

The Preqin Quarterly Update:

Real Estate

Content Includes:

Investor Outlook

We explore investor appetite for private real estate over the next 12 months.

Fundraising Overview

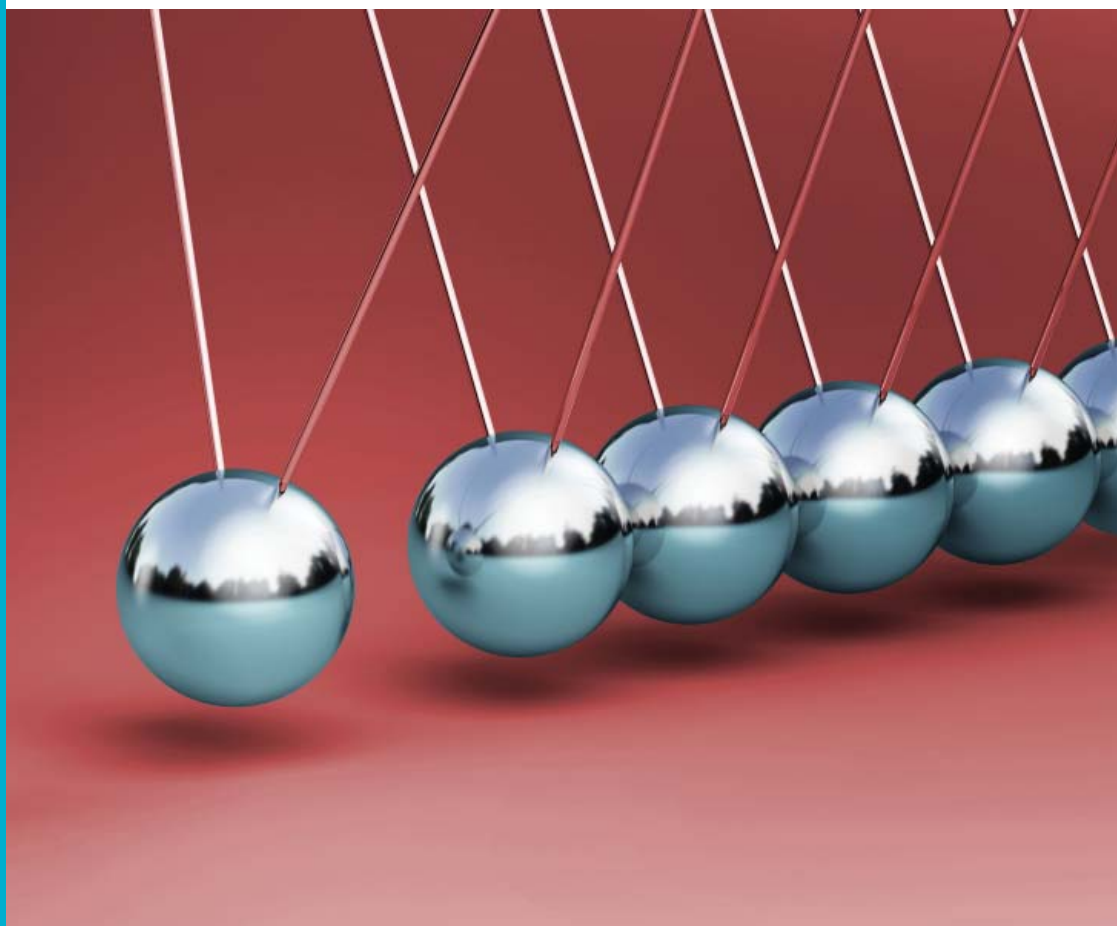
We provide key stats on private real estate fundraising in Q1 2013, including the top 10 funds closed in the quarter.

Funds in Market

We analyze the latest data on funds currently in market, including by primary geographic focus and time spent in market

Performance Update

We take a look at the most up-to-date private real estate performance figures, including median net IRRs and quartile boundaries by vintage year, quarterly change in NAV, and much more.





