

Real Estate Spotlight

October 2008 / Volume 2 - Issue 9

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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.

Preqin Real Estate Online is an online service providing constantly updated data and analysis, with information on fundraising, fund performance and institutional investor profiles. For more information and to register for a free trial, please visit: www.preqin.com

Feature Article: Where Next for Private Equity Real Estate?

As uncertainty continues to surround the global financial markets, the private equity real estate market is starting to show signs that it is struggling to maintain the confidence of institutional investors. This month's feature article examines the toll that the unprecedented market conditions are taking on the already challenging fundraising environment.

Please see page 3 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:

- Ampeg Gerling Asset Management
- AP-Fonden 1
- CalSTRS

Please see page 10 for more information

Fundraising News:

We take a look at global real estate private equity fundraising in the last month, including recently closed global funds and those which are hitting the road.

Please see page 7 for more information

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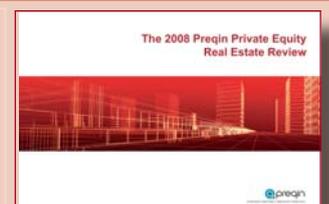
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OUT NOW

The 2008 Preqin
Private Equity Real Estate
Review

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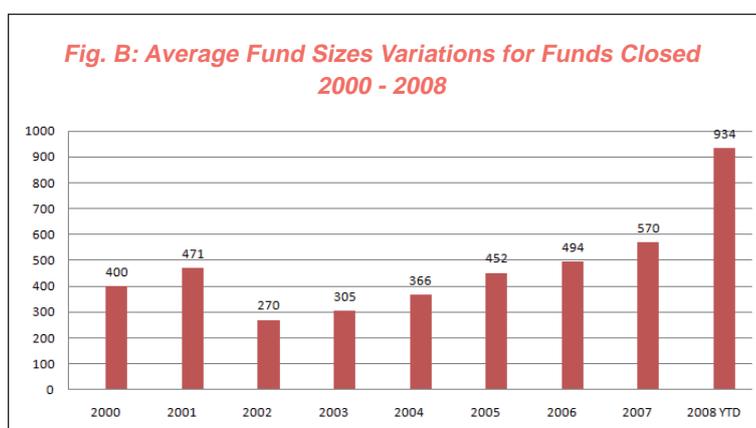
Where Next for Private Equity Real Estate?

The month of September 2008 has brought changes altering the entire face of the global finance industry. At the time of writing there exists a dark cloud of uncertainty casting a shadow over the global real estate industry, with the private equity sector failing to escape the negative effects of the turmoil in the markets.

Activity within the sector is low, with fund managers finding it very challenging to raise vehicles as investors remain reluctant to make new long-term commitments in the current environment. In the midst of such a turbulent atmosphere it is very difficult to make predictions about how the real estate landscape is likely to evolve following this crisis, however, in the process of carrying out the research and analysis for Preqin's new publication, The 2008 Preqin Private Equity Real Estate Review, certain trends and facts have emerged that provide some important clues as to the future of the private equity real estate industry.

The first three quarters of 2008 have seen significant levels of capital being raised, and although there is evidence of a slowdown in Q3, it is still likely that 2008 overall will achieve the same record-breaking aggregate commitment levels experienced by the industry in 2007. However, although the headline capital levels being raised are broadly similar to recent years, the composition of the market in terms of fund strategy has changed considerably.

As Fig. A shows, there has been a considerable shift towards private equity real estate funds focusing on debt, with debt funds raising 101% more in 2008 than in the same period of 2007. Opportunistic fundraising has also been strong, experiencing a 5% rise between 2007 and 2008. Investors have clearly been concerned over the ability of the core-plus and value-added markets to create strong returns in the



current market, and we have seen a 15% and 30% fall in commitments gained by these fund types between the two time periods.

Another important trend affecting the fundraising market has been the continued importance of very large funds to the overall fundraising market. Fig. B shows how the average size of private equity real estate funds has been increasing steadily in recent years, growing from only \$425mn in 2005 to \$934mn in 2008. This growth in fund size is likely to alter the dynamics of the market in terms of the size of deals and underlying investments that are being financed. With investors increasingly showing faith with the larger vehicles that will be making larger underlying investments, smaller developers may find it increasingly difficult to find backing from the private equity sector in coming years as they increasingly find themselves falling below the radar of the larger managers. It is also important to note that with deals becoming harder to finance, larger fund sizes may also be due to managers requiring more capital to complete deals using lower levels of leverage.

