

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.

November 2012
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FEATURED PUBLICATION:



The 2013 Preqin Private Equity Compensation and Employment Review

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Real Estate Spotlight

November 2012

Feature Article

The Growth of Real Estate Debt Funds

With a number of large debt funds closing, and more coming to market in Q4 2012, we take a look at the real estate debt fund market, including current activity, target IRRs, and investor appetite. Will fund manager and investor appetite for this strategy continue to grow?

Page 2

Preqin Industry News

This month's Industry News examines the latest on public pension funds investing in real estate and their plans for the next 12 months, including what strategies they are most likely to be targeting.

Page 7

The Facts

Fundraising Update - A round-up of the latest stats from the fundraising market. [Page 9](#)

Retail-Focused Fund Managers - Key data on these GPs. [Page 10](#)

Asset Managers Investing in Real Estate - How are they committing to the asset class? [Page 12](#)

Conferences - Details of upcoming real estate conferences from around the world. [Page 13](#)

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The Growth of Real Estate Debt Funds: Latest Trends

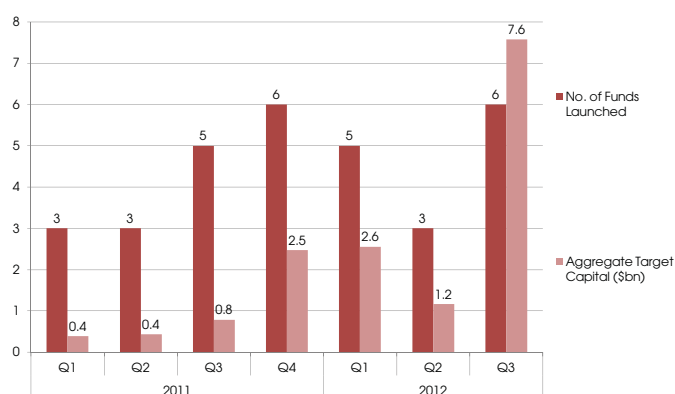
With an increasing number of real estate debt funds being launched, [Andrew Moylan](#) takes a look at this growing sector and the prospects for real estate debt funds in the future.

With traditional bank financing for real estate remaining hard to come by, many fund managers have spotted an opportunity in the market; as a result there are an increasing number of real estate debt funds being launched to help fill this gap. Many firms are diversifying their businesses to include specialist debt platforms, while a growing number of fund managers are incorporating debt investments into their existing investment strategies. Institutional investors are also increasingly seeing the value that real estate debt can bring to their existing real estate portfolios, with a growing number expecting to commit to real estate debt offerings in the coming year.

The number of new debt funds coming to market demonstrates the increased importance of debt within the market as a whole. The first three quarters of 2012 saw 14 debt funds begin fundraising, with an aggregate target of \$11.4bn, but there was a particular increase in Q3. The \$7.6bn targeted by debt funds launched in Q3 2012 alone is almost double the aggregate target of all debt funds launched in 2011. Debt funds accounted for 59% of \$13.5bn targeted by private real estate funds which began fundraising in Q3 2012. Already in Q4 2012, we have seen more debt funds come to market. ICG-Longbow has commenced fundraising for its ICG-Longbow UK Real Estate Debt Investments III, which has a £500mn target, while Balmain Investment Management is seeking AUD 500mn for its Australia-focused Secured Private Debt Fund.

There were also a number of notable debt funds launched during Q3 2012. Blackstone Group began fundraising for Blackstone Real Estate Debt Strategies II, which has a \$4bn target and focuses primarily on high yield lending on commercial real estate, while AXA Real Estate is targeting €1bn for its second European senior loan fund CRE2. M&G Investments launched two debt funds in the quarter: M&G Real Estate

Fig. 1: Real Estate Debt Funds Launched, Q1 2011 - Q3 2012



Source: Preqin Real Estate Online

Debt Fund II focuses on mezzanine debt while M&G Real Estate Debt Fund III targets senior loans.

There are currently a total of 41 solely debt-focused real estate funds in market, with an aggregate target of \$20.5bn. Solely debt-focused funds account for 13% of capital targeted by real estate funds on the road, with the largest funds in market shown in Fig. 2.

