Q3 2012 OCTOBER 2012

The Preqin Quarterly Real Estate

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

Content Includes....

Investor Outlook
Investor views on the recent performance of real estate investments, as well as key issues facing the industry.

Target IRRs
We take a look at the targeted IRRs of active real estate funds, broken down by strategy, geographical focus and vintage.

Performance Update
A look at the most up-to-date private real estate performance figures.

Fundraising Overview
The private real estate fundraising market remains a challenge for fund managers, but is it improving?

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Editor's Note

Welcome to the Q3 2012 edition of the Preqin Quarterly: Real Estate, a review of the private real estate market over the past quarter. It was another slow quarter in terms of fundraising, with 26 funds reaching a final close, raising an aggregate $9bn. This represents a small increase on the $8.3bn raised in Q2 2012 , but is significantly down on the $13.1bn raised in Q3 2011 .

The slow fundraising environment stems from a lack of activity among many institutional investors. We take a closer look at the investors which are conducting fund searches and issuing new mandates, identifying the strategies and geographies they are targeting on pages 4-5. We also look at the key concerns that investors have regarding the private real estate market on page 8.

When speaking with institutional investors we find that a consistent track record is invariably one of the key factors they look at when selecting fund managers. Our consistent performing fund managers ranking is included on page 7. The methodology is very simple: we look at the universe of fund managers which have raised three or more mature funds, and look at the average quartile placing for their funds. We hope you find this table interesting, with some brand names, but also some less well-known firms making the list.

We take a look at targeted IRRs on page 6 and analyze how this varies by fund focus and how targeted returns have changed over time. Also included in this edition are our usual fundraising updates on pages 9-15, with the latest dry powder figures on page 16 and an update on performance on page 17.

Behind every data point included in this edition is a wealth of individual firm- and fund-level data gathered through Preqin's direct contact with industry professionals from across the globe.

We hope that you find this report to be interesting and useful, and as ever we welcome any feedback or suggestions that you may have. To find out more about our products and services, please do not hesitate to contact us at our New York, London or Singapore offices.

Andrew Moylan
Manager – Real Estate Data

Investors' Future Fund Searches and Mandates

The last few years have been challenging for those seeking to raise capital for private real estate funds, with a large proportion of investors reluctant to make new commitments to the asset class or committing less capital than they have in the past.

Overall, only 42% of private real estate fund investors expect to make new commitments in the next 12 months, illustrating that fundraising is likely to remain challenging in the coming year. As shown in Fig. 1, real estate fund of funds managers are the group which expects to be the most active in the coming year, with 74% planning new commitments in the next 12 months. Sixty percent of superannuation schemes are planning to make new commitments, and 52% of asset managers expect to be active. Only 29% of private sector pension funds and 33% of family offices plan to make new commitments in the coming year, with a large proportion of these investors content to remain on the sidelines.

Regional Breakdown of Future Fund Searches

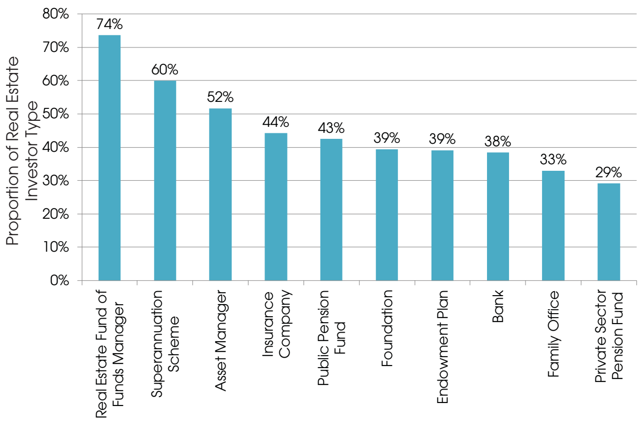
Investor intentions toward future commitment levels to private real estate funds vary according to their geographic location. Asia-based investors are set to be the most active, with 69% of investors in this region actively seeking to invest in new private real estate funds. A shift in investor attitudes may help explain why these investors look set to be the most active in the coming year. Not only are many Asia-based institutions diversifying away from traditional investments to alternative investments, but changing regulations in recent years have also allowed more Asia-based institutions to invest in real estate.

The ongoing economic volatility and sovereign debt crisis in Europe appear to be impacting investor confidence in this region, with only 37% of private real estate investors based in Europe expecting to invest in the asset class in the next 12 months. Many North America-based investors also remain cautious about allocating capital to the asset class over the coming year. Only 40% of North America-based investors are seeking to commit capital to real estate vehicles over this period, as uncertainty in the private real estate market continues.

Strategies and Geographies Targeted

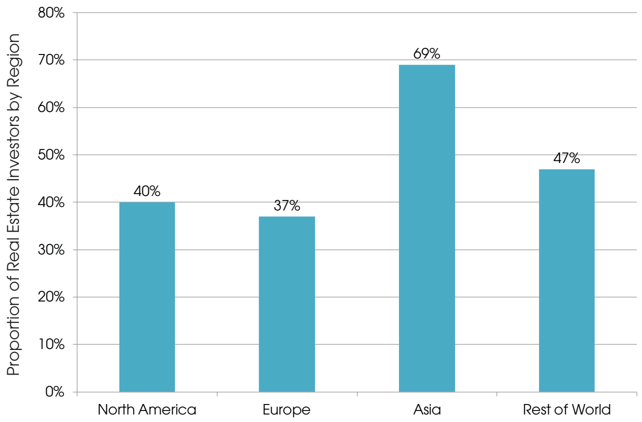
The strategies sought by private real estate fund investors are displayed in Fig. 3. Fifty-three percent of investors are seeking to invest in core funds, indicating the risk-averse attitudes of many institutions. Value-added and opportunistic funds are each being sought by 44% of investors respectively, which demonstrates that many investors still target a higher

Fig. 1: Proportion of Institutional Investors of Each Type Searching for New Funds in the Next 12 Months



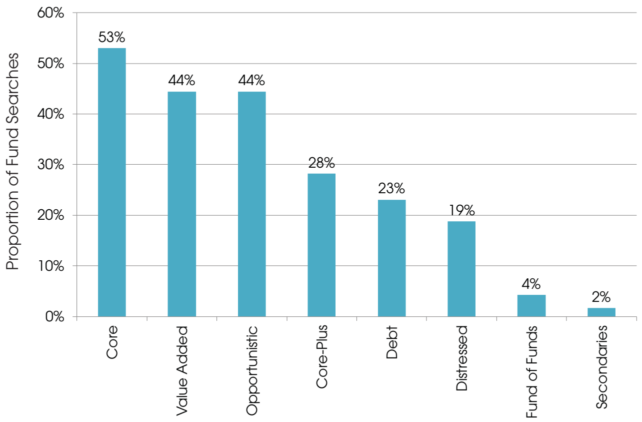
Source: Preqin Real Estate Online

Fig. 2: Proportion of Institutional Investors in Each Region Searching for New Funds in the Next 12 Months



Source: Preqin Real Estate Online

Fig. 3: Strategies Sought by Institutional Investors in the Next 12 Months



Source: Preqin Real Estate Online

risk/return trade-off. Vehicles with a debt strategy are attractive to 23% of investors, and 19% exhibit a preference for distressed funds. Debt and distressed vehicles have been gaining traction since the onset of the financial crisis, with a large number of investors believing there are excellent opportunities for investment in these sectors. Only 2% of investors are targeting real estate secondaries funds, a market which, while growing, remains in its relative infancy.