Introduction

Raising capital for private real estate funds remains a very challenging prospect and the first quarter of 2013 was a slow period for fundraising, with just \$5.2bn raised by the 20 funds to close in the quarter. Competition for investor commitments is intense and fund managers need to be prepared for a long fundraising process. Funds are increasingly spending more than a year on the road, and a significant proportion of funds in market have been fundraising for over 18 months. However, recent years have seen a number of funds reaching or exceeding their fundraising targets, suggesting increasing momentum in the fundraising market. Fundraising for new managers will likely be particularly challenging as the proportion of investors prepared to commit to first-time funds has steadily declined in recent years.

There are signs many investors are now moving up the risk/return curve, with appetite for value added and opportunistic strategies increasing. This is particularly notable among North America-based institutions, with 68% of those expecting to be active in the coming 12 months targeting value added funds.

The recent performance of the private equity real estate asset class is encouraging, with NAVs increasing in each of the past 10 quarters. The IRRs generated by those vintage years most affected by the economic downturn continue to improve, while the initial signs are that many funds of the most vintages will be strong performers.

Behind every data point in this report is a wealth of individual firm- and fund-level data from Preqin's Real Estate Online service, gathered through Preqin's direct contact with industry professionals across the globe. We hope you find this report useful, and welcome any feedback you may have. For more information, please visit www.preqin.com or [contact info@preqin.com](mailto:info@preqin.com).

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Contents

Fundraising in Q1 2013	p3.
Top 10 Funds Closed in Q1 2013	p4.
Funds in Market	p5.
Institutional Investors in Private Real Estate	p6.
Fund Performance	p7.

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Fundraising in Q1 2013

The first quarter of 2013 was a slow period for private equity real estate fundraising. Twenty closed-end private real estate funds held final closes in Q1 2013, raising an aggregate \$5.2bn, a 79% decrease on the \$24.7bn raised in Q4 2012. North America-focused vehicles, which have accounted for a growing proportion of all capital raised globally in recent years, raised \$3.7bn in Q1 2013, 71% of the aggregate capital raised globally in the quarter.

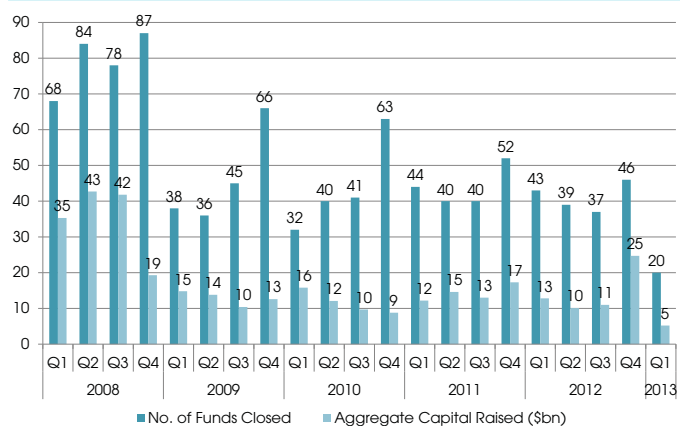
The average time managers spend marketing their funds has more than doubled since 2007. However, more managers are reaching their target sizes, with 55% of funds that closed in Q1 2013 doing so on or above their targets; in comparison, 47% of funds that closed in 2012 met or exceeded their fundraising targets.

Access detailed information on over 4,000 private equity real estate funds using **Real Estate Online**, including key contacts, geographic and strategic focus, known investors, and more.

For more information please visit:

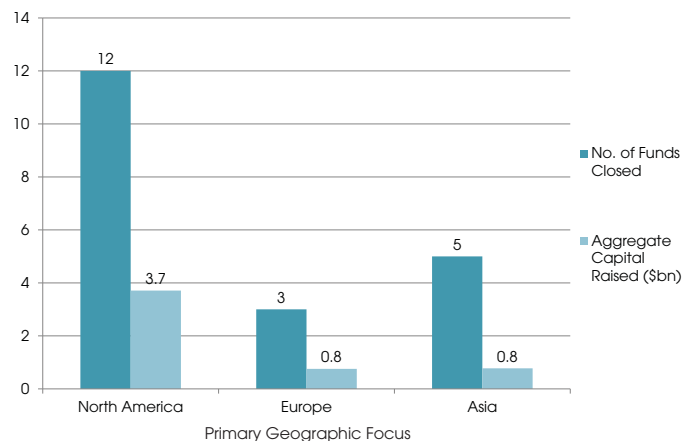
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Fig. 1: Quarterly Closed-End Private Real Estate Fundraising, Q1 2008 - Q1 2013