Growing Demand

Prior to the economic downturn, debt funds represented a small part of the real estate fund industry, but their importance has grown considerably in recent years. Before the financial crisis, real estate

Fig. 2: Largest Solely Debt-Focused Real Estate Funds in Market

Fund	Firm	Target (mn)
Blackstone Real Estate Debt Strategies II	Blackstone Group	4,000 USD
Fortress Japan Opportunity Fund II	Fortress Investment Group	100,000 JPY
CRE2	AXA Real Estate	1,000 EUR
Torchlight Debt Opportunity Fund IV	Torchlight Investors	1,000 USD
Henderson Senior Secured Real Estate Debt Fund	Henderson Global Investors - Property	500 GBP
M&G Real Estate Debt Fund II	M&G Investments	500 GBP
M&G Real Estate Debt Fund III	M&G Investments	500 GBP
ICG-Longbow UK Real Estate Debt Investments III	ICG-Longbow	500 GBP
H/2 Special Opportunities II	H/2 Capital Partners	750 USD
Mesa West Real Estate Income Fund III	Mesa West Capital	650 USD
Senior European Loan Fund	AEW Europe	500 EUR

Source: Preqin Real Estate Online



equity funds were able to deliver very strong returns, something which would be much harder to achieve in the current financial environments seen in the US or Europe. With financing from traditional lenders much scarcer, many fund managers saw the opportunity to generate returns by investing in real estate debt.

As Fig. 3 illustrates, 93% of capital raised in 2006 was by funds focusing solely on equity. In subsequent years the proportion of capital raised that is account for by funds making debt investments has increased significantly. In 2009, 12% of capital was raised by solely debt funds, with a further 24% of capital raised by funds making a combination of debt and equity investments. In 2011, a total of \$8bn was raised by funds focusing on debt investments, which represented 14% of all capital raised in the year. Notable funds to close last year included the \$2.9bn Blackstone Real Estate Special Situations Fund II and AXA Real Estate's €1bn CRE Senior 1. While less capital has

Fig. 3: Annual Closed-End Private Real Estate Fundraising, 2006 - October 2012: Equity vs. Debt



Source: Preqin Real Estate Online

Fig. 4: 10 Largest Real Estate Debt Funds Closed, 2011 - 2012

Fund	Firm	Size (mn)
Blackstone Real Estate Special Situations Fund II	Blackstone Group	2,900 USD
CRE Senior 1	AXA Real Estate	1,000 EUR
Pramerica Real Estate Capital I	Pramerica Real Estate Investors	492 GBP
Prudential U.S. Real Estate Debt Fund	Pramerica Real Estate Investors	805 USD
Colony Distressed Credit Fund II	Colony Capital	780 USD
M&G Real Estate Debt Fund	M&G Investments	494 EUR
European Real Estate Debt Fund	DRC Capital	300 GBP
Contrarian Distressed Real Estate Debt Fund II	Contrarian Capital Management	450 USD
Longbow UK Real Estate Debt Investments II	ICG-Longbow	242 GBP
Cornerstone Enhanced Mortgage Fund	Cornerstone Real Estate Advisers	315 USD

Source: Preqin Real Estate Online

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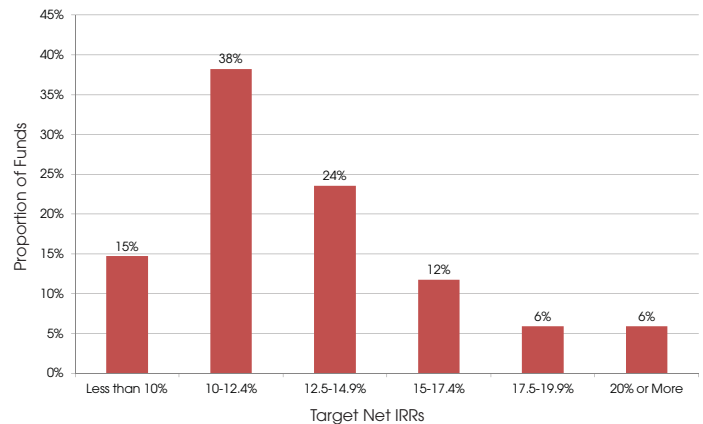
been raised for specialist debt funds in 2012 to date, the proportion of capital raised by funds which incorporate debt investments as part of their strategy has increased. Fifty-six percent of capital raised in the period January to October 2012 was by funds which are making debt investments to some extent.

