

Private Real Estate Investors Show Increased Appetite for Risk

55% of private real estate investors are targeting value added funds in 2013 compared to 47% in 2012

Recent months have seen renewed investor interest in higher risk-return strategies, such as value added private real estate funds and a decline in the proportion of institutions targeting lower risk investments such as core. As shown in Preqin's March 2013 edition of Real Estate Spotlight, value added vehicles are the most sought after fund type by investors in private real estate in 2013.

Improving fundraising for value added strategies in 2012 suggests that investors may be returning to what was one of the most commonly targeted strategies in the private real estate fund market prior to the economic downturn in 2008. In 2012, 36 solely value added vehicles held a final close on an aggregate \$11bn, an increase compared to the 27 vehicles that raised an aggregate \$8bn in 2011.

Other Key Findings:

- 44% of investors are looking to commit to vehicles following an opportunistic strategy in the coming 12 months; this is an increase from 38% of investors that were targeting these funds in the 12 months following January 2011 and 42% in the 12 months following January 2012, showing further movement among investors towards higher risk strategies.
- Investor appetite for core funds has declined in recent years, from 54% of investors in private real estate targeting the strategy in the 12 months following January 2011 to 45% in the 12 months following January 2013.
- In terms of market share, solely value added funds raised 18% of the total capital secured by all closed-end private real estate funds in 2012, an increase compared to the 13% they represented in 2011.
- The 36 solely value added vehicles that held a final close on an aggregate \$11bn in 2012 represent the most successful year for solely value added fundraising since 90 vehicles raised an aggregate \$28bn in 2008.
- The number of value added funds in market has increased over the last year, from 95 in February 2012 to 107 in February 2013, but the aggregate capital sought by these funds fell slightly from \$32bn to \$30bn over the same time period.
- The largest value added fund currently in market is TA Realty Associates X, a US-focused fund which is looking to raise \$1.25bn.

For more information, please see the full report:

http://www.preqin.com/docs/newsletters/RE/Real_Estate_Spotlight_March_2013.pdf

Comment:

"Investor appetite for value added private real estate funds declined following the economic downturn in 2008, while interest for lower-risk core funds saw a marked increase. However, appetite for higher risk-return profile investments is now increasing among institutional investors, and for value added funds in particular.

This may be a result of the improving performance of value added funds, particularly for recent vintages, combined with concerns over the pricing of core assets. The median IRRs of value added funds with 2008 and 2009 vintages is greater than that of all private equity real estate funds of the same vintages. These figures may have helped boost investor confidence in value added real estate and could also serve to attract more investors to this fund type in the future.

Nonetheless, with a large number of funds on the road, fund managers with value added funds in market will likely still find raising capital for their vehicles challenging, even with increased investor appetite for the strategy."

Andrew Moylan – Manager, Real Estate Data

For further information and analysis, please see the latest Real Estate Spotlight:

http://www.preqin.com/docs/newsletters/RE/Real_Estate_Spotlight_March_2013.pdf

Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q', the company name being an amalgamation of the former name, Private Equity Intelligence.

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

Preqin has built a reputation in the alternative assets industry for providing the most comprehensive and extensive information possible. Leading alternative assets professionals from around the world rely on Preqin's services daily, and its data and statistics are regularly quoted by the financial press. For more information, please visit: www.preqin.com

For more information, please contact: Andrew Moylan +44 (0)20 7397 9430 or amoylan@preqin.com

For general press information, please contact: Helen Kenyon +44 (0)20 7645 8880 or press@preqin.com