Q2 2012 JULY 2012

The Preqin Quarterly Real Estate

Insight on the quarter from the leading provider of alternative assets data

Content Includes....

Wealth Managers Survey

The results of Preqin's first study of the preferences and attitudes of wealth managers that invest in alternatives.

Fund Terms and Conditions

We take a look at the latest headline terms across the real estate asset class and examine what this means for the industry.

Performance Update

A look at the latest private real estate performance figures.

Fundraising Overview

The private real estate fundraising market remains challenging, but what does the future hold?

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Contents

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Editor's Note

Q2 2012 was another slow quarter for private real estate fundraising, suggesting that marketing real estate funds remains a challenging prospect. Just $7.5bn was raised by funds holding a final close in the quarter, a significant decrease compared to the $10.8bn raised in Q1.

Fund terms and conditions play a key role in aligning the interests of fund managers and investors. With this in mind, we take a look at the headline terms and how these are evolving on page 4. On pages 6-7 we focus on real estate funds of funds, looking at recent fundraising for the sector and the investment preferences of these influential firms. On page 5 we examine how investors gain exposure to real estate and how this varies by location.

With many institutional investors remaining on the sidelines, fund managers are looking elsewhere for commitments to their funds. Wealth managers are important gatekeepers, pooling together capital from private investors such as family offices, foundations, endowments, high-net-worth individuals and ultra high-net-worth individuals. The results of Preqin's first study of wealth managers are revealed on page 8.

We take a detailed look at fundraising during the second quarter of 2012 on pages 9-11 and examine funds on the road on pages 12-15. We also provide the latest performance and dry powder figures on pages 16 and 17.

The Preqin Real Estate Quarterly utilizes data from a variety of Preqin's online products, publications, and research reports in order to give a current snapshot of the private real estate industry. Behind every chart is a range of individual firm- and fund-level data.

We hope you find this edition useful and, as always, we welcome any feedback or suggestions for future content.

Andrew Moylan
Manager – Real Estate Data

Fund Terms and Conditions

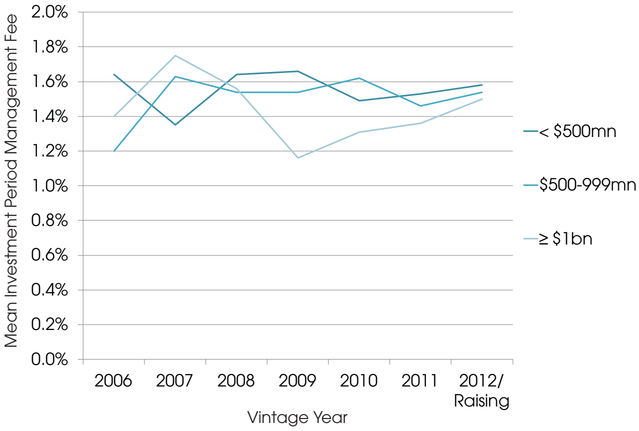
Fig. 1 shows how management fees charged by closed-end real estate funds vary with vintage year and fund size. Management fees have remained fairly consistent, albeit with more variance by vintage year for the larger funds than for the smaller funds. It appears that management fees have increased slightly for 2012 vintage funds and funds currently raising, with these funds having average management fees of 1.50% for funds of $1bn or more, 1.54% for funds of $500-900mn, and 1.58% for funds less than $500mn in size. The chart also shows how the gap between the smallest and largest funds has closed since the 2009 vintage.

Fig. 2 shows the breakdown of management fees charged during the investment period by real estate fund managers. For vintage 2011 and 2012 funds, and those currently raising capital, 44% of funds charge a management fee of 1.50-1.74% during the investment period. There has been a slight shift towards higher management fees during the investment period, with 22% of funds charging a management fee of 2.00-2.24%, compared to 14% for 2009-2010 vintage funds. Additionally, 3% of 2011-2012 vintage funds and those in market have management fees of 2.25% or more, whereas no 2009-2010 vintage funds charge this higher amount.

Mean hurdle rates increase steadily with vintage year between 2008 and 2010, but then decrease from an average of 9.3% for vintage 2010 funds to an average of 8.7% for vintage 2012 funds or those currently in market. Fig. 3 shows how the distribution of real estate fund hurdle rates varies by vintage year. Compared to 2006-2008 vintage funds, hurdle rates for 2009-10 vintage funds are slightly more LP-friendly. Only 8% of 2009-2010 vintage funds have hurdle rates in excess of 11%, compared to 13% of 2006-2008 vintage funds. Twenty-seven percent have a 9% hurdle rate, compared to 32% of 2006-2008 vintage funds.

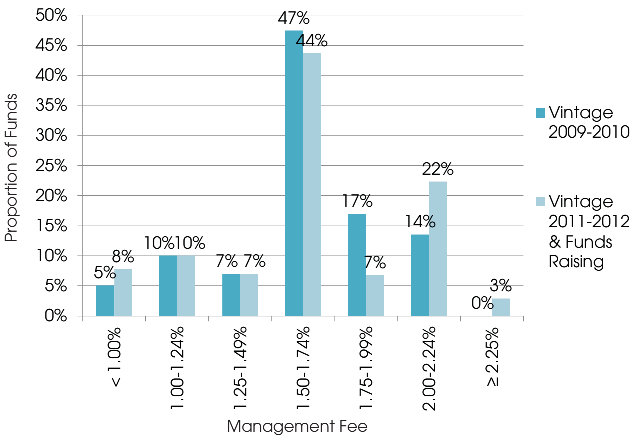
While there may have been a slight shift towards more LP-friendly terms, the hurdle rates for 2011-2012 vintage funds and for those currently raising suggests a shift back in favour of the fund manager. The proportion of funds with hurdle rates of 10% or more has fallen from 35% for 2009-2010 vintage funds, to 27% for more recent funds. The most common preferred return among real estate funds is 9%, with 33% of vintage 2011-2012 and funds raising capital having a 9% hurdle rate.

Fig. 1: Closed-End Private Real Estate Funds - Capital Invested and Dry Powder Remaining by Vintage Year as of June 2012



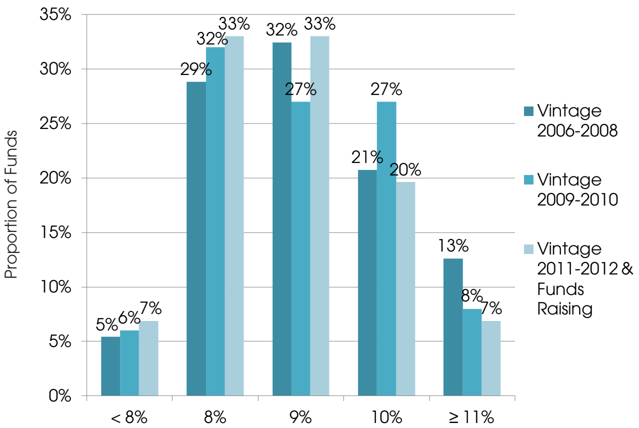
Source: 2012 Preqin Private Equity Fund Terms Advisor

Fig. 2: Management Fee during Investment Period by Vintage Year



Source: 2012 Preqin Private Equity Fund Terms Advisor

Fig. 3: Hurdle Rate Distribution by Vintage Year



Source: 2012 Preqin Private Equity Fund Terms Advisor

Investor Routes to Market

There are a number of ways in which investors in real estate can gain access to the asset class. Institutional investors can make direct property investments, purchase shares in listed property companies and public real estate investment trusts (REITs), or commit to private real estate funds, which provide an indirect route to real estate. Each of these methods of investing present both advantages and disadvantages, and institutional investors choose the routes that will allow them to best meet their strategic asset allocation requirements.