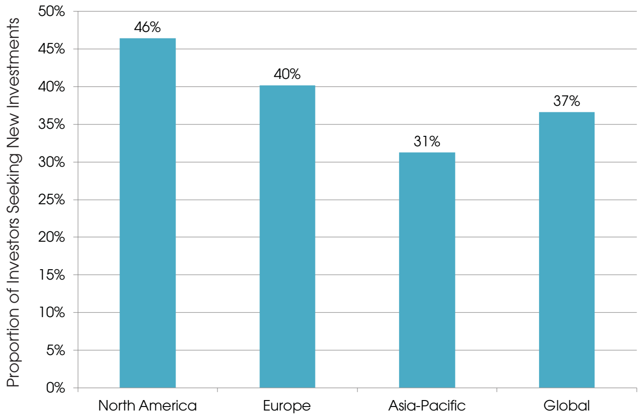
The geographies being targeted by investors active in the next 12 months are shown in Fig. 4. With 46% of investors looking to gain exposure to North American real estate, the region is the most prominent destination for institutional investment via private real estate funds. Europe-focused vehicles are targeted by 40% of investors, despite the ongoing eurozone difficulties. Thirty-seven percent of investors have a global outlook for their fund investments, while the Asia-Pacific region is on the radar of 31% of investors.

Capital Earmarked for New Private Real Estate Fund Investment

As shown in Fig. 5, of the institutions planning to invest fresh capital in private real estate funds in the next 12 months and having determined their investment plans for the coming year, 46% have set aside up to $49mn for these investments. A further 22% indicated that they would commit $50-99mn to real estate funds in the next 12 months. Twenty-two percent have earmarked $100-299mn for private property fund investments and 10% stated they would invest $300mn or more in real estate vehicles in the next 12 months. These figures are representative of a cautious investor universe, and even though institutions are becoming more active than in recent years, they are not yet deploying capital at the levels seen before the global economic crisis.

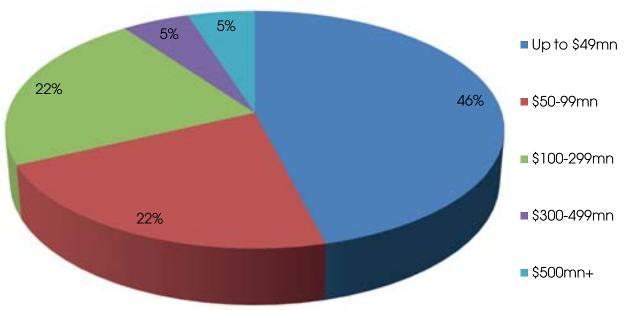
Fig. 6 shows that 60% of active investors expect to make just one or two new fund commitments in the next 12 months, and only 13% are willing to consider investing in more than five vehicles. Though some confidence is returning to the investor universe, the majority of investors in real estate are unwilling to risk making more than a couple of new investments while market uncertainty prevails. Institutions are choosing to invest only in the best opportunities offered to them and with managers that they feel will deliver satisfactory returns on their investments.

Fig. 4: Regions Targeted by Institutional Investors in Private Real Estate in the Next 12 Months



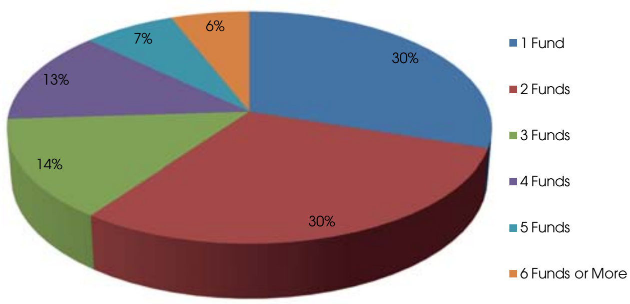
Source: Preqin Real Estate Online

Fig. 5: Amount of Fresh Capital Institutional Investors Expect to Commit to Private Real Estate Funds over the Next 12 Months



Source: Preqin Real Estate Online

Fig. 6: Number of Private Real Estate Funds Institutional Investors Expect to Commit to over the Next 12 Months



Source: Preqin Real Estate Online

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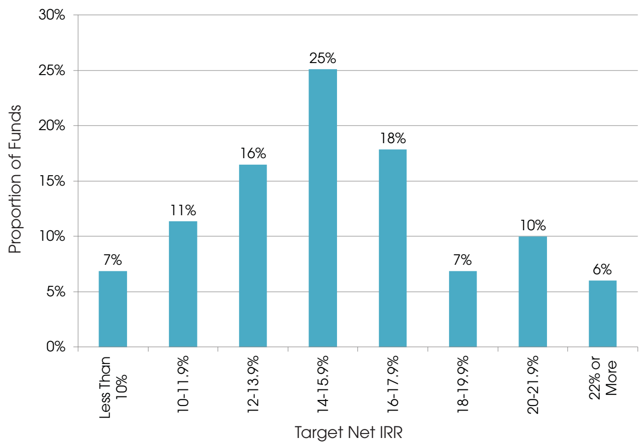
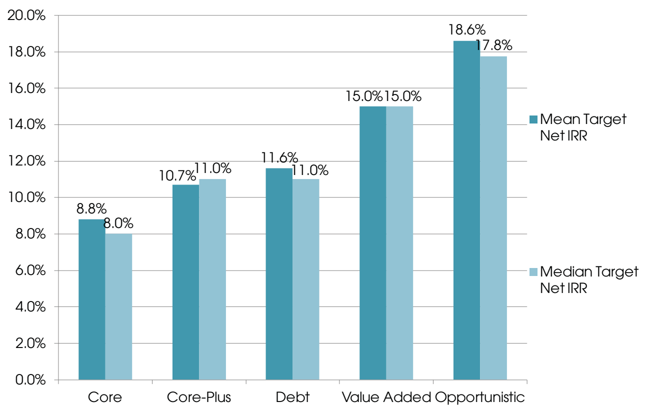
Fig. 7: Target Net IRR Distribution of Closed-End Private Real Estate Funds in Market



Source: Preqin Real Estate Online

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



Source: Preqin Real Estate Online

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

Source: Preqin Real Estate Online

Consistent Performing Managers

A consistent track record is one of the most important factors for an investor considering a new commitment. Although past successes are no guarantee of future returns, a fund manager's track record can provide an indication of the manager's skill in seeking out potentially profitable investments and generating a good return for its investors. This section looks into the most consistent private real estate fund managers. It in no way seeks to endorse fund managers, but rather to illustrate those that have been the most consistent performers in the past.