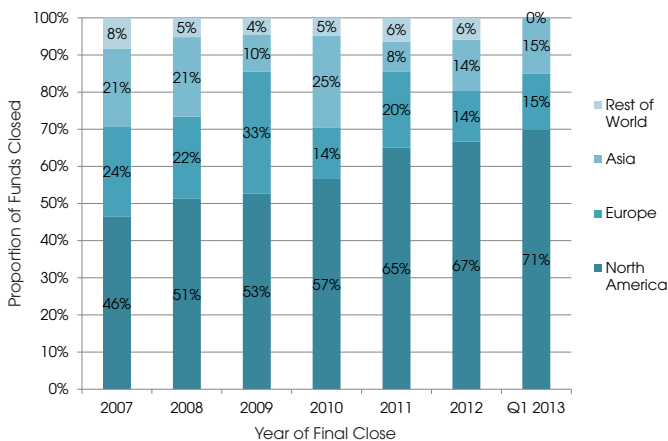
Source: Preqin Real Estate Online

Fig. 2: Closed-End Private Real Estate Fundraising in Q1 2013 by Primary Geographic Focus



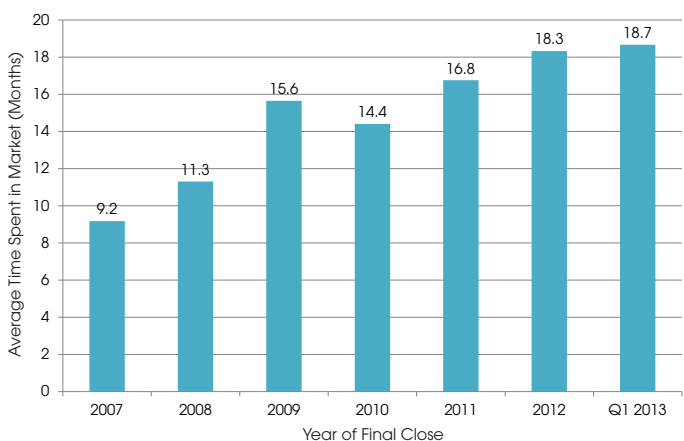
Source: Preqin Real Estate Online

Fig. 3: Proportion of Aggregate Capital Raised by Closed-End Private Real Estate Funds by Primary Geographic Focus, 2007 - Q1 2013



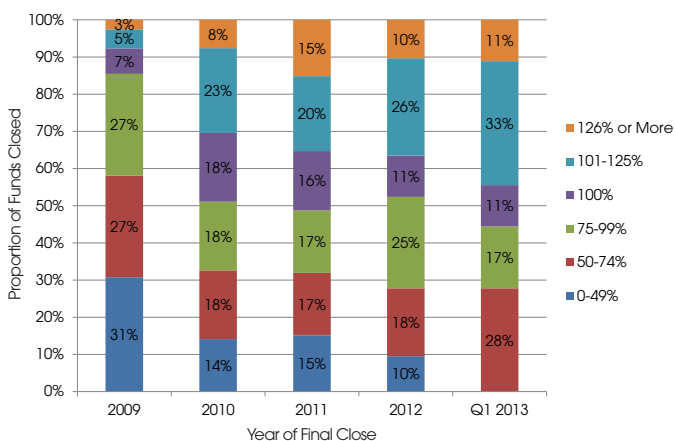
Source: Preqin Real Estate Online

Fig. 4: 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. 5: Breakdown of Closed-End Private Real Estate Funds by Proportion of Target Size Achieved, Funds Closed 2009 - Q1 2013



Source: Preqin Real Estate Online



Top 10 Funds Closed in Q1 2013

Fig. 1: 10 Largest Closed-End Private Real Estate Funds to Hold a Final Close in Q1 2013