Investors that allocate to private real estate funds will often also utilize one or all of the other routes to invest in real estate. The extent to which private real estate fund investors allocate to direct or listed real estate is affected by investor location and size. As can be seen in Fig. 4, private fund investors based in North America are more likely to invest in listed real estate than in direct property. The opposite is true for European institutions, with 48% investing directly and only 26% investing in listed real estate.

Fig. 5 shows that real estate fund investors with total assets of less than $1bn are least likely to include direct or listed real estate investments within their property portfolios. As investor size increases, however, activity in direct and listed real estate investments also increases. A significant 44% of private real estate investors with more than $10bn in assets have direct property investments. This includes institutions that have large direct allocations and commit to private funds in order to gain exposure to markets that are underweighted in their direct portfolio.

Investors with larger assets under management also have a stronger preference for co-investments, joint ventures, and separate accounts, with appetite for these investment structures growing with increasing investor size. Fifty-eight percent of institutions with $10bn or more in total assets invest in joint ventures, and 52% utilize separate accounts. Many larger institutions believe they can benefit from the additional control, transparency, and access to unique opportunities that these alternative routes to real estate can offer.

Preqin's Real Estate Online product contains details of over 8,500 institutional investor commitments to real estate funds, and detailed profiles for over 2,900 institutional investors that are actively investing in unlisted real estate. For more information on how Real Estate Online can help you, or to register for a demo, please visit:

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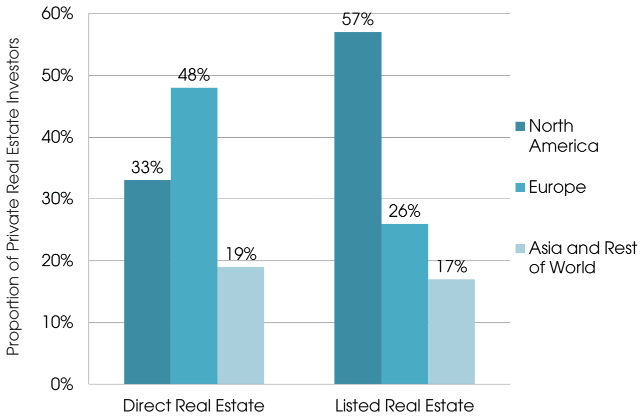
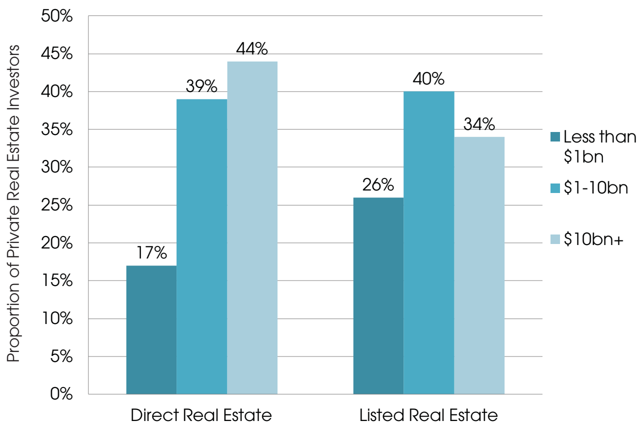
Fig. 4: Private Real Estate Investors' Alternative Routes to Market by Investor Geographic Location



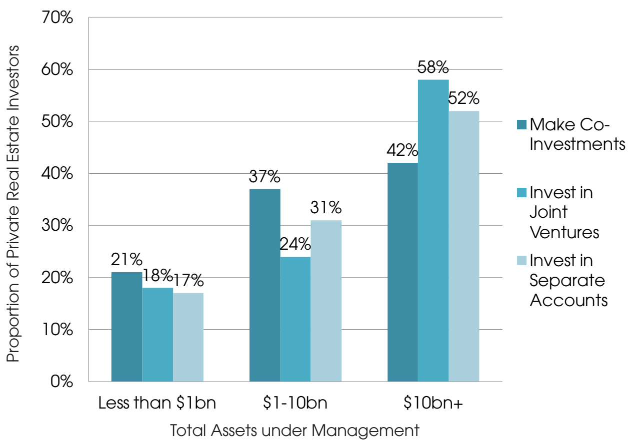
Source: Preqin Real Estate Online

Fig. 5: Private Real Estate Investors' Alternative Routes to Market by Investor Total Assets



Source: Preqin Real Estate Online

Fig. 6: Appetite for Co-Investments, Joint Ventures and Separate Accounts by Investor Size



Source: Preqin Real Estate Online

Real Estate Funds of Funds

Real estate funds of funds are a small but important part of the private real estate fund universe. They can offer investors exposure to a diverse portfolio of funds through a single commitment, and they provide a source of capital for private equity real estate fund managers, both through their own investments made through their fund of funds vehicles and, because many such managers are also responsible for the allocation of investor capital, through the separate account mandates they hold or the investments they advise on through their role as investment consultants.

Historical Fundraising

Real estate fund of funds fundraising peaked in 2007, when 20 real estate funds of funds closed having attracted $4.2bn in commitments. The same number of funds successfully held final closes in 2008, but raised slightly less capital ($3.5bn) than the vehicles that closed in 2007. Overall private real estate fundraising dropped in 2009 following the financial crisis, and fundraising for real estate funds of funds suffered similarly, with 14 funds closing having raised $2.2bn, the lowest amount of capital since 2005. Fundraising in 2010 saw a further decline, with eight funds closing securing just $1.2bn from investors. The figures did improve somewhat in 2011, however, when 10 funds successfully closed on $1.9bn. Four funds of funds closed in H1 2012 with aggregate commitments of $1.4bn. The largest funds of funds to close since the start of 2011 are shown in Fig. 8.

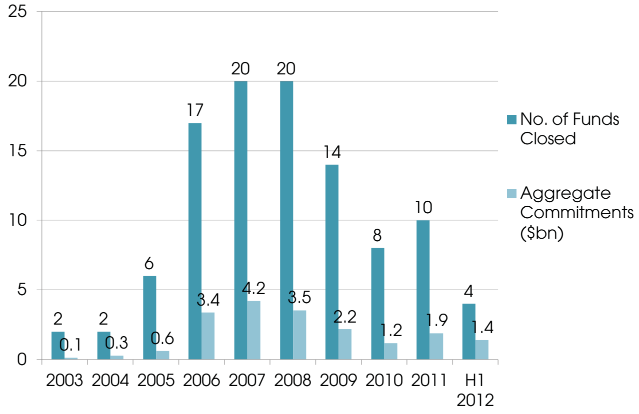
Funds of Funds in Market

As of Q3 2012, 19 funds of funds are on the road targeting an aggregate $3.6bn. There are 10 vehicles targeting $2.4bn that intend to invest globally, while three North America-focused funds of funds are targeting $470mn, two Europe-focused funds are targeting $141mn and four Asia-focused funds are targeting $650mn. The five largest funds of funds in market are shown in Fig. 10. The largest global fund of funds on the road is Clerestory Small Cap Real Estate Fund II. Managed by Clerestory Capital Partners, the fund is targeting $400mn and will invest in opportunistic real estate funds on a global basis. Aberdeen Asset Management: Property Division manages the largest Asia-focused fund of funds currently fundraising – Aberdeen Asia III Property Fund of Funds. This vehicle is also the second largest fund of funds on the road overall by target size. The vehicle will consider investing in all strategies and it is targeting $350mn.