The methodology used to compile the list in Fig. 10 looks at the quartile rankings of each fund, where a top quartile fund will be assigned a score of one, a second quartile fund will be scored two and so on. Preqin only assigns quartile rankings to funds of more mature vintages and so funds with a vintage of 2010, 2011 or 2012 will not be considered. Furthermore, the list is restricted to only those managers that have raised three or more funds, those that have raised a fund in the last six years, and those managers for which Preqin holds performance data. All fund managers appearing on the list have achieved a score of 1.57 or less - in other words, their average fund is in the first or second quartile.

Two firms have the best possible score of 1.00. JBG Companies, a value added and opportunistic investor in the Washington, DC real estate market, has five funds ranked as top quartile. Carmel Partners is a San-Francisco-headquartered firm which targets the acquisition and repositioning of under-performing multi-family investments in high barrier of entry markets in the US. It has three funds ranked in the top quartile.

Brookfield Asset Management has six funds ranked as top quartile, with another two as second quartile giving it an average score of 1.25. The Canada-headquartered Brookfield is a global investor which invests in a range of properties in North and South America, Europe and Australia. Several firms have a score of 1.33, including the Hong-Kong-based Gaw Capital, which primarily invests in Greater China, and the office-focused Parameter Realty Partners.

Fig. 10: Consistent Performing Closed-End Private Real Estate Fund Managers*

Firm	Headquarters Location	Overall Number of Funds with Quartile Ranking	Number of Funds in Top Quartile	Number of Funds in Second Quartile	Average Score
Carmel Partners	US	3	3	0	1.00
JBG Companies	US	5	5	0	1.00
Brookfield Asset Management	Canada	8	6	2	1.25
Calare Properties	US	3	2	1	1.33
Embarcadero Capital Partners	US	3	2	1	1.33
Gaw Capital	Hong Kong	3	2	1	1.33
John Buck Company	US	3	2	1	1.33
Pacific Star Financial	Singapore	3	2	1	1.33
Parmenter Realty Partners	US	3	2	1	1.33
Covenant Capital Group	US	7	4	2	1.57
DRA Advisors	US	7	3	4	1.57
Harbert Management Corporation	US	7	4	2	1.57
Hines	US	7	5	1	1.57

**Based on a universe of 113 firms and 619 funds fulfilling the selection criteria.*

Source: Preqin Real Estate Online

Investor Outlook: Key Issues and Returns Satisfaction

Preqin conducted extensive interviews with over 100 institutional investors in private real estate in order to find out about their current views on the asset class. Investors were asked what they thought were the key issues facing the private real estate fund market, and whether the performance of their fund investments in this asset class had met their expectations.

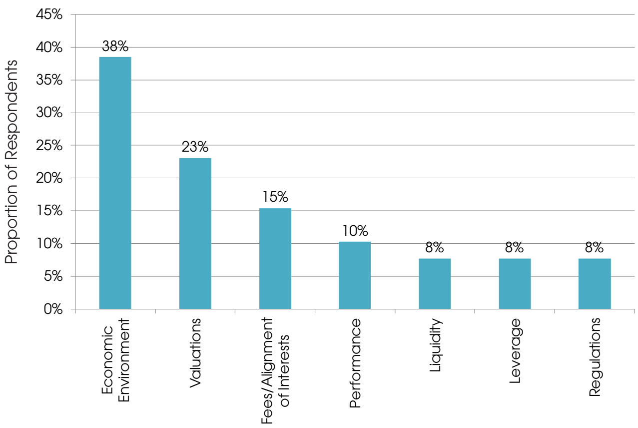
Many investors consider the general economic environment to be the main issue affecting the real estate fund market, with 38% of investors surveyed citing it as a key concern (Fig. 11). The economic downturn heavily affected the real estate industry and investors are still highly conscious that the overall economic climate can have a negative impact on the real estate fund market in general and on their investments in particular.

Many investors feel that valuations are an issue, with 23% of investors naming them when surveyed. Fifteen percent considered fees and the alignment of interests between investors and fund managers to be a key issue, suggesting that fund managers still have work to do to structure their funds in a way that ensures investors are convinced that their interests are aligned with those of the fund manager. Real estate fund performance was a key issue for 10% of investors, and liquidity, leverage, and regulations were each raised by 8% of investors. Lack of liquidity can be an issue, especially for smaller investors, and some LPs may feel that ultimately the performance of private real estate funds does not justify the investment's lack of liquidity.

The majority of investors surveyed (64%) said that the performance of their real estate fund investments had met their expectations, while 27% of investors felt that the performance had fallen short of their expectations, as shown in Fig. 12. Just 9% of investors surveyed felt that the performance of their private real estate fund investments had exceeded their expectations.

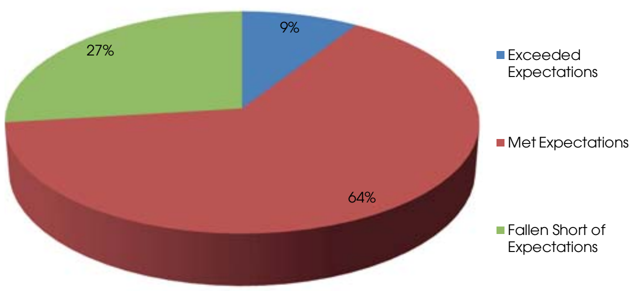
Despite the many challenges faced by the real estate fund industry in recent years, more investors appear to have been satisfied with the level of performance of their real estate fund investments than those that have been disappointed by them.

Fig. 11: Key Issues Facing the Private Real Estate Fund Market



Source: Preqin Investor Outlook: Real Estate, H2 2012

Fig. 12: Proportion of Investors that Feel Their Real Estate Fund Investments Have Lived up to Expectations



Source: Preqin Investor Outlook: Real Estate, H2 2012

This section uses data presented in the complimentary research report, Preqin Investor Outlook: Real Estate, H2 2012. This report, and others like it, represents a small portion of the valuable data that our research analysts gather on a daily basis for Preqin's Real Estate Online database. We contact investors directly to ensure that our information on their investment preferences, future fund searches and mandates, and contact details for key personnel is accurate, up-to-date, and reliable.

