Real Estate Spotlight

July 2007 / Volume 1 - Issue 2

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Real Estate Spotlight is a 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 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: realestate.preqin.com

Feature Article: Can Bumper Fundraising be Sustained?

With private equity fundraising reaching record levels we examine how strong, reliable performance from real estate funds has attracted investor's interest, and investigate whether the current high levels of investor appetite for private equity real estate are likely to be maintained in the future.

Please see page 1 for more information

Investor Spotlight: Interview with Aberdeen Property Investors

In February 2005 Aberdeen Property Investors established the first and largest private pan-European property fund of funds AIPP with capital commitments of €623.5 million.

In this month's Investor Spotlight we talk to Tomas Otterud, director at the firm, about the growth in popularity of real estate fund of funds vehicles, and what he feels lies in store for the industry

Please see page 8 for more information

Fundraising

Fundraising reached new heights during the second quarter of 2007, our in-depth report examines:

- How much has been raised?
- Where is the capital being raised?
- Who has been most successful in Q2 2007?
- How many funds are now on the road?

Please see page 5 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:

- Ohio School Employees' Retirement System
- Schroder Property Investment Management
- San Joaquin County Employees'
- San Diego City Employees' Retirement System

Please see page 13 for more information

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Preqin Real Estate Feature Article:
Can Bumper Fundraising be Sustained?

With fundraising reaching record levels we examine how the industry has performed, and whether the current high levels of investor appetite are likely to be maintained looking forward.

As little as three years ago private equity real estate funds accounted for a relatively small proportion of the overall private equity funds universe, with only a handful of funds closing every year. However, since 2004 the number of real estate funds achieving final closes has increased dramatically, and in 2006 only buyout funds raised more capital than real estate vehicles.

An aggregate $21 billion was raised in 2004, representing 12% of all commitments garnered by the private equity industry as a whole, while in 2006 a massive increase in investor appetite for real estate vehicles enabled the industry to raise $68 billion from a total of 99 funds closing over the course of the year, boosting real estate's share of the overall private equity market to 16%. Over the same time period the average size of real estate funds has increased from $385 million to $690 million, as investor appetite has allowed fund managers to raise funds of ever increasing size. As the review of 2007 second quarter fundraising (p.5) shows, this trend is continuing, as this year is set to be another record-breaker for the industry.

Despite the increase in average fund size and potential competition for deals, real estate managers are having no problems in deploying the committed capital from their vehicles. Funds of 2005 vintage are over 40% called up on average, and have already begun to distribute capital back to their limited partners. It is interesting to note that both Blackstone and Morgan Stanley came back to the market in 2007 with new vehicles double the size of their previously record-breaking funds which closed only one year ago.

The strong returns that private equity real estate vehicles have been returning to investors goes some way to explaining the growth in interest that the market has been witnessing of late. Data from our Real Estate Online product shows the excellent returns that real estate funds have been providing: aside from 2003, where the money weighted net median IRR is a still respectable 16%, for funds of vintage years 2000 – 2004 money-weighted net median IRRs range between 24% and 30%.

The strong average performance from real estate funds is further enhanced by the relatively low levels of risk that vehicles of this type represent when compared with other types of private equity fund. A good indication of the levels of risk associated with a particular fund type is the level of variation around the mean performance, and with real estate funds this standard deviation is of a relatively low level. While real estate funds are unlikely to deliver the astronomical levels of performance that one might see from a top venture fund, it is also unlikely that a real estate fund will provide the potential negative returns also associated

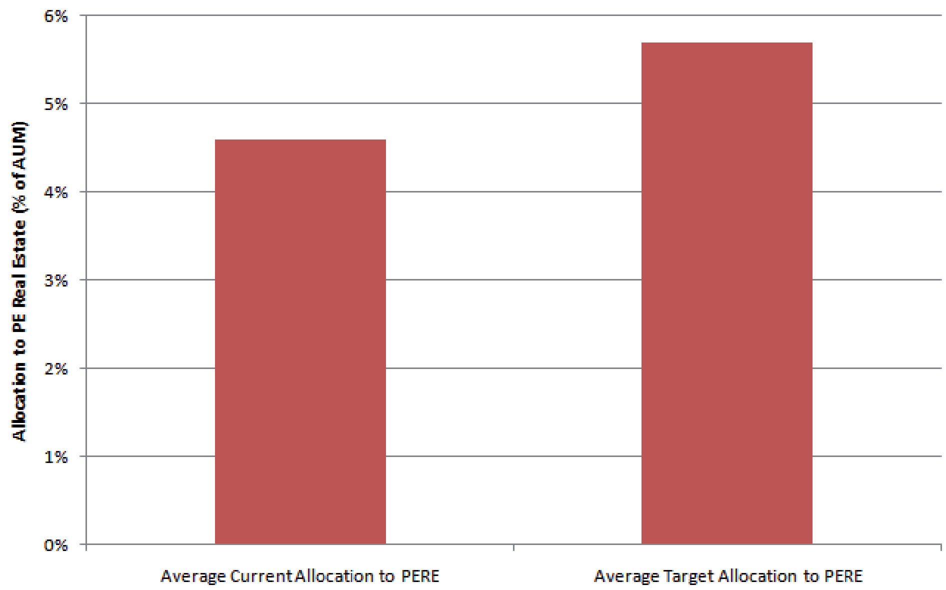
> “...a third of US-based managers currently raising funds will be investing these vehicles outside of the US”