Appetite for First-Time Funds and Emerging Markets

Fig. 11 demonstrates the attitudes of fund of funds managers towards committing to first-time funds in comparison to the attitudes of all other investors towards this segment of the private fund industry. Sixty-three percent of fund of funds managers make commitments to first-time funds, while 21% would consider doing so and a further 2% invest with spin-off teams. Only 17% of the overall institutional investor universe, excluding fund of funds managers, invest with first-time managers, while almost two-thirds would not invest in first-time funds at all. Just 14% of fund of funds managers do not consider first-time funds in any form. This highlights the

Fig. 7: Closed-End Private Real Estate Fund of Funds Fundraising, 2003 - H1 2012



Source: Preqin Real Estate Online

Fig. 8: Largest Closed-End Private Real Estate Funds of Funds Closed, 2011 - H1 2012

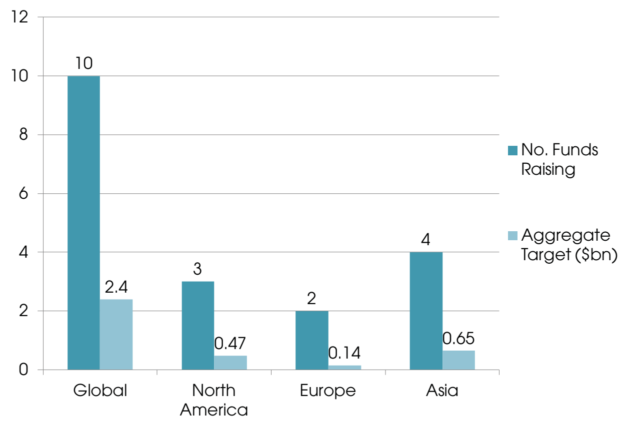
Fund	Firm	Size (mn)	Geographic Focus
Partners Group Global Real Estate 2011	Partners Group	800 USD	Global
Siguler Guff Distressed Real Estate Opportunities Fund	Siguler Guff	630 USD	Global
Portfolio Advisors Real Estate Fund IV	Portfolio Advisors	400 USD	Global
Franklin Templeton Private Real Estate Fund	Franklin Templeton Real Asset Advisors	319 USD	Global
Sparinvest Property Fund II	Sparinvest Property Investors	200 EUR	Global

Source: Preqin Real Estate Online

importance of fund of funds managers as a source of capital for emerging managers.

Many fund of funds managers make geographically diverse investments. Eighty-two percent of fund of funds managers invest in emerging markets, representing a vital source of capital for emerging markets-focused funds.

Fig. 9: Closed-End Private Real Estate Funds of Funds on the Road by Primary Geographic Focus



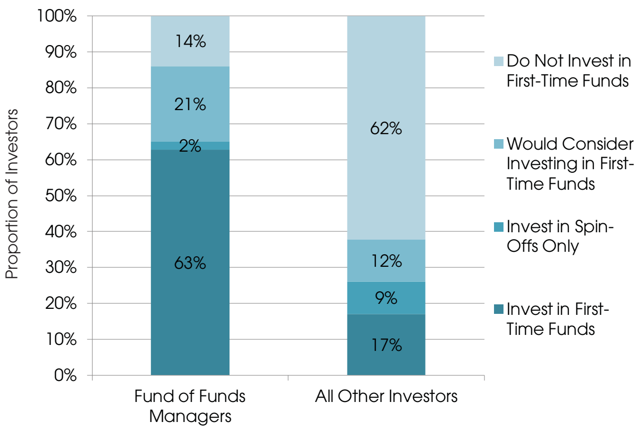
Source: Preqin Real Estate Online

Fig. 10: Largest Closed-End Private Real Estate Funds of Funds in Market

Fund	Firm	Target Size (mn)	Geographic Focus
Clerestory Small Cap Real Estate Fund II	Clerestory Capital Partners	400 USD	Global
Aberdeen Asia III Property Fund of Funds	Aberdeen Asset Management: Property Division	350 USD	Asia, Australasia
Franklin Templeton Asian Real Estate Fund 2	Franklin Templeton Real Asset Advisors	300 USD	Asia
MFIRE Global Real Estate Investment Program II	Mesirow Financial Institutional Real Estate	300 USD	US, Asia, Global
QS REP II	Quilvest Real Estate	300 USD	Global

Source: Preqin Real Estate Online

Fig. 11: Appetite for First-Time Funds: Real Estate Fund of Funds Managers vs. All Other Investors



Source: Preqin Real Estate Online

Real Estate Online features comprehensive coverage of real estate funds of funds as both investors and fund managers. Featuring detailed profiles of over 65 real estate funds of funds, including investment preferences and key personnel contact details, we can help you get in touch with the most appropriate investors for your fund.

www.preqin.com/reo

Wealth Managers Survey

Wealth managers and their clients represent a significant part of the private investor universe, pooling together capital from several different types of private investors in alternatives. In order to investigate this important sub-sector of the investor universe, Preqin conducted in-depth interviews with 35 wealth managers, all of which are active investors in one or more alternative assets, representing a global sample of the wealth management industry.

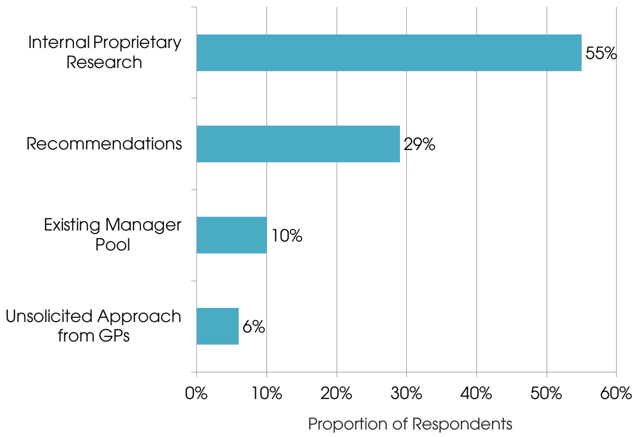
Wealth managers investing in alternatives take a highly active approach in sourcing and evaluating the investments they both recommend and make on behalf of their clients. Fig. 12 shows the primary process through which these gatekeepers identify potential investment opportunities for their advisory and discretionary mandates.

Only 10% of wealth managers primarily source investment opportunities by turning to their existing manager pool. Instead, the vast majority (84%) actively seek and identify investment opportunities in more proactive ways. This is either through their own internal proprietary research, or based upon recommendations from their peers and other market participants. It is noteworthy that more than half (55%) of wealth managers primarily rely on their own in-house investment research when sourcing investments in alternatives.

On the whole, wealth managers that actively invest in alternatives expect to increase their levels of activity in the market over the next 12 months in comparison to the previous year, as shown in Fig. 13. Fifty-three percent of wealth managers interviewed by Preqin expect to either slightly or significantly increase their exposure to alternatives, while a further 3% that did not make investments in 2011 intend to invest in the coming 12 months. Just 6% of wealth managers expect to commit less to alternatives over the next 12 months, and no wealth managers expect to significantly reduce the level of their clients' new commitments to alternatives.