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Fundraising Overview

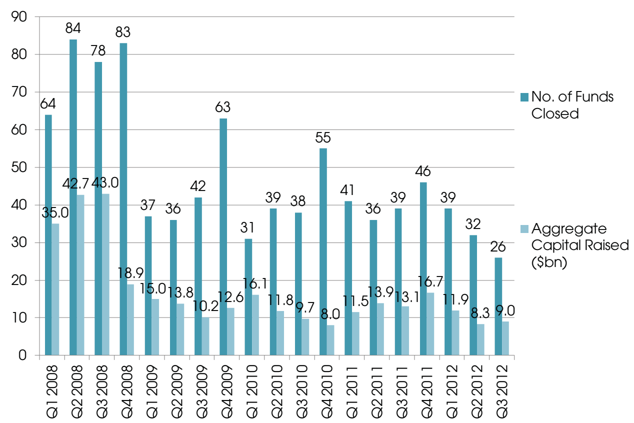
Twenty-six closed-end private real estate funds reached a final close in Q3 2012, garnering $9bn in capital commitments from investors. Although the number of funds reaching a final close in Q3 2012 was down compared to the previous quarter, the aggregate capital raised was a slight increase on the $8.3bn raised in Q2 2012. The amount of capital secured by closed-end real estate funds in Q3 2012 was considerably lower than Q3 2011, when 39 private real estate funds closed on an aggregate $13.1bn.

The average time spent on the road by real estate funds that closed between 2007 and September 2012 is shown in Fig. 14. Funds that closed in Q3 2012 spent an average of 17.0 months in market, a small decrease from the 18.6 months for funds that closed in H1 2012. Private real estate funds that reached a final close in 2010 spent an average of 14.4 months in market compared to funds closing in 2008 and 2009, which spent an average of 11.5 and 16.3 months in market respectively. Although fundraising conditions remain extremely challenging and competitive, funds that closed in Q3 2012 spent less time in market on average than those in the first half of the year.

The average length of time taken for a private real estate fund to reach a final close gives an insight into the overall conditions of the current fundraising market, as well as providing an indication of investor appetite for the asset class. Fig. 15 illustrates the breakdown of time spent on the road by funds that closed in Q3 2012. Six percent of funds did so having spent just six months or less in market, while 22% achieved a final close within 7-12 months. Thirty-nine percent of funds closed after spending 13-18 months in market, compared to 22% of funds that closed after spending 19-24 months on the road. Eleven percent of funds spent 25 or more months on the road.

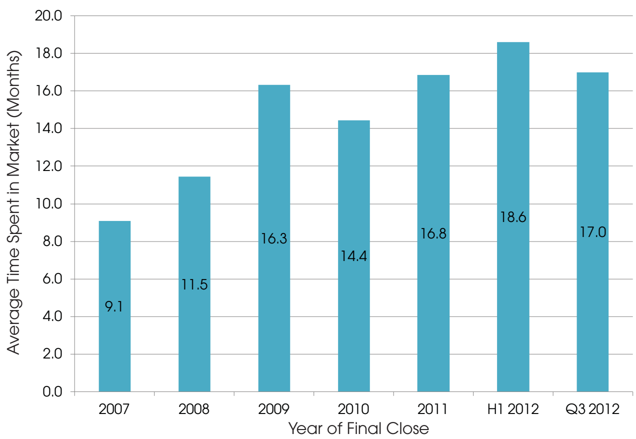
Although it did not close during the quarter, the final close of the Blackstone Real Estate Partners VII at the start of Q4 2012 is a positive sign for the real estate fundraising market going into the final part of the year. The fund closed on $13.3bn on the 10th October, becoming the largest private unlisted real estate fund ever closed.

Fig. 13: Quarterly Global Closed-End Private Real Estate Fundraising, Q1 2008 - Q3 2012



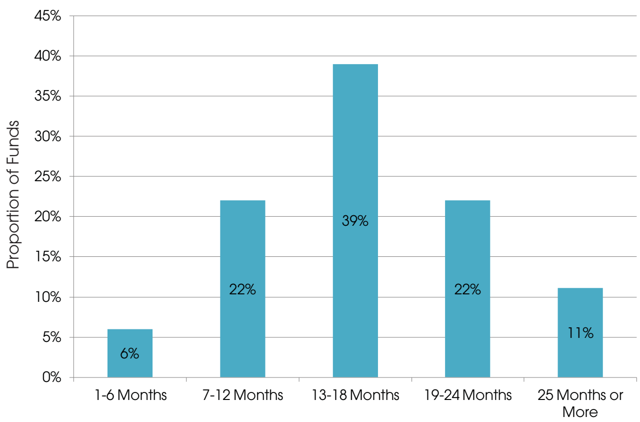
Source: Preqin Real Estate Online

Fig. 14: 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. 15: Breakdown of Time Spent on the Road by Funds Closed in Q3 2012



Source: Preqin Real Estate Online

Regional Fundraising

During Q3 2012 institutions continued to invest in more established private real estate markets, namely North America, Europe and Asia. Funds with a primary focus on North America raised the most capital in the quarter, with 12 funds closing having received aggregate commitments of $4.2bn.

The largest North America-focused fund to close in this period was Carmel Partners Investment Fund IV, which employs a value added, opportunistic debt and distressed strategy. The fund raised $820mn to acquire and reposition under-performing multi-family investments in high barrier of entry markets in the US. Five funds primarily focused on Europe closed in Q3 2012, having raised a total of $2.1bn, while six funds focused on Asia raised $2.5bn. Three Rest of World-focused funds closed on an aggregate $347mn in the quarter.

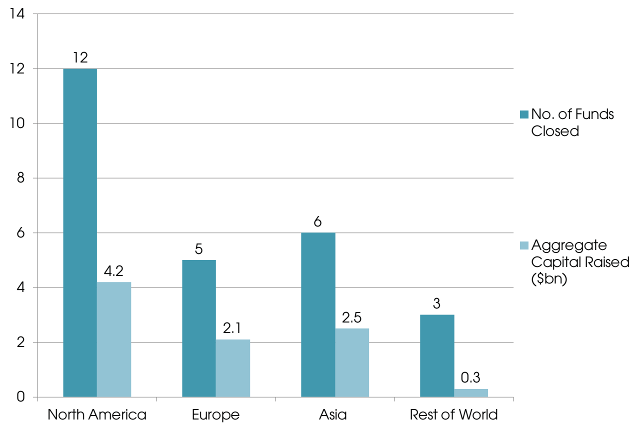
The largest fund to close during the quarter was Patron Capital Fund IV, which raised €880mn from investors. The opportunistic fund targets distressed and undervalued property and property-backed corporate investments. These will include property companies, hotels and leisure complexes primarily across Western Europe. The largest Asia-focused fund to close was CapitaMalls China Development Fund III, an opportunistic vehicle managed by CapitaLand, which secured $1bn. The 10 largest real estate funds to close in Q3 2012 are shown in Fig. 19.

