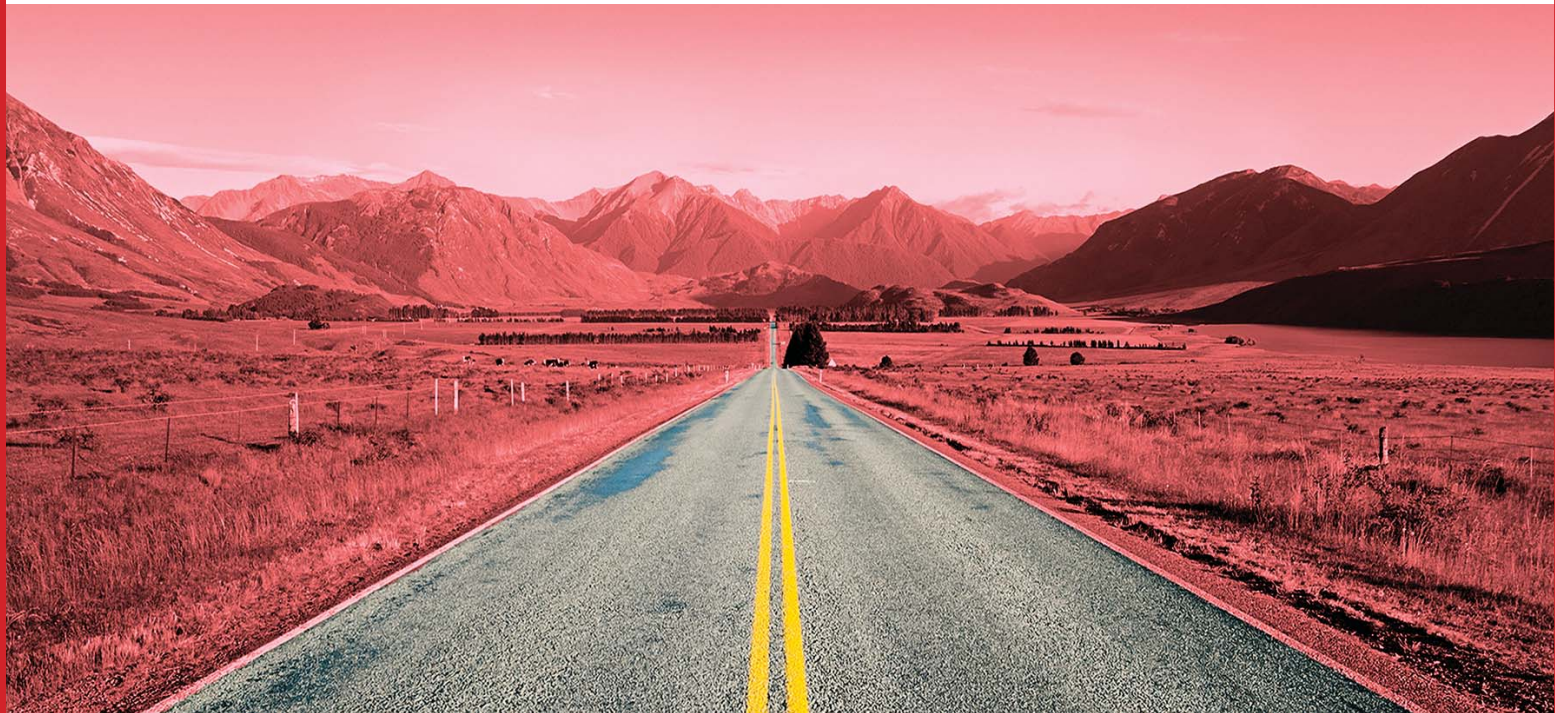


Preqin Investor Outlook: Real Estate

H2 2012

The Opinions of 100 Leading Investors on the Market
and Their Plans for the Next 12 Months



Methodology:

Preqin, the alternative assets industry's leading source of data and intelligence, welcomes you to the H2 2012 edition of Preqin Investor Outlook: Real Estate, a unique look at investors in the asset class, their current opinions of the market, and the fundraising outlook for the year ahead.

