs of funds of 2004, 2005 and 2006 vintages declined significantly as a result of the downturn, before stabilizing over the four quarters of 2010. 2007 vintage funds had a median IRR which was in negative territory in Q1 2009, standing at -41.8%. The median IRR of 2008 vintage funds has seen some recovery in recent quarters, moving up to -6.3% in Q3 2010 and -2.2% in Q4 2010.

Fig. 3 compares the horizon IRRs of private equity real estate funds with those of the Wilshire REIT Index and the NCREIF Property Index over one-, three- and five-year periods to December 2010. The one-year private equity real estate horizon IRR was 4.7%; the corresponding figure for the NCREIF Property Index was 13.1% and 28.6% for the Wilshire REIT Index. Over the three-year period, however, only the Wilshire REIT Index achieved a positive return, with a horizon IRR of 0.2%; private equity real estate funds returned -12.2% and the NCREIF Property Index posted -4.2%. REITs and direct property also outperformed private equity real estate funds over the five-year period to December 2010, though returns for all three investment types differed very little in this period.

Fig 3: Private Equity Real Estate Horizon IRR vs. REIT and Direct Property Indices, as of 31 Dec 2010



Source: Preqin

Data Source:

Real Estate Online

Preqin's industry-leading product Real Estate Online features full net-to-LP performance metrics for over 900 named vehicles.

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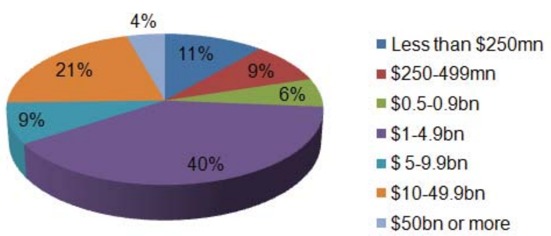
Australasian Real Estate Investors

Ee Fai Kam takes a look at Australasia-based investors in real estate

Fig. 1: Breakdown of Australasia-Based Investors That Invest in Real Estate by Assets under Management (Australian Dollar)



Source: Preqin

Fig. 2: Real Estate Investment Type Preferences of Australasia-Based Real Estate Investors

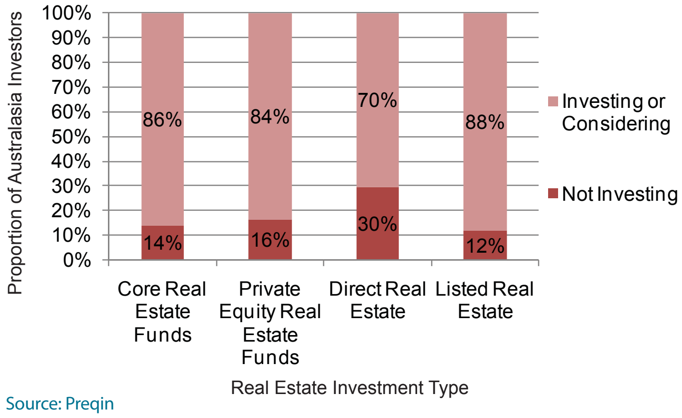


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Fig. 3: Strategic Preferences of Australasia-Based Real Estate Investors

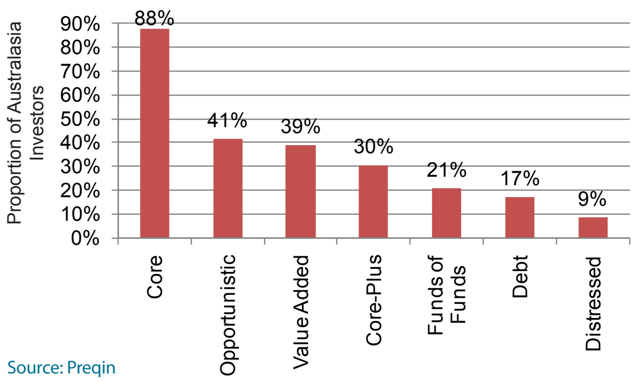

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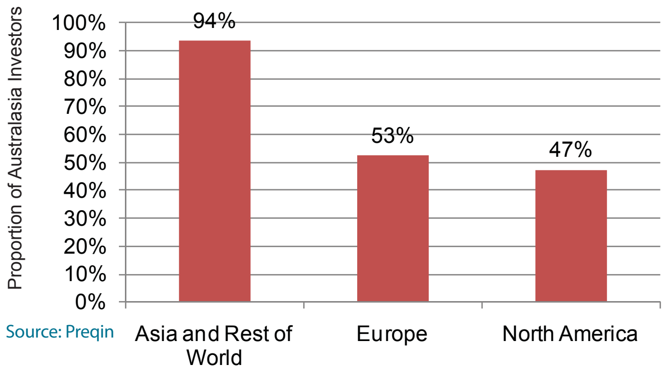
Fig. 4: Unlisted Location Preferences of Australasia-Based Real Estate Investors



