The

Preqin Quarterly

Real Estate - Insight on the quarter from the leading provider of alternative assets data

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Q2 2011 JULY 2011

Content Includes....

Investment Consultant Survey

The results of a recent survey reveal investment consultants' views on the asset class and its future.

Latest Fundraising Figures and Future Predictions

Fundraising finally saw an increase in Q2 2011, but does this mean a recovery is in sight?

Recently Launched Funds

A number of established managers are bringing large funds to market.

Funds of Funds

Funds of funds have traditionally been a large source of capital for real estate managers; has that changed?

Q2 Special Guest Contributor: David Arthur, Brookfield Asset Management

Contents

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Editor's Note

The fundraising results for the second quarter of 2011 offer some encouragement to firms on the road, with the $11.9 billion raised representing a 34% increase on the $8.9 billion raised in Q1. We expect fundraising will continue to pick up over the second half of the year, as institutional investor appetite for the asset class gradually improves.

Despite an increase in investor appetite, the fundraising market remains very overcrowded. Firms with funds in market that have been waiting for improving investor appetite may find that the expected commitments will not materialize given the number of managers on the road. Managers will have to ensure they stand out from the crowd if they are to be successful and it seems likely that many firms will be forced to make some tough decisions in the coming months with regards to their fundraising prospects.

Investment consultants are key players within the real estate fund market, influencing the direction of billions of LP dollars. This edition reveals the results of an extensive survey of real estate consultants, indicating that most expect their clients to commit more capital in 2011 than they did in 2010. While consultants saw valuations and the wider market volatility as significant concerns, what is encouraging for the private real estate industry is that few felt fees, transparency or alignment of interests were major issues.

In addition to our usual figures on fundraising, performance and dry powder, we take a closer look at the real estate fund of funds market on page 9, including the changing strategies this knowledgeable group of investors are adopting in the current environment. We also take a look at management fees and GP contributions to funds on page 8, two areas which are crucial in the alignment of interest between investors and fund managers.

We are also thrilled to feature an interview with David Arthur of Brookfield Asset Management, who shares his views on the real estate market.

We hope that you find this report to be interesting and informative and as ever we welcome any feedback that you may have. If you would like more information on any of our products and services, please feel free to contact us at our New York, London or Singapore offices.

Andrew Moylan, Editor

David Arthur,

Brookfield Asset Management

Interview with David Arthur, Managing Partner, Real Estate Investments North America - Brookfield Asset Management. Conducted by Claire Wilson, June 2011.

You successfully raised a large fund at a time when fundraising was very difficult. How did you overcome the challenges?

Firstly, Brookfield does have a strong, established track record in real estate and in infrastructure and power as well. We are somewhat unique in that we have a skill set as owners and operators with global expertise, so we're not just raising capital and allocating it, we're actually operating the business. We've got strong client relationships that we have developed over time, and that obviously helps whether you're at the top of the cycle or the bottom. We put in a lot of capital, we're the largest single investor in all our funds, so our interests are aligned with those of our clients. The senior managers are the largest shareholders in the company so there's an alignment between the management, the company and the investor. I also think that during the challenging time we tailored our fundraising from a structural perspective to meet those challenges, so that was also appealing to investors.

You have been able to produce strong returns on your investments; what is the key to identifying a good investment opportunity?

We have a large operating platform and network, which provides us with many opportunities to look at. We see a lot of deals and we're very selective in narrowing the deals into a pipeline that we take further. When we acquire an asset we focus on how we can add value through leasing, capital improvements, fixing the capital structure and identifying one or more exit strategies in advance.

How do you view opportunities in emerging markets?

We have been long-term and significant investors in Brazil, as owners and operators of assets for almost 100 years. We believe there's tremendous growth potential in the country, as the emerging middle class purchases homes and increases its consumption. We're also investing in the growth of Asian economies such as India and China, and assets in resource-rich countries like Australia that serve those markets.

Where are you seeing the best investment opportunities at the moment?

We are focused on the US and Europe and we believe that these regions have the best promise. In the US there's still significant distress in the commercial real estate markets from a capital perspective, and between 2005 and 2007, a lot of debt was placed on properties whose values have now come down quite a bit. That debt was generally five year term debt that is now coming to maturity and owners don't have the capital to pay it off, or the value of the property has dropped and they have to pay it down. The banks are finally starting to loosen up and provide opportunities to acquire assets or loans that they have taken on their balance sheet.

In the case of Europe, it's a bit behind the US, but there's significant distress that is now beginning to be realised, whether it's direct owners or real estate, whether it's banks, or governments. There's a lot of press about some of the stress that some banks and governments are going through in Europe and we want to be there to take advantage of those opportunities.

Will market conditions improve over the next 12 months?

We are looking from an operating perspective and it's important for us as to how our assets are doing, but we do see some steady grass roots performance improvement in our operating units. We don't see any dramatic changes, but we can certainly see steady improvement. In our office building business, of which we have 85 million square feet, we've had one of the most active quarters in the past three months for leasing, even though it's from a lower point, we see activity picking up, and we think that's encouraging.

You're about to launch your real estate opportunistic fund; will you be employing the same fundraising tactics as you have in the past, or do you plan to adopt a revised strategy?

I'm not sure we'll have any changes. It's a three prong strategy – we have a large, dedicated internal fundraising group that is constantly in the market talking to current and potential new investors. Secondly, we'll look at our existing investors, then we'll look to broaden our investor base. Third, Brookfield commits significant capital to its funds and is the largest investor. It's a constant theme that we've been pursuing over the last few years and it's something we'll continue to do going forward.

Investment Consultant Survey

Current conditions in the private real estate market make the investment strategy followed by investment consultants and their clients extremely important. Private real estate investment consultants and their clients will seek high quality real estate assets that can produce attractive returns while preserving and increasing their capital in the long term. In May 2011 Preqin conducted a survey of over 70 alternative investment consultants to establish their current view of various asset classes, and the outlook for the alternative assets industry over both the short and longer term. The article that follows looks specifically at the data received from private real estate consultants.

Just over two-thirds of respondents believe that North America will present the best investment opportunities over the coming 12 months. The global economic downturn was precipitated by the sub-prime mortgage crisis in the US; it is possible that investment consultants and investors alike feel the real estate market in this region will still provide opportunities in the distressed space.