Preqin Investor Outlook draws on the results of detailed interviews conducted with over 100 institutional investors from around the world during June and July 2012. The sample of investors was selected from Preqin's Real Estate Online database, the most comprehensive and accurate source of information on investors in private real estate funds available today, and the interviews were carried out by our skilled teams of multi-lingual analysts.

Speaking directly to institutions located across the globe has enabled us not only to provide in-depth analysis of their current views and opinions, but also to accompany this with comments from key investment professionals in their own words, providing readers with a unique insight into the attitudes of the leading investors in real estate.

We hope that you find the information included within this report useful and interesting and, as always, we welcome any feedback and suggestions you may have for future editions.

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Investor Activity in the Last 12 Months

During June and July 2012, 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 and their appetite for new investments. In order to give an indication of the level of activity in the past year, investors that participated in the study were asked about their commitments to private real estate funds in the last 12 months.

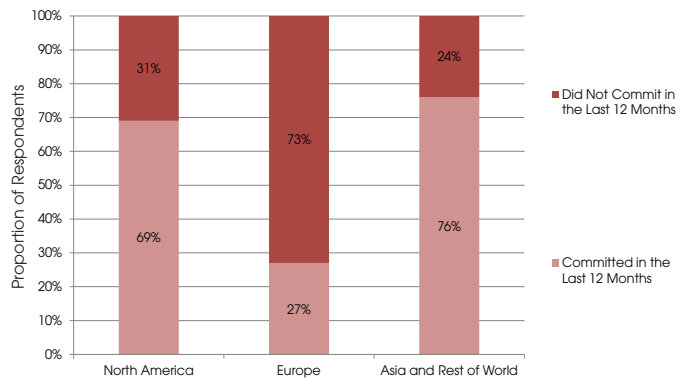
Fifty-four percent of the investors interviewed by Preqin had made new commitments to private real estate funds in the past 12 months. As shown in Fig. 1, levels of investor activity in the asset class varied in different regions. Sixty-nine percent of the North American investors interviewed by Preqin committed to private real estate funds in the past 12 months, compared to 76% of Asia and Rest of World-based investors.

Of the European investors surveyed, just 27% had made private real estate fund commitments in the past year. These results suggest that European investors continue to be affected by the on-going volatility in financial markets and the European sovereign debt crisis, which has led to a lack of investor confidence in the challenging real estate market.

Larger investors were far more likely to have committed capital to private real estate funds in the past year. Fig. 2 shows that 68% of investors with \$10bn or more in total assets committed to real estate funds during this period, compared to just 36% of investors with less than \$1bn in total assets. Smaller institutions are more likely to halt investments due to market conditions and also typically make investments less frequently. Fifty-six percent of investors with \$1-9.9bn in total assets made new commitments to private real estate funds in the past 12 months.

Fig. 3 shows the breakdown of investors that committed to private real estate funds in the past 12 months by the number of commitments they made. Of these investors, 65% committed to 1-2

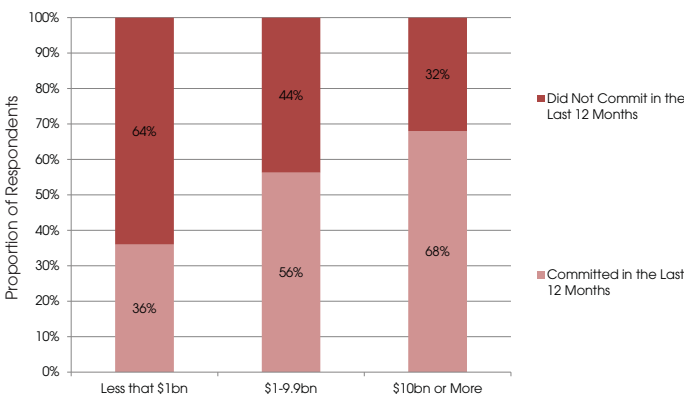
Fig. 1: Proportion of Investors that Committed to Private Real Estate Funds in the Last 12 Months by Location



