Real Estate Spotlight

December 2010

Real Estate Spotlight is the monthly newsletter published by Preqin packed full of vital information and data, all based on our latest research into the private equity real estate industry. Real Estate Spotlight combines information from our online products Real Estate Online and Real Estate Capital Sources, as well as the newly released 2011 Preqin Private Equity Real Estate Compensation and Employment Review.

December 2010
Volume 4 - Issue 12

FEATURED PUBLICATION:

The 2011 Preqin Private Equity Real Estate Employment and Compensation Review

More information available at:
www.preqin.com/recompensation

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The Development of Asian Private Equity Real Estate

As Preqin announces the launch of its first Asian office in Singapore, Andrew Herman takes the opportunity to examine the evolution of the private equity real estate industry in Asia.

Growth in Asian Fundraising

Prior to 2004, fundraising by Asia-focused private equity funds had been somewhat limited, with only a handful of funds reaching final closes. 2004 marked the beginning of significant growth in fundraising for Asia-focused funds, with 15 funds reaching a final close in the year having raised an aggregate $3.3 billion. The annual aggregate fundraising total peaked in 2008, with $26.9 billion raised by 43 funds.

2008 also represented the most significant year for Asia-focused fundraising as a proportion of the global total. The total capital raised by Asia-focused funds that closed during the year accounted for 19.4% of the global total raised by all private equity real estate funds worldwide, up from 8.5% in 2004.

The economic downturn had an adverse affect on fundraising globally, as an increasingly cautious investor community became less willing to commit to funds. Asian fundraising was particularly affected by the economic downturn and in 2009, 16 funds raised an aggregate $5.2 billion - the lowest amount of capital raised since 2004. Asian fundraising is still struggling to recover from the post-2008 decline, with Asian funds closed so far in 2010 accounting for just 8.8% of the global total.

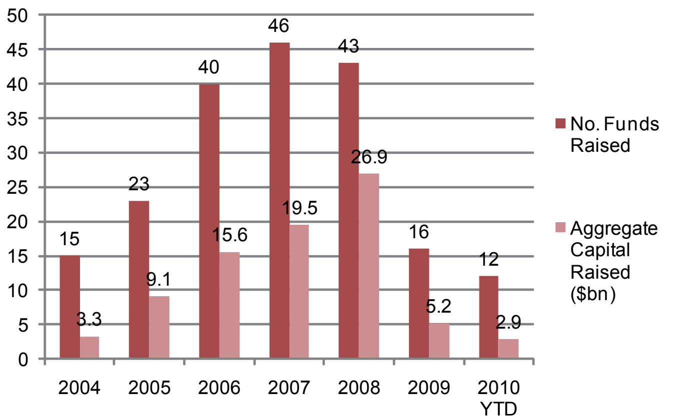
> "Asian fundraising is still struggling to recover from the post-2008 decline with Asian funds closed so far in 2010 accounting for just 8.8% of the global total."

Despite the recent dip in capital raised for Asia-focused funds, these vehicles have performed in a more consistent manner than their North American and European equivalents. As Fig.3 shows, Asian funds have typically outperformed Preqin's global private equity real estate benchmark. 71% of Asian funds have provided higher returns than the industry median and 46% of funds are ranked in the top-quartile, while only 8% are ranked in the bottom quartile. This shows the superior returns these vehicles have been providing and indicates that institutional investors globally are likely to be enthusiastic about committing to Asian funds in the future.

