

Preqin Research Report Employment and Compensation in the Private Equity Real Estate Industry

December 2009



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Total Employment within the Private Equity Real Estate Industry

The number of firms active in private equity real estate has grown consistently year on year since the emergence of this specific sector of the private equity industry. Despite the difficulties in real estate markets worldwide for the past couple of years, the trend has not been affected, as Fig. 1 shows, with 180 new managers having established vintage 2008 and 2009 private equity real estate funds, bringing the total number of managers to approximately 680. In addition to entirely new start-ups, many of these new firms are established real estate players that are looking to get involved in the private equity market for the first time. However, given the current economic climate, it is likely that a number of firms raising private equity real estate funds for the first time will not successfully complete their fundraisings.

When private equity real estate firms that do not raise distinct funds (i.e. those that manage corporate or personal capital and those that manage third-party capital without pooling into a commingled private investment vehicle) are included, the total number of private equity real estate firms is closer to 770. It is important to note that beneath this lies a further tranche of smaller firms that invest lesser sums of capital, raising money from private sources such as friends and family.

Private Equity Real Estate Employment by Country and City

In total, the 770 private equity real estate firms employ an estimated 11,100 people worldwide, the majority of which are based in the US, as shown in Fig. 2. The 7,100 people employed by US-based firms represent 64% of the global total, a larger proportion than the country's share across the private equity industry as a whole (56%).

Fig. 1:

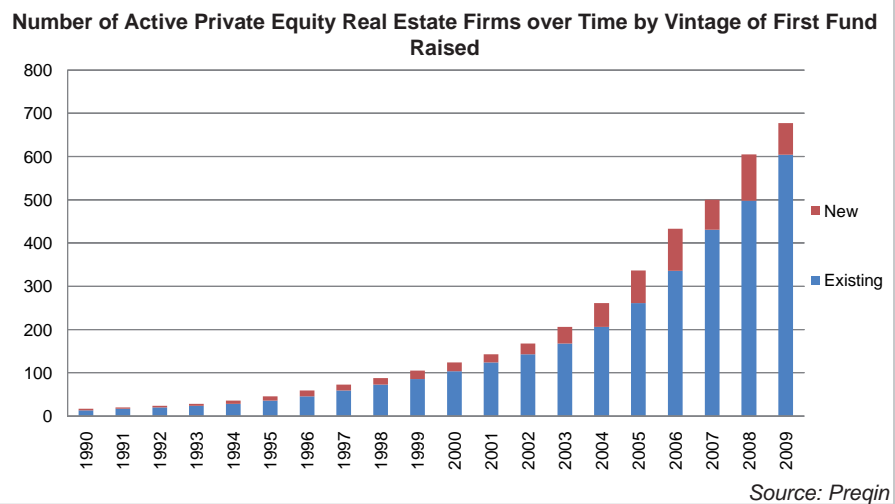


Fig. 2:

Estimated Private Equity Real Estate Employment by Country

Country*	Estimated Total Employment
US	7,100
UK	1,300
France	400
India	200
Singapore	200
Australia	180
Hong Kong	170
Germany	160
Canada	140
UAE	120
Other	1,130
Total	11,100

*Based upon location of head office for each firm

Source: Preqin

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Number of Employees at Private Equity Real Estate Firms by Assets under Management

The number of staff employed by a private equity real estate firm varies significantly with assets under management, as shown in Fig. 4. Firms with less than \$250 million in assets under management employ an average of 10 staff, while firms with \$10 billion or more in total assets employ an average of 154 people. There are significant economies of scale to be enjoyed by the larger private equity real estate firms, and such firms typically have fewer staff per \$1 billion in assets under management than their smaller counterparts. Fig. 4 shows that firms with less than \$250 million in assets under management employ, on average, the equivalent of 159 members of staff per \$1 billion in assets, i.e. \$6.3 million managed per employee. For firms with \$10 billion or more in total assets, this falls to just 13 employees per \$1 billion, or one employee for every \$76.9 million managed.

Since the management fees that private equity real estate firms collect are almost universally calculated as a percentage of the total investor commitments to a firm's funds, one would expect that the percentage rates charged by firms managing the largest funds would be less than those charged by firms managing smaller funds. As is detailed in Chapter 5 of the 2010 Preqin Private Equity Real Estate Compensation and Employment Review, which looks at firm-level compensation, this is generally the case, but only marginally so, and the slightly lower fees only partially reflect the economies of scale that the larger firms benefit from. As a result, the operating economics of the largest funds are very favourable and the management fees earned by these vehicles have become a significant source of profit for their managers.

