

# Real Estate Spotlight

August 2007 / Volume 1 - Issue 3

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Real Estate Spotlight is the monthly newsletter published by Preqin Real Estate packed full of vital information and data all based on our latest research into the private equity real estate industry.

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## Feature Article: Asia and Emerging Markets Funds

Funds focusing on regions outside of the more established markets of Europe and North America have experienced a period of tremendous growth over the past few years. We examine how the market is split between domestic and internationally managed funds, who is investing in these vehicles, and what the future holds for the industry.

Please see page 1 for more information

## Investor News:

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

- London Pension Fund Authority
- New York State Teachers' Retirement System
- CBRE Investors Global Multi Manager
- Fortis Investments - Real Estate

Please see page 7 for more information

## Fundraising

Fundraising continues to be strong in 2007, with an aggregate \$46 billion raised so far:

- How much has been raised?
- Where is the capital being raised?
- How many funds are on the Road?
- How is the market split by fund strategy?

Please see page 4 for more information

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

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

Please see page 8 for more information

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# Preqin Real Estate Feature Article: Growth in Asia & Other Emerging Markets

In recent years real estate funds focusing on regions outside of the more established markets of Europe and North America have become increasingly popular amongst investors. Fund managers have responded to the increased demand by raising more funds focused on these areas which has caused the value of global real estate funds increase significantly over the last few years.

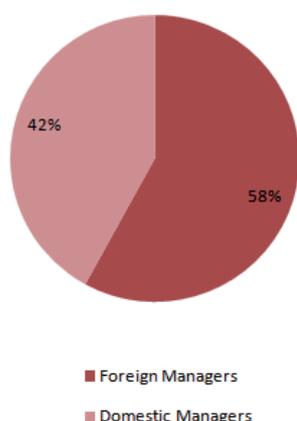
Over the course of 2006 a total of 29 funds raised an aggregate \$13 billion for investment in Asia and other emerging markets. This is a record amount, but fundraising in 2007 is set to exceed this with \$12 billion already raised by mid-August, and with a further 38 funds on the road focusing on the region seeking an aggregate \$13 billion.

Emerging markets real estate has become increasingly profitable over the last few years and investors have been keen to take advantage of this. Asia in particular is a popular investment target due to the economic growth of countries such as China and India. The recent economic recovery in Japan has seen a growing property market still at relatively low prices which investors are very keen to take advantage of.

Investors can either invest in these markets with an international manager operating overseas, or with a domestic manager investing in their own domestic region. Of all the funds currently in the market seeking capital, 42% are being raised by domestic managers, demonstrating that the global property market is not entirely dominated by more established property groups from the west. This is certainly the case in India where funds such as the JM Real Estate Fund, an India focused property fund targeting \$500 million, and HIREF International, a \$750 million opportunistic fund looking to invest in residential property, are being raised by local managers.

Notwithstanding the growth of local managers, 58% of funds are managed by international groups such as ING, who are based in the West but with experience in investing in property on a global scale. Funds managed by ING include ING Real Estate China which closed on \$350 million in December 2006. Other groups to manage funds include LaSalle who are currently raising the \$2.5 billion LaSalle Asia Opportunity Fund III and Tishman Speyer who are raising the \$400 million Tishman Speyer India Fund. The average target size for funds raised by domestic managers is \$347 million, whereas the average target size for funds managed by outside managers is \$518 million. International managers may be able to raise larger funds as they have a larger and

*Split of Asia & Emerging Market Funds on the Road by Manager Location (no. of funds)*



**“... 2007 is set to exceed 2006 with \$12 billion already raised by mid-August”**

more established client base, and are able to attract higher levels of commitments from investors due to reputation and previous fund performance.