The story of the real estate fundraising market has been a shift towards fewer funds of larger size managing to achieve a final close - a situation that has kept the overall capital

Fig. A: Change In Capital Raised by Fund Type

Fund Type	Change in Capital Raised between Q1-Q3 2007 and Q1-Q3 2008 (%)
Core-Plus	-15%
Value Added	-30%
Opportunistic	+5%
Debt	+101%

Feature Article: Where Next for Private Equity Real Estate?

levels at comparable levels to the record climate of 2007. However, this changing composition of closed funds has not been reflected by a change in the types of funds on the road seeking capital. There are still many smaller fund managers out there looking for capital, with a total of 181 funds with a target smaller than \$500mn in size currently on the road.

As Fig. C shows, the size of the fundraising market has continued to grow, and as of September 2008 there are a total of 379 funds seeking an aggregate \$228bn. With institutional investors seeming to favour the larger vehicles, this has led to a significant build up of smaller vehicles in the market. With so many funds now in fundraising mode, this has increased the level of competition amongst fund managers to previously unseen levels. Are all these fund managers going to be able to raise capital in the current environment?

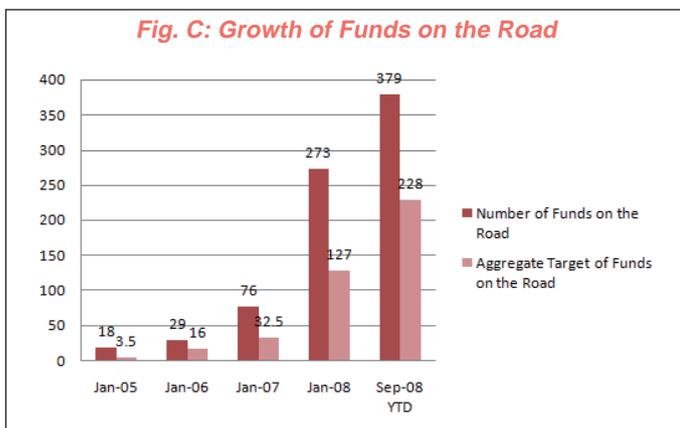
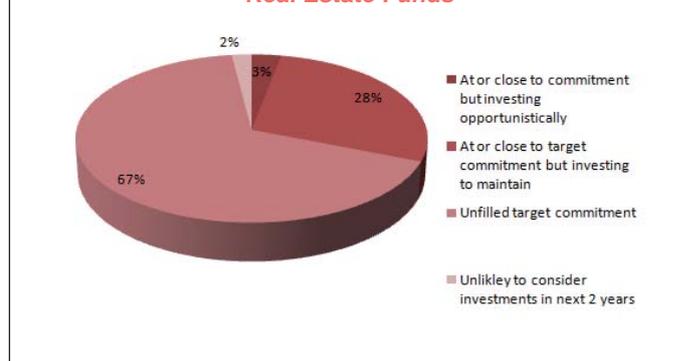


Fig. D shows the current situation of institutional investors with regards to their private equity real estate allocation based upon a survey carried out by Preqin. A sizeable 67% of investors are still short of their allocation to real estate, and so are likely to be making new investments in the coming months. There is no evidence that a large number of investors have turned away from the sector as a result of the tightening credit situation, and investors remain confident towards real estate private equity in the long run. Real estate funds are a

Fig. D: Current Allocations of Investors in Private Equity Real Estate Funds



long term proposition, and have performed extremely well in recent years.

The institutional investors that are active in this market make commitments with a long term outlook, and as such are not easily deterred as a result of changes in the economic climate. However, although there is no evidence that investors are turning away from the sector, there is a strong suggestion that the current situation is serious enough to lead to new investment decisions being delayed until the long term global outlook becomes more clear.

With major banking institutions failing, and with takeover bids and government intervention becoming commonplace, investors have been left unable to take faith in long term investments generally, and th. The willingness to invest remains, but no due diligence process will allow for new investments to be made in vehicles that could conceivably fail if they have no way of financing their deals if the credit markets were to seize up entirely.

The long terms outlook remains uncertain, and so it would be foolhardy to predict how the private equity real estate market will be affected beyond suggesting that these firms will be increasingly turning to mezzanine financing and other less conventional lenders in the coming months. There is even the possibility that some of the cash rich sovereign wealth funds of the Middle East, China and other regions might conceivably enter this space.