Half of respondents believe that Asia, with its developing markets, will offer attractive opportunities in the next year, while around a third believe Europe and South America present good prospects. The South American private real estate market is still in its infancy, but with many consultants seeing good opportunities to invest the region, it seems likely that more funds with a focus on the region will be raised in the future. The Middle East was the least popular region amongst those surveyed.

Respondents were asked to rank fund types on a scale of 1 to 5, with 5 being the most attractive and 1 being the least attractive in the current market. Opportunistic real estate was ranked highest, with an average ranking of 3.7. However, this is just 0.1 higher than both distressed private real estate and value added, which both had an average ranking of 3.6.

Fig. 1: Regions Viewed as Presenting the Best Opportunities in Private Real Estate

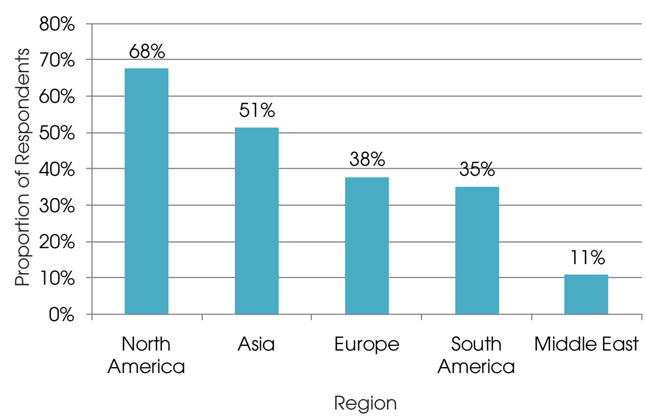
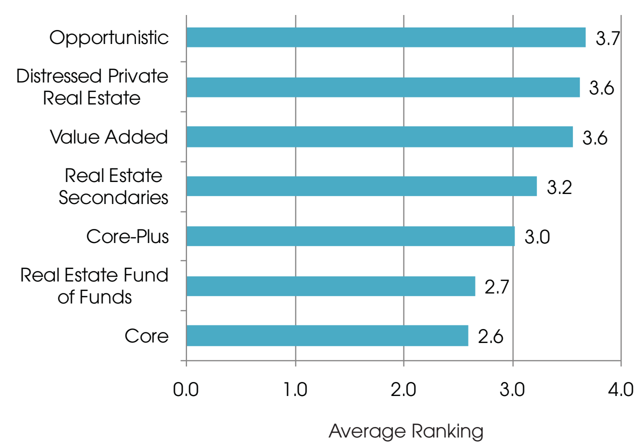


Fig. 2: Private Real Estate Investment Consultant Attitudes to Different Fund Types



Surprisingly the more conventional core funds were the lowest ranked strategy with an average score of 2.6. It could be that consultants believe core properties are now overpriced as a result of increased demand during the downturn. Core-plus also received a relatively low ranking of 3.0. The results indicate that consultants and their clients currently have more of an appetite for risk, with the medium-to-high risk and return strategies ranked higher by investment consultants.

Levels of Investment & Key Issues in Private Real Estate in 2011

As private real estate investment was severely affected by the financial crisis, investment consultants and the clients they advise will play a pivotal role in turning around the fortunes of the asset class. Addressing any concerns and issues they have with the market would help accelerate the process. However, investments in the asset class did increase slowly in 2010 and into 2011, and respondents were asked how much capital they plan to commit to private real estate in the near future.

The vast majority expect to commit more capital to the private real estate market than they did in 2010; 72% of consultants will either be significantly or slightly increasing their commitment level to the asset class. As Fig. 3 shows, more than half of respondents plan to slightly increase the level of their capital commitments in 2011 compared to the prior year. These results are more positive than those of Preqin's February 2011 survey of over 100 institutional investors in private real estate funds, reported in Preqin Investor

Outlook: Real Estate, where only 45% of investors stated that they would be likely to commit to private real estate funds in 2011. 9% of investment consultants will be slightly reducing their level of commitment to the asset class over the next 12 months, and none will be making any significant reductions.

Respondents were asked about the key issues in the real estate market at the present time and unsurprisingly, given current conditions, valuation of investments was most frequently cited; just under a quarter of respondents claimed this was an issue.

Consultants, just like 28% of investors surveyed previously, cite the economic climate and the resulting volatility as one of the more prevalent issues in the market; 19% stated this was an issue. Only 2% of those surveyed stated that industry regulations and the alignment of interests between fund investors and fund managers in the private real estate market were key issues.

Outlook

The private real estate market is showing evidence of year-on-year improvement from the nadir reached post-2008. Investment consultants and their private real estate investor clients will be looking to commit greater amounts of capital over the course of 2011 than in the previous year, particularly targeting opportunistic and distressed strategies in North America and Asia.

However, despite the expected increase in investment activity, the private real estate market is still recovering. Concerns with market valuations and possible volatility in the market remain and the opinions and investment plans of these investors are easily swayed by changes in the global economy.

Fig. 3: Amount of Capital Consultants & Their Clients Plan on Committing to Private Real Estate in 2011 Compared to 2010

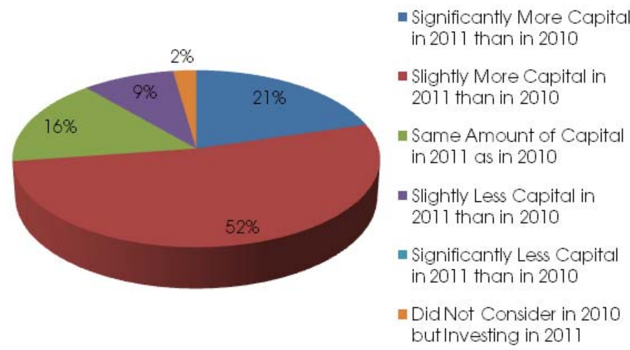
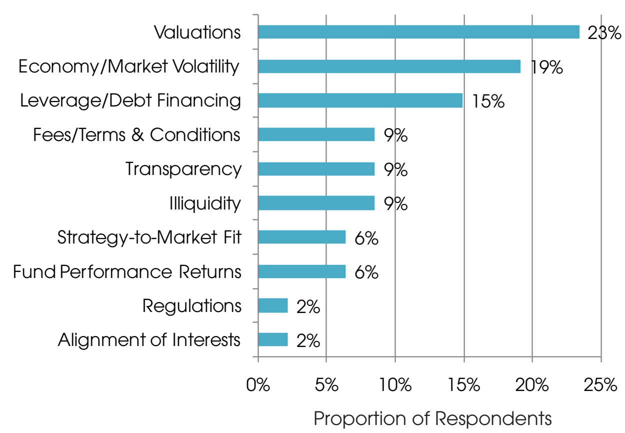