with a more risky fund type such as venture. For funds of vintages 2000 – 2004 the median performance of even lower quartile funds exceeds 9%, with very few funds dipping into the red.

Buoyed by the prospect of strong, reliable returns, new investors have been entering the asset class at a high rate, while existing investors have been increasing their allocations. Data from Preqin Real Estate Online reveals that the current global average allocation to real estate funds for investors who already have an allocation to private equity real estate stands at 4.6% of total assets under management, and the average target allocation is 5.7% - showing the increasing enthusiasm amongst investors for private equity real estate funds. Further positive trends can be seen in the results of a recent survey carried out by Preqin Real Estate in which investors were asked whether they envisaged a long term increase, decrease or no change to their real estate allocations. A significant 68% of investors indicated they would be increasing their real estate exposure, 28% saw themselves maintaining their existing allocation, while only 4% intended to decrease their exposure over the long term.

Recent trends in fundraising provide us with some hints as to where this extra capital is most likely to be deployed.

Average Current and Target Allocations to Private Equity Real Estate



"...as more small and less experienced investors seek to gain exposure to private real estate, more real estate fund of funds will appear to satisfy this demand"

The more developed markets of North America and Europe continue to be popular amongst investors, but there has certainly been a shift in the market towards Asia and other less developed regions as fund managers look further afield for new opportunities. 25% of all new funds currently raising are focused on Asia and other developing regions, a significant increase from 2006 when funds focusing on these regions accounted for 14% of the global market in terms of fundraising. In response to investor demand, North American managers have begun to be more international in scope than in the past – one third of all North American fund managers currently fundraising intend to focus some or all of commitments made to their new vehicles in regions outside of North America; a trend that is set to continue as investors become more confident with investing in less developed markets.

This article was written using data taken from Preqin Real Estate Online, the newest product from Preqin Real Estate giving comprehensive information on private equity real estate fund performance, fundraising, fund terms, investor profiles, placement agents and lawyers.

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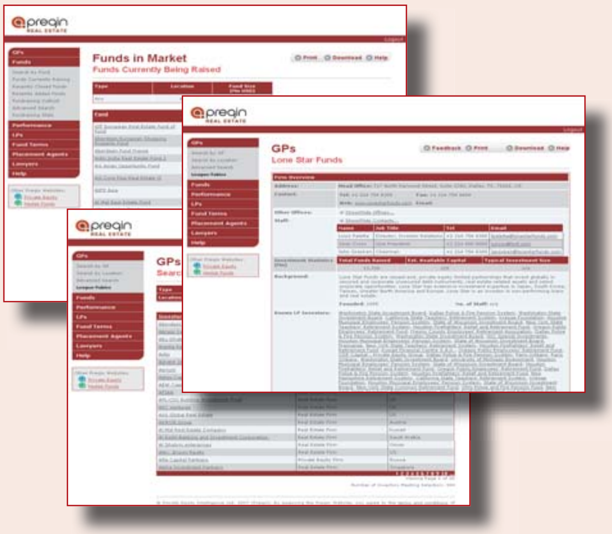