The largest solely debt-focused funds to close since 2011 are shown in Fig. 4. Pramerica Real Estate Investors held a final close on \$805mn for its Prudential U.S. Real Estate Debt Fund at the end of September 2012. The firm has also raised £492mn for its Europe-focused debt fund Pramerica Real Estate Capital I.

Targeted Returns

There is an increasing diversity of returns targeted by real estate debt funds, a reflection of the range of differing risk exposures offered by this strategy. Much of the appeal of debt funds comes from their opportunity to deliver strong returns, with a lower level of risk than a fund targeting equity investments. The breakdown of net IRRs targeted by real estate debt funds which are currently in market or have closed since 2011 is shown in Fig. 5. Funds with a net IRR target of 10-12.4% represent the largest proportion of these funds, with 36% falling into this bracket. A further 24% of funds are targeting net IRRs of 12.5-14.9%. These funds are targeting IRRs in the core-plus to value added range, but will be hoping to convince investors they can deliver these returns with a lower level of risk.

Fig. 5: Target Net IRR Distribution of Real Estate Funds in Market and Funds Closed, 2011 - 2012



Source: Preqin Real Estate Online

Fifteen percent of these funds are targeting IRRs of less than 10%, with these funds typically focused on senior loans. Some investors may see these funds as more akin to a fixed income investment than a real estate one. The 24% of funds which are targeting IRRs of 15% or more, which would typically associated with opportunistic investments, are frequently targeting distressed debt in order to secure these levels of returns.

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Fig. 6: Sample Investors Investing in Real Estate Debt Funds

Investor	Location	Future Plans
Local Insurance Mutual Company	Finland	Plans to invest in Europe-focused real estate debt funds in the next 12 months.
Missouri Local Government Employees Retirement System	US	Expects to commit to US-focused debt funds in the next year.
Samsung Life Insurance	South Korea	Looking to increase its private real estate fund investments over the next 12 months and is particularly interested in real estate debt funds focusing on Europe, North America or Australia.
San Francisco City & County Employees' Retirement System	US	Has targeted \$400mn to non-core real estate funds; the pension fund is particularly interested in debt.
HESTA	Australia	Looking to make new commitments to private equity real estate funds over the next 12 months. It invests globally and is particularly interested in real estate debt funds.

Source: Preqin Real Estate Online

Investor Interest Real Estate Debt Funds

There has been a significant increase in appetite for real estate debt funds in the past year. Of the investors expecting to make investments in the coming 12 months, 23% are targeting debt funds, up from just 8% in Q4 2011. In comparison, appetite for other real estate strategies has remained fairly consistent. Fifty-three percent of active investors are targeting core funds, an increase of six percentage points from Q4 2011, while 44% are targeting opportunistic investments, up from 42% in Q4 2011. Value added strategies are also targeted by 44% of investors, a three percentage point fall from Q4 2011.

Though debt funds are only attracting interest from just under a quarter of real estate investors, it is clear that an increasing number of institutions are looking at opportunities in the sector. As shown in Fig. 6, there are a number of investors which are focusing on real estate debt funds.

Outlook

Debt has evolved from a niche segment of the real estate fund market, into a central part of the industry with more than half of all funds closing in 2012 investing in debt to a greater or lesser extent. The launch of a number of large debt funds in the third quarter of the year suggests that this is unlikely to change, with fund managers increasingly looking to build debt platforms to take advantage of the shortage of bank lending within the real estate market. While many investors are yet to consider the sector, an increasing number are looking to invest in real estate debt and it seems likely that more will examine these opportunities in greater depth in the coming months.

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Firm Coverage: **13,657** Firms



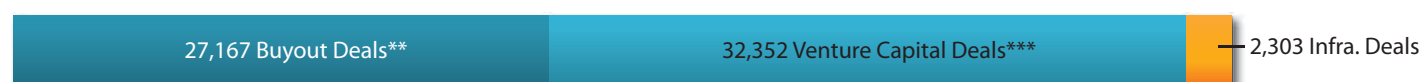
Performance Coverage: **9,645** Funds (IRR Data for 4,710 Funds and Cash Flow Data for 2,058 Funds)



Fundraising Coverage: **10,598** Funds Open for Investment/Launching Soon
Including 1,908 Closed-Ended Funds in Market and 507 Announced or Expected Funds



Deals Coverage: **61,822** Deals Covered; All New Deals Tracked



Investor Coverage: **9,954** Institutional Investors Monitored,
Including 7,146 Verified Active**** in Alternatives and 73,773 LP Commitments to Partnerships



Alternative Investment Consultant Coverage: **423** Consultants Tracked

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****Preqin contacts investors directly to ensure their alternatives programs are active. We emphasize active investors, but clients can also view profiles for investors no longer investing or with programs on hold.