Source: Preqin

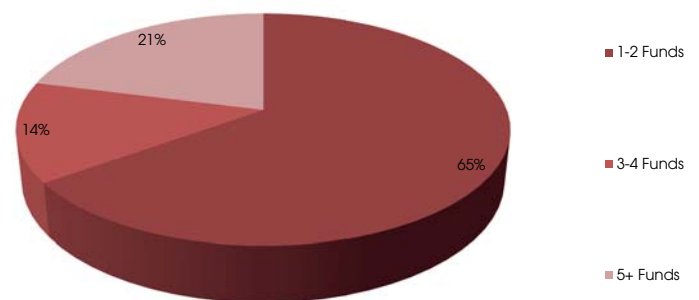
private real estate funds, while 14% committed to 3-4 funds during the same period. Twenty-one percent of investors committed capital to five or more funds.

Fig. 2: Proportion of Investors that Committed to Private Real Estate Funds in the Last 12 Months by Assets under Management



Source: Preqin

Fig. 3: Breakdown of Respondents by Number of Funds Committed to in Last 12 Months (Active Investors Only)



Source: Preqin

Investor Activity in the Next 12 Months

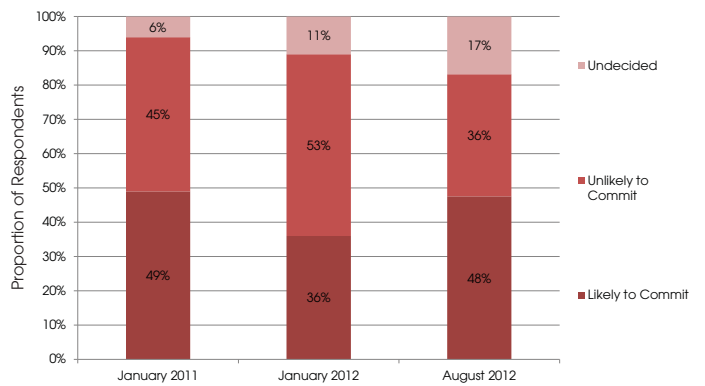
In order to give an indication of the fundraising outlook for the coming year, investors that participated in the study were asked whether they planned to commit to private real estate funds in the next 12 months.

Fig. 4 highlights the evolution of investor intentions between January 2011 and August 2012. Investor appetite for private funds has increased since January 2012, when only 36% of investors stated that they would commit to funds in the following 12 months. The proportion now likely to commit to funds has increased to 48%, moving closer to levels seen in January 2011. Thirty-six percent of investors interviewed are unlikely to commit to private real estate funds in the next 12 months, while a further 17% remain undecided. Given that over half of the investors interviewed in January 2012 stated that they were unlikely to consider a commitment to private real estate, current trends suggest increasing investor appetite, which could lead to increasing momentum in the private real estate fundraising market.

Investor intentions towards future commitment levels to private real estate funds vary according to geographic location and assets under management. As Fig. 5 demonstrates, larger investors are more likely to commit to private real estate funds in the next 12 months. Seventy percent of investors with \$10bn or more are likely to invest, while only 26% of investors with less than \$1bn in assets under management are looking to commit. Smaller institutions make investments less frequently, and may be more likely to halt investments in uncertain market conditions.

An analysis of investor intentions by investor location reveals that Asia and Rest of World-based investors are more likely to commit to private real estate funds in the next 12 months than their North American and European counterparts. Seventy-two percent of Asia

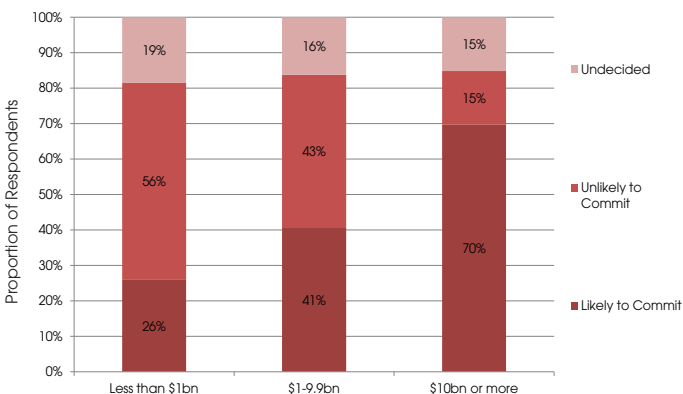
Fig. 4: Investor Intentions for Private Real Estate Investments in the Next 12 Months, January 2011 - August 2012