A Changing Landscape

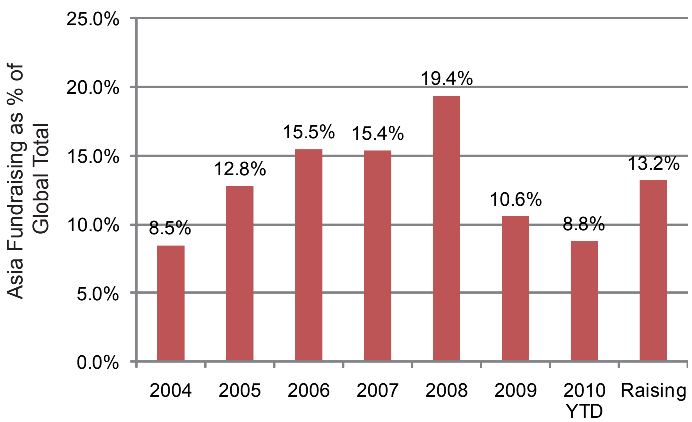
The dramatic decline in Asian fundraising since 2008 can be explained by looking at the composition of fund managers and investors in the region more closely. As shown in Fig. 4, the slump in fundraising in 2009 is partially due to the decrease in capital being raised by foreign fund managers (i.e. those headquartered outside of Asia). Prior to 2009, foreign managers had typically accounted for a high proportion of the aggregate capital raised for Asia-focused funds. For funds closed in 2009, however, capital raised by

Fig. 1: Asia-Focused Private Equity Real Estate Fundraising, 2004 - 2010 YTD



Source: Preqin

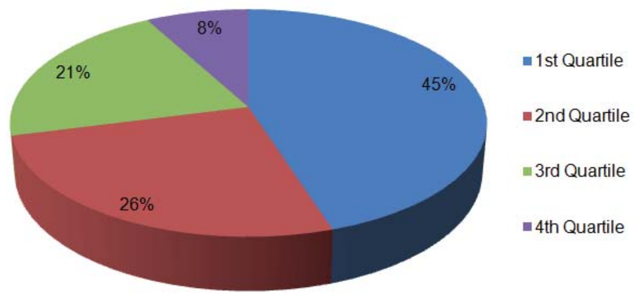
Fig. 2: Asia-Focused Private Equity Real Estate Fundraising - Share of Global Market (Sorted by Commitments)



Source: Preqin

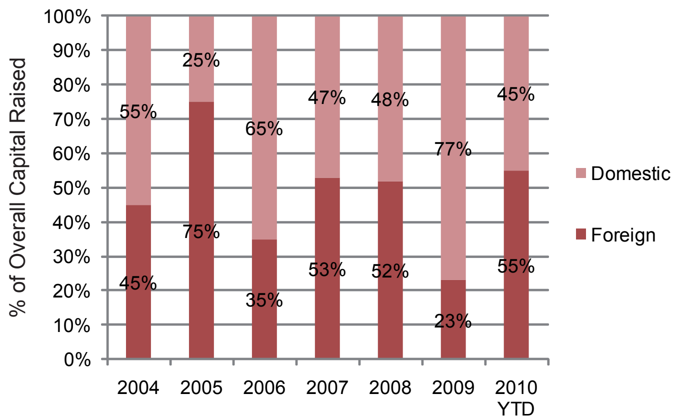
Fig. 3: Split of Asia-Focused Fund Quartile Placement*

*Quartile ranking based on Preqin global benchmarks for individual fund vintages



Source: Preqin

Fig. 4: Split of Asia-Focused Fundraising by Domestic vs. Foreign Headquartered Managers (Sorted by Commitments)



Source: Preqin

"The number of funds in market being raised by Asian firms is encouraging for the future of Asian fundraising"

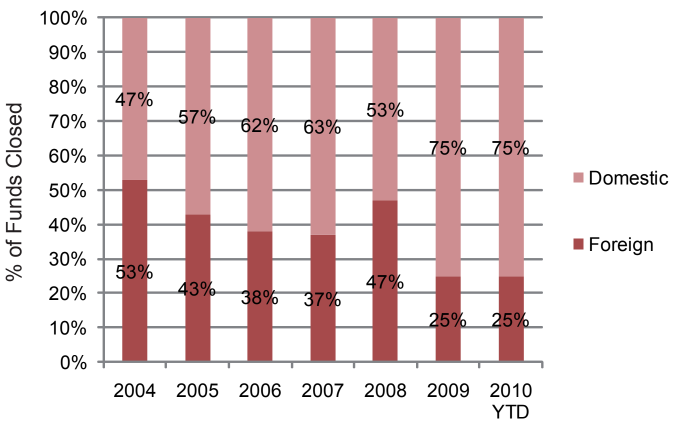
foreign managers accounted for just 23% of the aggregate total. North American and European fund managers, which were primarily responsible for gathering the majority of the foreign capital entering the Asian property market, were generally far more reliant on the commitments of Western investors than their Asian counterparts.