Feature Article:

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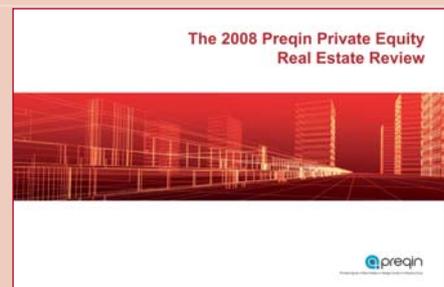
One thing that is clear though, is that real estate fundraising is set to enter its most challenging era of all time. The very biggest firms may be able to gather commitments from previous investors, but many of the mid-sized and smaller funds that constitute a higher risk in the eyes of investors will find conditions to be extremely tough. It is likely that although headline fundraising figures will continue to remain high, the number of funds closing will still leave a lot of medium- and smaller-sized funds on the road looking for capital. With so many funds out there seeking capital, the funding available to them from investors will be spread extremely thinly, and only those that are extremely focused will be successful in raising the capital that they targeted at launch. Indeed, many

firms will find conditions too challenging, and will shelve their fundraising efforts until the market becomes more settled and investors more receptive to making new investments. One thing that is clear from conversations that Preqin's analysts have held with institutional investors in recent times has been the level of importance that they attach to a fund manager's investment strategy including a means by which they will negotiate the conditions that have been aroused by the change in the global economy. It is those fund managers that are able to best convey a strong strategy for dealing with the credit crunch that will achieve the backing of investors in today's market.

The 2008 Preqin Private Equity Real Estate Review

In market conditions such as these, access to a good source of market intelligence is vital for all industry professionals in establishing exactly who else is actively managing funds, what their strategies and strengths are, and who is investing at the moment. Preqin's newly released 2008 Preqin Real Estate Review is focused on providing a complete overview of current conditions, along with the vital intelligence to help achieve success in these tough times. For those involved with the investment decision making process, it is also a powerful tool in helping to evaluate all the many managers and strategies out there. For those developers that are interested in seeking investment from private equity funds, the review is the ultimate source of firm and contact information, while legal firms stand to benefit from the fund terms and conditions analysis and listings that the Review contains.

For more information on the 2008 Preqin Real Estate Review, including sample pages and executive summary, please visit: www.preqin.com

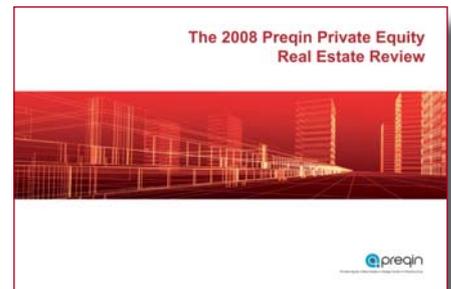


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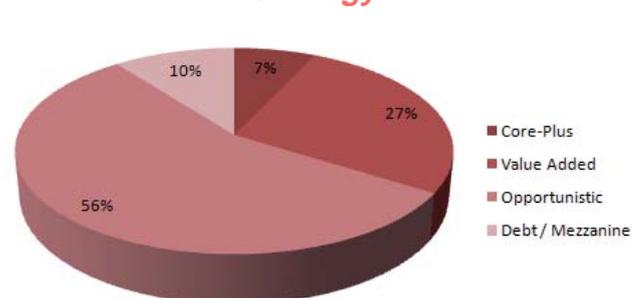
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Preqin Real Estate: Fundraising Update

Funds on the Road

Funds on Road	US	Europe	Asia & RoW	Total
Number	170	108	101	379
Total Target Value (\$bn)	100	59	66	226
Average Target Size (\$mn)	670	682	745	694

% of Aggregate Target Commitments by Strategy



Funds on the Road

Fund	Manager	Strategy	Target Size (mn)
Morgan Stanley Real Estate Fund VII Global	Morgan Stanley Real Estate	Distressed and Opportunistic	10,000 USD
Beacon Capital Strategic Partners VI	Beacon Capital Partners	Value Added	6,000 USD
Fortress Investment Fund VI	Fortress Investment Group - Real Estate	Opportunistic	6,000 USD
Blackstone Real Estate Partners Europe III	Blackstone Real Estate Advisors	Opportunistic	3,000 EUR
Lehman Brothers Real Estate Partners III	Lehman Brothers' Global Real Estate Group	Opportunistic	4,000 USD
daVinci Japan Real Estate Partners V	KK DaVinci Advisors	Opportunistic	3,500 USD
NN Advanced Property Fund	Nauerz & Noell AG	Opportunistic	2,000 EUR
German Aktiv Property Fund	Valad Property Group - Europe	Value Added	2,000 EUR
Cerberus Institutional Real Estate Partners (Series Two)	Cerberus Real Estate Capital Management	Opportunistic	3,000 USD
TCW Credit Opportunities Fund	TCW Real Estate	Mezzanine / Debt	3,000 USD