Source: Preqin

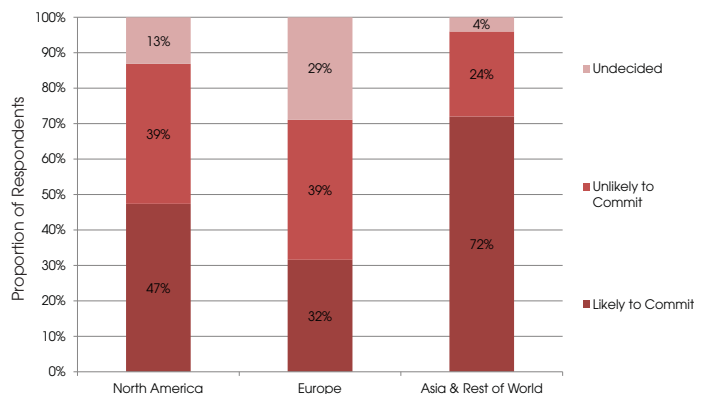
and Rest of World-based investors are likely to commit to private funds in the next 12 months, while only 47% and 32% of investors in North America and Europe respectively are likely to consider fund commitments in the same period. A number of factors may be affecting European investor appetite, including the European sovereign debt crisis and increased regulation.

Fig. 5: Investor Intentions for Private Real Estate Investments in the Next 12 Months by Assets under Management



Source: Preqin

Fig. 6: Investor Intentions for Private Real Estate Investments in the Next 12 Months by Investor Location



Source: Preqin

Capital Outlay and Anticipated Number of Commitments

Fundraising looks set to remain challenging in the year ahead. With many investors remaining cautious and the wider economic situation continuing to be uncertain, what level of activity can we expect from investors in the coming months?

Thirty-seven percent of investors interviewed by Preqin stated they would deploy more capital to private real estate funds in the next 12 months than in the previous 12 months (Fig. 7). Compared to the results from January 2012, when only 26% of investors stated that they would commit more capital throughout 2012 than they had in 2011, investor confidence appears to have improved in the first half of 2012.

“Investor confidence appears to have improved in the first half of 2012...”

Nonetheless, a sizeable 32% of investors interviewed did not commit to funds in the last 12 months and do not anticipate making commitments in the next 12 months. Fifteen percent of investors will invest less capital in the next 12 months than in the last 12-month period, and 17% intend to commit the same amount in the next 12 months as they did in the last 12 months.

Anticipated Number of Commitments

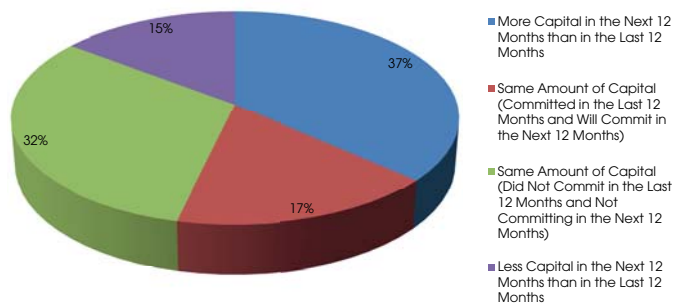
Fig. 8 shows that 52% percent of investors are taking an opportunistic approach and have no set number of funds they expect to commit to in the next 12 months, with many only planning to invest if attractive opportunities present themselves. A sizeable 27% expect to commit

to 1-2 funds, with 10% considering commitments to 3-4 funds. A further 10% of investors will commit to five or more funds in this period.

With 37% of investors planning to commit more capital in the next 12 months than they did in the past year, we could see an increase in fundraising for private real estate funds in the coming year. However, with over 50% of investors not planning new commitments, a dramatic increase in the rate of fundraising is unlikely. The fundraising market remains extremely competitive, with 466 funds currently being marketed, and the \$162bn aggregate target of these funds representing more than three times the amount of capital raised for private real estate funds in 2011.