Preqin Industry News

Jessica Sutro explores the latest on public pension funds investing in real estate, featuring exclusive data from Preqin's analysts. Real Estate Online subscribers can click on the investor/firm/fund names to view the full profiles.

Pension funds make up a significant proportion of investors committing to private real estate funds. The Chart of the Month reveals a breakdown of public pension funds by the strategies they are targeting in their real estate investments over the next 12 months.

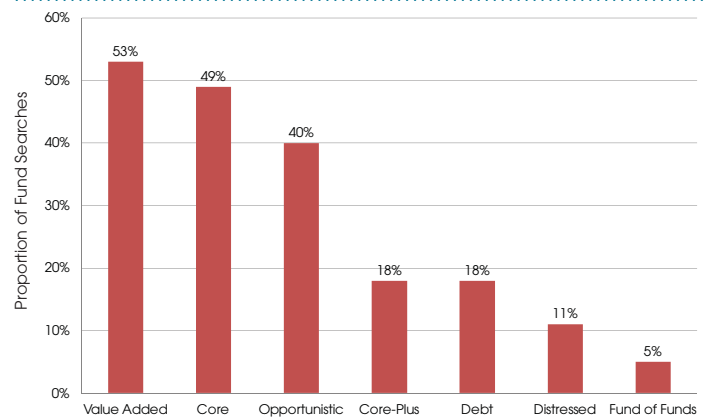
Of the public pension funds currently investing in the asset class, the majority (53%) are targeting value added investments in the next 12 months, and a number of public pension funds have recently made plans to invest in value added vehicles. [Boston City Retirement System](#) has issued an RFP via its consultant [NEPC](#) to invest up to \$40mn in value added and opportunistic real estate. The pension fund will hire at least one fund manager to oversee this mandate. Applicants need to be raising a private equity real estate fund with an expected final close date of no sooner than 31 December 2012. The public pension fund has a preference for firms that have previously raised at least two opportunistic or value added funds and are in the process of raising a minimum of \$300mn for their current offering. The deadline for proposals is 2 November 2012, and the commitment(s) will be made by the end of this year or in 2013.

Elsewhere, South Korea-based [Military Mutual Aid Association](#) (MMAA) is considering making its maiden commitment to a value added private equity real estate fund in the next 12 months. MMAA has signalled its interest in participating in real estate funds since early 2012 but has yet to make any commitments. Currently, the public pension fund has exposure to real estate through direct investments in Vietnam, China, Kazakhstan, Guam, Russia and the UK. It has an allocation of 30% to the asset class and intends to commit between \$300mn and \$500mn to real estate investments over the next 12 months.

Additionally, a number of vehicles with a value added strategy have recently closed. [EnCampus Residencias de Estudiantes](#), managed by [Azora](#), held a final close on €85mn in October 2012. The value added fund is targeting student housing in Spain. Fund manager [Hines](#) also held a final close of \$210mn on its value added vehicle [Hines U.S. Office Value Added Venture III](#) in October 2012. The fund, which invests in office properties in the US, aims to create value through leasing, management, or redevelopment activities.

The Chart of the Month shows that the second and third most attractive strategies to public pension funds investing in real estate are core and opportunistic, with 49% and 40% respectively stating this as a strategy sought in the next 12 months. UK-based [Strathclyde Pension Fund](#) is looking to commit to three global private real estate funds in the next 12 months with managers following core and opportunistic strategies. The public pension fund, which has a global multi-manager mandate with [Partners](#)

Chart of the Month: Strategies Sought by Public Pension Funds Investing in Real Estate in the Next 12 Months



Source: Preqin Real Estate Online

[Group](#), has a 12.5% target allocation to real estate, with 10% of its total assets set aside to direct property and 2.5% to private real estate funds.