Source: Preqin

Fig 5: Sample Australasian Investors in Private Real Estate Funds

Investor	Type	AUM (A$ mn)	Target Allocation to Real Estate (%)	Actual Allocation to Real Estate (%)
Future Fund	Sovereign Wealth Fund	74,620		6.0%
Perpetual Investments	Asset Manager	42,026	15.0%	15.0%
Retail Employees' Superannuation Trust	Superannuation Scheme	17,582	13.0%	9.1%
Challenger Financial Services Group	Asset Manager	25,500	12.6%	15.0%
Australia Post Superannuation Scheme	Superannuation Scheme	5,905	30.0%	36.0%

Source: Preqin

Data Source:

Real Estate Online

There are currently profiles for 355 UK-based institutional investors actively investing in real estate on Preqin Real Estate Online. Subscribers can click on the investor name to view the profile. www.preqin.com/reo

Download Data

The Fundraising Lowdown

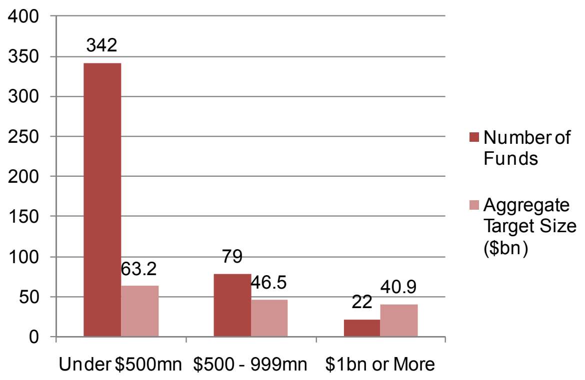
Farhaz Miah gives a round-up of the latest real estate fundraising statistics

Fig. 1: Real Estate Funds in Market

	North	Europe	Asia and Rest of World	Overall
Number of Funds	257	102	84	443
Aggregate Target Size ($bn)	86.2	37.8	26.6	150.6
Average Target Size ($mn)	347	398	354	360

Source: Preqin

Fig. 2: Funds in Market By Target Size



Source: Preqin

Fig.3: Notable China-Focused Funds on the Road

Fund	Manager	Target Size (mn)	Strategy	Property Focus
ING Real Estate China Opportunity Fund II	ING Real Estate Investment Management	750 USD	Opportunistic	Mixed Use, Residential
Trophy Property Development II	Winnington Capital	750 USD	Opportunistic	Retail
Century Bridge China Real Estate Fund	Century Bridge Capital	400 USD	Opportunistic	Commercial, Multi-family, Residential
Prax Capital China Real Estate Fund III	Prax Capital	350 USD	Opportunistic	Commercial
CR China Retail Real Estate Income Fund I	Harvest Capital Partners	300 USD	Value Added	Commercial, Residential
UBS Gemdale China Real Estate Fund	UBS Global Real Estate	300 USD	Opportunistic	Apartment, Residential
Lincoln Vale Florin China I Fund	Lincoln Vale	250 USD	Debt, Distressed and Opportunistic	Residential
Red Wall Real Estate Investment	Red Wall Real Estate Investment	150 USD	Core-Plus	Office
Policy-Based House Investment Fund I	Everassion Funds	1,000 CNY	Opportunistic and Value Added	Hotels, Office, Residential, Retail
White Peak Real Estate II	White Peak Real Estate Investment	1,000 CNY	Opportunistic	Office, Residential, Retail

Source: Preqin

Recently Closed Funds

Alcion Real Estate Partners Master Fund II

Manager: Alcion Ventures
Strategy: Opportunistic, Debt, Distressed
Debt Types: Mezzanine, Preferred Equity, Distressed Debt
Property Focus: Industrial, Office, Resort
Geographic Focus: Canada, US
Final Close: 500mn USD (Jun 2011)
Placement Agent: HFF Securities
Sample Investors: Arizona Public Safety Personnel Retirement System, Harvard Management Company,

Garrison Real Estate Fund II

Manager: Garrison Investment Group
Strategy: Debt, Distressed
Property Focus: Commercial
Geographic Focus: US
Target IRR (Net): 18% - 20%
Final Close: 575mn USD (Jun 2011)
Placement Agent: Not Used
Law Firm (Fund Formation): Sidley Austin

Preqin News Exclusives

The inside scoop from the world of private real estate gathered by Preqin's team of researchers.