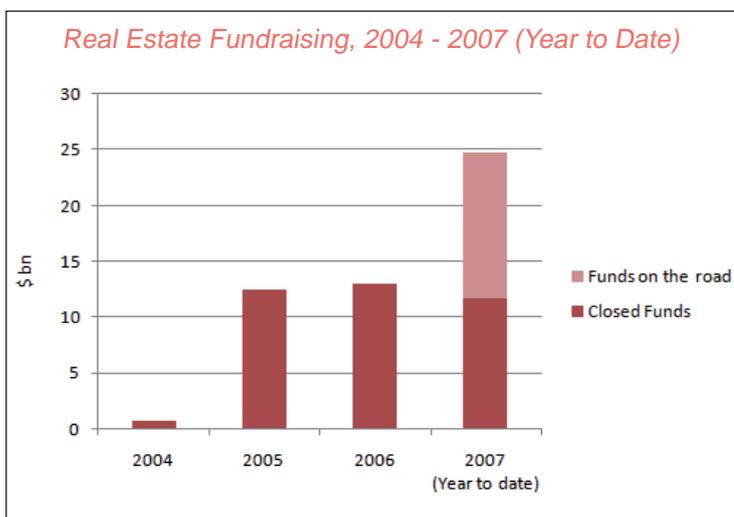
Experienced investors in developed markets increasing their exposure to Asian funds include the Los Angeles County Employees' Retirement Association, which increased its allocation to Asian real estate funds in order to achieve greater diversification for its real estate portfolio, and to take advantage of the upswing in the property market that the region is experiencing. Investments include commitments of \$25 million each to the AIG Asian Real Estate Partners II and the New City Asia Partners.

Real Estate consultants the Townsend Group have been advising many of its clients to invest in global property. It advised the San Bernardino County Employees Retirement Association to invest in global property (including Asian property funds) because it felt that international real estate

funds will give San Bernadino's real estate portfolio an additional layer of diversification and that international focused real estate funds have more focused strategy than their US counterparts. San Bernardino hopes to invest between \$40 - \$60 million into global real estate over the next twelve months. It also made similar recommendations to Pennsylvania State Employees Retirement System, seeing Asia as an excellent investment prospect. Pennsylvania made a commitment of \$25 million to the AG Asian Opportunity Fund.

An important source of capital for these real estate funds, especially for those managed by domestic managers, are the development agencies. CDC Group for example will only invest in property funds that will assist in the development of property and infrastructure in the third world. Investments include a commitment to the Actis India Real Estate Fund. International Finance Corporation (IFC) follows a similar line. Investments include the Paladin Realty Latin America Investors which looks to invest in affordable housing projects in Latin America.

A relatively new development in the market, and certainly one that indicates growing investor appetite, has been the emergence of private equity real estate fund of funds focusing exclusively on Asia. Funds such as Aberdeen Indirect Property Partners Asia (AIPP Asia) provide an excellent method for investors that lack experience or the expertise in these developing markets to gain access to a balanced portfolio of investments. Aberdeen Property Investors closed its first Asia focused fund of



**“... Of all Rest of World funds currently in the market seeking capital, 42% are being raised by domestic managers”**

funds AIPP Asia on \$600 million. The fund, which received commitments from Nordic investors such as Folksam, Handelsbanken Liv and Ilmarinen Mutual Pension Insurance Company, will invest in funds across the Asia Pacific region. Due to the success of this fund Aberdeen has launched a follow on fund: AIPP Asia Select which is also targeting \$600 million.

In addition to funds that are exclusively focusing on Asia and other emerging markets, the industry has also seen a growth in funds that are primarily focused on more established markets in North America that include a secondary focus on developing regions. Stockbridge Real Estate Fund III, an opportunistic fund targeting \$2.5 billion, will invest up to 15% of its total capital in Mexico and Asia.

Capri Urban Investors, targeting \$2 billion will invest up to 10% of the fund in Mexico and Panama. Walton Street Real Estate VI whilst investing 80% of its \$2.5 billion target in the US, is planning to invest 10% in Mexico, 5% India and 5% in other regions.