Fig. 4: Investment Consultants' Perception of Key Issues in the Private Real Estate Market



Fund Terms and Conditions

In the wake of the financial crisis private equity real estate fund managers have been under increasing pressure due to the poor fundraising environment that has prevailed. Institutional investors have become more cautious towards real estate investment due to the impact of the crisis on the asset class, which has resulted in an overcrowded and depressed fundraising environment. In such a climate it is vital for fund managers to position their vehicle in the best possible way, and a large part of this is in the terms and conditions offered to potential LPs.

As shown in Fig. 5 nearly half of real estate funds of a 2010 or 2011 vintage, or those still raising capital as of Q2 2011, have a management fee of 1.50-1.74%, and 16% have a fee of 2.00-2.24%. Just over one-tenth of funds have a 1.75-1.99% management fee, and 13% use a rate of 1.00-1.24%. Real estate funds under $1 billion in size have a median management fee of 1.50%; however the figure falls when looking at the larger funds, with a median of 1.35% for funds over $1 billion in size.

Analysis of the average real estate fund management fees by vintage year reveals that the median has remained constant at 1.50% across all recent vintages. However, the largest real estate funds of the most recent vintages have had significantly lower average management fees than vintage 2007 and 2008 funds. The mean management fee for vintage 2011 funds (including those still fundraising and yet to begin investing as of Q2 2011) of $1 billion or more in size is 1.33%.

In recent years many LPs across the range of private equity fund types – private real estate included – have become increasingly attracted to fund managers that are willing to provide larger commitments to their own investment funds. LPs see the GP's commitment to its own fund as a key driver of the alignment of interests between investors and the fund manager. Fig. 6 shows the average GP commitments by fund type for private equity funds of a 2010 or 2011 vintage, or those still raising capital as of Q2 2011. As can been seen, real estate funds have the highest mean level of GP commitments

Fig. 5: Real Estate Funds - Management Fee during Investment Period (Funds Raising & Vintage 2010/2011 Funds Closed)

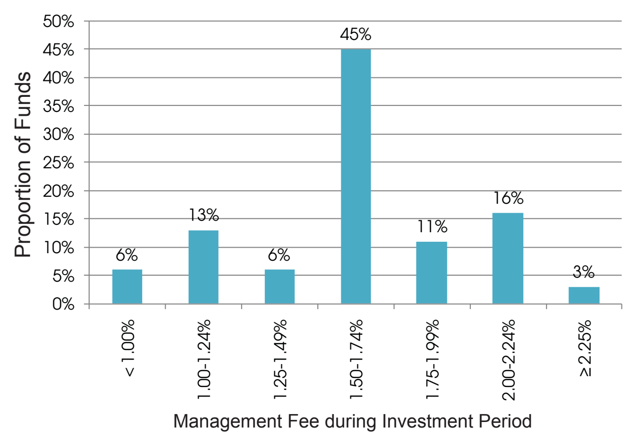
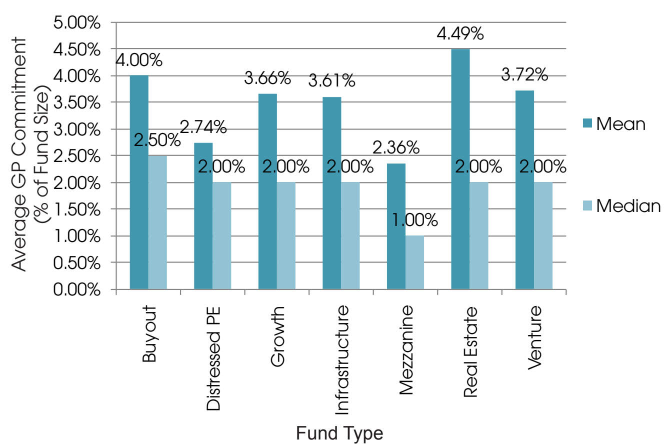


Fig. 6: Average GP Commitments as a Percentage of Fund Size by Fund Type (Funds Raising & Vintage 2010/2011 Funds Closed)



Funds of Funds

Funds of funds have historically been a significant source of capital for real estate fund managers, as well as providing access to the asset class for investors lacking the resources, finance, knowledge or experience required for manager selection and committing to funds directly. Following the financial crisis, however, fund of funds managers have found it just as difficult to secure commitments for their funds as managers across the real estate fund spectrum.

Fundraising Market

Real estate fundraising remains a challenging prospect in the current market. Managers are launching fewer funds, targeting less capital and the number of funds closing and the amount of capital raised has fallen dramatically. This trend is also observed in fundraising for funds of funds (see Fig. 7). In July 2011, there were 23 funds of funds in market, targeting an aggregate $5.0 billion. 12 were North America-focused, seeking $2.9 billion, seven Asia and Rest of World-focused funds were targeting $1.5 billion, and four Europe-focused vehicles were aiming to raise $0.5 billion. There has also been a shift in the strategy focus of funds of funds in response to market demand (see Fig. 8). Increased investor appetite for core, debt and distressed strategies led to the launch of a number of vehicles targeting these areas of the industry.

Changes in Investor Sentiment

In the current market, some of the motivations for investing in funds of funds, such as accessing top-tier funds and global diversification, are not as compelling or relevant as they have been in previous years. Investors have been committing less capital to real estate funds, with some halting allocations altogether. Investor appetite for funds of funds has therefore declined, as has the number of new investors investing in real estate for the first time via funds of funds. Of the investors with historical fund of funds commitments that will be active in private real estate in 2011, only a small number are seeking funds of funds, with the rest preferring to invest in other fund types in the immediate future.