Fund	Firm	Strategy Focus	Size (mn)	Geographic Focus	Property Focus
Rockpoint Real Estate Fund IV	Rockpoint Group	Distressed, Opportunistic and Value Added	1,950 USD	US	Office, Residential, Retail, Hotels
Prime Finance Partners III	Prime Finance Partners	Debt	621 USD	US	Diversified
Harbert European Real Estate Fund III	Harbert Management Corporation	Opportunistic and Value Added	254 EUR	Europe	Industrial, Office, Retail
Securus Data Property Fund	AEP Investment Management	Opportunistic	275 USD	Asia	Data Center
European Hotel Real Estate Fund II	Invesco Real Estate	Core-Plus	207 EUR	Europe	Hotels
Tokyo Recovery Fund	Aviva Investors	Core-Plus	24,000 JPY	Asia	Office
Dalfen America Corporation Opportunity Fund XV	Dalfen America Corporation	Value Added	250 USD	US	Industrial, Office, Retail
KHP Fund III	Kimpton Real Estate	Core-Plus	203 USD	US	Hotels
Meridian Realty Partners I	Meridian Group	Opportunistic and Value Added	160 USD	US	Diversified
Club Immo Santé	Viveris Real Estate Investment Management	Core	117 EUR	Europe	Medical/Healthcare, Senior Home

Source: Preqin Real Estate Online

Receive fully customized email digests of updates and news on private equity real estate funds using the Preqin Alerts Centre on [Real Estate Online](#), including new funds launched and recent closes.

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Funds in Market

The real estate fundraising market remains crowded, with 434 funds in market targeting an aggregate \$156bn. Although the number of funds on the road has fallen since the start of Q4 2012, competition among fund managers remains intense. Of all funds in market, 41% have been fundraising for more than 18 months, indicating how challenging it is for managers to close funds. Fifty-two percent of funds on the road which have not yet held an interim close have already been in market for more than a year.

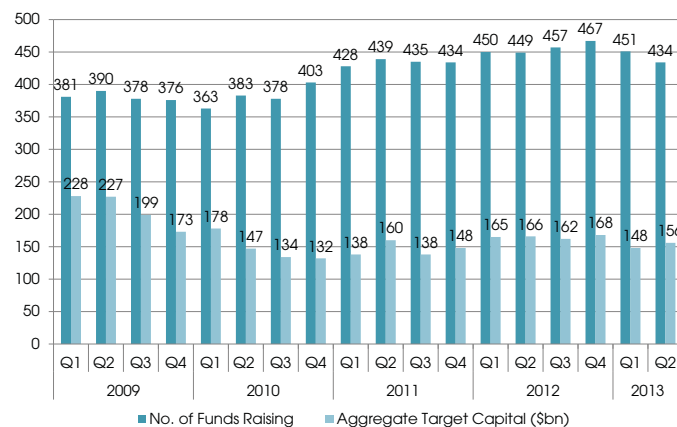
Lone Star Fund VIII is the largest fund on the road, with a \$5bn fundraising target. Brookfield Strategic Real Estate Partners and Blackstone Group are both raising their first dedicated Asia-focused funds, each targeting commitments of \$3.5bn (Fig. 5).

Real Estate Online features detailed information on all 434 private real estate funds currently on the road, including target size, regional focus, and more.

For more information, please visit:

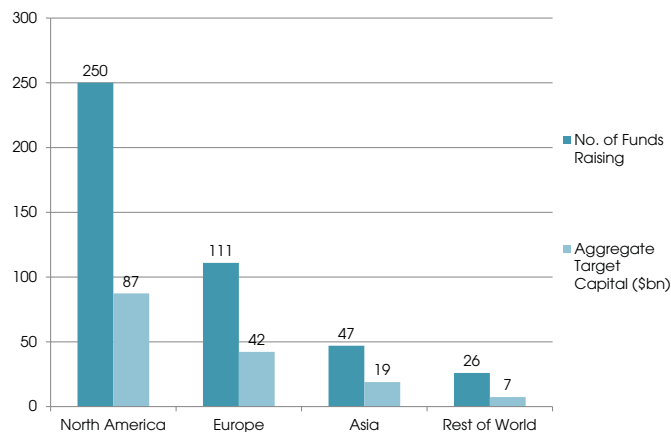
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Fig. 1: Closed-End Private Real Estate Funds in Market, Q1 2009 - Q2 2013