Over the past month four investors have announced plans to make real estate commitments during the next year or so. Three investors have taken the plunge and committed to funds, while two funds have reached a close, one final and one interim.

Alfred I. DuPont Testamentary Trust, which has a 5.5% allocation to the asset class, is to continue investing opportunistically and will consider openings on a case-by-case basis. The foundation has no preference as to geographic focus or fund strategy, but does prefer to invest with highly experienced fund managers. It is open to investing with spin-off teams too. It typically invests between USD 10 million and USD 20 million per fund.

USD 4.1 billion Philadelphia Board of Pensions and Retirement meanwhile intends to commit to two or three new funds in the next two years. It has set aside USD 40 million to be invested with both new and existing managers, although the plan may change as it has just appointed a new CIO. The pension scheme is currently at its 5% target allocation, and its portfolio is split 40% core real estate and 60% private equity real estate funds.

Also looking for new opportunities is Saint Paul Foundation. It is yet to decide on how much it will invest, but is looking to commit to a North America-focused value added real estate fund in the next 12 months. It typically invests between USD 3 million and USD 5 million, will not consider co-investments and will only invest with experienced managers.

Finally, Australian firm Access Capital Advisers could commit up to AUD 200 million to direct assets and/or unlisted funds during the next year. The AUD 11.5 billion firm, which has a 23% allocation to the asset class, will consider core and core-plus funds and is particularly interested in those with an OECD focus. Its current portfolio is split 34% private funds and 66% direct holdings.

Commitments have all been state-side for Illinois Municipal Retirement Fund, making two investments, each worth USD 50 million. Value added Cornerstone Real Estate Fund VIII was on the receiving end of one of these commitments. The pension fund has a 6% target allocation to real estate, and an actual allocation of 2.1%.

Ohio Police and Fire Pension Fund meanwhile made a USD 35 million commitment to Greystar Equity Partners VII, which is targeting the US apartment market. The USD 12.4 billion pension fund has a 12% target real estate allocation and does not have any specific location or strategic preferences when it comes to making real estate investments.

Over in Pennsylvania, the State Employees' Retirement System has decided to commit up to USD 25 million to LEM Real Estate High Yield Debt Fund III. The move marks the pension fund's second real estate investment this year, the first being a USD 15 million commitment to BPG Investment Partnership IX. It is likely to make further investments before the end of 2011, setting aside USD 50 million, and it has a current allocation to the asset class of 9%.

FCP Fund II held a second close at the beginning of July after raising an additional USD 194 million taking the total raised to USD 317 million. It is targeting value added investments in the Mid Atlantic region and looks for multi-family and office properties. The fund is targeting USD 500 million, with no expected close date as yet.

Last but not least, M&G Real Estate Debt Fund reached a final close on the last day of June having raised EUR 494 million. It invests in Western European commercial real estate debt and targets the UK, Germany, Netherlands and France.

What's New?

Do you have any news you would like to share with the readers of Spotlight? Perhaps you're about to launch a new fund, have implemented a new investment strategy, or are considering investments beyond your usual geographic focus?

Send your updates to cwilson@preqin.com and we will endeavour to publish them in the next issue.

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Conferences Spotlight

Conference	Dates	Location	Organizer
GRI Europe Summit 2011	7 - 8 September 2011	Paris	Global Real Estate Institute
Bank & Special Asset Conferences on Distressed Real Estate	12 - 13 September 2011	Chicago	IMN
IPD RealWorld 2011	15 - 16 September 2011	Cambridge	IPD
9th Annual Alternative Investments Summit	19 - 20 September 2011	Miami	IMN
Real Estate Asset Enhancement World Asia 2011	19 - 21 September 2011	Singapore	Terrapinn
2011 Low-Tier Cities Real Estate Investment Summit	21 - 22 September 2011	Beijing	JFPS Group China
Expo Real 2011	4 - 6 October 2011	Munich	Messe Munchen
5th Real Estate Private Equity Summit	5 October 2011	New York	iGlobal Forum
Real Estate Investment World Latin America	18 - 20 October 2011	Miami	Terrapinn
12th Annual European Real Estate Opportunity & Private Fund Investing Conference	25 - 26 October 2011	London	IMN
PERE Forum: New York	9 - 10 November 2011	New York	PEI Media
NAREIT Annual Convention	15 - 17 November 2011	Dallas	NAREIT
MIPIM Asia 2011	15 - 17 November 2011	Hong Kong	Reed MIDEM
PERE Forum: Germany	17 - 18 November 2011	Frankfurt	PEI Media
IPD/IPF Property Investment Conference 2011	24 - 25 November 2011	Brighton	IPD