- GPs: View detailed profiles on over 300 Private Equity Real Estate GPs from around the world including background, key contacts and funds raised. Carry out advanced searches to find GPs who focus on particular property types, strategies or locations.
- Performance: View performance benchmarks for private real estate funds including details of the performance of individual funds. See which GPs have the best track records.
- Fundraising: See who is currently on the road raising a fund and who will be coming to market soon. Analyse fundraising over time by fund strategy, property type and location.
- LPs: See detailed profiles for over 600 investors who are actively investing in private real estate. LP 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 Opportunistic and Value-added funds? 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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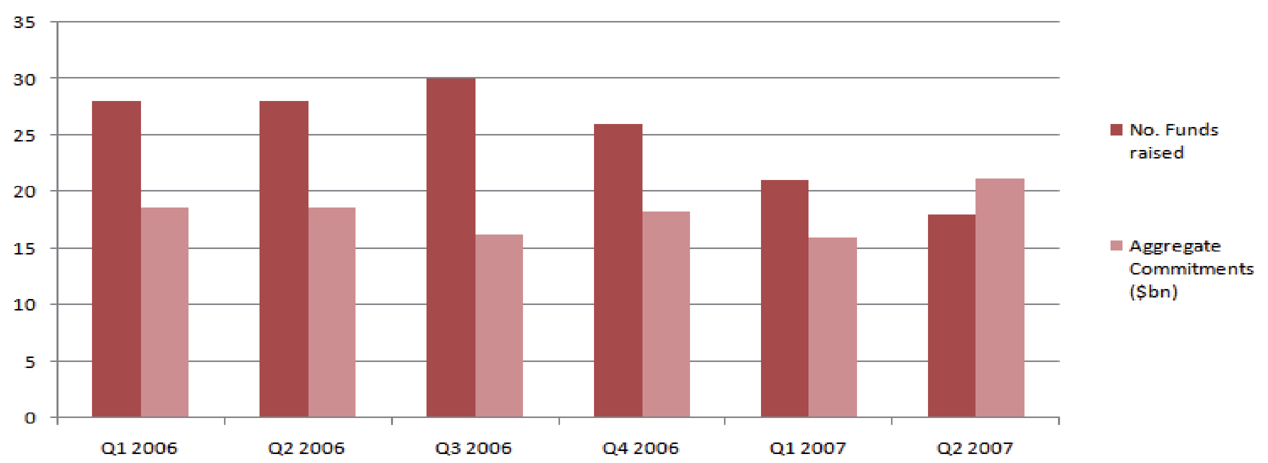
Preqin Real Estate:
Fundraising Update - Q2 2007

The total capital raised by real estate funds during Q2 2007 was greater than any quarter of 2006 and is also an increase from Q1 2007, with an aggregate $21.2 billion raised by 18 funds. Although record capital has been garnered over the course of the second quarter, the actual number of funds has dropped slightly from earlier in the year, as increasing fundraising is due mostly to more mega-funds achieving final closes – a pattern also seen in other areas of the private equity industry.

Goldman Sachs and Morgan Stanley were successful in raising mega-size funds over the course of the period, raising $12 billion between them for their global real estate offerings. Strong fundraising from mega-size funds is set to continue in 2007, with Blackstone currently targeting $10 billion for Blackstone Real Estate Partners VI, double the size of the $5.5 billion Blackstone Real Estate Partners V which closed only one year ago. Other funds are also hitting the road at an ever-increasing pace. At the end of Q1 2007 there were 107 funds on the road seeking an aggregate $52 billion worldwide; this figure has increased dramatically over the course of the second quarter, with 135 funds now on the road seeking a combined $91 billion – an increase of 75% in just three months.

With fundraising continuing to take pace at a frenetic pace, 2007 looks set to be another record-breaking year for private equity real estate. However, this does not indicate that fund managers on the road are going to have an easy time raising capital. With record fundraising being largely due to a small number of very large funds, and with an ever-increasing number of fund managers on the road looking to raise funds, it is actually becoming increasingly challenging for all but the most established of firms to achieve final closes as the year goes on.

Fundraising by Quarter 2006 - Q1 2007



Preqin Real Estate:
Fundraising Update - Q2 2007

Fundraising in Q2 2007 saw a continuation in the trend of increasing numbers of interregional funds being raised. Several real estate funds with a global focus achieved a final close in Q2 2007, raising significantly more than funds focusing solely on the US or Europe. This suggests that fund managers are responding to investor demand for funds that will enable them to create a geographically diverse real estate portfolio, taking advantage of opportunities in less traditional areas such as Asia as well as more established European and North American markets.

The largest fund closed during Q2 2007 was Morgan Stanley Real Estate Fund VI Intl which raised $8 billion, making it the largest private equity real estate fund ever to be raised. This value-added fund will be investing in property and property companies in Western Europe, Japan and Australia as well as emerging markets like China, India, Russia, Turkey and Latin America. Investors in this fund include; Michigan Department of Treasury, Pennsylvania Public School Employees' Retirement System and Washington State Investment Board.