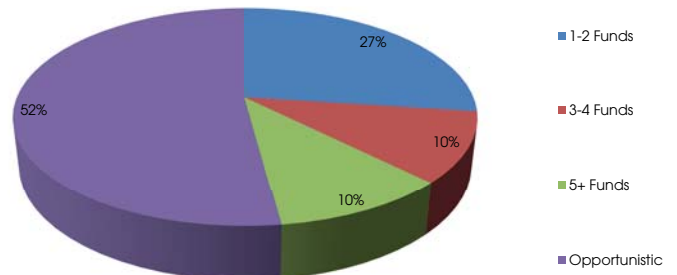
Fund managers are going to have to work very hard to stand out in this climate. One Australian investor, echoing the sentiments of many other respondents, said those managers with “a consistent performance track record, and an investment strategy that suits the current environment” would stand out. Many of the investors interviewed want to see a strong track record from fund managers, with excellent local knowledge following closely as a top priority.

Fig. 7: Expected Capital Outlay to Private Real Estate Funds in the Next 12 Months Compared to the Last 12 Months



Source: Preqin

Fig. 8: Number of Funds Investors Are Likely to Commit to in the Next 12 Months (Active Investors Only)



Source: Preqin

Key Strategies and Geographies in the Next 12 Months

We asked investors which strategies and geographies they would be targeting in the next 12 months to see where institutional capital will be allocated in the next year.

Targeted Strategies

Core and opportunistic are the strategies that are attracting the most interest from investors that will be committing to funds in the next 12 months. Forty-six percent of investors interviewed said they planned to invest in core funds and 35% said they would invest in opportunistic funds (Fig. 9).

“Forty-six percent of investors interviewed said that they planned to invest in core funds...”

Value added, debt and core-plus strategy funds will be targeted by a smaller proportion of investors, with 24%, 22% and 19% of investors interviewed intending to invest in these strategies respectively.

Targeted Geographies

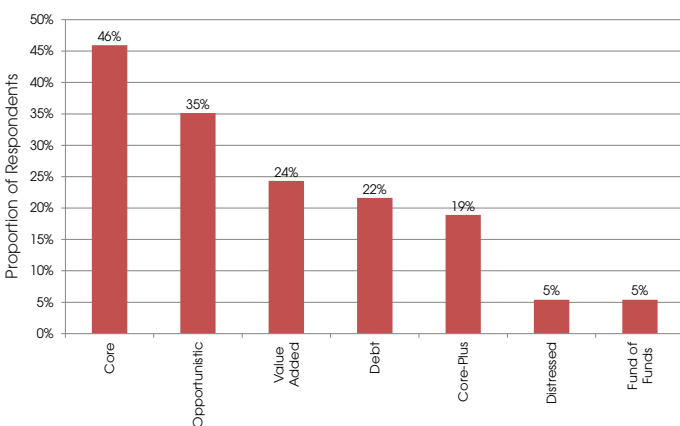
Many investors committing to real estate funds in the next 12 months plan to focus on their own domestic regions (Fig. 10). Fifty percent of North American investors plan to invest in North American funds, 67% of European investors will invest in Europe-focused funds, and 47% of Asia and Rest of World investors will target Asia-focused funds. While many investors have always focused on investing closer to home, this also reflects how selective investors are being

when making new commitments, with many focusing on the specific markets where they believe the best opportunities lie.

Fifty percent of North America-based investors and 33% of Europe-based investors said they would invest on a global basis over the next 12 months. Only 11% of Asia and Rest of World investors said they planned to invest globally, but 37% will invest in North America-based funds in the next 12 months, and 42% will invest in European funds, showing that Asia and Rest of World investors are potentially a key source of capital for fund managers in these regions.