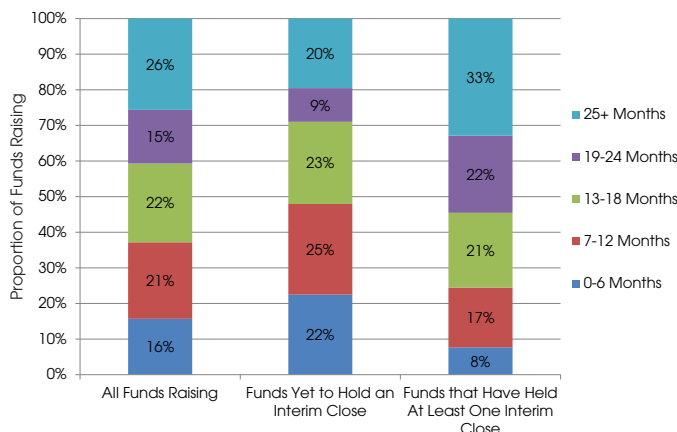
Source: Prequin Real Estate Online

Fig. 2: Closed-End Private Real Estate Funds in Market by Primary Geographic Focus



Source: Prequin Real Estate Online

Fig. 3: Time Spent in Market by Closed-End Private Real Estate Funds Currently on the Road



Source: Prequin Real Estate Online

Fig. 5: 10 Largest Closed-End Private Real Estate Funds in Market by Target Size

Fund	Firm	Strategy Focus	Target (bn)	Geographic Focus
Lone Star Fund VIII	Lone Star Funds	Debt, Distressed and Opportunistic	5.0 USD	Global
Brookfield Strategic Real Estate Partners	Brookfield Asset Management	Opportunistic	3.5 USD	Global
Blackstone Real Estate Partners Asia	Blackstone Group	Opportunistic	3.5 USD	Asia, Australasia
Goldman Sachs Real Estate Mezzanine Partners II	Goldman Sachs Merchant Banking Division	Debt	3.0 USD	North America, Europe
Blackstone Real Estate Debt Strategies II	Blackstone Group	Debt	3.0 USD	North America, Europe
Walton Street Real Estate Fund VII	Walton Street Capital	Opportunistic and Value Added	2.0 USD	US
CIM Fund VIII	CIM Group	Opportunistic	2.0 USD	US
Orion European Real Estate Fund IV	Orion Capital Managers	Opportunistic	1.3 EUR	West Europe
Oaktree Real Estate Opportunities Fund VI	Oaktree Capital Management	Debt, Distressed and Opportunistic	1.5 USD	North America, Global
Perella Weinberg Real Estate Fund II	Perella Weinberg Partners	Opportunistic	1.2 EUR	Europe

Source: Prequin Real Estate Online



Institutional Investors in Private Real Estate

Investor appetite for high risk/return strategies, such as opportunistic and value added, has been increasing since January 2011 (Fig. 1). North America-based real estate investors are more likely to target these strategies in the next 12 months, whereas a greater proportion of Europe- and Asia-based investors are seeking lower-risk core and core-plus strategies (Fig. 2). Although investor appetite for first-time funds has decreased steadily in recent years, the proportion of investors considering a maiden commitment to a first-time fund tripled between December 2012 and March 2013 (Fig. 4).

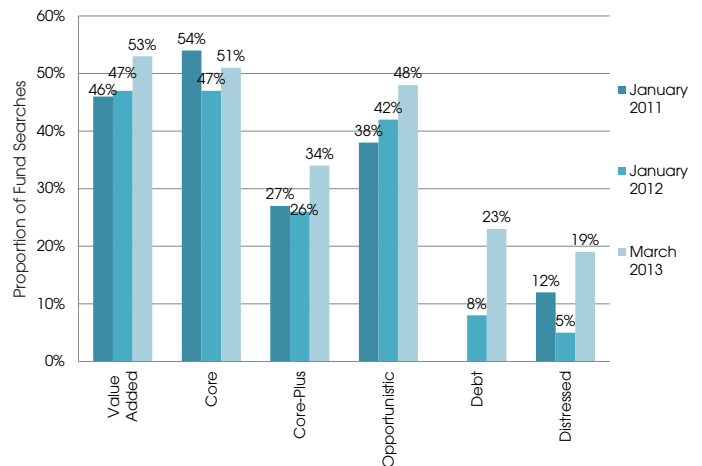
Of all global real estate investors, 24% will utilize separate accounts. However, appetite for these structures varies significantly by investor type, as shown in Fig. 5.