Outlook

Funds of funds that have closed in the last couple of years will be making underlying commitments in 2011. The performance of their portfolios and their investors' assessment of these investments could determine what the future holds for the fund of funds industry. Due to the wide range of functions and services offered by these managers, providing they perform at satisfactory levels, funds of funds can continue to play an important role in the industry as the investment environment develops over the coming years.

Fig. 7: Fund of Funds Fundraising, 2004-July 2011

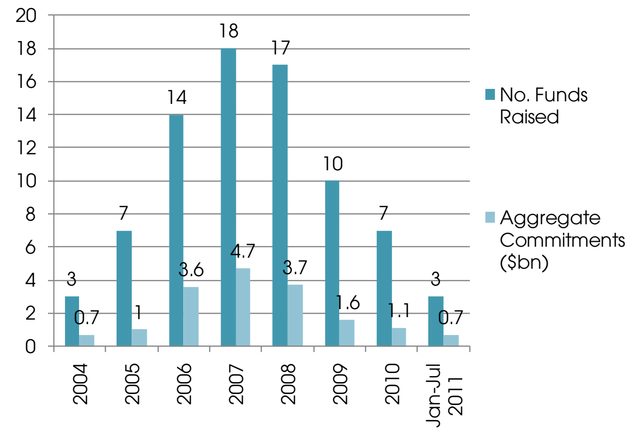
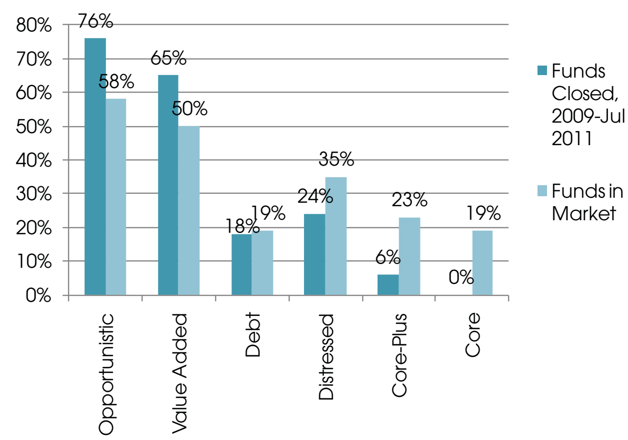


Fig. 8: Targeted Strategies of Funds of Funds



Fundraising Overview

In Q2 2011, 19 private equity real estate funds reached a final close, raising an aggregate $11.9 billion. This signifies an increase on the $8.9 billion raised in Q1 2011, but is considerably lower than 2006-2008, when quarterly totals regularly exceeded $30 billion. In addition to the funds that held a final close in this quarter, 27 funds held an interim close in Q2 2011, raising $4.5 billion towards their overall targets.

North America-focused funds raised the most amount of capital in Q2 2011, with 10 funds accumulating $8.6 billion in commitments. The largest primarily North American fund to close in this period was Lone Star Real Estate Fund II, which raised $5.5 billion to invest in a broad range of financial and other investment assets in commercial real estate, including both debt and equity instruments. Och-Ziff Real Estate Fund II closed on $840 million, and this debt and distressed fund focuses on the acquisition of leisure and entertainment properties such as hotels and casinos, as well as land for the purpose of residential development, throughout the US. Five Asia and Rest of World-focused funds closed in this quarter, including Prosperitas Real Estate Partners III, an opportunistic and value added vehicle which closed on $750 million. Four Europe-focused funds closed in the quarter raising $1.9 billion, including Pramerica Real Estate Capital I, a debt fund which closed on £492 million. The 10 largest funds to close in the quarter are shown in the table on page 11.

The length of time on the road spent by funds gives an indication of investor appetite and the extent of competition in the fundraising market. Fig. 10 shows that funds which closed in Q2 2011 spent an average 15.1 months in market, a decrease from Q1 2011. Nonetheless, it still takes firms significantly longer to raise funds than it did prior to the economic downturn.