North America-focused funds have raised the most equity from real estate investors each year since 2005. Funds focused on North American markets accounted for 46% of all the capital raised by real estate vehicles that closed in Q3 2012, representing a smaller proportion to that seen in 2010 and 2011. In Q3 2012, Europe-focused funds accounted for 23% of aggregate capital raised, with Asia-focused funds accounting for 27% of aggregate capital raised. Rest of World-focused funds made up 4% of the total.

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:

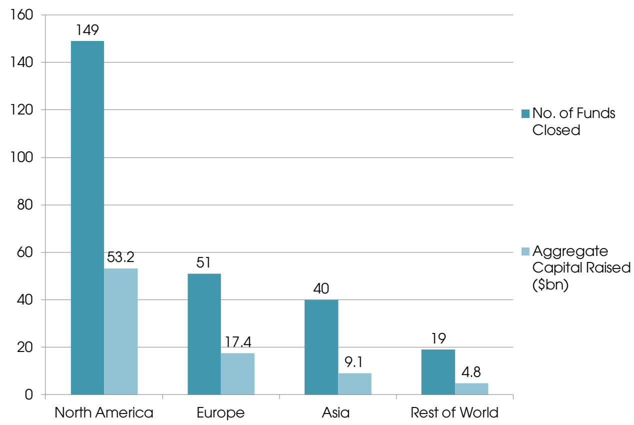
www.preqin.com/reo

Fig. 16: Closed-End Private Real Estate Fundraising by Primary Geographic Focus, Q3 2012



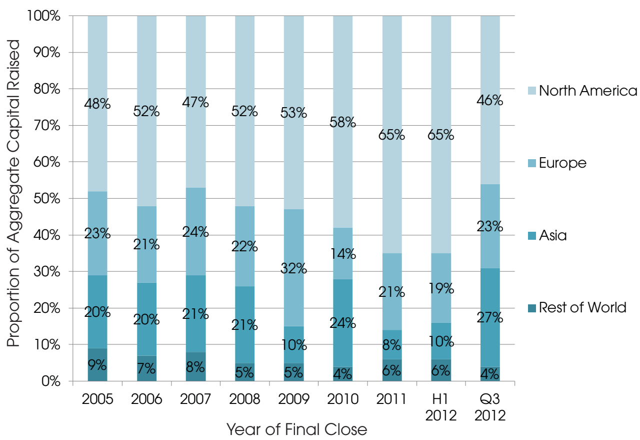
Source: Preqin Real Estate Online

Fig. 17: Closed-End Private Real Estate Fundraising by Primary Geographic Focus, 2011 - September 2012



Source: Preqin Real Estate Online

Fig. 18: Breakdown of Aggregate Capital Raised by Primary Regional Focus, 2005 - Q3 2012



Source: Preqin Real Estate Online

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Largest Funds to Close in Q3 2012

Fig. 19: Largest Closed-End Private Real Estate Funds to Hold a Final Close in Q3 2012

Fund	Firm	Strategy	Size (mn)	Focus
Patron Capital Fund IV	Patron Capital	Distressed and Opportunistic	880 EUR	UK, West Europe
CapitaMalls China Development Fund III	CapitaLand	Opportunistic	1,000 USD	China
Carmel Partners Investment Fund IV	Carmel Partners	Debt, Distressed, Opportunistic and Value Added	820 USD	US
Iron Point Real Estate Partners II	Iron Point Partners	Debt and Opportunistic	750 USD	US
Acadia Strategic Opportunity Fund IV	Acadia Realty Trust	Opportunistic and Value Added	541 USD	US
Real Estate Capital Asia Partners III	Real Estate Capital Asia Partners	Opportunistic	530 USD	Asia
FCP Realty Fund II	Federal Capital Partners	Debt and Value Added	529 USD	Mid-Atlantic
ICECAPITAL Housing Fund III	ICECAPITAL Real Estate Asset Management	Value Added	400 EUR	Finland
Prudential U.S. Real Estate Debt Fund	Pramerica Real Estate Investors	Debt and Value Added	475 USD	US
ARA Asia Dragon Fund II	ARA Asset Management	Opportunistic	441 USD	Asia
Cornerstone Enhanced Mortgage Fund	Cornerstone Real Estate Advisers	Debt	315 USD	North America

Source: Preqin Real Estate Online

Funds on the Road Overview

As of October 2012, there are 467 funds in market targeting an aggregate $155bn. The number of funds that are in market at the start of Q4 2012 is a slight increase compared to the previous quarter, and continues the slow increase in funds on the road since the start of the year. The aggregate target of funds in market decreased by $7bn during Q3 2012.

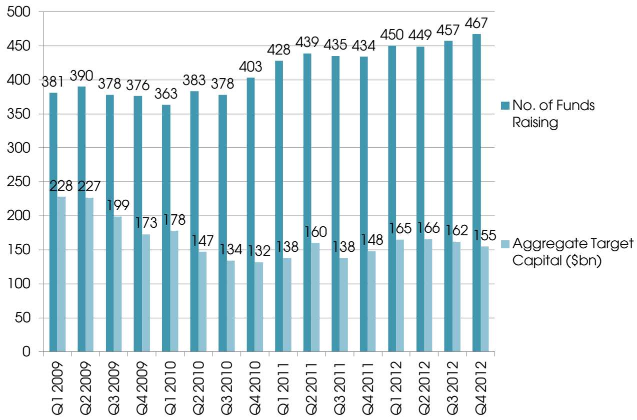
Since Q1 2009, the number of funds in market has increased from 381 to 467; however, the aggregate target of funds on the road has fallen considerably from $228bn to $155bn. This marks a sizeable drop in average fund size for real estate funds on the road, and demonstrates the caution fund managers have about going to market with ambitious target sizes in the current fundraising climate. The period from Q1 2009 to Q3 2010 saw the number of funds in market remain steady, before increasing to 403 funds in Q4 2010. The fourth quarter of 2010 saw the aggregate target dip to $132bn, its lowest level since Q1 2009. Since Q4 2010 there has been a gradual upward trend in the number of funds in market, peaking at 467 in October 2012.

Of the 467 funds currently in market, 263 have a primary focus on North America and are currently targeting an aggregate $82.6bn. Europe-focused funds account for the next largest number of funds in market, with 121 funds, up from 108 funds in Q3, targeting $44.5bn. Orion European Real Estate Fund IV, managed by Orion Capital Managers, is currently the largest Europe-focused fund in the market, and is targeting €1.3bn. The fund will adopt an opportunistic strategy and will focus on properties throughout Western Europe.

The remaining 83 funds in market are focused on Asia and Rest of World, with 59 focused on Asia and 24 focused on Rest of World; they are targeting $19.7bn and $8.1bn respectively. The largest fund targeting Asia is Fortress Japan Opportunity Fund II, which will pursue a debt strategy and is targeting ¥100bn. The largest fund targeting Rest of World is Dubai Real Estate Fund, managed by Brookfield Asset Management; it is an opportunistic and value added fund targeting $1bn.