Recently Closed Funds

LaSalle Asia Opportunity Fund III

Manager: LaSalle Investment Management

Strategy: Distressed, Opportunistic

Property Allocation: Commercial, Hotels, Logistics, Office, Residential, Retail

Geographic Focus: China, Hong Kong, Japan, South Korea, Singapore, Thailand, North Korea, Asia

Target IRR (Net): 18%

Maximum Leverage: 75%

Final Close: 3,000 USD (August 2008)

Known Investors: California Public Employees' Retirement System (CalPERS), New York State Teachers' Retirement System, Ohio Public Employees' Retirement System, New Jersey State Investment Council, United Nations Joint Staff Pension Fund, Andrew W. Mellon Foundation,

Hong Kong Jockey Club, Penn Square Real Estate Group, Profimex, Syntrus Achmea Vastgoed

AEW Value Investors Asia

Manager: AEW Capital Management

Strategy: Value Added

Property Allocation: Apartment, Industrial, Office, Retail

Geographic Focus: China, Hong Kong, Malaysia, Singapore, Thailand, Vietnam

Target IRR (Net): 15%

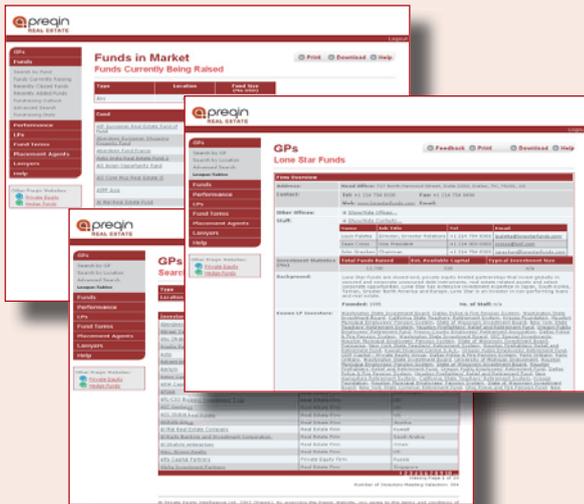
Maximum Leverage: 63%

Final Close: 558 USD (July 2008)

Known Investors: AP-Fonden 3

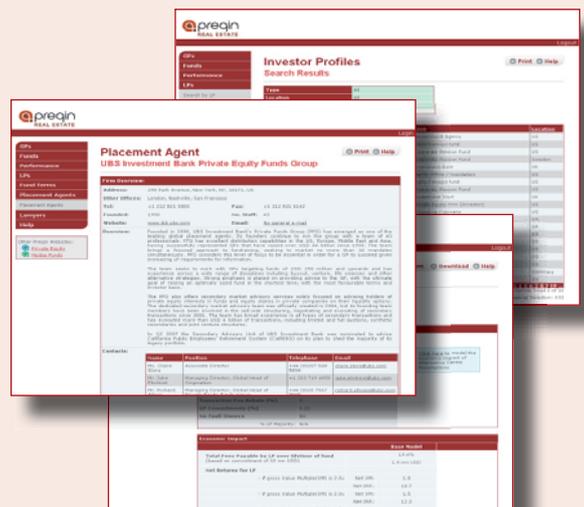
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- **Fund Managers:** View detailed profiles on over 700 fund managers from around the world including background, key contacts and funds raised. Carry out advanced searches to find GPs who focus on particular property types, strategies or locations.
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- **Performance:** View performance benchmarks for private real estate funds including details of the performance of individual funds. See which firms have the best track records.
- **Investors:** See detailed profiles for over 1,000 investors who are actively investing in private real estate. Investors include Real Estate Fund of Funds, Pension funds, Endowments, Family Offices and other asset managers. Detailed profiles include background, contact details, investment plans, preferred fund strategies and known previous investments in real estate funds.

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



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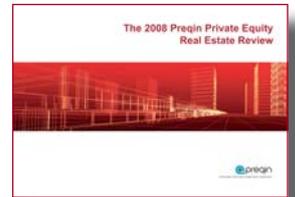
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Preqin Real Estate: Investor News

Each month Investor News brings you the latest institutional investor news from around the globe. All information comes from our Preqin Real Estate Online database.

Menora Mivtachim Pensions to target opportunistic and real estate debt funds.

The USD 6 billion Israeli pension fund is not planning to make any investments in core or value added funds in the next 12 months. Instead it intends to target opportunistic and debt funds. It is likely to make 3-5 new commitments and plans to invest in Asia, India and China, as well as investing in the US, where it believes there are opportunities to invest in distressed funds.

AmpegaGerling Asset Management considering real estate portfolio strategy.