The popularity and number of real estate funds focusing on Asian and other emerging markets is set to continue as an ever increasing number of investors looks to plough more money into the global property market. Both domestic and international fund managers are raising funds of ever-increasing size, and with an excellent stock of new funds in the market 2007 is set to be another record year for private equity real estate in Asia and other emerging markets.

### **Ten Largest Asia & Emerging Markets Focused Funds Ever Raised**

<b>Fund</b>	<b>Strategy</b>	<b>Amount Closed (Mn USD)</b>	<b>Location Focus</b>
Morgan Stanley Real Estate Fund VI Intl	Opportunistic	8,000	China, India, Japan, West Europe, Asia
Lone Star Fund V	Opportunistic	5,000	West Europe, Asia, Northeast US
Morgan Stanley Real Estate Fund V Intl	Opportunistic	4,200	China, Japan, West Europe, Asia
Aetos Capital Asia II	Opportunistic	2,200	Japan, Asia, Pacific Rim
CPI Capital Partners Asia	Opportunistic	1,291	China, India, Japan, South Korea, Malaysia, Thailand, Asia
Warburg Pincus Real Estate Fund I	Opportunistic	1,200	China, India, North America, Europe, Asia
LaSalle Asia Opportunity Fund II	Opportunistic	1,000	Asia
MGP Asia Fund II	Opportunistic and Value Added	921	Asia
MGP Japan Core Plus Fund	Core-Plus	857	Japan, Asia
Aetos Capital Asia	Opportunistic	738	Japan, Asia, Pacific Rim

# Preqin Real Estate: Fundraising Update

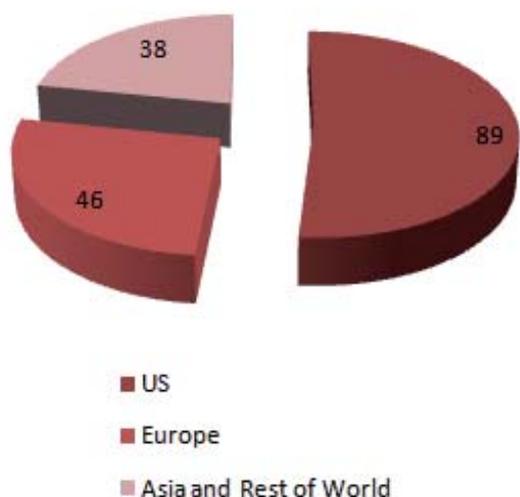
Private equity real estate fund managers are certainly enjoying a successful 2007, with the second quarter of the year producing the highest aggregate new commitments ever witnessed by the industry with a record \$24.5 billion raised. Comparing the fund raising process at this point of the year to 2006 and 2005 we can see that 2007 is likely to be another record breaking year, especially with an ever-growing number of new vehicles hitting the road. There are currently 173 real estate funds in market seeking an aggregate \$83 billion, a huge increase from even two months ago, when 127 funds were seeking an aggregate \$69bn.

Real estate funds focusing on the US continue to dominate, with a total of 89 funds on the road looking to raise an aggregate \$49 billion, 59% of the global total being sought. However due to the increasing global nature of the asset class many US focused funds will have a secondary focus on other regions of the globe in a bid to create more globally diverse real estate portfolios.

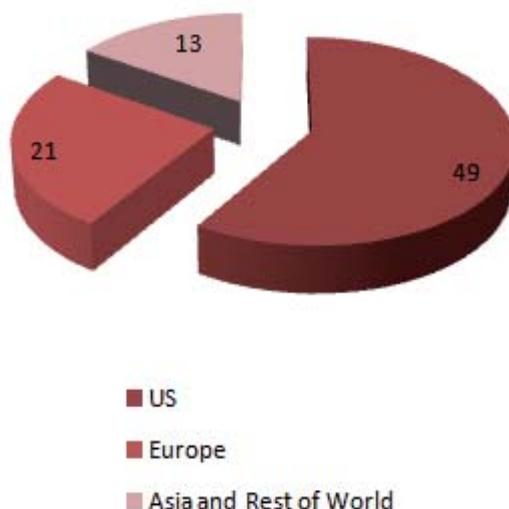
European focused funds on the road account for a total of 46 funds looking to raise an aggregate \$21 billion, equal to 25% of the global total being sought.