Managed by Goldman Sachs, Whitehall Street Global Real Estate 2007 was also anther significant global real estate fund to close during Q2 2007, closing on $4 billion. This fund will be investing in hospitality, hotels and leisure/ entertainment opportunities around the globe.

In Q2 several real estate funds closed significantly higher than their original target, showing that fund managers are having to respond to investor demand by allowing for more investors to invest in their funds. In June, Grove International closed its Redwood Grove International fund on $2 billion, considerably higher than its original $1.5 billion target. This opportunistic fund will be investing in property in Asia and Europe. JER Real Estate Partners Europe III closed on $1.1 billion dollars after setting an original target of just $400 million dollars. This opportunistic European-focused

Largest Real Estate Funds Closed in Q2 2007

Fund	Manager	Target Size (Mn)	Manager Country
Morgan Stanley Real Estate Fund VI Intl	Morgan Stanley Real Estate	8,000 USD	US
Whitehall Street Global Real Estate LP 2007	Goldman Sachs / Archon Group	4,007 USD	US
Redwood Grove International	Grove International Partners	2,000 USD	UK
Tishman Speyer European Real Estate Venture VI	Tishman Speyer	1,350 EUR	US
JER Real Estate Partners Europe III	JER Partners	809 EUR	US

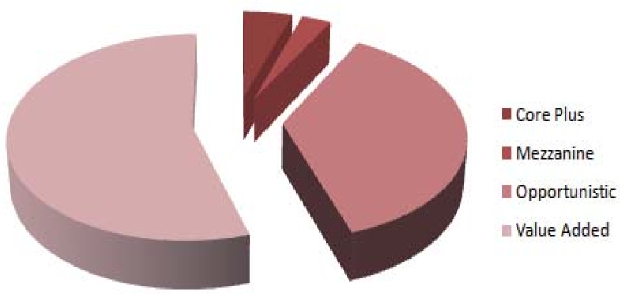
Preqin Real Estate:
Global Fundraising Update - Q2 2007

real estate fund received commitments from investors such as Abu Dhabi Investment Company, California Public Employees' Retirement System (CalPERS), California State Teachers' Retirement System, Credit Suisse Customized Fund Investment Group, Finial Holdings, Ithaca College Endowment, Jewish Federation of Metropolitan Chicago, Kansas Public Employees' Retirement System and Wachovia Capital Partners.

Forum Asian Realty Income II, which raised $600 million, was the largest private equity mezzanine real estate fund to close in Q2 2007. The fund will invest in a diversified portfolio of Asian commercial real estate through the purchase of privately negotiated and structured convertible and mezzanine debt, preferred debt, and equity securities of Asian property companies. Los Angeles Fire and Police Pension System were among the investors for this fund.

Of the total capital raised by real estate funds during Q2 2007, 55% was committed for funds with a value-added strategy. Opportunistic funds account for 37%, core-plus for 5% and mezzanine 3% of all capital raised.

Strategic Split of Real Estate Funds Closed in Q2 2007 sorted by Aggregate Commitments



Preqin Real Estate:
Investor Spotlight

Real estate fund of funds have become an increasingly popular source of investment for many investors looking to gain exposure to private real estate funds. In this month's Investor Spotlight we talk to Tomas Otterud, director at Aberdeen Property Investors, who gives us his opinions on the real estate fund of funds market and why it has become increasingly popular in recent years.

Established in the year 2000 Aberdeen Property Investors Indirect Investment Management AB (API IIM) is a specialised indirect property investment manager. Headquartered in Stockholm with local presences in London and Singapore, API IIM is a leading indirect property investment manager in Europe and Asia, having a fully established investment process and holding some of Europe's and Asia's largest mandates for indirect property investments. API IIM currently has total investment mandates in the region of €2.6 billion and employs some 20 professionals.

In February 2005 API IIM established the first and largest private pan-European property fund of funds AIPP with capital commitments of €623.5 million. According to the latest available audited figures for AIPP the fund has delivered a net annualised IRR of 18.6% since inception. Other pooled fund of funds managed by API IIM are AIPP Asia, AIPP Active (Europe) and AIPP Asia Select.

The last few years have seen a significant increase in the amount of real estate fund of funds, with there being over double the number of funds closed in 2006 as in 2004, and 2007 looks set to increase even further. Why do you feel has there been such a significant increase in real estate fund of funds?