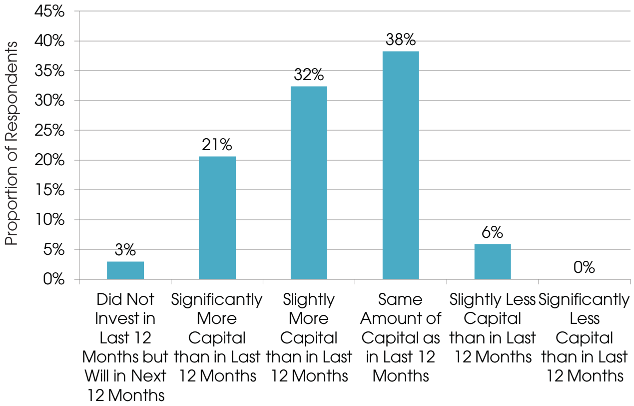
Geographically, 47% of wealth managers see North America as presenting attractive opportunities for real estate investments, with the same proportion seeing opportunities in Asia. Europe is seen as presenting attractive opportunities by 26% of wealth managers, while the Middle East and South America are each seen as attractive by 16% of firms.

Fig. 12: Wealth Managers' Primary Method of Sourcing New Investment Opportunities



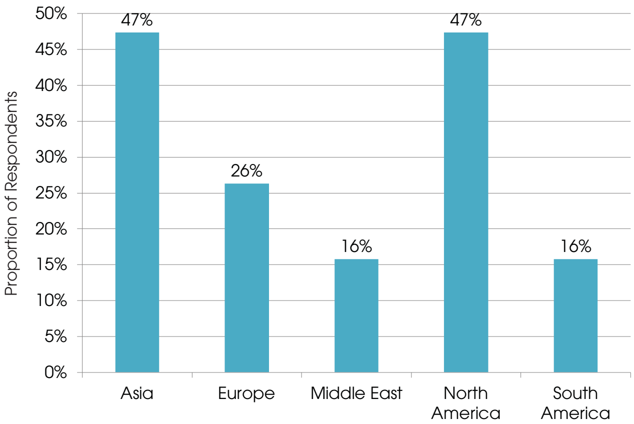
Source: Preqin Wealth Managers Outlook: Alternative Assets

Fig. 13: Amount of Capital Alternatives Wealth Managers/Clients Plan on Committing to Alternatives in Next 12 Months Compared to the Last 12 Months



Source: Preqin Wealth Managers Outlook: Alternative Assets

Fig. 14: Regions Viewed by Wealth Managers as Presenting Attractive Opportunities in Real Estate



Source: Preqin Wealth Managers Outlook: Alternative Assets

Fundraising Overview

In Q2 2012, 27 closed-end private real estate funds reached a final close having raised an aggregate $7.5bn from investors. While the number of funds reaching a final close in Q2 2012 was similar to the previous quarter, the aggregate capital raised decreased slightly from the $10.8bn raised during Q1 2012. The amount of capital raised in Q2 was also considerably lower than in the same period in 2011, when 34 private real estate funds closed on an aggregate $13.9bn. One of the largest funds to reach a final close in Q2 2012 was Niam Nordic V, which raised €719mn to invest in commercial and residential assets throughout the Nordic region.

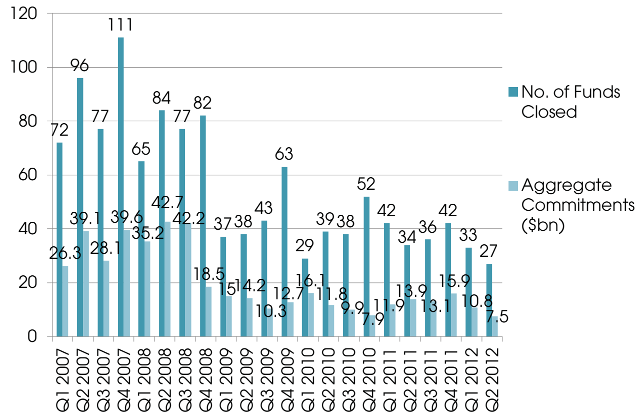
Fig. 16 shows the average time spent on the road by real estate funds that closed in 2007–June 2012. Funds that closed in H1 2012 spent an average of 19.0 months in market, a small increase from the 17.0 months for funds closed in 2011 and a significant increase on the average of 11.4 months for funds that closed in 2008. This demonstrates the competitive and overcrowded nature of the current real estate fundraising market. Funds closed in 2009 and 2010 spent an average of 16.1 months and 14.5 months in market respectively. The significant increase in time spent on the road in 2012 suggests that fundraising conditions remain extremely challenging, with fund managers finding it increasingly difficult to secure capital in the volatile economic environment.

The average length of time taken for a private real estate fund to reach a final close also serves as a useful indicator of investor appetite towards the real estate asset class. Fig. 17 illustrates the breakdown of time spent on the road by funds that closed in H1 2012. Eleven percent of funds did so having spent just 1-6 months in market, while 19% achieved a final close within 7-12 months. Twenty-seven percent of funds finalized fundraising after spending 19-24 months on the road, 13% spent 25-30 months, and 11% of funds spent 31 months or longer in market.

Preqin's Real Estate Online product features detailed information on over 2,500 real estate funds that have reached final close. Want to know how the market has evolved over the years? We can help. For more information, or to register for a demo, please visit:

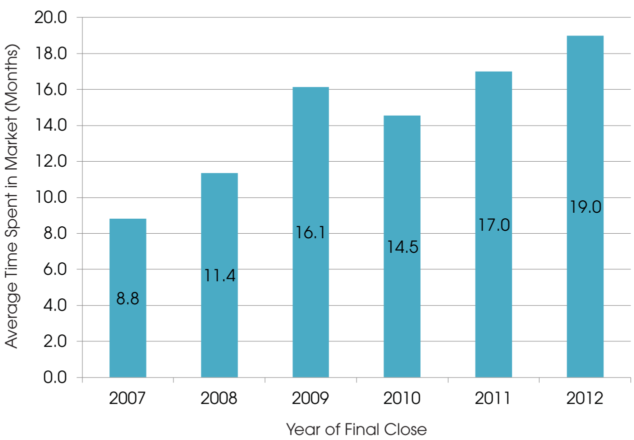
www.preqin.com/realestate

Fig. 15: Quarterly Global Closed-End Private Real Estate Fundraising, Q1 2007 - Q2 2012



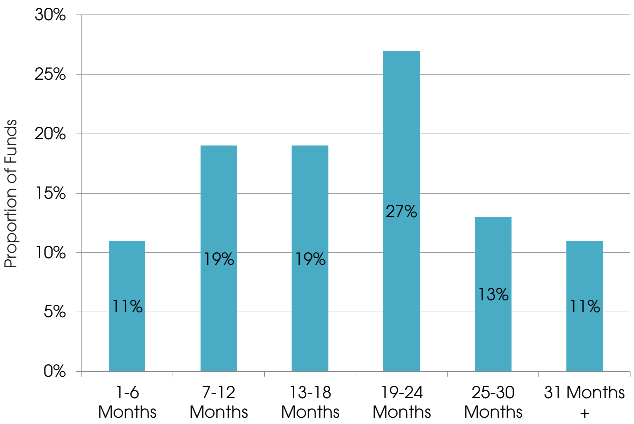
Source: Preqin Real Estate Online

Fig. 16: 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. 17: Breakdown of Time Spent on the Road by Funds Closed in H1 2012



Source: Preqin Real Estate Online

Regional Fundraising

In Q2 2012 many investors continued to invest in more established markets. Funds with a primary focus on North America raised the most capital in Q2 2012, with 17 funds receiving aggregate commitments of $4.7bn during this period.