A total of 38 funds focusing on Asia and other regions are seeking an aggregate \$13 billion, accounting for 16% of

*Value of Funds Currently on the Road by Regional Focus (\$bn)*



*Value of Funds Currently on the Road by Regional Focus (\$bn)*



# Preqin Real Estate: Fundraising Update

the global total. This represents a slight drop in market share from recent levels, but this is mostly due to the closing of the \$8 billion Morgan Stanley Real Estate Fund VI International in the last month. This Asia focused fund is the largest private equity real estate fund to be raised so far in the history of the industry

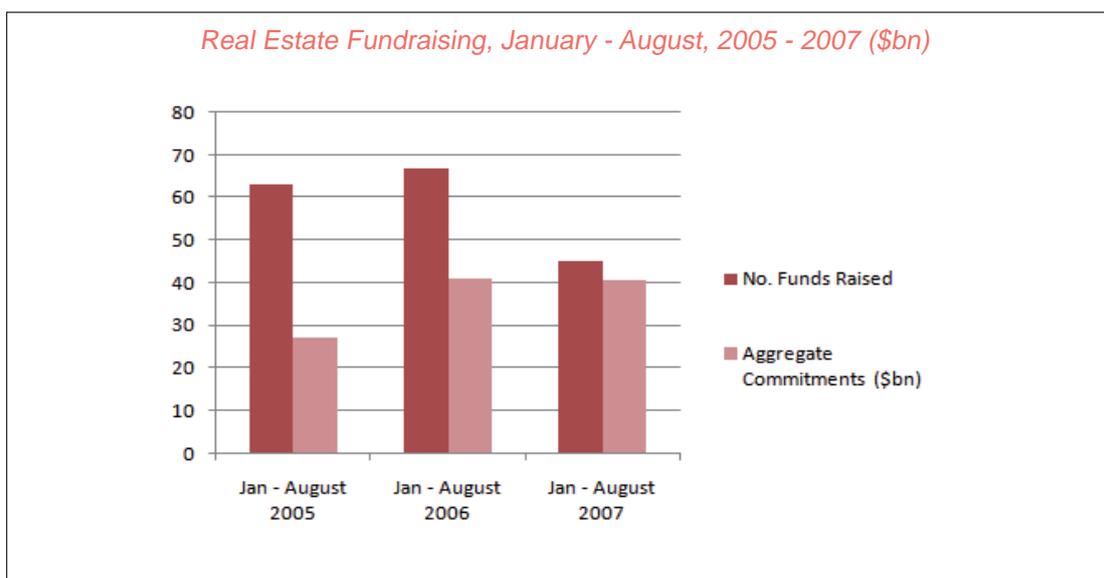
## Real Estate Strategy

The investment strategy of a fund is an important consideration for any institutional investor when making an investment decision, with funds of one strategy providing a different balance of risk and return to other strategies.

Opportunistic funds currently dominate the private equity real estate market with 42% of new vehicles in the market

having a primarily opportunistic strategy. There has been a notable increase in the number of opportunistic funds on the market over the last twelve months as investors look to maximise returns. Opportunistic funds tend to utilise a greater amount of leverage in comparison with other real estate funds, with investments made by opportunistic managers often requiring more fundamental levels of development than those made by other fund types such as value-added and core-plus. As a result opportunistic funds are often seen as more risky than other real estate fund types, but are also capable of providing excellent returns.