I think there are many reasons:
The Fund universe has grown substantially especially in Europe and Asia increasing the possibilities for building diversified portfolios of niched funds. Experienced indirect investors have realised how time consuming due diligence and deal sourcing work is and often lack internal resources.

Tomas Otterud

Preqin Real Estate: Investor Spotlight

The high liquidity in the market has resulted in much shorter lead times for attractive investment opportunities which again could mean investors miss out on opportunities due to lack of resources. There is a rapidly increasing number of investors investing in indirect real estate and the fund of funds route provides for an easy and efficient entry to that market. Less experienced investors may see fund of funds as a good learning ground

Why are investors attracted to real estate fund of funds? What do fund of funds offer to investors that investing directly into funds cannot?

For an investor wishing to diversify internationally there are principally four options open. One, the investor can set up his/her own programme for international investments. Two, the investor can chose a manager of managers that helps devising and implementing the programme. Three the investor can invest through a Fund of funds and four a combination of the three.

The first option makes it possible for the investor to have full control of the programme, but also means that the investor will need to set up a separate organization for the international programme. Such an organization will have to “learn the ropes” in order to familiarize themselves with the legal framework, build up the network needed to access and implement the international programme and structure the administrative systems required to manage the investment programme.

The market for unlisted property funds is still very in-transparent. Merely building and maintaining control of funds currently available for investment is very time consuming; continuous meetings with the relevant investment teams to receive a full account of each fund’s approach and philosophy to distinguish the unique strategy or team from competitors is critical. Accumulating sufficient knowledge and resources to conduct proper due diligence on short-listed funds and their managers is also crucial. While strategies, deal pipe-lines, execution abilities, teams and manager track records all need analysing, the fact that the market has no standard structures also means that investors must spend considerable time understanding the structure of each fund and the mandate of its manager. Maintaining the necessary focus requires a dedicated team with a local presence. For investors to accumulate this expertise themselves takes time and finance, and is not particularly flexible. Furthermore in order to be well positioned to have an impact in the market the investor’s investment program would have to be substantial, probably in excess of €500 million.

The second option makes the entry to the programme easier, as a manager of managers would be well familiar with the legal framework, have an established network and have systems in place for managing the investments. This route could be an option for investors with investment programs of at least €100 million. For a smaller to medium sized investor, with an international programme of less than €100 million, the manager of manager route will however not generate the manager diversification in the international portfolio that would be consistent with a diversified exposure. With a minimum of €10 million investment into each fund, and some investments most likely larger, a €100 million investment programme would diversify the risk over 8-10 managers, which could be considered to be in the lower end when considering specific fund manager risk (as well due diligence costs per investment).

The third option, the Fund of Funds route, could be seen as the most rational solution for investors seeking a quick, broad and well-diversified exposure to international real estate markets. The fund of funds structure for accessing the private real estate market is tailored to address the challenges described above and enables the investor to benefit from a specialist team, (the fund of funds manager), dedicated to selecting best in class managers in different markets and sectors. The importance of manager selection becomes increasingly important as the fund universe quickly is growing globally and the performance between managers can vary greatly. It is of critical importance not only selecting the best funds but also avoiding the pitfalls. As yields are bottoming across markets and market returns are coming down to more long term levels going forward, performance between different funds is likely to become even more disperse and consequently manager selection will be even more important. Furthermore in today's highly liquid market, accessing the most attractive opportunities are not always easy as these usually are structured off-market and capital is raised in more club-like structures. In order to access these opportunities one needs to be very pro-active, manage large investment volumes, possess a strong execution track record and consistently be in the market with capital.

In Aberdeen's experience pooling like-minded investors into a single vehicle confers greater access to investment opportunities as well as better negotiating power in relation to each specific fund investment, powers that should not be under-estimated. In order to increase scale even further the fund of funds manager can also aggregate capital from other parts of its client base, such as separate account clients and other fund of funds vehicles, to provide optimum conditions for its clients by negotiating even better terms and accessing otherwise inaccessible investment opportunities for its clients.

Although real estate markets are integrating, they are not homogeneous. There still are significant discrepancies in yield levels, transparency, maturity and risk characteristics between both markets and sectors. Accordingly, when investing, diversification is crucial. Diversification is not only important by sector and geography, but also in terms of fund manager, investment style and strategy. A fund of funds enables a great degree of diversification, minimising the specific risk component in the real estate portfolio. As an illustration of this, Aberdeen Indirect Property Partners - Europe's first pan-European fund of real estate funds with €623.5 million of equity, currently has a portfolio of 15 different funds giving its investors exposure to some

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Investor Spotlight

870 properties in 16 countries and four sectors. The net performance of this fund to December 2006 was an annualised IRR of 18.6% with only 46% leverage exposure, 3% development exposure altogether implying a highly attractive risk-adjusted return.