The largest primarily North America-focused fund to close in this period was AGRE U.S. Real Estate Fund, an opportunistic vehicle that raised $713mn to invest in distressed debt and equity recapitalization transactions. The fund also pursues opportunities to acquire and recapitalize real estate portfolios, platforms and operating companies, including non-performing and deeply discounted loans.

Five funds primarily focused on Europe closed in the quarter, having raised a total of $1.8bn, while five Asia and Rest of World-focused funds closed on an aggregate $0.9bn. The largest fund to close in Q2 was Niam Nordic V, which raised €719mn from investors. The opportunistic vehicle targets commercial and residential property investments in Sweden, Norway, Finland and Denmark. The largest Asia-focused fund to close was Forum Asian Realty Income III Fund, an opportunistic vehicle managed by Forum Partners, which secured $374mn. The 10 largest real estate funds to close in Q2 2012 are shown in Fig. 21.

North America-focused funds have consistently raised the most equity from real estate investors since 2005. Funds focused on North American markets accounted for 63% of all the capital raised by real estate vehicles that closed in Q2 2012, representing a similar proportion to that seen in 2010 and 2011. In Q2 2012, Europe-focused funds accounted for 24% of aggregate capital raised, while Asia and Rest of World-focused funds made up 13%.

Preqin's Real Estate Online product allows users to filter current and historic fundraising conditions by a variety of criteria, including geographic focus, fund strategy, vintage year, property type, fund size, fund structure, ethos and more. For more information on how Real Estate Online can help you, or to register for a demo, please visit:

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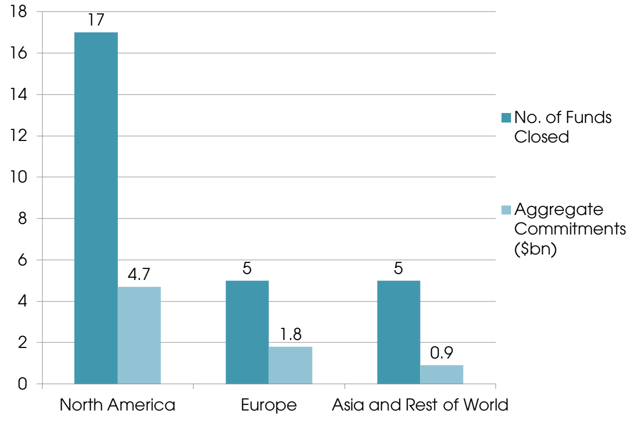
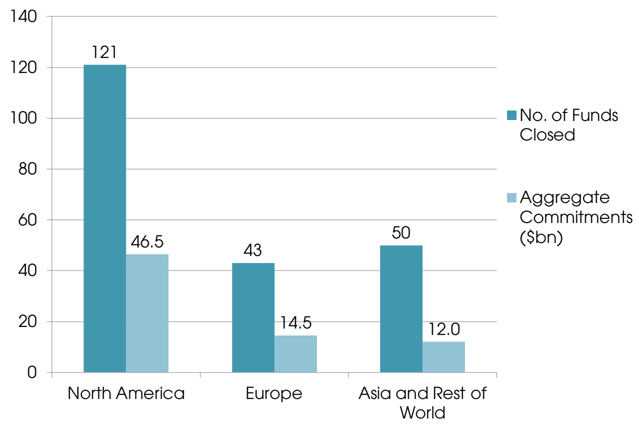
Fig. 18: Closed-End Private Real Estate Fundraising by Primary Geographic Focus, Q2 2012



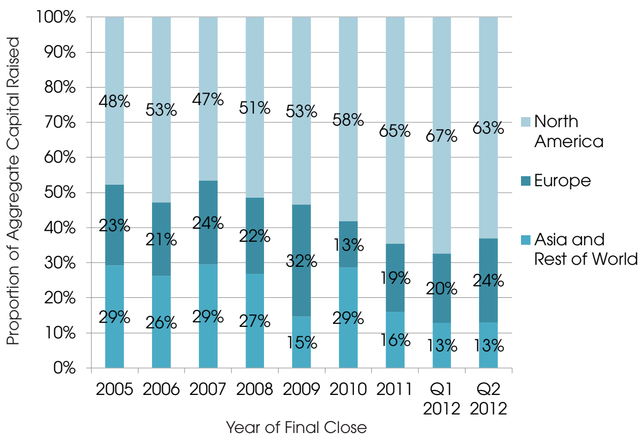
Source: Preqin Real Estate Online

Fig. 19: Closed-End Private Real Estate Fundraising by Primary Geographic Focus, 2011 - June 2012



Source: Preqin Real Estate Online

Fig. 20: Breakdown of Aggregate Capital Raised by Primary Regional Focus, 2005 - Q2 2012



Source: Preqin Real Estate Online

Largest Funds to Close in Q2 2012

Fig. 21: Largest Closed-End Private Real Estate Funds to Hold a Final Close in Q2 2012

Fund	Firm	Strategy	Size (mn)	Focus
Niam Nordic V	Niam	Opportunistic	719 EUR	Nordic
Partners Group Global Real Estate 2011	Partners Group	Fund of Funds	800 USD	Global
Colony Distressed Credit Fund II	Colony Capital	Debt, Distressed	780 USD	Global
AGRE U.S. Real Estate Fund	Apollo Global Real Estate Management	Debt, Distressed, Opportunistic, Value Added	713 USD	US
Exeter Industrial Value Fund II	Exeter Property Group	Value Added	615 USD	US
Prudential Senior Housing Partners IV	Pramerica Real Estate Investors	Value Added	568 USD	North America
Wheelock Street Real Estate Fund	Wheelock Street Capital	Opportunistic	525 USD	US
Hines Russia & Poland Fund	Hines	Opportunistic	390 EUR	Poland, Russia
Forum Asian Realty Income III	Forum Partners	Opportunistic	374 USD	Asia, Australasia
Archstone Multifamily Partners	Archstone	Core-Plus, Value Added	350 USD	US
Cornerstone Enhanced Mortgage Fund	Cornerstone Real Estate Advisers	Debt	315 USD	North America

Source: Preqin Real Estate Online

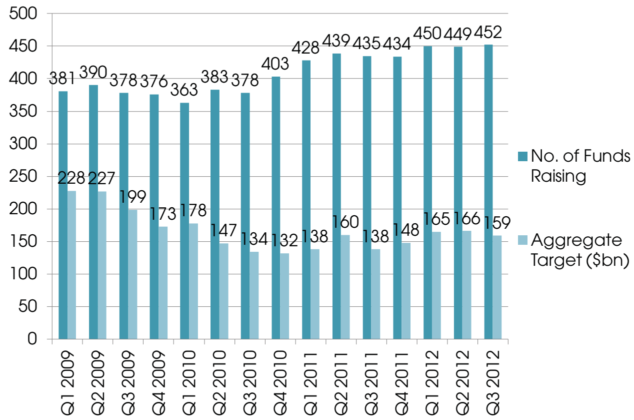
Funds on the Road

As of July 2012, there are 452 funds in market targeting an aggregate $159bn. The number of funds that were in market at the start of Q3 2012 is similar to the number of funds in market at the start of the past two quarters.