The economic downturn had an adverse affect on investors located in North America and Europe, with some halting investments altogether, while others concentrated principally on investments closer to home, consequently affecting Asia-focused fundraising by North American and European managers.

The proportion of capital being raised by domestic fund managers is likely to increase further in the future. Fig. 5 shows that domestic managers have closed more funds since 2005 than their international counterparts, despite the levels of capital raised by these funds being less significant. While the larger North American and European firms typically have sizeable investors that regularly commit to their vehicles, the relative inexperience of Asian fund managers has resulted in them struggling to attract the same level of commitments. It is particularly evident in the tough financial environment that investors are doing more extensive due diligence before committing to funds, so it is becoming crucial that managers have a long and successful track record in order to earn investor commitments.

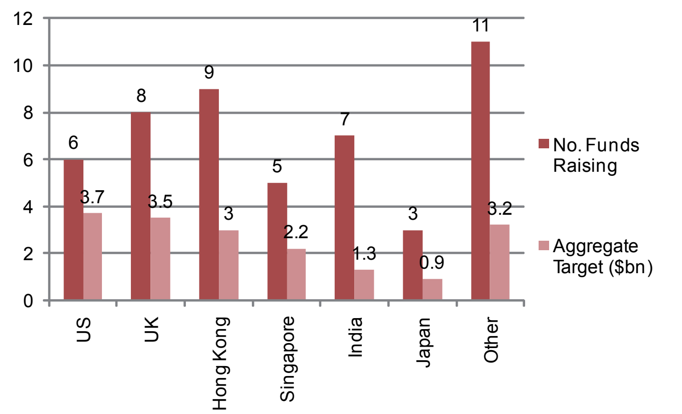
CapitaLand is an example of an Asian manager that has closed a number of funds, and in the process developed a strong investment track record, allowing it to market its funds more successfully. In 2004, the firm closed its first private equity real estate fund, CapitaLand China Residential Fund, raising just $61 million. The firm has since raised more than 10 additional funds allowing it to further its experience and contacts within the asset class. In Q4 2008, the firm closed Raffles City China Fund, garnering commitments of $1 billion; this shows how the firm has quickly developed a source of investors willing to commit substantial amounts of capital to its funds.

Fig. 5: Split of Asia-Focused Fundraising by Domestic vs. Foreign Headquartered Managers (Sorted by Number of Funds)



Source: Preqin

Fig. 6: Asia-Focused Funds Currently on the Road by Fund Manager Headquarters



Source: Preqin

The number of funds in market being raised by Asian firms is therefore encouraging for the future of Asian fundraising. Many of these firms are somewhat new to the industry, which explains the moderate levels of capital their funds are currently receiving. Once these managers are able to develop a successful reputation of property investments, both foreign and domestic investors will be more likely to commit to their funds, leading to larger amounts of capital entering the Asian property market.

Renewed Investor Enthusiasm

The downturn in the Asian fundraising story is unlikely to last for an extensive period of time. North American and European investors are beginning to signal their intentions to make further commitments to the real estate asset class, with Asia a region many are indicating to be an attractive prospect. In a recent survey conducted by Preqin, 45% of investors stated an interest in Asia and Rest of World-focused vehicles, demonstrating that investors are eager to benefit from the opportunities available in emerging property markets.

Numerous investors have recently signalled their intentions to make further allocations to Asian funds in the near future. Sweden-based Nobel Foundation has identified Asia as an area where it believes good opportunities exist, and once it resumes its property investments in 2011, this is a region it expects to target. Another European investor, APG - All Pensions Group already has €4 billion invested in Asia Pacific real estate, but is intending to invest a further €1 billion in this region over the next five years. The asset manager believes especially good opportunities are available in residential properties in Asia's emerging markets.