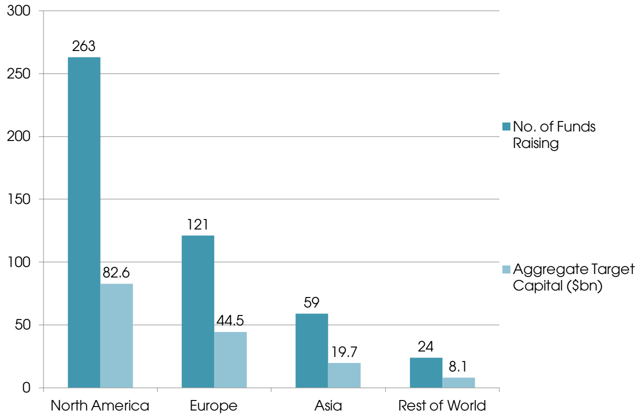
**Although it was on the road at the beginning of Q4 2012, Blackstone Real Estate Partners VII reached a $13.3bn final close on 10th October 2012. BREP VII has not been included in Fig.20, Fig. 21 and Fig. 22.*

Fig. 20: Closed-End Private Real Estate Funds in Market over Time, Q1 2009 - Q4 2012*



Source: Preqin Real Estate Online

Fig. 21: Closed-End Private Real Estate Funds in Market by Primary Regional Focus*



Source: Preqin Real Estate Online

Preqin's Real Estate Online features in-depth information regarding the 467 private real estate funds currently in market seeking capital.

Want to see which fund strategy is the most overcrowded at the moment? We can help you identify gaps in the market. For further information, or to arrange a demo, please visit:

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Largest Funds in Market

Fig. 22: 10 Largest Closed-End Private Real Estate Funds in Market*

Fund	Firm	Target Size (mn)	Strategy	Geographic Focus
Blackstone Real Estate Debt Strategies II	Blackstone Group	4,000 USD	Debt	North America, Europe
Brookfield Strategic Real Estate Partners	Brookfield Asset Management	3,500 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	North America, Europe, Asia
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
Orion European Real Estate Fund IV	Orion Capital Managers	1,300 EUR	Opportunistic	West Europe
Oaktree Real Estate Opportunities Fund VI	Oaktree Capital Management	1,500 USD	Debt, Distressed and Opportunistic	US, Global
Perella Weinberg Real Estate Fund II	Perella Weinberg Partners	1,200 EUR	Opportunistic	Europe
Fortress Japan Opportunity Fund II	Fortress Investment Group	100,000 JPY	Debt	Japan

Source: Preqin Real Estate Online

Recently Launched Funds

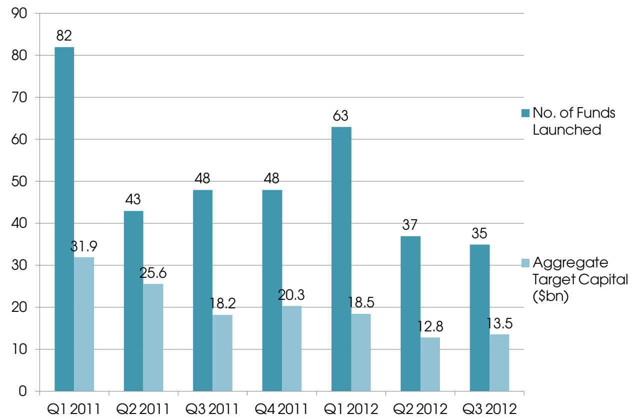
Though value added and opportunistic funds make up the majority by number of the 35 funds launched in Q3 2012, some of the largest funds launched by target size are targeting debt investments. Real estate debt funds have become increasingly common, with many fund managers looking to take advantage of opportunities within the sector.

Fig. 25 shows that all of the top seven funds launched are targeting debt investments either primarily or in addition to another strategy. The largest of these is Blackstone Real Estate Debt Strategies II, which has a $4bn target and focuses primarily on high yield lending on commercial real estate. M&G Investments launched two debt funds in the quarter; M&G Real Estate Debt Fund II focuses on mezzanine debt and M&G Real Estate Debt Fund III targets senior loans.

Value added funds were the most numerous fund type in terms of the number of funds launched, with 15 value added offerings targeting commitments of $2.7bn. Nine opportunistic funds were launched with an aggregate target of $2.5bn.

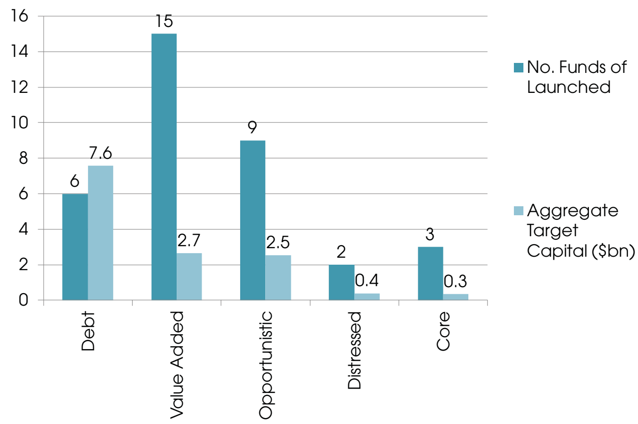
The $13.5bn aggregate target of funds launched in Q3 2012 represented a small increase on the aggregate target of funds launched in Q2 2012, when 37 funds began fundraising, with a combined target of $12.8bn. It is, however, notably less than the $18.5bn targeted by the 63 funds launched in Q1 2012. This may be a reflection of the difficult fundraising environment seen throughout 2012 to date.

Fig. 23: Quarterly Closed-End Private Real Estate Funds Launched, Q1 2011 - Q3 2012



Source: Preqin Real Estate Online

Fig. 24: Closed-End Private Real Estate Funds Launched in Q3 2012 by Primary Fund Strategy



Source: Preqin Real Estate Online

Fig. 25: Top 7 Real Estate Funds Launched in Q3 2012 by Target Size

Fund	Firm	Target Size (mn)	Strategy
Blackstone Real Estate Debt Strategies II	Blackstone Group	4,000 USD	Debt
CRE2	AXA Real Estate	1,000 EUR	Debt
Europa Fund IV	Europa Capital	750 EUR	Opportunistic, Debt
Dune Real Estate Fund III	Dune Real Estate Partners	850 USD	Opportunistic, Debt
M&G Real Estate Debt Fund III	M&G Investments	500 GBP	Debt
M&G Real Estate Debt Fund II	M&G Investments	500 GBP	Debt
RCG Longview Debt Fund V	RCG Longview	500 USD	Debt

Source: Preqin Real Estate Online

Fundraising Future Predictions

The third quarter of 2012 saw a small increase in the rate of fundraising, with 26 funds reaching a final close on an aggregate $9bn. As more data becomes available it is likely that the final total for Q3 2012 may rise by 10-20%. While this is an increase on the $8.3bn raised in Q2, it is less than the $11.8bn raised in Q1 2012 and lower than any of the quarterly totals from 2011. The fundraising market has been very challenging for real estate fund managers during 2012, with many investors continuing to be wary of committing significant amounts of capital to the asset class, and the level of competition increasing. However, already in Q4 2012 Blackstone Group's final close of $13.3bn on Blackstone Real Estate Partners VII puts the next quarter ahead of fundraising levels in Q3 2012.