Since Q1 2009, the number of funds in market has increased from 381 to 452, while the aggregate target of these funds has fallen from $228bn to $159bn. The period from Q1 2009 to Q3 2010 saw the number of funds remain steady, before increasing to 403 funds on the road in Q4 2010. Between Q4 2010 and Q3 2012, there was a slow upward trend in the number of funds in market, peaking at 452 in July 2012. The aggregate capital targeted by funds saw a sharp fall from $228bn in Q1 2009 to $132bn in Q4 2010 before increasing again to $166bn at the start of Q2 2012. The aggregate target of funds in market has since fallen by $7bn during the most recent quarter.

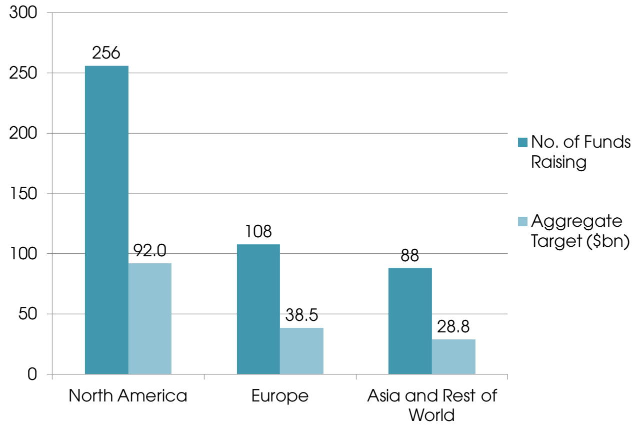
Of the 452 funds currently in market, 256 are primarily focused on North America and are targeting an aggregate $92bn. The largest North America-focused fund is Blackstone Real Estate Partners VII, an opportunistic fund with a $14bn fundraising target. The fund is set to become the largest real estate fund ever raised. Europe-focused funds account for the next largest number of funds in market, with 108 funds are targeting $38.5bn. European Diversified Property, managed by AXA Real Estate, is the largest Europe-focused fund and it is targeting €1.5bn. The fund will adopt a core and core-plus strategy and will focus on properties in Western Europe. The remaining 88 funds in market are focused on Asia and Rest of World, and are targeting $28.8bn. The largest fund targeting Asia and Rest of World is Fortress Japan Opportunity Fund II; the fund will pursue a debt strategy and is targeting ¥10bn.

Fig. 22: Closed-End Private Real Estate Funds in Market over Time, Q1 2009 - Q3 2012



Source: Preqin Real Estate Online

Fig. 23: Closed-End Private Real Estate Funds in Market by Primary Regional Focus



Source: Preqin Real Estate Online

Largest Funds in Market

Fig. 24: 10 Largest Real Estate Funds in Market

Fund	Firm	Target Size (mn)	Strategy	Geographic Focus
Blackstone Real Estate Partners VII	Blackstone Group	13,000 USD	Opportunistic	North America, Global
Brookfield Strategic Real Estate Partners	Brookfield Asset Management	4,000 USD	Opportunistic	Global
Starwood Distressed Opportunity Fund IX	Starwood Capital Group	2,500 USD	Debt, Distressed and Opportunistic	Global
Rockpoint Real Estate Fund IV	Rockpoint Group	2,000 USD	Distressed and Opportunistic	Global
Walton Street Real Estate Fund VII	Walton Street Capital	2,000 USD	Opportunistic	US
Westbrook Real Estate Fund IX	Westbrook Partners	2,000 USD	Value Added	US, UK, France, Japan
European Diversified Property	AXA Real Estate	1,500 EUR	Core and Core-Plus	West Europe
Orion European Real Estate Fund IV	Orion Capital Managers	1,300 EUR	Opportunistic	West Europe
Perella Weinberg Real Estate Fund II	Perella Weinberg Partners	1,200 EUR	Opportunistic	Europe
Oaktree Real Estate Opportunities Fund VI	Oaktree Capital Management	1,500 USD	Debt, Distressed and Opportunistic	US, Global

Source: Preqin Real Estate Online

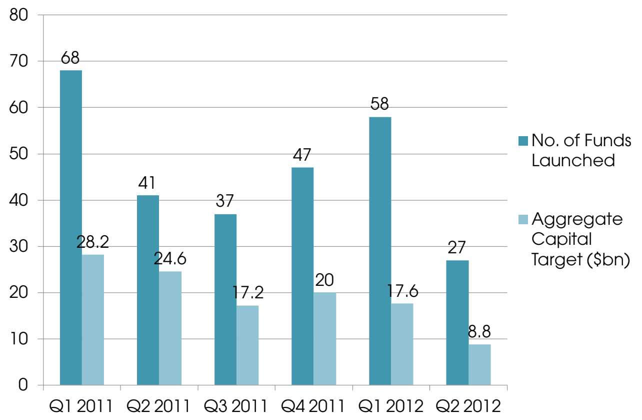
Recently Launched Funds

Twenty-seven new private real estate funds, targeting an aggregate $8.8bn from investors, were launched in Q2 2012. This represents a significant drop on the 41 new funds targeting a collective $24.6bn that came to market in the same quarter in 2011. The decline suggests renewed apprehension on the part of fund managers, in an environment characterized by the uncertainty and volatility resulting from the macroeconomic instability. Despite this, however, several notable real estate funds were launched in Q2 2012, including European Property Investors Special Opportunities 3 and Gateway Real Estate Fund IV.

As can be observed in Fig. 26, of the 27 funds that have launched, 11 are primarily North America-focused funds that are targeting an aggregate $3.3bn, while 12 primarily Europe-focused funds seeking aggregate commitments of $3.8bn also launched in this period. Four Asia and Rest of World-focused funds came to market during the quarter, seeking an aggregate $1.8bn from investors.

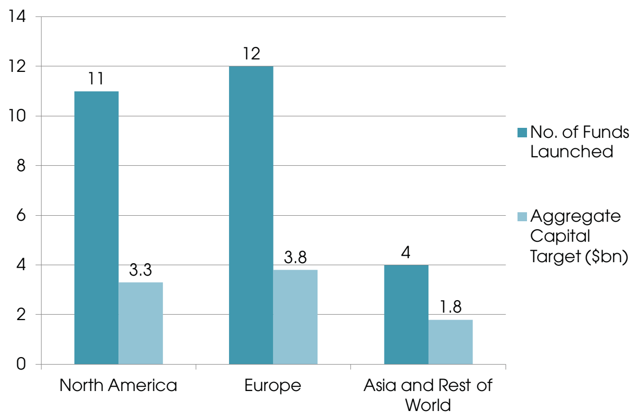
Fig. 27 displays the 10 largest funds launched in Q2 2012 by target size, the largest of which was Oaktree Real Estate Opportunities Fund VI, managed by industry giant Oaktree Capital Management. The fund is looking to secure $1.5bn in equity commitments, and has a focus on debt, distressed and opportunistic investments on a global basis. The seven largest funds launched in Q2 2012 are utilizing opportunistic strategies to varying degrees, demonstrating the importance of this particular fund strategy.