Significant opportunistic funds currently in fundraising mode include Blackstone Real Estate Partners VI, which has a target of \$10 billion. If this target is achieved then this would make it the largest real estate private equity fund to ever be

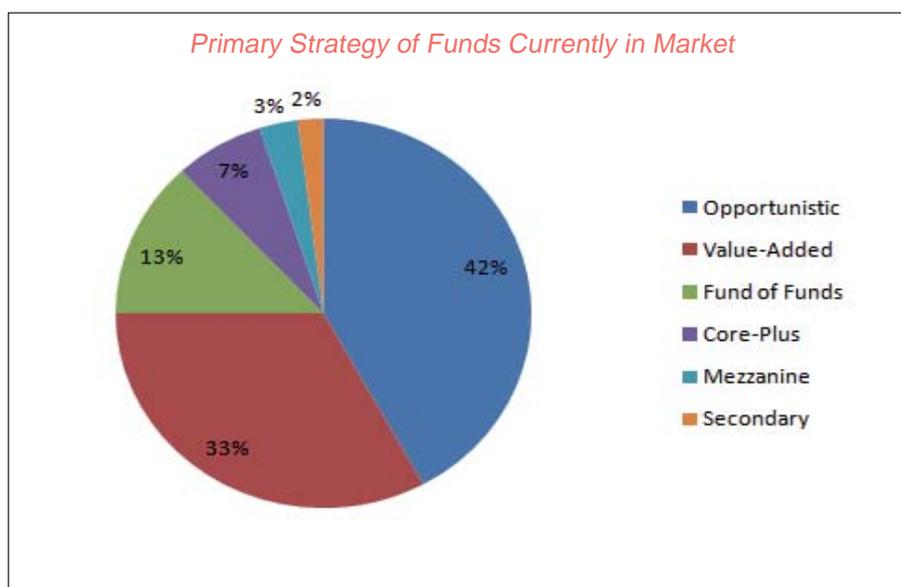


# Preqin Real Estate: Fundraising Update

raised. Investors in this fund include Teacher Retirement System of Texas, New Jersey State Investment Council, Ohio Public Employees' Retirement System, Pennsylvania Public School Employees' Retirement System, Teachers' Retirement System of the State of Illinois, Pennsylvania State Employees' Retirement System, Illinois State Board of Investment, Ohio Police and Fire Pension Fund, Portfolio Advisors, Allstate Real Estate Investments and Sports Venture Partners Real Estate.

Funds following a primarily value-added strategy are the second biggest group, making up 33% of the market. Significant value added funds include ING Property Fund Central and Eastern Europe. This \$1 billion targeted fund will seek investments in Poland, the Czech Republic, Hungary, Slovakia, Romania and Austria.

The remainder of the fundraising market is made up of real estate fund of funds, which account for 13% of the market, core-plus funds, which account for 7%, mezzanine, which account for 3% and secondary real estate funds which account for 2%.



# Preqin Real Estate: LP News

## **Teachers' Retirement System of the State of Illinois goes international.**

The USD 39.7 billion public pension fund committed a total of USD 250 million to three international real estate funds. It made a commitment of USD 100 million to the MGP Asia Fund III, USD 75 million to the LaSalle Asia Opportunities Fund III and USD 75 million to Carlyle Europe Real Estate Partners III.

## **New York State Teachers' Retirement System makes significant commitments to real estate funds.**

The USD 94 billion pension fund expanded its real estate portfolio, committing to several new real estate funds. It made a commitment of USD 110 million to Rockpoint Real Estate Fund III, USD 50 million to ING Clarion Development Ventures III, USD 50 million to O'Connor North American Property Partners II and USD 50 million to the AG Realty Fund VII.

## **CBRE Investors Global Multi Manager has made two real estate fund commitments.**

The real estate fund of funds manager committed to Benelux Industrial Partnership, which will invest in multi-let industrial property in the Netherlands and Germany, and Pradera European Retail Fund II, a Southern Europe-focused fund following a core-plus and value added strategy. It invested via its Europe ex-UK Alpha fund, a semi open-ended fund of funds, which has received commitments of EUR 542 million. The fund will commit to underlying vehicles following a core-plus strategy and investing in retail and industrial real estate. It plans to invest in a further 4 – 8 funds in order to be fully committed by the end of the year.