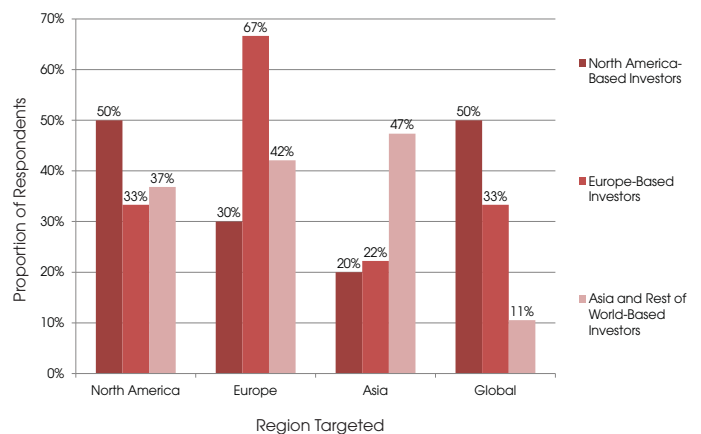
Europe- and North America-based investors do not have a large appetite for Asian real estate, with just 22% of European and 20% of North American investors targeting Asia in the next 12 months. Many of these investors have been focusing on the more established, liquid real estate markets in recent years and this trend looks as if it will continue in the coming months.

Fig. 9: Strategies Targeted by Investors in the Next 12 Months



Source: Preqin

Fig. 10: Geographies Targeted by Investors in the Next 12 Months by Investor Location



Source: Preqin

Key Issues and Satisfaction with Returns

The financial crisis had a significant impact on private real estate funds, with fund performance yet to recover as it has for many other private equity strategies. To find out more about how this has affected investors, we asked study participants what they thought were the key issues facing the private real estate fund market, and whether the performance of their private fund investments had met their expectations.

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

“64% of investors interviewed said that the performance of their real estate fund investments had met their expectations...”

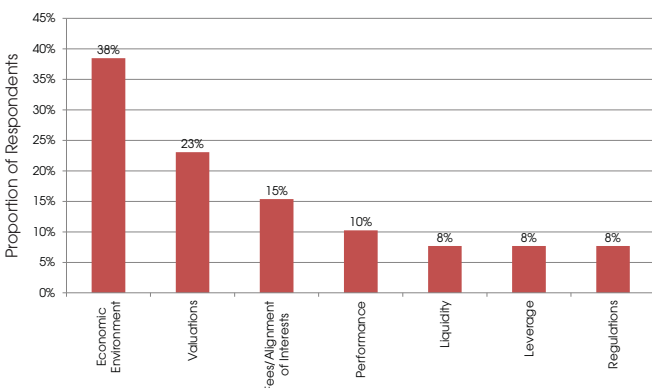
Investors named a number of other key issues that they think the private real estate fund market is facing. Many investors feel that valuations are an issue, with 23% of investors naming this area. Fifteen percent considered fees and the alignment of interests between investors and fund managers to be 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 their illiquidity.

The majority of investors interviewed (64%) said that the performance of their real estate fund investments had met their expectations, while 27% percent of investors felt that performance had fallen short. Just 9% of investors interviewed felt that the performance of their private real estate fund investments had exceeded their expectations.

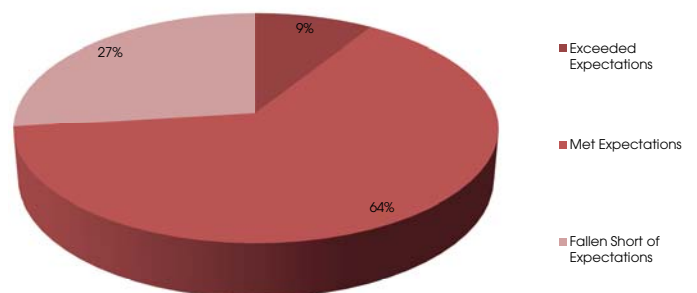
Despite the many challenges faced by the real estate fund industry in recent years, more investors appear to have been satisfied with the level of performance of their real estate fund investments than those that have been disappointed by them. However, the fact that more than a quarter of investors (27%) are disappointed with returns indicates there is more work for fund managers to do in regaining investor confidence sufficiently to improve fundraising conditions.

Fig. 11: Key Issues Affecting the Real Estate Fund Market



Source: Preqin

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



Source: Preqin

What Can Fund Managers Do to Stand Out?

With a total 466 funds on the road, targeting aggregate commitments of \$162bn, fundraising looks set to remain extremely challenging. We asked investors what fund managers can do to stand out.