Individual Employee Remuneration at Private Equity Real Estate Firms

From the information contained within Chapter 8 of the Review, which contains average remuneration figures for individuals at private equity real estate firms, it appears that the favourable operating economics of the largest funds

Fig. 3:

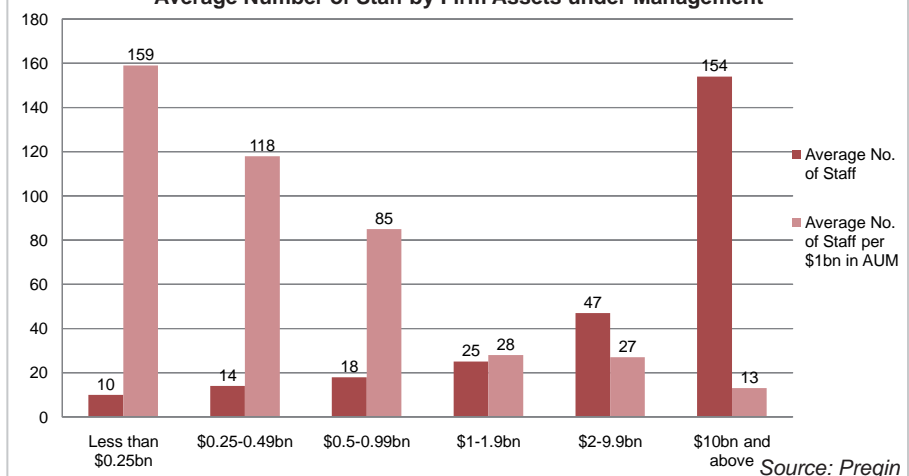
Estimated Private Equity Employment by City

City*	Estimated Total Employment
New York	2,000
London	1,100
Chicago	480
San Francisco**	410
Paris	400
Dallas	400
Boston	380
Los Angeles	360
Singapore	200
Hong Kong	170

* Based upon location of head office for each firm
** Includes Menlo Park, Palo Alto and San Mateo
Source: Preqin

Fig. 4:

Average Number of Staff by Firm Assets under Management



channel through to the remuneration for employees at these firms to some extent. For example, the median total annual

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cash compensation for a CEO of a private equity real estate firm with less than \$2 billion in assets under management is \$594,000, compared to \$1.65 million for a CEO of a firm with more than \$10 billion in total assets. This part of the Review contains base salary, total annual cash compensation, long-term incentive/carried interest award, and total remuneration data for 31 different positions, including those involved in asset management, investor relations, fund accounting, portfolio management, research and transactions, as well as senior executives of the firms.

However, it has been a difficult couple of years for the real estate industry as a whole, and this is reflected in the fact that many private equity real estate employees have seen cuts between 2008 and 2009 in the overall remuneration provided to them. Despite this, base salaries have generally remained relatively stable, with only a few firms making cuts to employees' basic rate of pay. Overall at a company-wide level, just 14% of firms have decreased base salary levels, as shown in Fig. 5, while 38% of firms have kept them the same. For the coming year, no firms have predicted a fall in overall base salary levels, while 47% stated that they are likely to increase. However, falls in annual incentive awards have been more widespread, as shown in Fig. 6. Nearly two-thirds of private equity real estate firms, 65%, paid out less in total annual incentive awards for 2008 employee performance than in the previous year, while the total incentive award remained at the same level at 25% of firms. Fewer firms are predicting falls in annual incentive awards for 2009 employee performance, with 19% predicting an increase and 45% expecting no change.

It is generally the more senior professionals who have tended to take the biggest hit in compensation as a result of the economic

Fig. 5:

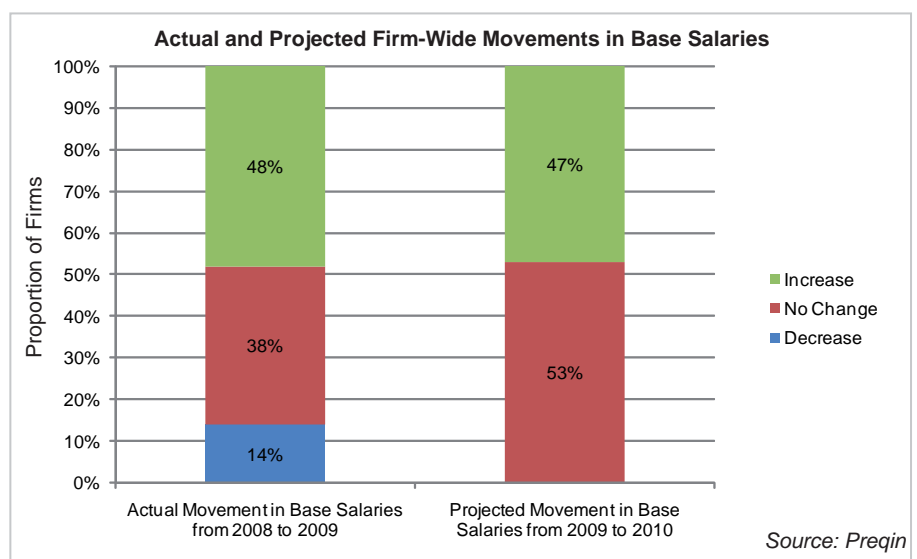
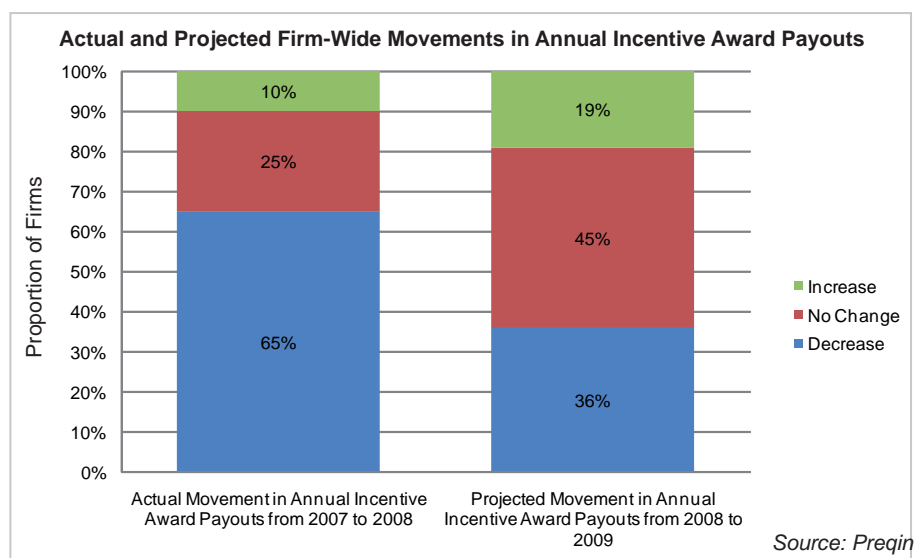


Fig. 6:



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downturn, with 17% of firms cutting base salaries for C-suite executives compared to no firms doing so for junior-level professionals, as shown in Fig. 7. This hypothesis is backed up by the figures for changes to annual incentive awards, shown for C-suite vs. junior-level in Fig. 8. More than one-quarter of C-suite executives have seen their annual incentive award payouts fall by more than 40%, twice the proportion of junior-level professionals that have had their award cut by this much. Moreover, 62% of C-suite executives have seen some level of decrease to their awards, compared to 54% of junior-level professionals.

The 2010 Preqin Private Equity Real Estate Compensation and Employment Review

In order to analyse the latest trends in compensation in the private equity real estate industry, Preqin, in conjunction with FPL Associates, conducted a survey of more than 30 leading real estate firms managing a total of approximately 200 offices worldwide and an estimated aggregate \$250 billion in capital under management, in order to collect data on their compensation practices and remuneration levels over the past year, as well as projections for next year's rates of remuneration. This has allowed us to compile meaningful statistics covering all the different types of positions at these firms, from senior executives through to junior-level professionals. Another key feature of this publication is the information on employment within the private equity real estate industry worldwide. Our databases allow us to provide meaningful estimates on levels of employment, and to break this down by various criteria including country, city and firm size. The 2010 Preqin Private Equity Real Estate Compensation and Employment Review also provides information on the firm-level compensation received by private equity real estate firms based

Fig. 7:

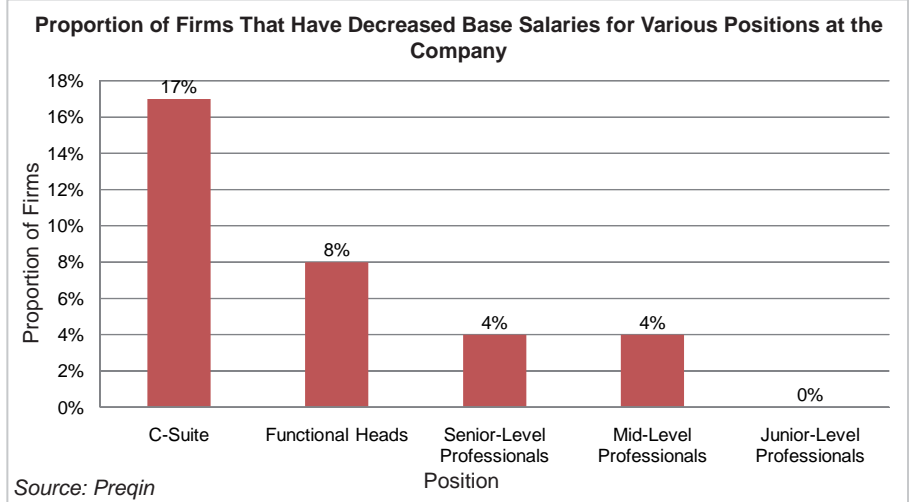
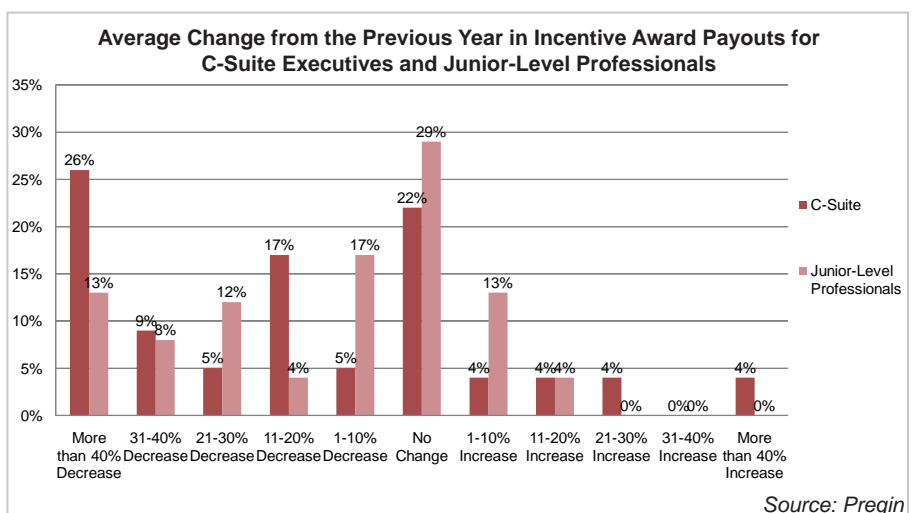


Fig. 8:



on the fees charged to their investors, which is based on data on the terms and conditions of over 250 separate private equity real estate funds.

2010 Preqin Private Equity Compensation & Employment Review

Preqin's Private Equity Real Estate Compensation and Employment Review has been produced in collaboration with leading compensation consultants FPL Associates. It includes information for 31 different positions using data on hundreds of employees actively employed by over 30 major private equity real estate firms worldwide. Firms providing data include: The Carlyle Group, LaSalle Investment Management, AIG Global Real Estate (Asia), Beacon Capital Partners and many other significant organizations. These firms operate out of approximately 200 offices worldwide, with an estimated \$250 billion in capital under management.

Also included in the Review are the results of our detailed survey on all different aspects of compensation practices. In addition, the publication also investigates firm level compensation (management fees, carry etc), employment within the industry over time, centres of activity and an examination of the economies of scale.

Full contents include:

- Compensation data for 31 different positions at PERE firms
- Survey of compensation practices at PERE firms
- Overview of firm level compensation
- Current employment within the PERE industry
- Growth of the PERE industry over time
- Centres of employment activity

For more information please visit: www.preqin.com/recompensation

2010 Preqin PERE Compensation & Employment Review - Chapters

01.....	EXECUTIVE SUMMARY	05.....	OVERVIEW OF FIRM-LEVEL COMPENSATION
02.....	DATA SOURCES / METHODOLOGY	06.....	GENERAL COMPANY AND FINANCIAL INFORMATION OF PARTICIPATING PRIVATE EQUITY REAL ESTATE FIRMS
03.....	EVOLUTION OF THE PRIVATE EQUITY REAL ESTATE INDUSTRY – GROWTH IN NO. OF ACTIVE FIRMS OVER TIME	07.....	COMPENSATION PRACTICES AT PRIVATE EQUITY REAL ESTATE FIRMS
04.....	CURRENT EMPLOYMENT WITHIN THE PRIVATE EQUITY REAL ESTATE INDUSTRY	08.....	PRIVATE EQUITY REAL ESTATE COMPENSATION BY POSITION

2010 Preqin Private Equity Real Estate Compensation & Employment Review: Order Form

A source of reliable and accurate information on the latest trends in private equity real estate compensation and employment is a vital tool enabling decision-makers and advisors to examine existing compensation practices against wider industry benchmarks.

Preqin's Private Equity Real Estate Compensation and Employment Review has been produced in collaboration with leading compensation consultants FPL Associates.

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- Centres of employment activity



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Preqin

About the Company

Preqin private equity real estate provides information products and services to real estate firms, fund of funds, investors, placement agents, law firms, investment banks and advisors across six main areas:

- Fund Performance
- Fundraising
- Investor Profiles
- Fund Terms
- Fund Manager Profiles
- Compensation and Employment

Our customers can access this market intelligence in four different ways:

- Hard copy publications
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Our services and products are used daily by thousands of professionals from around the world. If you are in need of information on the private equity real estate industry then we can help.

Our information is drawn from as many sources as possible, with our large teams of dedicated analysts working to ensure that our research is far reaching, detailed and up to date.

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