Fig. 25: Closed-End Private Real Estate Funds by Fundraising Launch Date



Source: Preqin Real Estate Online

Fig. 26: Closed-End Private Real Estate Funds Launched in Q2 2012 by Primary Geographic Focus



Source: Preqin Real Estate Online

Fig. 27: Top 10 Real Estate Funds Launched in Q2 2012 by Target Size

Fund	Firm	Target Size (mn)	Strategy
Oaktree Real Estate Opportunities Fund VI	Oaktree Capital Management	1,500 USD	Debt, Distressed, Opportunistic
European Property Investors Special Opportunities 3	Tristan Capital Partners	750 EUR	Opportunistic, Value Added
Gateway Real Estate Fund IV	Gaw Capital	800 USD	Opportunistic, Value Added
DLJ Real Estate Capital Partners V	DLJ Real Estate Capital Partners	750 USD	Opportunistic
Meyer Bergman European Retail Partners II	Meyer Bergman	500 EUR	Opportunistic, Value Added
Frogmore Real Estate Partners III	Frogmore Real Estate Partners	350 GBP	Opportunistic
Moonbridge Capital Greater China Development Fund	Moonbridge Capital	400 USD	Opportunistic
Henderson High Income Real Estate Debt Fund	Henderson Global Investors - Property	250 GBP	Debt
Nadeshiko Tokyo Office-Focus Fund	IDERA Capital Management	30,000 JPY	Core-Plus, Distressed
Genesta Nordic Real Estate Fund II	Genesta Property Nordic	250 EUR	Value Added

Source: Preqin Real Estate Online

Fundraising Future Predictions

Q2 2012 saw just $7.5bn raised by private real estate funds holding final closes, a decline compared to the $10.8bn raised in Q1 2012. As more data becomes available it is likely that the final total for Q2 2012 may rise by 10-20%, but fundraising in the second quarter is still at a lower level than 2011, when quarterly totals ranged from $11.9bn to $15.9bn. In the first half of 2012 a total of $18.3bn was raised by private real estate funds, representing a significant decrease from the $25.8bn garnered in the first half of 2011.

Despite depressed market conditions, there are a significant number of investors actively making commitments and, as the firms listed in Fig. 28 show, it is possible to successfully raise capital for new funds. However, a large number of investors are not making new commitments and do not expect to do so in the short term. The wider global economic outlook is no doubt a factor, possibly delaying investors from making new commitments while they wait to see the outcome of events in the eurozone and elsewhere.

The level of competition on the road also makes it more challenging for fund managers to close funds. With 452 funds currently in market seeking capital, there are a lot of firms chasing commitments from investors that, in many cases, are content to remain on the sidelines. The aggregate target of all funds in market is $159bn, which far exceeds the appetite among investors for private real estate. As a result there will continue to be winners and losers in the fundraising market, and we will continue to see funds being abandoned or falling short of their original capital targets. Many firms will struggle to stand out in this environment, and fund managers will need to prove they are offering a unique or particularly attractive proposition in order to be successful.

Of the funds that did close this quarter, 52% did so below their fundraising target and 24% of funds spent more than two years in market. Both figures illustrate the difficulty fund managers have had trying to reach a final close. Nevertheless, there is a degree of momentum in the fundraising market, as 32 funds held interim closes during Q2, raising an aggregate $7.1bn towards their fundraising targets. Despite the tough fundraising environment, many firms have been able to reach the important first close and begin deploying capital.

Many larger investors are increasingly investing through joint ventures and separate accounts as an alternative to pooled fund commitments. This trend looks set to continue, with 58% of investors with $10bn or more in assets under management investing through joint ventures and 52% through separate accounts. Private equity real estate firms are certainly having to adapt their approach to meet the changing demands of the investor community; however, few investors are rejecting the private fund model altogether. For many small- and medium-sized investors it remains a key way to access the real estate asset class and, while larger investors may want the additional control they can exercise through joint ventures, they also want exposure to the unique opportunities many private equity real estate funds can offer.

Fundraising for the remainder of 2012 looks set to remain extremely challenging, and a significant increase in the pace of fundraising is unlikely. Preqin's conversations with investors reveal that there are many active institutions ready to make new commitments in the coming months, but fund managers currently in market face the difficult task of standing out sufficiently in order to attract this new capital.

Fig. 28: Sample of Funds Closing above Target in Q2 2012

Fund	Firm	Target (mn)	Final Close Size (mn)
ABR Chesapeake Fund IV	Alex. Brown Realty	250 USD	276 USD
AGRE U.S. Real Estate Fund	Apollo Global Real Estate Management	650 USD	713 USD
Colony Distressed Credit Fund II	Colony Capital	750 USD	780 USD
Exeter Industrial Value Fund II	Exeter Property Group	425 USD	615 USD
Niam Nordic V	Niam	600 EUR	719 EUR
Pennybacker II	Pennybacker Capital	100 USD	106 USD
Prudential Senior Housing Partners IV	Pramerica Real Estate Investors	500 USD	568 USD
Wheelock Street Real Estate Fund	Wheelock Street Capital	500 USD	525 USD

Source: Preqin Real Estate Online

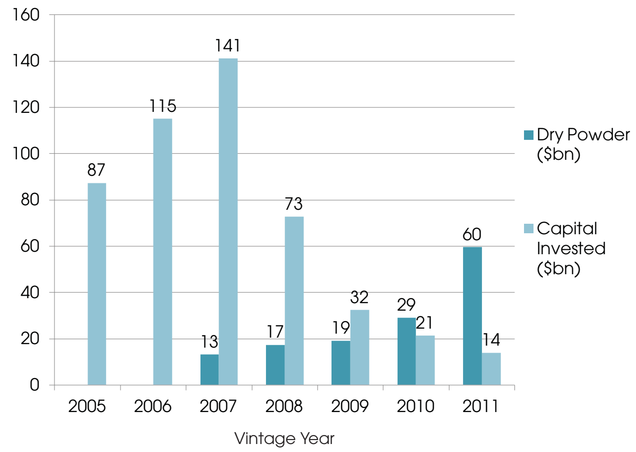
Dry Powder

There is a total of $159bn in dry powder available to closed-end private real estate fund managers globally as of the end of Q2 2012, a very small decrease on the $160bn available at the end of Q1 2012, but slightly more than the $156bn available in December 2011. Fig. 29 shows the level of dry powder available and the amount of capital invested by closed-end private real estate funds by vintage year. There is still $19bn in dry powder available to 2009 vintage funds, $29bn available to 2010 vintage funds and $60bn available to 2011 vintage funds.

The levels of dry powder over time since December 2003, split by the primary regional focus of the real estate funds, are shown in Fig. 30. Primarily North America-focused funds have recently seen an increase in the amount of dry powder available to them, following a drop between December 2009 and December 2010. As can be seen in Fig. 30, these funds now have more dry powder than in December 2011, with $94bn available as of June 2012, compared to $85bn as of December 2011. The amount of dry powder available to primarily Europe-focused funds has remained relatively stable, although there has been a slight dip over the first six months of 2012, with $34bn available as of June 2012, compared to $37bn as of December 2011. Asia and Rest of World-focused funds have $31bn available in dry powder as of June 2012 – again, a small decrease on the amount that was available in December 2011.