Fig. 9: Quarterly Private Equity Real Estate Fundraising, Q1 2007 - Q2 2011

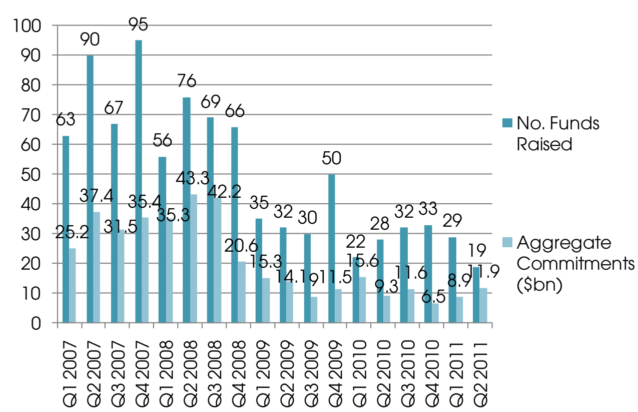


Fig. 10: Average Time Taken for Funds to Close, 2006 - Q2 2011

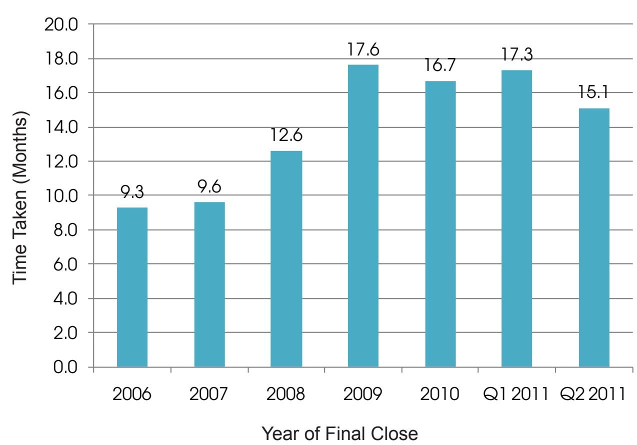


Fig. 11: Q2 2011 Fundraising by Fund Primary Regional Focus

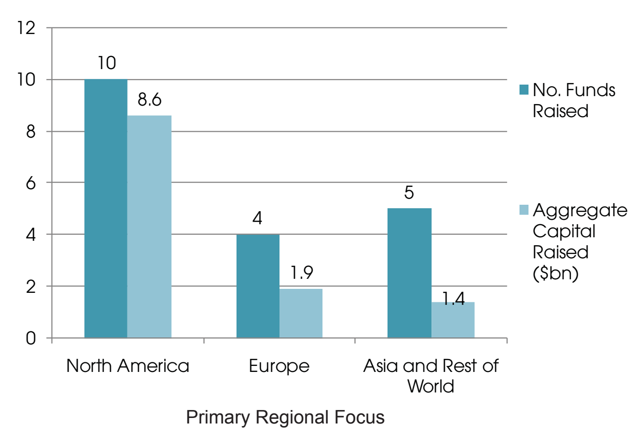


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Fig. 12: Top 10 Private Equity Real Estate Funds to Closed in Q2 2011 by Final Close Size

Fund	Firm	Strategy	Amount Closed (mn)	Geographic Focus	Property Focus
Lone Star Real Estate Fund II	Lone Star Funds	Debt, Distressed, Opportunistic	5,500 USD	US, West Europe, Japan	Commercial, Industrial, Residential, Office, Retail, Hospitality, RE Companies
Och-Ziff Real Estate Fund II	Och-Ziff Real Estate Advisors	Debt, Distressed	840 USD	US	Hospitality, Land, Mixed Use, Residential
Pramerica Real Estate Capital I	Pramerica Real Estate Investors	Debt	492 GBP	West Europe	Industrial, Office, Retail
Prosperitas Real Estate Partners III	Prosperitas Investimentos	Opportunistic, Value Added	750 USD	Brazil	Industrial, Residential
M&G Real Estate Debt Fund	M&G Investments	Debt	494 EUR	West Europe	Commercial
Harrison Street Real Estate Partners III	Harrison Street Real Estate Capital	Opportunistic	596 USD	US	Medical/Healthcare, Self Storage, Senior Home, Student Housing
Garrison Real Estate Fund II	Garrison Investment Group	Debt, Distressed	575 USD	US	Commercial
CR China Retail Real Estate Development Fund I	Harvest Capital Partners	Opportunistic	466 USD	China	Retail
IMT Capital Fund II	IMT Capital	Value Added	350 USD	US	Residential
South East European Heritage Property Fund	Elements Property Fund	Opportunistic	150 EUR	East Europe	Leisure/Entertainment

Funds on the Road

As of July 2011, there were 437 private equity real estate funds in market targeting an aggregate $148 billion, compared to the 441 funds targeting $159 billion at the start of Q2 2011. Despite the decrease in the capital being targeted by fund managers, the fundraising environment remains extremely crowded and competitive; the aggregate capital sought by private equity real estate firms is over three times the amount of capital that was raised in 2010.

As observed in Fig. 13, the number of funds in market during the course of 2009 remained relatively constant. However, the aggregate capital sought by such funds declined significantly as a result of the challenging fundraising conditions which prompted fund managers to set lower, more realistic targets. Throughout the course of 2010, the number of funds in market increased, although the aggregate amount of capital targeted continued its decline, suggesting that fund managers were continuously adapting to the realities of the tough fundraising environment through realigning their fundraising targets.

Nonetheless, a number of large real estate funds were launched in Q1 2011, causing the aggregate amount of capital sought by funds in market increase by $21 billion from the start of Q2.

The tough fundraising environment in recent years has made it difficult for managers to close funds, with funds spending an increasing amount of time on the road. This has created a saturated market in which more funds are in market than throughout 2009-Q1 2011.

Out of the 437 funds in market, 253 are primarily focused on North America. These funds are looking to raise an aggregate $83.5 billion, accounting for 56% of the capital being sought by all funds on the road. The largest fund in market is the primarily North America-focused Blackstone Real Estate Partners VII, which is targeting $10 billion. This opportunistic fund will seek to acquire high-quality distressed and/or undermanaged properties at below market value.

Europe-focused vehicles are targeting the second largest amount of capital. 102 such funds are looking to raise $38.5 billion, accounting for 26% of the aggregate amount of capital sought. European Diversified Fund, managed by AXA Real Estate, is the largest of these European-focused funds. This core and core-plus vehicle is seeking to raise €1.5 billion to invest across industrial, logistics, office and retail properties. There are currently 82 primarily Asia and Rest of World-focused funds in market aiming to accumulate $26 billion.

Fig. 13: Private Equity Real Estate Funds in Market over Time, 2009 - 2011

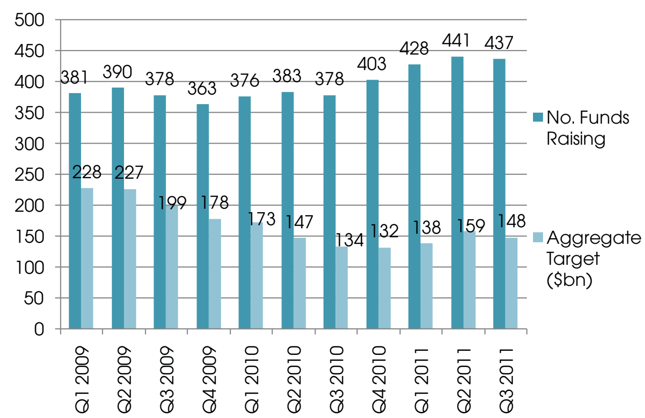
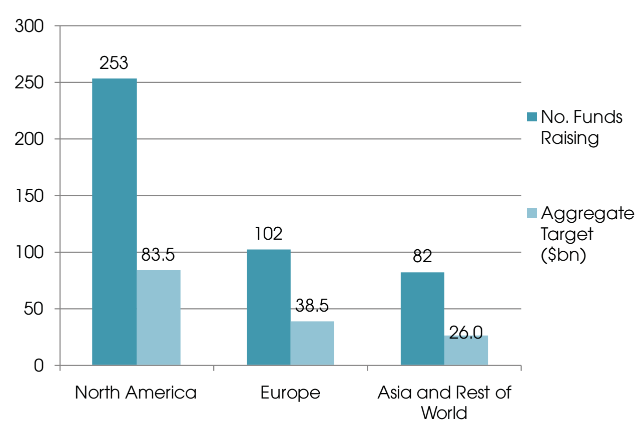


Fig. 14: Private Equity Real Estate Funds in Market by Primary Geographic Focus



Such funds account for 18% of the global targeted capital, and include funds such as Alpha Asia Macro Trends Fund II, managed by Alpha Investment Partners, which is seeking $1.5 billion in capital. The fund will employ a core-plus and value added strategy and will invest across the spectrum of residential, hotel, retail, office, logistics and warehouse/ distribution properties.