AmpegaGerling Asset Management is in the process of re-examining its real estate investment strategy. Due to the current economic climate, the private equity fund of funds manager is likely to spend the remainder of the year deciding on its strategy with the implementation of its decision coming to fruition in 2009. It is likely that to further protect itself AmpegaGerling will invest in private property funds with seed investments or closings, so it can analyse a decent sample of a fund's investments rather than a fund's unfulfilled investment plans.

AP-Fonden 1 set to increase real estate portfolio.

AP-Fonden 1 will increase its allocation to the real estate asset class. The SEK 219 billion public pension fund is due to raise its real estate portfolio from 4% of its total assets to a figure between 6 and 8%. This increase will include extra capital for private equity real estate funds. It is still deliberating on which geographies to target, but both Europe and Asia have been given consideration. The pension fund is likely to target value added and opportunistic vehicles. It has a preference for pan-Continental vehicles, but will consider funds with alternative geographical scopes. AP-Fonden 1 is unlikely to invest in first-time funds or seek co-investment opportunities. It is also considering REITs and REOCs.

California State Teachers' Retirement System (CalSTRS) increases real estate debt portfolio.

CalSTRS has expanded its real estate debt vehicle investment base. The USD 162 billion pension fund believes these vehicles are better prospects in the current market than are equity vehicles. CalSTRS expects an unleveraged IRR of 14-16% from real estate debt vehicles over the next year. It has committed approximately USD 500 million to this strategy in recent months.

Avon Pension Fund appoints Schroder Property Investment Management to manage UK property portfolio.

Avon Pension Fund appoints Schroder Property Investment Management to manage UK property portfolio. In Q3 2008 it was announced by the GBP 2 billion pension fund that it had appointed Schroder to invest in UK focused real estate funds on a segregated basis. Schroder will be investing in core, value added and opportunistic funds on behalf of the pension fund and has been awarded a mandate of GBP 125 million. The pension fund is also looking for a manager to pursue the same strategies for investments in overseas property funds. A decision is expected by the end of the year.

Florida State Board of Administration delays decision on international programme.

Florida State Board of Administration has decided to hold off on asking the Townsend Group to conduct a search for viable international investments. The USD 159.6 billion public pension fund was considering making a start on the investment process this year, but following the realisation of its 7% target real estate allocation, it has decided to wait until at least mid-way through 2009.

Conferences Spotlight

Forthcoming Events

Conferences:

Conference	Sponsor	Dates	Location
Cityscape Dubai: International Real Estate Investment & Development	IIR Middle East	6 - 9 October 2008	Dubai
Distressed Retail Summit	Infocast	15 - 17 October 2008	New York
European Real Estate Opportunity & Private Fund Investing Forum	IMN	29 - 30 October 2008	London
4th Annual Real Estate Investment IQ 2008	IQPC	3 - 6 November 2008	Hong Kong
Real Asset Investing Forum	Opal Financial Group	6 - 7 November 2008	Carlsbad
The 4th Annual Real Estate Investment World Middle East 2008	Terrapinn	9 - 11 November 2008	Dubai
The PERE Forum	PEI Conferences	12 - 13 November 2008	New York
Housing Finance Summit & Distressed Real Estate Opportunities 2008	Opal Financial Group	12 - 13 November 2008	Miami
Real Estate Investment World Japan 2008	Terrapinn	12 - 14 November 2008	Tokyo
Investing in Distressed Real Estate Forum	Institutional Investor Events	17 - 18 November 2008	New York
China Commercial Real Estate Summit	Global Leaders Institute	19 - 20 November 2008	Shanghai
Real Estate Mezzanine Loan Forum	IMN	1 - 2 December 2008	New York
Distressed Real Estate Forum	IMN	8 - 9 November 2008	Florida
The 4th Annual Western Non-Traded & Private REIT Industry Symposium	IMN	11 - 12 December 2008	North San Diego
The PERE Forum: Asia 2009	Private Equity International	11 - 12 February 2009	Hong Kong

Preqin at the 2008 Cityscape Real Estate Conference

In September Preqin attended the 2008 Cityscape Real Estate Conference at the Jacob Javit's Centre in New York. Preqin exhibited alongside some of the world's largest real estate developers including Nakheel, Hydra Properties and Damac. We spoke to real estate professionals and met with a lot of representatives from all sides of the Real Estate and development markets – demonstrating our products and books.

At the conference we conducted a business card lottery which was won by Mr. Kamran Zahedi from Urbanica. Mr. Kamran Zahedi has won a free copy of the 2008 Private Equity Real Estate Review.