Want to source new LPs for funds? **Real Estate Online** provides details on over 450 current fund searches and open mandates.

For more information please visit:

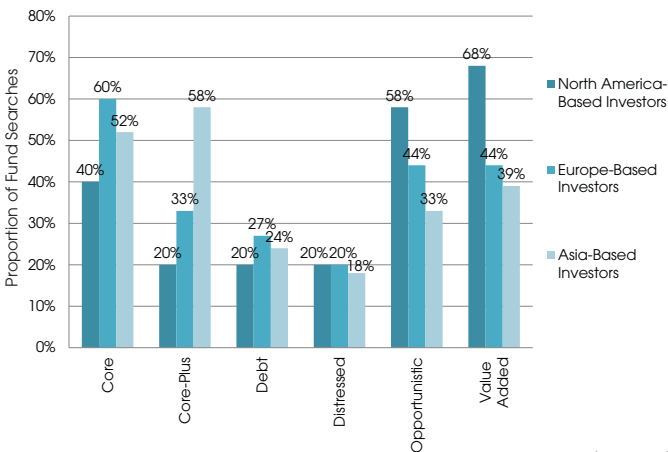
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Fig. 1: Strategies Targeted in the Next 12 Months by Private Real Estate Investors, January 2011 - March 2013



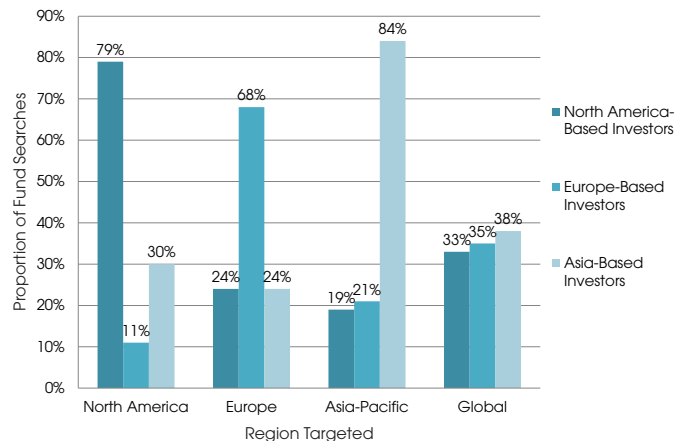
Source: Preqin Real Estate Online

Fig. 2: Strategies Targeted in the Next 12 Months by Private Real Estate Investors by Investor Location