## **London Pension Fund Authority appoints ING Real Estate to manage global mandate.**

The London Pensions Fund Authority appointed ING Real Estate to manage a GBP 150 million global property mandate. The pension fund has decided to move towards international property as it feels that opportunities in the UK are limited and that returns are currently too low. London Pension Fund Authority appointed ING after an extensive search involving 18 potential managers.

## **ING Real Estate Investment Management set to commit EUR 1 billion to real estate funds in the next year.**

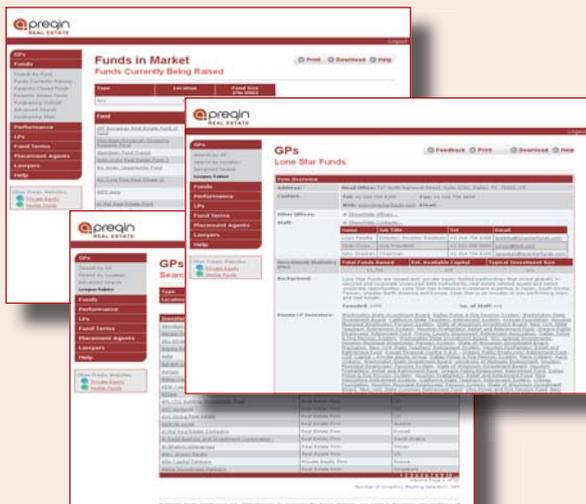
The real estate fund of funds manager currently has EUR 4.5 billion committed to private real estate funds and is expecting to commit a further EUR 1 billion in the next 12 months. ING Real Estate Investment Management will commit to all fund types from core to opportunistic and invests across North America, Europe and Asia. It will typically commit EUR 50 million to underlying funds.

## **Fortis Investments - Real Estate is to commence investing from its latest real estate fund of funds.**

Fortis Asia Ex Japan Fund of Funds recently held a first close and will begin making investments in private real estate funds in the coming months. The fund will commit to underlying funds across Asia, with the exception of Japan. Fortis is currently in the process of raising three fund of funds vehicles and plans to commit EUR 200 million to around 10 funds in the next year.

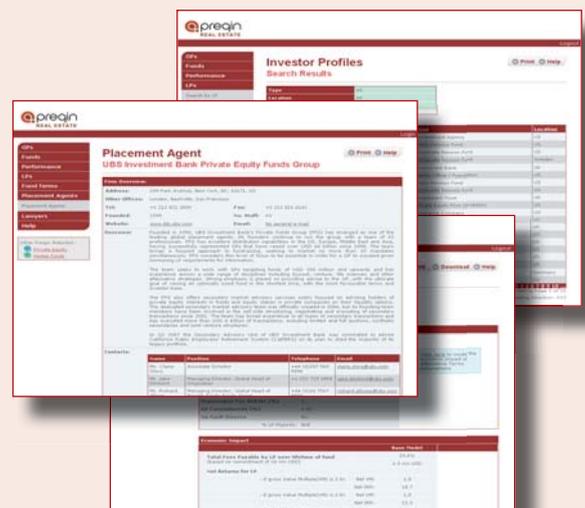
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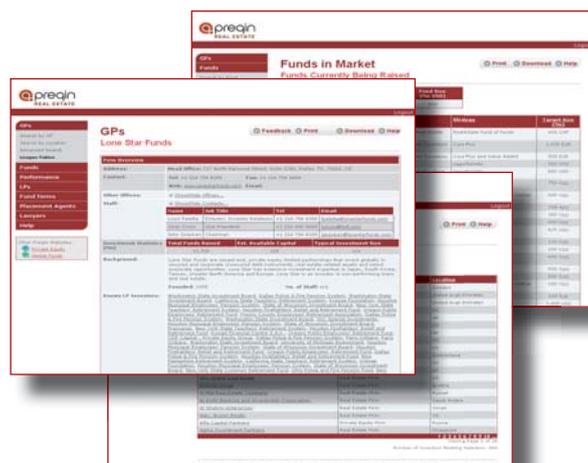
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