Recently Launched Funds

In Q2 2011, 30 vehicles were launched, targeting an aggregate $18.5 billion. Several large funds have come to market in this quarter, including Blackstone Real Estate Partners VII, the $10 billion opportunistic fund, and SmartCore Fund, which is seeking to raise $1 billion. This reflects an increase in fund manager confidence, and real estate firms seem to have revised their fundraising targets upwards in anticipation of improving market fundamentals and renewed investor confidence. The larger firms are returning to market with their latest funds, possibly buoyed by the $5.5 billion final close of Lone Star Real Estate Fund II in this quarter, which gives further indication of increasing investor appetite.

There were 22 North America-focused funds launched in Q2 2011, seeking an aggregate $16.2 billion. Five Asia and Rest of World-focused funds were launched looking to garner $1.6 billion, while three Europe-focused funds were launched in this quarter, targeting an aggregate $700 million.

Fig. 17 shows the 10 largest funds launched in Q2 2011 by their target size. Seven of these funds are primarily focused on North America, two are Asia and Rest of World-focused and one is Europe-focused. The largest fund launched in this quarter is Blackstone Real Estate Partners VII. ARCH Capital Asian Partners II, which is targeting $500 million, is the largest Asia and Rest of World-focused fund launched in the quarter. This vehicle will employ an opportunistic strategy and will seek commercial, office, retail, mixed use and residential properties throughout Greater China, Philippines, Singapore and Thailand.

Fig. 15: Private Equity Real Estate Funds by Launch Date

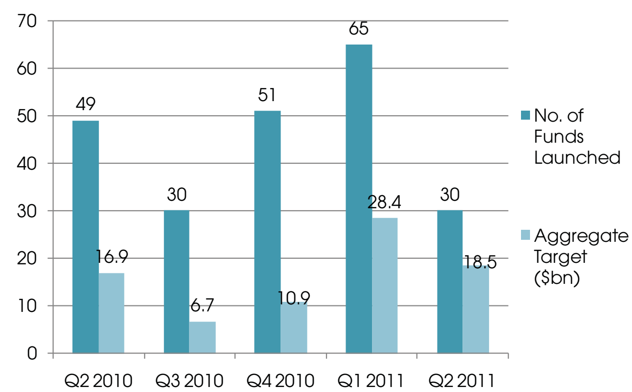


Fig. 16: Private Equity Real Estate Funds Launched in Q2 2011 by Primary Geographic Focus

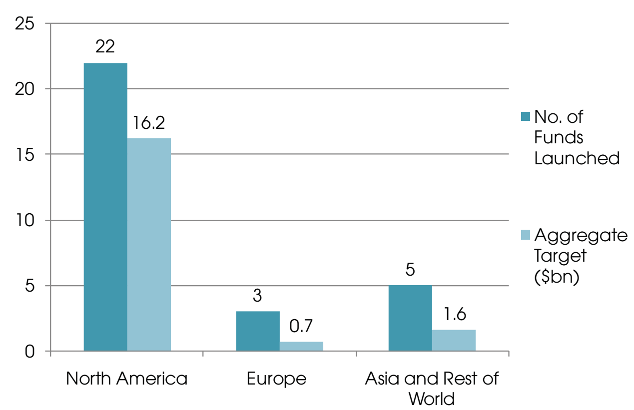


Fig. 17: Top 10 Real Estate Funds Launched in Q2 2011 by Target Size

Fund Name	Firm	Target Size (mn)	Strategy
Blackstone Real Estate Partners VII	Blackstone Group	10,000 USD	Opportunistic
SmartCore Fund	GI Partners	1,000 USD	Core
Junius Real Estate Fund	Junius Real Estate Partners	750 USD	Debt, Distressed, Opportunistic
Invesco Real Estate Fund III	Invesco Real Estate	750 USD	Value Added
High Street Real Estate Fund IV	High Street Equity Advisors	500 USD	Core-Plus
ARCH Capital Asian Partners II	ARCH Capital Management	500 USD	Opportunistic
Iron Point Real Estate Partners II	Iron Point Partners	450 USD	Debt, Opportunistic
Tellus II	SDI Desenvolvimento Imobiliário	450 USD	Opportunistic
IVG Deutschland Plus Fund	IVG Funds	250 EUR	Core, Core-Plus, Value Added
Brightside Hotel Fund	Brightside Investment Group	350 USD	Value Added

Fig. 18: Top 10 Largest Real Estate Funds in Market

Fund	Firm	Strategy	Target (mn)	Geographic Focus
Blackstone Real Estate Partners VII	Blackstone Group	Opportunistic	10,000 USD	North America, Global
Lone Star Fund VII	Lone Star Funds	Debt, Distressed	4,000 USD	Japan, North America, West Europe
Rockpoint Real Estate Fund IV	Rockpoint Group	Distressed, Opportunistic	2,500 USD	US, Europe, Asia
CIM VI: Urban REIT	CIM Group	Core, Core-Plus	2,000 USD	North America
Carlyle Realty Partners VI	Carlyle Group	Debt, Opportunistic	2,000 USD	North America
European Diversified Fund	AXA Real Estate	Core, Core-Plus	1,500 EUR	West Europe, North Europe
Alpha Asia Macro Trends Fund II	Alpha Investment Partners	Core-Plus, Value Added	1,500 USD	Asia
AG Realty Fund VIII	Angelo, Gordon & Co	Debt, Opportunistic	1,250 USD	North America, Europe, Asia
PS Fund IV – Asia Fund Select	Pacific Star Financial	Core, Core-Plus, Opportunistic, Value Added	1,200 USD	Asia
UK Property Income Fund	Legal & General Property	Core, Core-Plus	700 GBP	UK

Fundraising Future Predictions

The results for fundraising in Q2 2011 indicate that the gradual increase in investor activity, which has occurred over recent quarters, is beginning to translate into increased levels of capital being raised. The $11.9 billion raised in Q2 was an increase on the $8.9 billion raised in Q1 and a sizeable increase on the $6.5 billion raised in Q4 2010. The results from Q2 will give some encouragement to fund managers that are currently marketing their funds. That Lone Star Funds, which closed its Lone Star Real Estate Fund II with commitments of $5.5 billion, was able to raise the fifth largest private equity real estate fund of all time highlights that firms can raise substantial amounts of capital from institutional investors in the current environment.