Denmark-based [PBU](#) is also looking to commit to vehicles with an opportunistic strategy in the next 12 months. The public pension fund is looking to invest DKK 20-22mn across two or three private equity real estate funds in the next 12 months, and will seek opportunities within emerging markets. PBU currently has an 8% allocation to real estate, meeting its target allocation to the asset class; its portfolio is split 67% to private real estate funds and 33% to domestic direct real estate.

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Future Fund Searches and Mandates

The difference between success and failure in attracting institutional commitments can be the ability to initially identify which investors are most likely to be interested in your fund.

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Preqin updates these details by speaking directly to investors – saving you time and ensuring our intelligence is up to date and accurate.

- **Future Investment Plans** - Investor profiles include details of investors' future fund searches, detailing whether they are targeting specific private real estate strategies and/or regions of focus, and also contain summaries of their plans for the next 12 months.
- **Future Fund Searches and Mandates** - Forward-looking search for all the institutional investors that are looking to invest in funds that match your criteria.
- Filter potential investors by location, investor type, fund type preferences for the next 12 months, regional preferences for the next 12 months, and likely timeframe for their next fund commitment.

Future Plans, Searches and Mandates Jump to...

Date of Plans: Q4 2012

Strategies Targeting: Core, Value Added, Opportunistic

Regions Targeting: Asia Pacific, Europe, North America, Emerging Markets, Global

Timeframe: Next 12 Months

Next 12 Months:	Estimated Investments:	Estimated Amount (mn):
4		60 USD

Summary: As of October 2012, [Investor Name] was planning to commit USD 60 million to four funds in the following 12 months. It would target markets in Asia, Europe and North America and seek core, value added and opportunistic funds.

Real Estate Print, Refresh, Home

Fund Searches and Mandates

Select all required filter criteria

- Investor Type
- Investor Location
- Strategy Preferences - Fund Searches and Mandates
 - Core Core-Plus
 - Value Added Opportunistic
 - Distressed Debt
 - Fund of Funds Secondaries
- Region Preferences - Fund Searches and Mandates
 - Asia Pacific Emerging Markets
 - Europe Global
 - North America Rest of World
- Timeframe of Next Investment
 - Immediately
 - Next 6 Months
 - Next 12 Months
 - Longer term
 - Opportunistic

Keyword Search:

Investor Name	Strategies	Regions	Date Inserted
[Investor Name]		North America	08-Oct-12
[Investor Name]			08-Oct-12
[Investor Name]	Core, Fund of Funds	Europe	05-Oct-12
[Investor Name]	Core, Value Added, Opportunistic	Europe, Global	05-Oct-12
[Investor Name]		Europe	05-Oct-12
[Investor Name]	Value Added		05-Oct-12
[Investor Name]		Rest of World	04-Oct-12
[Investor Name]		North America	04-Oct-12

Whether you're hoping to secure new commitments for a US-focused opportunistic fund or launch a Europe-focused core vehicle, access to Preqin's Real Estate Online database can help.

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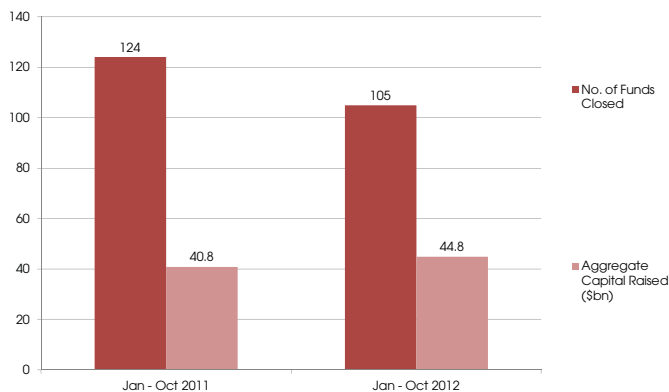
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Fundraising Update

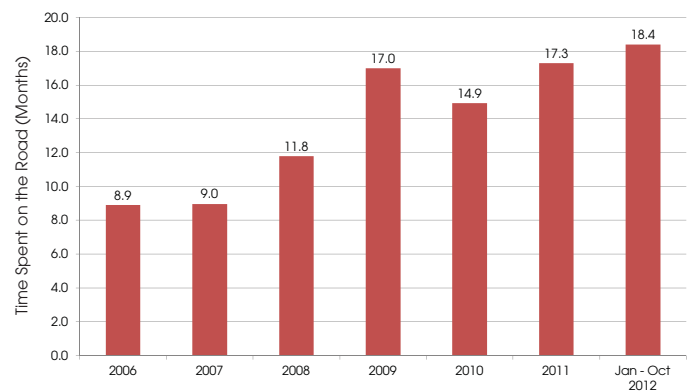
Andrew Moylan gives an overview of the latest fundraising statistics.