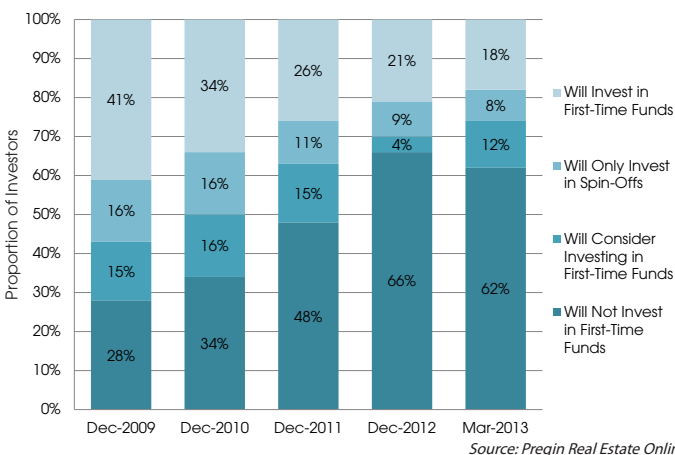
Source: Preqin Real Estate Online

Fig. 3: Regions Targeted in the Next 12 Months by Private Real Estate Investors



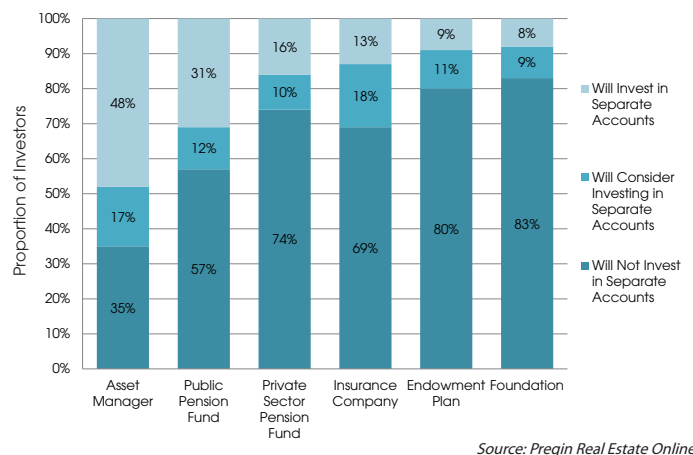
Source: Preqin Real Estate Online

Fig. 4: Changing Attitudes towards First-Time Private Real Estate Funds, December 2009 - March 2012



Source: Preqin Real Estate Online

Fig. 5: Real Estate Investor Appetite for Separate Accounts by Investor Type



Source: Preqin Real Estate Online



Fund Performance

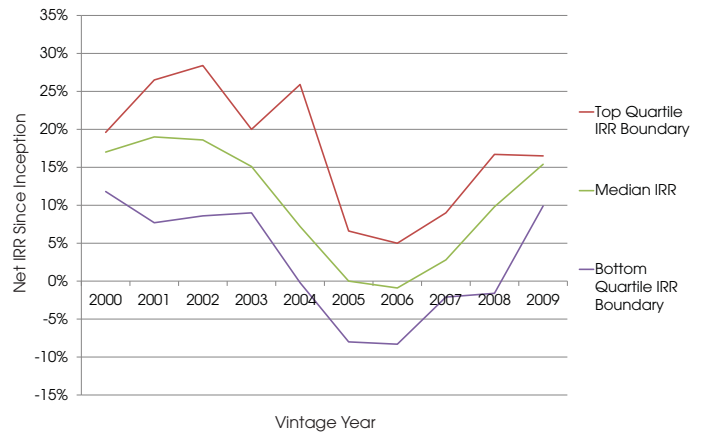
The performance of private equity real estate funds continues to improve. Vintage 2009 funds are generating median net IRRs of 15.4%, with top quartile funds of the same vintage posting net IRRs of at least 16.5% (Fig. 1). There have also been positive changes in NAV of closed-end real estate funds in each of the 10 quarters to September 2012 (Fig. 2).

The PrEQIn Real Estate Index, which captures in an index the returns earned by investors on average in their private equity real estate portfolios, stood at 222.3 in September 2012, just above the PrEQIn All Private Equity Index which stood at 220.8, and significantly above the S&P 500 which stood at 109.1 (Fig. 5). While, the PrEQIn Real Estate Index has increased by 26% since June 2010, it remains well below its peak of 335.2 from September 2007.

Want to view net-to-LP returns with full metrics for over 1,000 individual named private real estate funds globally? Preqin's Real Estate Online can help.

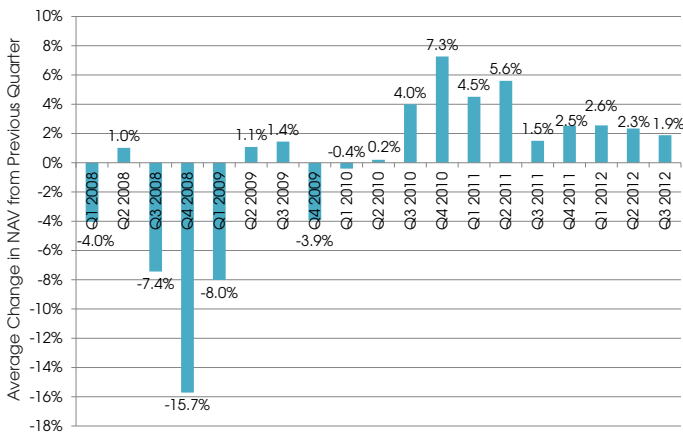
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Fig. 1: Closed-End Private Real Estate Funds: Median Net IRR and Quartile Boundaries by Vintage Year