Firms that closed funds in Q2 2011 also spent, on average, 15.1 months marketing their funds. The average time spent in market for funds which closed in Q1 2011 was 17.3 months. This again points to an improved fundraising environment, as fund managers were able to secure commitments more quickly. The results of Preqin's survey of real estate investment consultants (see page 6) demonstrate why fundraising is starting to improve. 73% of consultants anticipate that their clients will commit more capital to private real estate funds in 2011 than they did in 2010. As deal activity increases and as more distributions occur, the cycle of capital through the industry will continue to improve, which is likely to further improve fundraising.

Despite both the number and aggregate target of funds in market falling during Q2 2011, the fundraising environment remains extremely competitive. The aggregate target of all funds in market is $148 billion, more than three times the amount of capital raised in the past 12 months. Many firms with funds on the road have been forced to delay anticipated closings as they struggle to secure investor commitments and, although investor appetite is increasing, firms will have to stand out from the crowd if they are to be successful in securing commitments for their funds. Managers which have been waiting for an upturn in investor enthusiasm may find that the level of competition means they are still unable to secure commitments for their funds.

Based on Preqin's conversations with institutional investors, investment consultants, placement agents and fund managers across the globe, it seems probable that investors will continue to increase their investment activity, leading to a gradual improvement in fundraising over the remainder of the year.

Fig. 19: Sample of Funds Closing On or Above Target in Q2 2011

Fund	Firm	Target (mn)	Final Close (mn)
South East European Heritage Property Fund	Elements Property Fund	100 EUR	150 EUR
Lone Star Real Estate Fund II	Lone Star Funds	4,000 USD	5,500 USD
Harrison Street Real Estate Partners III	Harrison Street Real Estate Capital	500 USD	596 USD
Garrison Real Estate Fund II	Garrison Investment Group	500 USD	575 USD
Och-Ziff Real Estate Fund II	Och-Ziff Real Estate Advisors	750 USD	840 USD
Encore Housing Opportunity Fund	Encore Housing Opportunity Fund	150 USD	152 USD
Boston Capital Tax Credit Fund XXXIV	Boston Capital	200 USD	200 USD
Prosperitas Real Estate Partners III	Prosperitas Investimentos	750 USD	750 USD

Dry Powder

The amount of dry powder available to private equity real estate fund managers has decreased by $24 billion since December 2009, when the amount of uncalled capital was at a peak of $184 billion, to $160 billion in June 2011. Fig. 20 shows the amount of capital invested and the amount of dry powder available to private real estate funds of vintage years 2005-2010. Funds with vintages 2007-2009 all have similar amounts of dry powder remaining, despite the likelihood that 2007 vintage funds are near to the end of their investment periods. While 2007 vintage funds still have fairly large amounts of uncalled capital, their levels of dry powder dropped by around $10 billion during Q2 2011, suggesting that the environment for real estate transactions has improved in recent months.

Fig. 21 shows the level of dry powder by the primary geographic focus of private real estate funds since 2003. North America-focused funds have seen the largest decrease in dry powder levels since December 2009, with the amount of uncalled capital dropping by $13 billion to $86 billion in June 2011. European-focused funds have had relatively stable levels of dry powder since 2006, indicating that deal levels in this region remain low. Europe is the only region to see stable levels of dry powder since 2009. Although at lower levels, Asia and Rest of World-focused levels of uncalled capital follow a similar trend to North America funds, with levels increasing until 2007 and then steadily falling in the following years.

Fig. 22 shows private real estate dry powder by fund strategy. Closed-end core funds have seen a jump in levels of dry powder in the first six months of 2011, with capital available for debt investments also increasing since 2009, suggesting that investors have increasingly been committing capital to these strategies. Opportunistic and value added funds have significantly lower levels of uncalled capital than in 2009, which is a sign of the continuing slow fundraising environment.

Fig. 20: Closed-End Real Estate Funds - Capital Invested and Dry Powder Remaining by Vintage Year as of June 2011

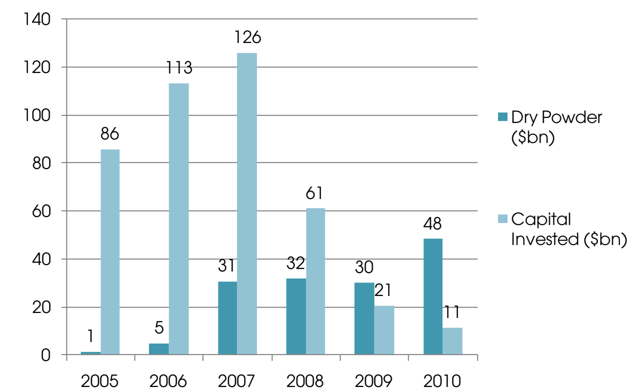


Fig. 21: Closed-End Private Equity Real Estate Dry Powder by Primary Regional Focus, 2003 - 2011