Fig. 1: Closed-End Private Real Estate Fundraising: January - October 2011 vs. January - October 2012



Source: Preqin Real Estate Online

Fig. 2: Average Time Taken for Closed-End Private Real Estate Funds to Achieve a Final Close by Year of Fund Close



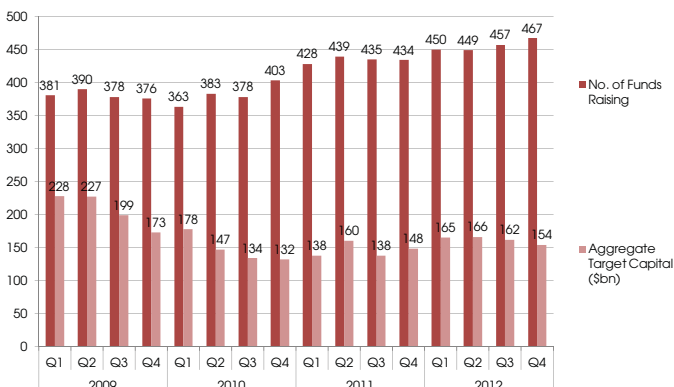
Source: Preqin Real Estate Online

Fig. 3: Top 5 Largest Real Estate Funds Closed, January - October 2012

Fund	Firm	Strategy	Geographic Focus	Final Close Size (mn)
Blackstone Real Estate Partners VII	Blackstone Group	Opportunistic	US, Global	13,300 USD
AG Realty Fund VIII	Angelo, Gordon & Co	Debt and Opportunistic	North America, Europe, Asia	1,265 USD
Patron Capital Fund IV	Patron Capital	Distressed and Opportunistic	UK, West Europe	880 EUR
AG Core Plus Realty Fund III	Angelo, Gordon & Co	Core-Plus and Debt	North America, Europe, Asia	1,014 USD
CapitaMalls China Development Fund III	CapitaLand	Opportunistic	China	1,000 USD

Source: Preqin Real Estate Online

Fig. 4: Closed-End Private Real Estate Funds in Market over Time, Q1 2009 - Q4 2012



Source: Preqin Real Estate Online

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Retail-Focused Fund Managers

Luke Alexander analyzes key stats on retail-focused closed-end private real estate fund managers.

Fig. 1: Key Facts: Solely Retail-Focused Closed-End Private Real Estate Funds

Total Number of Funds in Market	29
Aggregate Target Capital of Funds in Market (\$bn)	9.3
Aggregate Capital Raised (\$bn), 2006 - September 2012	28.7
Aggregate Capital Raised (\$bn) in the Last 10 years	37.0

Source: Preqin Real Estate Online

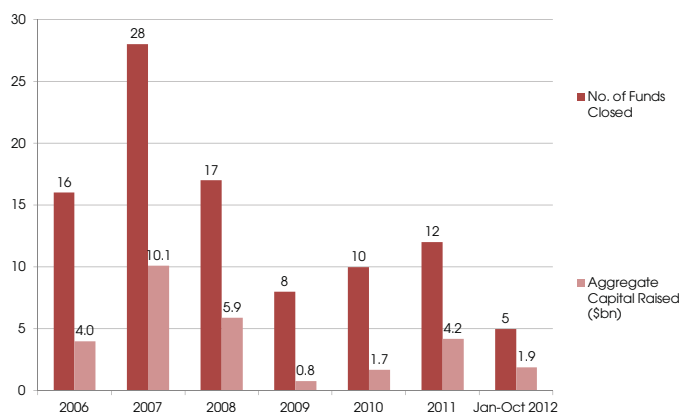
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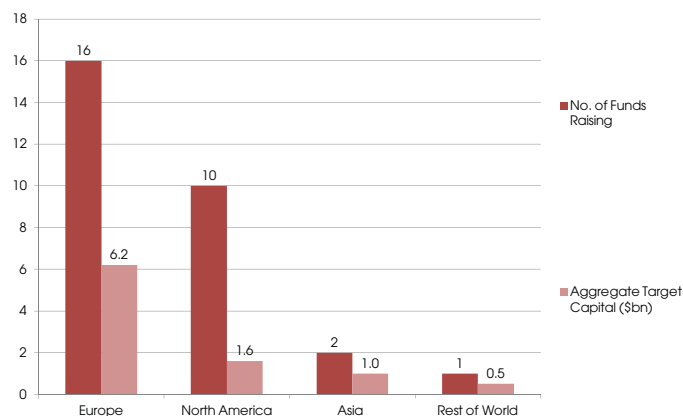
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Fig. 2: Annual Solely Retail-Focused Closed-End Private Real Estate Fundraising, 2006 - October 2012