What kind of investors are attracted to real estate fund of funds?

In addition to the typical institutional investors such as pension funds and life insurance companies we now also see private banks entering the market through fund of funds.

Which geographical areas are investors particularly interested in?

We see continued strong interest across Europe and Asia in particular.

Which regions do you feel offer the greatest potential for private real estate investment?

Although we have a general top down view, we are bottom up driven in the sense that we invest in managers we believe in and that are able to create their own returns. As we believe yields are bottoming out across markets we think that there is no longer ‘a free ride’ and hence manager selection is even more critical. We are however, always focused on building highly diversified portfolios of funds across countries and sectors by accessing the best managers in their respective area of expertise.

Having spoken to many investors in producing the Preqin Real Estate database, we have noticed that many investors are reducing their allocations to core funds and are increasing their allocation to value added and opportunistic funds – do you have any comment on why this is the case?

I think investors expect yields to bottom out across markets and as a result expect property market returns to come down to more sustainable levels going forward. We as a firm genuinely believe however, that double digit returns can still be achieved in the asset class through active management, development, repositioning and utilisation of market inefficiencies and I think this view may be shared by many other investors. Performance between funds is likely to become more disperse and consequently manager selection will be even more important going forward.

We have noticed a dramatic increase in fund raising activity over the years. According to our figures there has been a huge increase in the amount of capital raised by private real estate funds. In 2004 $21 billion was raised by private real estate funds compared to the $72 billion raised in 2006. At the time of writing $37.2 billion has already closed in 2007 and with a further $91 billion on the road, 2007 is set to be another record year. Do you envisage fundraising maintaining these high levels, or do

you expect the market to slow?

We have not yet seen any decrease in investor demand. Many investors have increased their allocation to real estate and I believe there has been a fundamental change in the way that real estate is viewed in the multi-asset portfolio. The landscape of real estate is not the same today as it was a decade ago. Increased transparency, measurability and professionalism has moved the asset class from an exclusive preserve for the initiated into an asset class exhibiting all the important traits of a mature asset class.

This development is not least evident in the provision of performance data. It is now possible to track performance in real estate through well established indices, such as the IPD index for Europe. With the advent of these indices, it has become possible to measure the contribution real estate can contribute to a long term investor.

Having said that increased interest rates and diminishing yield spreads is likely to have a negative impact on short term investors appetite, and we therefore could expect overall demand to decrease somewhat going forward.

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 online Preqin Real Estate Investor Profiles database.

Ohio School Employees' Retirement System abandons core real estate for fiscal year 2008:

In July 2007, it was announced that Ohio had approved a new plan to invest around USD 100–150 million in real estate for the fiscal year 2008. This capital will be invested in a combination of international funds, value-added and opportunistic. The pension fund feels that returns are far too low for core property and feels that this is unlikely to change in the near future. It is also considering investing in a global REIT to add further diversification to its real estate portfolio.

Schroder Property Investment Management launches follow on fund to capitalize on success of Continental European Fund I:

In Q2 2007 Schroder Property Investment Management launched Continental European Fund II, a fund of funds with a focus on mainland Europe. This follows the successful closing and subsequent investment of the previous fund which closed in July this year with USD 253 million of commitments. The fund was set up for UK investors who are attracted to the diversity of the European markets but who are unable to gain easy access.

San Joaquin County Employees' Retirement Association has continued to show a strong appetite for private equity real estate by making further commitments to funds:

In Q2 2007, the USD 2.1 billion public pension fund committed USD 20 million to Legacy Partners Fund III and USD 15 million to Walton Street Real Estate VI. Legacy Partners Fund III is a value added fund focusing on property in North America whereas Walton Street Real Estate VI has a more global outlook, investing in Mexico and India as well as the US.

San Diego City Employees' Retirement System makes maiden international real estate investment:

As part of a plan to invest USD 50 million in international real estate funds, the USD 4.7 billion public pension fund has made a commitment of USD 30 million to Colony Investors VIII. The opportunistic real estate fund will make investments in Asia, Europe as well as the US. San Diego feels that by investing in international real estate it will be able to achieve higher risk adjusted returns for its real estate portfolio.

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