There have been some notable fundraising successes in Q3 2012, with a significant 43% of funds closing on or above their targets. Iron Point Partners raised $750mn for Iron Point Real Estate Partners II, significantly more than its $450mn target. Real Estate Capital Asia Partners closed Real Estate Capital Asia Partners III on $530mn, having targeted $400mn, while Carmel Partners closed its fourth fund on $820mn, having targeted $700mn.

The number of interim closes does offer some encouragement for those marketing new funds. Forty-three funds held interim closes in the quarter, raising $7.2bn towards their fundraising targets. This does indicate a degree of momentum in the fundraising market, with managers raising sufficient capital to hold closes and begin making investments.

Fundraising for private real estate funds has become a long process in recent years. Funds that reached a final close in January-September 2012 have spent an average of 18.2 months in market, a small increase on the average of 16.8 months spent in market by funds which closed in 2011. In comparison, managers that closed funds in 2007 spent an average of just 9.1 months marketing their funds.

The reason for the slow fundraising environment is a lack of appetite among institutional investors for new commitments to private real estate funds. As is discussed in more detail on pages 4-5, many institutions are not expecting to be active in the short term. Only 42% of investors in private real estate funds expect to make new commitments in the next 12 months.

While many investors remain inactive, the level of competition for those firms raising funds continues to increase. The number of funds in market at the start of Q4 2012 stands at 467, up from 457 at the start of Q3. The aggregate target of all funds on the road has decreased, from $162bn to $155bn, in the same period.

Fundraising looks set to remain challenging in the final quarter of 2012 and into 2013. Fund managers looking to secure capital from institutional investors will need to work very hard to stand out from the crowd given the record number of funds on the road. Fund managers need to demonstrate to investors how they differ and how they expect to generate strong returns in the current market if they are to be successful. Many firms have been forced to delay anticipated closings and this is likely to continue, with some fund managers likely to face tough choices regarding the prospects of their funds. In the medium and longer term, the outlook is more positive. Very few institutional investors are reducing their allocations to real estate and most investors that gain exposure to the asset class through private real estate funds will continue to do so.

Fig. 26: Sample of Funds Closing above Target in Q3 2012

Fund	Firm	Strategy	Target Size (mn)	Final Close Size (mn)
Carmel Partners Investment Fund IV	Carmel Partners	Debt, Distressed, Opportunistic, Value Added	700 USD	820 USD
Brookfield Fairfield U.S. Multi-family Value Add Fund	Fairfield Residential	Value Added	250 USD	323 USD
FCP Realty Fund II	Federal Capital Partners	Debt, Value Added	500 USD	529 USD
Iron Point Real Estate Partners II	Iron Point Partners	Debt, Opportunistic	450 USD	750 USD
Real Estate Capital Asia Partners III	Real Estate Capital Asia Partners	Opportunistic	400 USD	530 USD
Österreich Fonds Nr. 2	Warburg - Henderson	Core, Core-Plus	150 EUR	180 EUR

Source: Preqin Real Estate Online

Dry Powder

A total of $165bn in dry powder is available to closed-end private real estate fund managers globally as of the end of Q3 2012. This is a small increase on the $159bn available at the end of Q2 2012, but slightly less than the $167bn available in December 2011. Fig. 27 shows the level of dry powder available and the amount of capital invested by closed-end private real estate funds by vintage year. With the average investment period for real estate funds at approximately three years, there is pressure on managers of older funds to put capital to work.

Fig. 28 shows the level of dry powder over time since December 2003 split by primary regional focus. North America-focused funds have recently seen an increase in the amount of dry powder available to them. As of September 2012, primarily North America-focused funds had $92bn of dry powder available to them compared to $85bn in December 2011. Dry powder available for funds with a main focus on Europe has remained fairly stable over the past few years, although these funds experienced a slight decrease between December 2011 and September 2012, with $35bn available in September 2012, compared to $37bn available as of December 2011. Asia and Rest of World-focused funds have experienced a steady decline in the amount of dry powder available to them over recent years, with dry powder decreasing from $50bn in December 2008 to $32bn in September 2012, indicating a more active investment market.

The amount of dry powder available to closed-end real estate funds, split by strategy, has varied since 2003, as shown by Fig. 29. The amount of dry powder available to closed-end core and core-plus vehicles has increased since December 2010, with funds targeting these strategies now having $8bn respectively in available dry powder. Opportunistic and value-added fund dry powder levels fell significantly between December 2009 and December 2011, owing to the decline in fundraising levels for these strategies as investor sentiment moved towards more risk-averse fund types. Distressed fund levels of dry powder have remained relatively steady since December 2010, as investment opportunities and fundraising levels have increased in recent years.

Preqin's Real Estate Online features up-to-date and historic data on the levels of capital held in reserve by real estate funds, and customizable league tables of GPs with the most dry powder.

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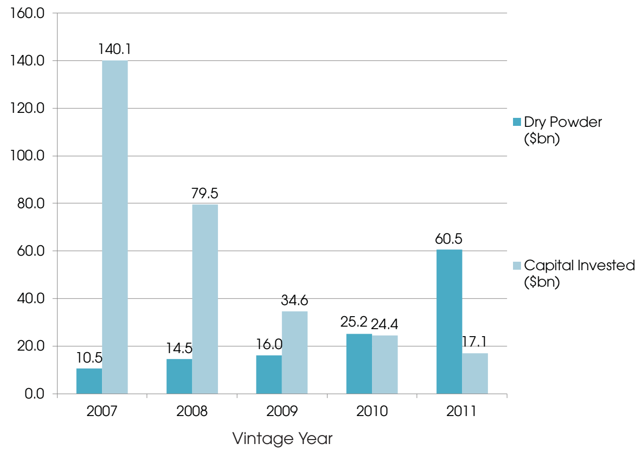
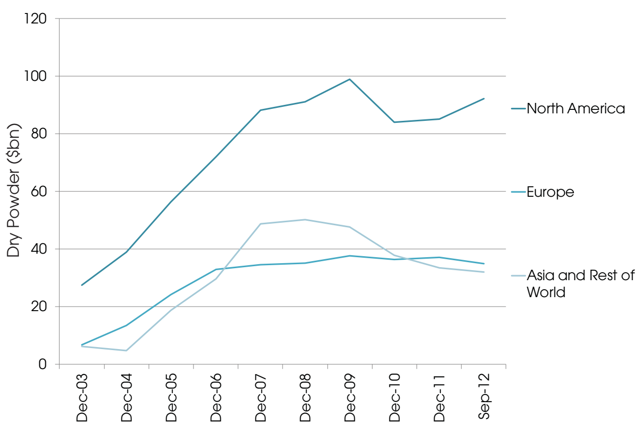
Fig. 27: Closed-End Private Real Estate Funds - Capital Invested and Dry Powder Remaining by Vintage Year as of September 2012