Source: Preqin Real Estate Online

Fig. 3: Solely Retail-Focused Closed-End Private Real Estate Funds in Market by Geographic Focus



Source: Preqin Real Estate Online

Fig. 4: 10 Largest Solely Retail-Focused Closed-End Private Real Estate Funds in Market

Fund	Firm	Fund Focus	Strategy	Target Size (mn)
CBRE European Shopping Centre Fund	CBRE Global Investors	Europe	Core-Plus	750 EUR
The Pan-European Urban Retail Fund	Cushman & Wakefield Investors	Europe	Core-Plus	500 EUR
UII Shopping Nr. 1	Union Investment Real Estate	Europe	Core	500 EUR
Meyer Bergman European Retail Partners II	Meyer Bergman	Europe	Opportunistic and Value Added	500 EUR
CITIC Capital China Retail Properties Investment Fund	CITIC Capital	China	Value Added	600 USD
CFSGAM Property Enhanced Retail Fund	Colonial First State Global Asset Management Property	Australia	Core and Core-Plus	500 AUD
GE Polish Retail Fund	GE Capital Real Estate	Poland	Value Added	360 EUR
O'Connor/Wafra Retail Partners	O'Connor Capital Partners	US	Value Added	500 USD
Sovereign Land Fund I	Sovereign Land	UK	Opportunistic	300 GBP
Grosvenor Retail European Properties II	Grosvenor	Europe	Core	350 EUR

Source: Preqin Real Estate Online

Compensation and Employment Review

Produced in collaboration with leading compensation specialists FPL Associates, the [2013 Preqin Private Equity Compensation and Employment Review](#) is the industry's most comprehensive guide to compensation practices, featuring detailed benchmark remuneration data for 40 positions, including 15 real estate-specific positions, incorporating information from over 200 leading firms globally. A source of reliable and accurate information on the latest trends in private equity compensation and employment is a vital tool enabling decision-makers and advisors to examine existing compensation practices against wider industry benchmarks.

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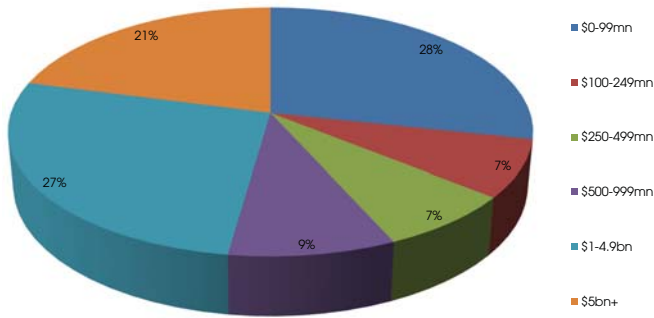
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Asset Managers Investing in Real Estate

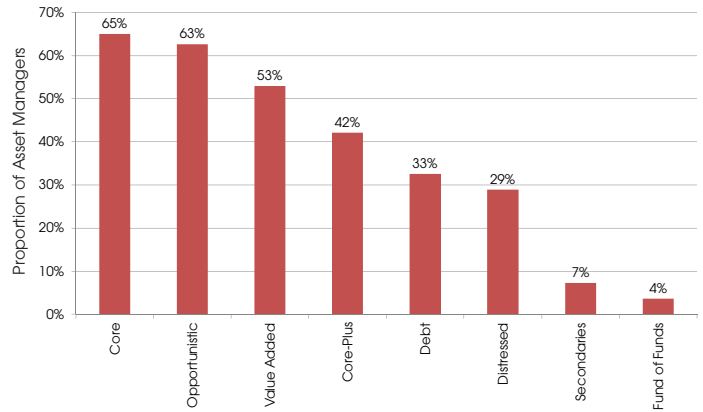
Farhaz Miah takes a look at asset managers investing in real estate.

