

This report is an excerpt from: **Preqin Quarterly: Real Estate, Q3 2012**. To download the full report please visit: https://www.preqin.com/docs/quarterly/RE/Real_Estate_Quarterly_Q3_2012.pdf

Target IRRs

The IRRs targeted by private real estate funds vary significantly depending on a variety of factors including the strategy, types of property targeted, geographic focus and the amount of leverage utilized. Fig. 7 illustrates the distribution of targeted net IRRs for private real estate funds currently in market. The greatest proportion of funds are targeting net IRRs of 14-15.9%, with 25% of all funds in market in this bracket. Eighteen percent of funds are targeting an IRR of 16-17.9%, with a further 22% targeting an IRR of more than 18%. Funds targeting IRRs of 12-13.9% make up 16% of funds in market, while those targeting IRRs of 11.9% or less make up 18% of private real estate funds on the road.

Fig. 8 shows how target net IRR varies with strategy. As would be expected, opportunistic funds have the highest target IRRs, with a mean target IRR of 17.8%. There is a small increase in mean target IRR between core funds at 8.8% and core-plus funds at 10.7%. However, the difference between the mean target IRR of core-plus and value added funds is almost four percentage points, which is influenced by the higher risk involved in investing in value-added funds. While the average IRR target for debt funds is 11.6%, the targeted returns of these vary significantly, with some targeting IRRs of 18% or more and others targeting IRRs as low as 7%.

Target net IRR also varies with geographic focus. The mean target net IRR for Europe-focused funds in market is 13.8%, while the figure for North America-focused funds stands at 15.3%. For funds investing outside of North America and Europe, targeted IRRs are higher. This is partly because of the growth in many of these economies, but it also reflects the desire of investors to achieve greater returns as emerging markets-focused investments are typically considered higher risk. Asia focused funds have a mean IRR target of 16.7%, while funds investing elsewhere have a mean IRR target of 20.7%.

The mean target net IRR by vintage year is illustrated in Fig. 9. The average target IRR for 2005 vintage funds was 14.6%, and this rose to 16.4% for 2009 vintage funds. The average target IRR has fallen for more recent vintage years. The average target IRR for funds making their first investment in 2011 is 15.5%, while for 2012 vintage funds the average IRR target is 15.3%.

Preqin's Real Estate Online has comprehensive data on real estate funds in market, with information on target IRRs, strategy, property and location focus, as well as the service providers involved in the fundraising process.

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Fig. 7: Target Net IRR Distribution of Closed-End Private Real Estate Funds in Market

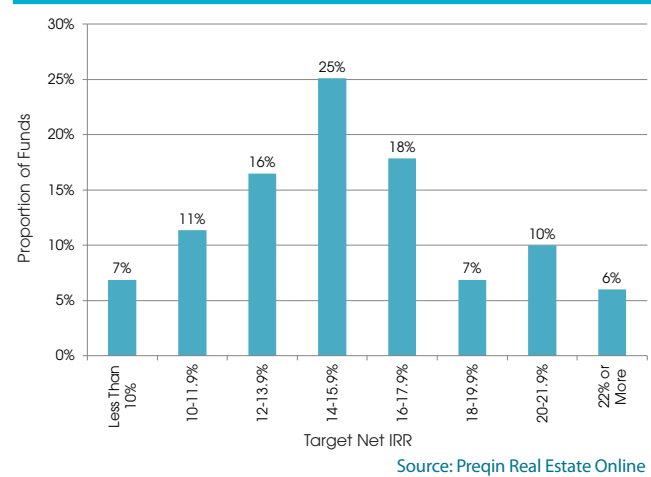


Fig. 8: Mean and Median Target Net IRRs of Closed-End Private Real Estate Funds in Market by Strategy

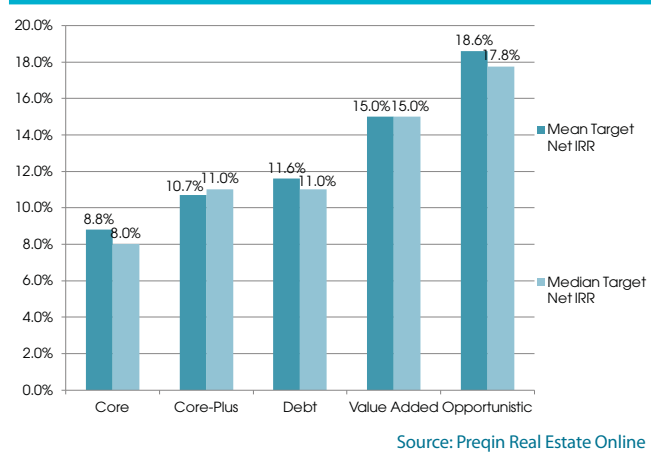


Fig. 9: Mean Target Net IRRs of Closed-End Private Real Estate Funds by Vintage Year