“Have a consistent performance track record and an investment strategy that suits the current environment.” – [An Australian superannuation scheme](#).

“Demonstrate a strong track record, stability, and deep knowledge of the industry.” – [A Norwegian public pension fund](#).

“Fund managers should commit a minimum of 5% of the fund’s capital.” – [A South Korean bank](#).

“Have access to good opportunities and good local knowledge.” – [A sovereign wealth fund](#).

“Have fresh, innovative ideas.” – [A United Arab Emirates-based bank](#).

“Demonstrate a good track record, alignment of interests and a conservative approach.” – [A US foundation](#).

“Have a good track record, experience in good and bad times, good alignment of interests, low leverage and strong corporate governance.” – [A Dutch asset manager](#).

“Demonstrate a high standard of fiduciary duty with a strong performance track record.” – [A US public pension fund](#).

“Have a long-term record of consistent performance.” – [An Australian superannuation scheme](#).

“Good local knowledge - know the markets and landscape.” – [A US government agency](#).

“Provide evidence of strong returns, experience and long-term success.” – [A UK foundation](#).

“Managers should be able to adapt to market conditions, show flexibility, and take a hands-on approach.” – [A US asset manager](#).

“Have a track record from previous funds, reputable management and good fund terms and conditions.” – [A South Korean insurance company](#).

“Demonstrate good corporate governance and better fund terms.” – [A US public pension fund](#).

“Have good reporting mechanisms, a strong pipeline of deal flow, a positive historical performance track record along with a strong team and a hands-on approach.” – [A German insurance company](#).

“Have decent management fees, demonstrate a track record, achieve reliable income and pay attention to investors.” – [A UK foundation](#).

Breakdown of Study Participants

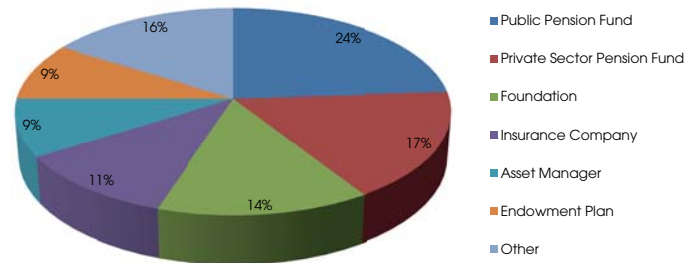
This Investor Outlook is based on analysis of a series of extensive interviews in June and July 2012 conducted with over 100 institutional investors in private real estate funds. Investors of varying size and type were surveyed to examine their intentions and attitudes towards investing in private real estate in the next 12 months.

Fig. 13 shows the breakdown of institutions interviewed by Preqin. Twenty-four percent of investors interviewed were public pension funds and 17% were private sector pension funds. Public pension funds represent one of the most prominent institutional investor types investing in real estate, with their average real estate allocation amounting to 7.8% of their total assets. Fourteen percent of respondents were foundations, 11% insurance companies, 9% asset managers and 9% endowment plans. The remaining 16% of institutions that participated in the study comprised other investor types, including investment companies, family offices, sovereign wealth funds and banks.

In terms of total assets under management, Fig. 14 shows that 28% of the investors interviewed had less than \$1bn under management and 38% had \$1-9.9bn in total assets. Thirty-four percent had \$10bn or more in assets under management.

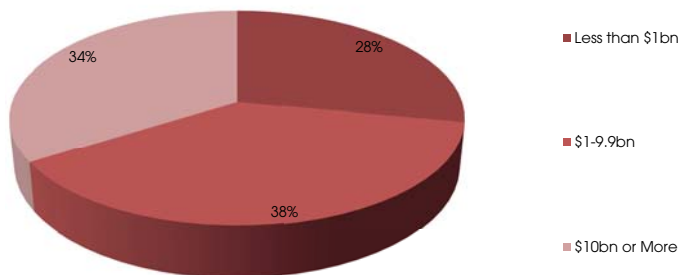
As Fig. 15 shows, 38% of investors interviewed by Preqin were based in Europe, 37% in North America and the remaining 25% in Asia and Rest of World.