Fig. 1: Breakdown of Asset Managers Investing in Real Estate by Overall Real Estate Allocation



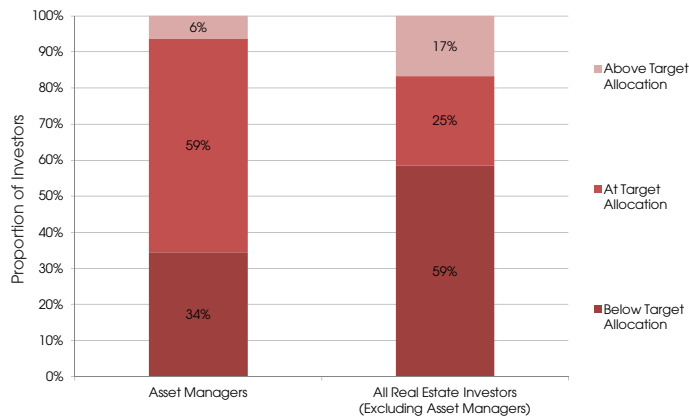
Source: Preqin Real Estate Online

Fig. 2: Asset Managers Investing in Real Estate by Fund Strategy Preferences



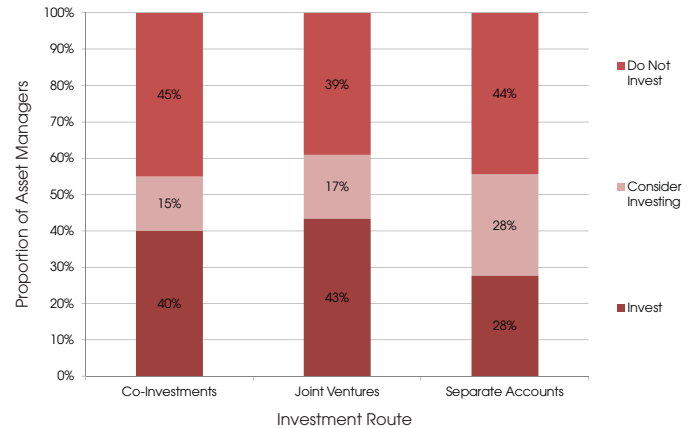
Source: Preqin Real Estate Online

Fig. 3: Current Allocation Compared to Target Allocation: Asset Managers Investing in Real Estate vs. All Other Real Estate Investors



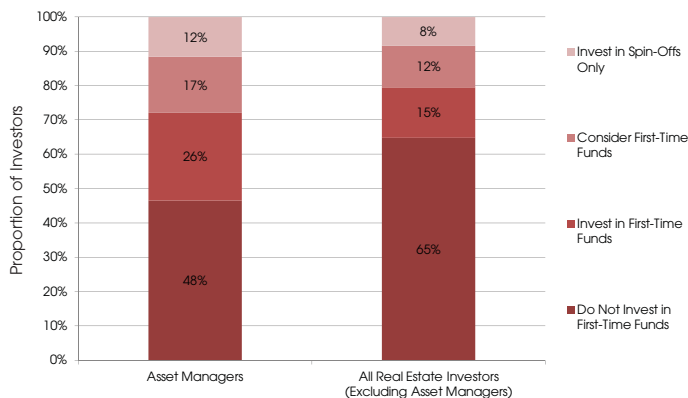
Source: Preqin Real Estate Online

Fig. 4: Asset Managers Investing in Real Estate by Preference for Co-Investments, Joint Ventures and Separate Accounts



Source: Preqin Real Estate Online

Fig. 5: Appetite for First-Time Funds: Asset Managers Investing in Real Estate vs. All Real Estate Investors



Source: Preqin Real Estate Online

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Conferences Spotlight

Conference	Dates	Location	Organizer
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SuperInvestor	6 - 9 November 2012	Paris	ICBI
New Europe GRI 2012	26 - 27 November 2012	Warsaw	Global Real Estate Institute
SuperReturn Africa	3 - 5 December 2012	Casablanca	ICBI
Asia GRI 2012	4 - 5 December 2012	Hong Kong	Global Real Estate Institute

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