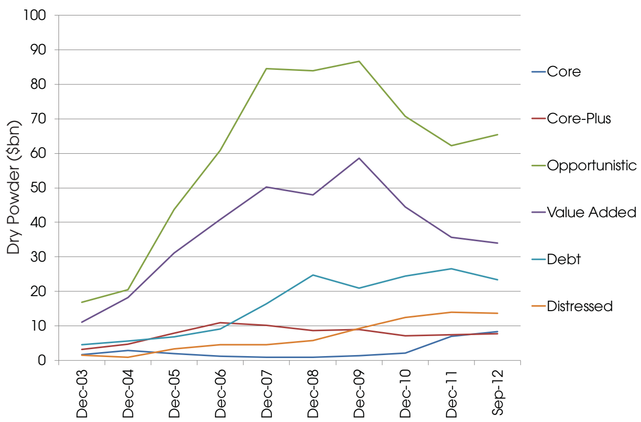
Source: Preqin Real Estate Online

Fig. 28: Closed-End Private Real Estate Dry Powder by Primary Regional Focus, 2003-2012



Source: Preqin Real Estate Online

Fig. 29: Closed-End Private Real Estate Dry Powder by Strategy, 2003-2012



Source: Preqin Real Estate Online

Performance Update

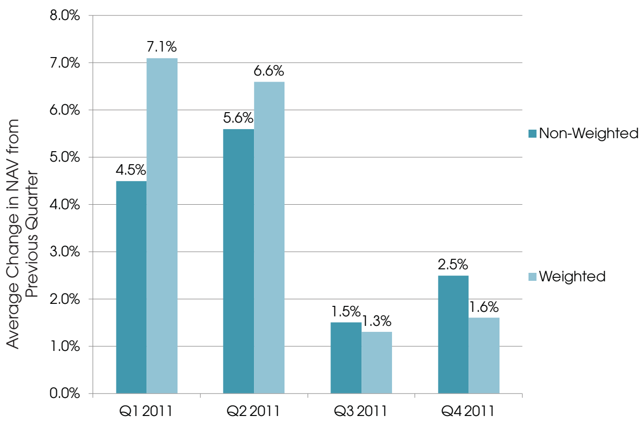
The change in net asset value (NAV) of private equity real estate funds in successive quarters from Q1 2011 to Q4 2011 is displayed in Fig. 30. All four quarters show a positive change in NAV, with a non-weighted increase of 2.5% in Q4 2011. This was a smaller increase than Q1 2011, when there was a non-weighted increase of 4.5%. The weighted increase in NAV in Q4 2011, which factors in fund size, was 1.6%. Although Q3 2011 non-weighted and weighted NAVs registered considerably smaller increases than in Q2 2011, there was a larger increase in both non-weighted and weighted NAV data in Q4 2011.

Fig. 31 displays the annual median net IRR at each quarter-end for funds of 2002 to 2009 vintage years. 2009 vintage funds have seen an increase in IRR in several successive quarters and the median IRR was 16% as of March 2012. The median IRRs for 2007 and 2008 vintage funds have also improved over the past year and, as of March 2012, stood at 2.4% and 8.5% respectively. Median IRRs for 2005 and 2006 vintage funds had declined significantly due to the financial crisis, but have stabilized over more recent quarters.

Although top quartile funds with vintages between 2000 and 2004 have IRRs of above 20%, funds of 2005 and 2006 vintages have negative median net IRRs, highlighting the widespread impact of the financial crisis on the private real estate market. Funds of 2007 vintage have fared somewhat better, with the median fund IRR equating to 2.4% and top quartile funds generating a minimum return of 9.7%. The median IRR for 2008 vintage funds is 8.5%, with top quartile funds categorized as those generating IRRs above 15.2%.

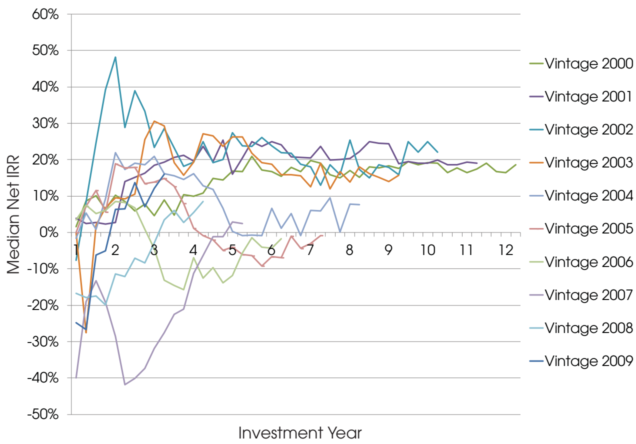
Top quartile funds have never produced negative IRRs for any vintage, while bottom quartile funds with vintages between 2005 and 2008 have produced negative IRRs. However, the performance of 2009 vintage funds suggests that the divergence between top and bottom quartile performance may be narrowing. Top quartile funds generated at least 19.8%, with three quarters of vehicles generating at least 10.9%. These funds are very early in their lives and their performance is likely to change a great deal in the coming years.

Fig. 30: Closed-End Private Real Estate Change in NAV by Quarter



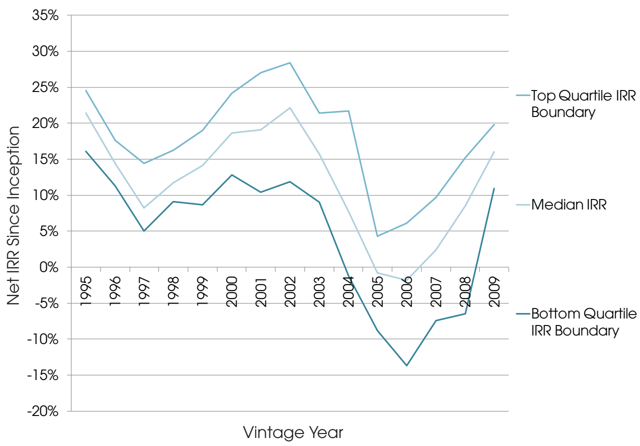
Source: Preqin Real Estate Online

Fig. 31: J-Curves: Annual Median Net IRRs by Vintage Year (as of 31 March 2012)



Source: Preqin Real Estate Online

Fig. 32: Closed-End Private Equity Real Estate - Median Net IRRs and Quartile Boundaries by Vintage Year (as of 31 March 2012)



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