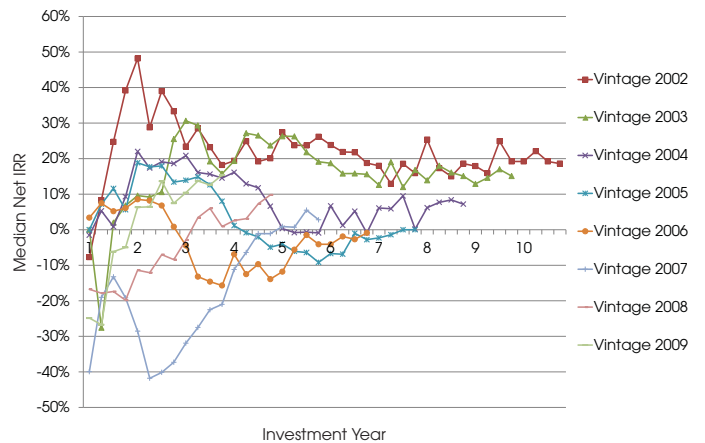
Source: Preqin Real Estate Online

Fig. 2: Closed-End Private Real Estate Quarterly Change in NAV, Q1 2008 - Q3 2012



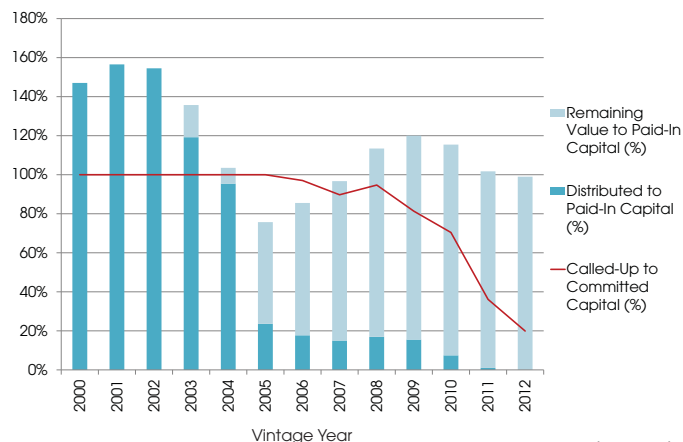
Source: Preqin Real Estate Online

Fig. 3: J-Curve: Annual Median Net IRRs by Vintage Year (as of 30 September 2012)



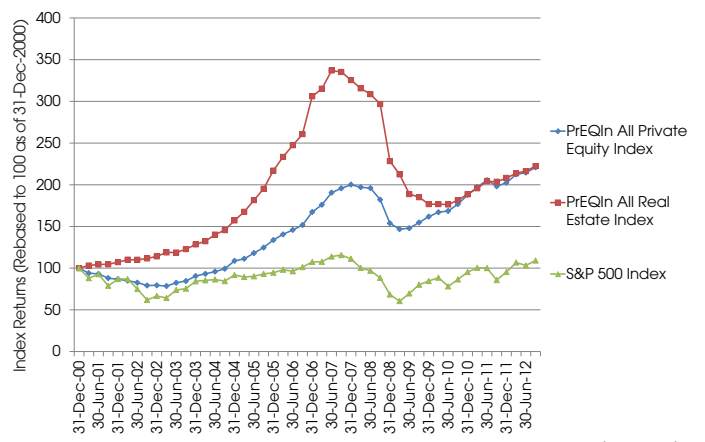
Source: Preqin Real Estate Online

Fig. 4: Closed-End Private Real Estate Funds: Median Called-up, Distributions and Residual Value Ratios by Vintage Year



Source: Preqin Real Estate Online

Fig. 5: PrEQIn Index: Real Estate vs. Private Equity & S&P 500



Source: Preqin Real Estate Online

The Preqin Quarterly Update: Real Estate, Q1 2013



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