Fig. 13: Breakdown of Study Participants by Institution Type



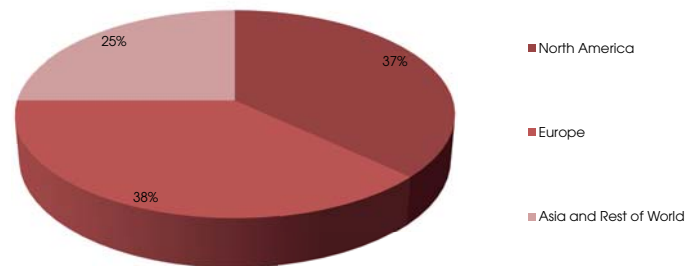
Source: Preqin

Fig. 14: Breakdown of Study Participants by Assets under Management



Source: Preqin

Fig. 15: Breakdown of Study Participants by Location



Source: Preqin

Preqin: A Direct Approach to Investor Intelligence

Unique, Industry-Leading Investor Data

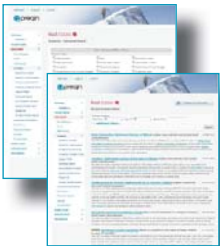
The real estate institutional investor universe is always evolving and investor preferences are continually changing. Fundraising conditions have never been more competitive and a focused fundraising effort is vital to ensure success in the market.

Preqin's Real Estate Online products and services provide comprehensive and exclusive data on investors in private real estate that can help you to achieve your fundraising goals. Our international teams of multi-lingual analysts speak to more than 3,300 investors in real estate each year, as well as tracking every available news and information source, to ensure that our data is as up to date and comprehensive as possible.

Thousands of industry professionals regularly rely on Preqin's data to help focus their investor relations and fundraising activities, with hundreds of top fund managers and 19 of the top 20 placement agents regularly using Preqin products and services to assist them in identifying investor targets and to ensure that they are up to date on the latest developments in the institutional investor universe.

Find out how you too can benefit from the industry-leading data that Preqin has to offer.

Real Estate Online



Real Estate Online is a powerful online database featuring details of over 3,300 LPs, with more being added every day. Constantly updated by our team of dedicated researchers, it represents the most comprehensive and accurate source of investor information today, with global coverage and exclusive information not available anywhere else.

- All key information is included: assets breakdown including RE allocations, sample investments, key contacts, investment plans, fund preferences, plus much more.
- Intricate search options help to identify the best targets for your funds.
- Receive fully customized email digests of updates and news on investors on a daily or weekly basis managed through the Preqin Alerts Centre.
- Premium subscribers can download targets and contact details to Excel.

2011 Preqin Private Real Estate Investor Review



The Private Real Estate Investor Review is a 500-page publication featuring a directory of over 1,500 of the most important investors in private real estate worldwide, as well as 60 pages of detailed, vital analysis on all the latest trends affecting the real estate industry.

- Features all the most important investors in private real estate and their contact details. Investors are arranged by country and region (including US split by census region).
- Use latest trends and analysis on the market to construct a targeted strategy and identify the most likely sources of funding for your new vehicle.
- An excellent complement to the online service, as well as providing a useful fundraising tool in its own right.

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alternative assets. intelligent data.

About Preqin

Preqin Real Estate provides information products and services to private real estate funds, funds of funds, investors, placement agents, law firms, investment banks and advisors across the following main areas:

- Fund Performance
- Fundraising
- Investor Profiles
- Fund Terms
- Fund Manager Profiles

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

- Online database services
- Hard copy publications
- Tailored data downloads

Our products and services are the most comprehensive resource available to private real estate professionals today, and are relied upon by the majority of leading firms and many other professionals from around the world. Whether you're a fund manager, investor, placement agent, lawyer, or investment consultant this is a vital information service for you.

To register for a demo, please visit: www.preqin.com/demo

Preqin regularly releases research and information on fundraising and all other aspects of the real estate industry as both research reports, and as part of our monthly Spotlight newsletter. To register to receive more research and analysis, please visit: www.preqin.com/research

If you have any comments on this report, please contact:
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