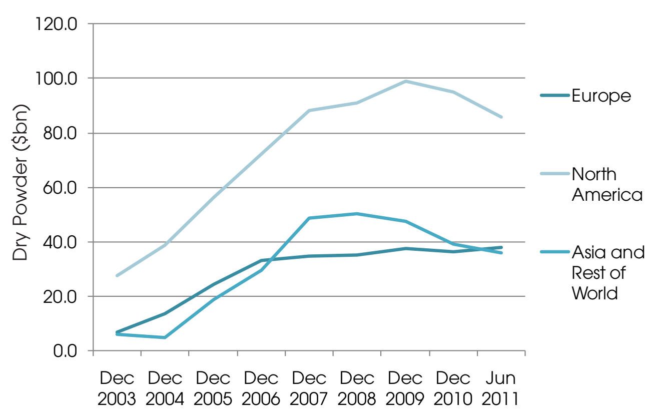
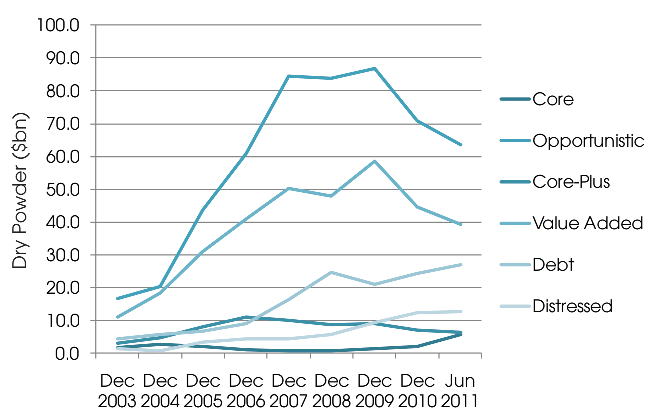


Fig. 22: Closed-End Private Equity Real Estate Dry Powder by Fund Strategy, 2003-2011



Performance Update

The change in net asset value (NAV) of private equity real estate funds in successive quarters from Q1 2010 to Q4 2010 is shown in Fig. 23. The non-weighted data shows a small decline in NAV in Q1 2010, but in the following three quarters there was an increase in NAV. Q4 2010 saw a significant 7.3% increase in NAV. Fund managers' portfolios are increasing in value as global property markets begin to recover. The weighted data, which takes fund size into account, showed positive change in NAV in all quarters during 2010, including a 12.2% increase in Q4 2010. This suggests that valuations of the larger funds are showing more of an improvement, although it should be noted that these funds were more adversely affected by the financial crisis.

Fig. 24 plots the annual median net IRR at each quarter end for funds of 2002 to 2008 vintages. It can be seen that the median IRRs of funds of 2004, 2005 and 2006 vintages declined significantly as a result of the downturn, before stabilizing over the four quarters of 2010. 2007 vintage funds had a median IRR which was deeply in negative territory in Q1 2009, standing at -41.8%. The median IRR of 2008 vintage funds has seen small increases in recent quarters, with -6.3% in Q3 2010 and -2.2% in Q4 2010.

Fig. 25 compares the horizon IRRs of private equity real estate funds with those of the Wilshire REIT Index and the NCREIF Property Index over one-, three- and five-year periods to December 2010. The one-year private equity real estate horizon IRR was 4.7%; the corresponding figure for the NCREIF Property Index was 13.1% and 28.6% for the Wilshire REIT Index. Over the three-year period, however, only the Wilshire REIT Index achieved a positive return, with returns of 0.2%, while private equity real estate funds returned -12.2% and the NCREIF Property Index posted -4.2%. REITs and direct property also outperformed private equity real estate funds over the five-year period to December 2010, though returns for all three investment types differed very little in this period.

Fig. 23: Private Equity Real Estate Change in NAV by Quarter

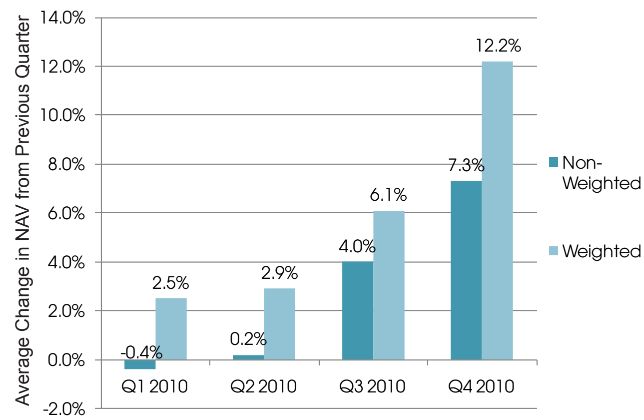


Fig. 24: J-Curves: Annual Median Net IRRs by Vintage Year, as of 31 Dec 2010

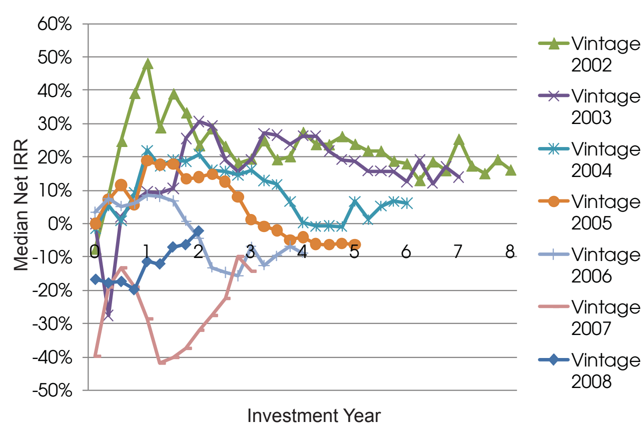
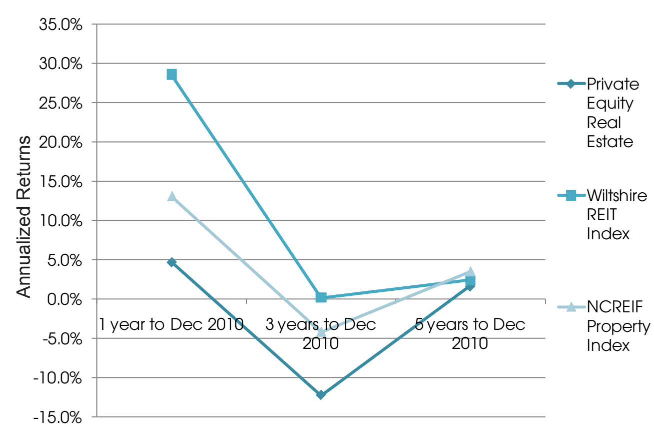


Fig. 25: Private Equity Real Estate Horizon IRR vs. REIT and Direct Property Indices, as of 31 Dec 2010



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