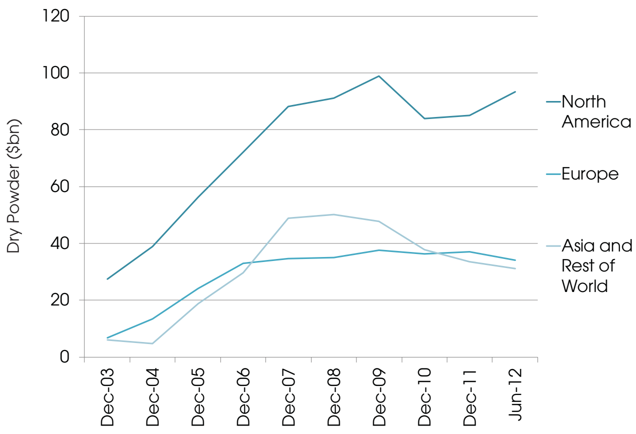
Fig. 31 shows the amount of dry powder available to closed-end private real estate funds, split by strategy, in each year since 2003. Opportunistic funds have the largest amount of dry powder, with $66bn available as of June 2012. Opportunistic fund dry powder levels fell significantly between December 2010 and December 2011, but have since started to increase once more. The amount of dry powder available to closed-end core and core-plus funds has steadily increased over time, with funds with these strategies now having $8bn each in available dry powder. Value added funds have $35bn available, a slight decrease from December 2011 when $36bn was available. Debt and distressed strategy funds levels of dry powder have remained relatively stable since December 2009, with debt funds having $25bn available in dry powder as of June 2012, compared to $27bn as of December 2011, while distressed funds have the same amount ($14bn) available as of June 2012 as they did in December 2011.

Fig. 29: Closed-End Private Real Estate Funds - Capital Invested and Dry Powder Remaining by Vintage Year as of June 2012



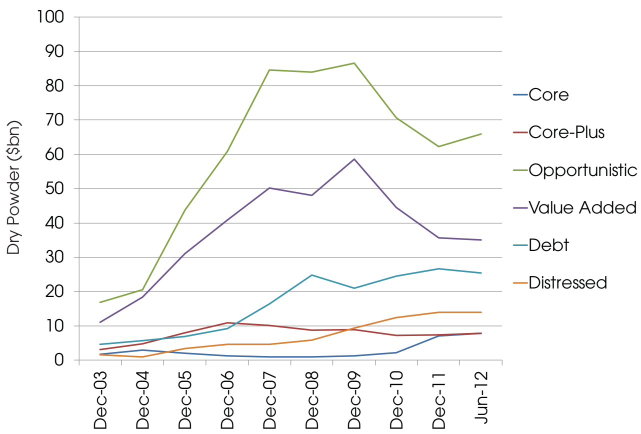
Source: Preqin Real Estate Online

Fig. 30: Closed-End Private Real Estate Dry Powder by Primary Regional Focus, 2003-2012



Source: Preqin Real Estate Online

Fig. 31: Closed-End Private Real Estate Dry Powder by Strategy, 2003-2012



Source: Preqin Real Estate Online

Performance Update

The financial crisis had a negative impact on many private real estate funds, with fund performance yet to recover as it has for many other private equity strategies.

Preqin holds individual, net-to-investor fund returns (i.e. after management fees and carried interest) for over 950 closed-end private real estate funds. Fig. 32 shows the median IRRs for closed-end private real estate funds by vintage year, alongside the top and bottom quartile boundaries. Funds with a 2002 vintage have generated strong returns, with the median fund generating a 22.1% IRR and top quartile funds generating returns of at least 33.2%. For 2000 vintage funds, any funds with an IRR of 11.7% or less are considered bottom quartile. The top quartile funds with vintages between 2000 and 2004 have IRRs of over 20%.

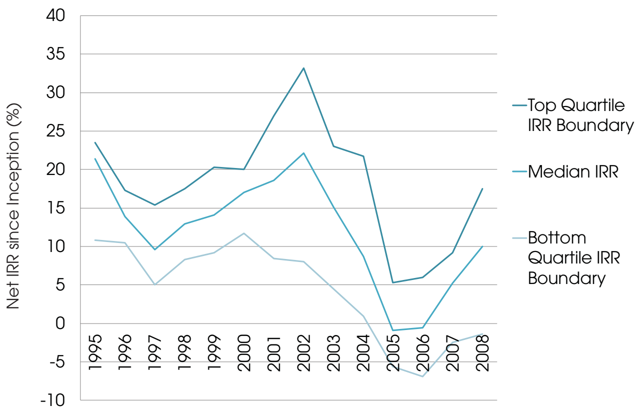
Funds of 2005-2006 vintages have negative median net IRRs, suggesting that the impact of the financial crisis on the private real estate market was widely felt. Vintage 2007 funds have fared better so far, with the median fund IRR in positive territory at 5.2%. Top quartile 2007 vintage funds have IRRs of 9.2% and above. The median vintage 2008 fund currently has an IRR of 10.0%, with top quartile funds generating IRRs of 17.5% and above.

There is a significant difference between the performance of top and bottom quartile funds. Top quartile funds have never posted negative IRRs for any vintage, while bottom quartile funds with vintages of 2005, 2006, 2007 and 2008 are all in negative territory. Funds with more recent vintages still have significant amounts of capital to call up and deploy, so the performance of these funds may change based on the success with which their dry powder is invested.

Called-up Capital, Distributed Capital and Remaining Value

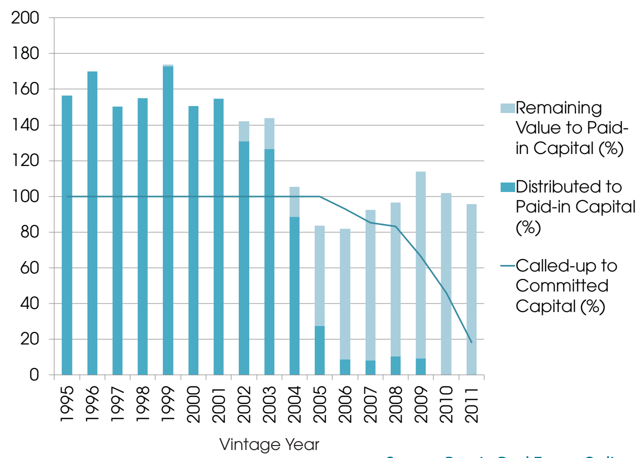
Fig. 33 displays the median ratios of called-up to committed capital, distributed to paid-in capital, and remaining value to paid-in capital by vintage year. This demonstrates how funds with vintages between 2004 and 2007 have been negatively affected by the financial crisis. As recent funds still have significant amounts of capital to call up and invest, it is too early to evaluate their performance fully. The median 2010 vintage fund has called up 46% of its capital, while the median 2011 vintage fund has called up just 18% of its capital. The investments that funds of these vintages subsequently make will impact greatly on their performance. The median distribution is over 150% for all vintage years between 1995 and 2001.

Fig. 32: Closed-End Private Real Estate - Median Net IRRs and Quartile Boundaries by Vintage Year (as of 31 December 11)



Source: Preqin Real Estate Online

Fig. 33: Closed-End Private Real Estate - Median Called-up, Distributed and Remaining Value Ratios by Vintage Year (as of 31 December 11)



Source: Preqin Real Estate Online

Preqin's Real Estate Online features net-to-LP performance data for over 900 real estate funds, custom benchmarks and the PrEQIn Private Equity Quarterly Index. For further information, or to arrange a demo, please visit:

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