Within Asia itself, a number of investors have also identified the benefits of committing to domestic funds. This, in tandem with new regulations allowing some Asian investors to increase their exposure to the asset class, should see an increased flow of capital from domestic investors to the industry. China's Insurance Regulatory Commission (CIRC) for example, recently published rules that will allow Chinese insurance companies to invest up to 10% of their total assets in real estate. Some Chinese investors have already reacted to this new set of regulations. China Life Insurance, for example, decided last year that it would appoint experienced real estate

Fig. 7: Top 10 Asia-Focused Private Equity Real Estate Funds Closed to Date

Fund	Vintage	Manager	Size (mn)	Manager Headquarters
MGPA Asia Fund III	2007	MGPA	3,890 USD	UK
LaSalle Asia Opportunity Fund III	2008	LaSalle Investment Management	3,000 USD	US
daVinci Japan Real Estate Partners IV	2005	KK DaVinci Advisors	320,000 JPY	Japan
Merrill Lynch Asian Real Estate Opportunity Fund	2008	Blackstone Group*	2,650 USD	Hong Kong
Aetos Capital Asia II	2005	Aetos Capital Asia	2,200 USD	US
CPI Capital Partners Asia Pacific	2007	Apollo Global Real Estate Management**	1,291 USD	US
Alpha Asia Macro Trends Fund	2008	Alpha Investment Partners	1,200 USD	Singapore
Warburg Pincus Real Estate I	2007	Warburg Pincus	1,200 USD	US
Mapletree India China Fund	2008	Mapletree Investments	1,157 USD	Singapore
ARA Asia Dragon Fund	2007	ARA Asset Management	1,130 USD	Singapore

Source: Preqin

*Blackstone Group replaced BAML Real Estate Principal Investments as Fund Manager in November 2010
**Apollo Global Real Estate Management replaced Citi Property Investors as Fund Manager in November 2010

Fig. 8: Top 10 Asia-Focused Private Equity Real Estate Funds Currently on the Road

Fund	Manager	Target Size (mn)	Manager Headquarters
PS Fund IV – Asia Fund Select	Pacific Star Financial	1,200 USD	Singapore
Aetos Capital Asia IV	Aetos Capital Asia	1,000 USD	US
Forum Asian Realty Income III	Forum Partners	1,000 USD	US
GreenOak Real Estate Fund	GreenOak Real Estate	800 USD	UK
Trophy Property Development II	Winnington Capital	750 USD	Hong Kong
ING Real Estate China Opportunity Fund II	ING Real Estate Investment Management	750 USD	Netherlands
AMB China Logistics Venture	AMB Capital Partners	590 USD	US
Tokyo Office Property	AXA Real Estate Investment Managers	50,000 JPY	France
Tokio Marine Apartment Fund	Tokio Marine Property Investment Management	50,000 JPY	Japan
MGPA Japan Core Plus Fund II	MGPA	50,000 JPY	UK

Source: Preqin

> "There are currently 49 Asia-focused funds in market, seeking to raise an aggregate $17.8 billion"

investment professionals to assist it in diversifying its portfolio once these regulations were in place. Singapore-based Great Eastern Life Assurance Company is another Asian investor that anticipates investing in Asian property markets in the near future. The insurance company is looking to commit SGD 50 million to two Asia-focused funds of a value added and opportunistic nature.

Funds on the Road

The gradual upturn in investor enthusiasm has led to a number of foreign and domestic fund managers setting up vehicles in order to take advantage of new capital entering the market. There are currently 49 Asia-focused funds in market, seeking to raise an aggregate $17.8 billion. This figure accounts for 13.2% of the aggregate target of funds being raised worldwide, potentially signalling a return to the success years of Asian fundraising (2006-2008), when over 15% of capital raised worldwide was by funds with a focus on the region.

Fund Manager Location

As shown in Fig. 6, the highest proportion of capital for Asia-focused funds is being sought by firms headquartered in the US. There are currently six Asia-focused funds being raised by US firms, seeking to garner aggregate commitments of $3.7 billion. However, it is evident that Asian managers are beginning to intensify their fundraising efforts due to the increasing amounts of capital available from domestic investors. A number of Asian firms now have the required experience and resources to market their funds to overseas as well as domestic investors, with firms located in Hong Kong, Singapore and India all attempting to gather significant levels of commitments from investors.

The Future of Asian Fundraising

Despite the brief hiatus in the success of Asian fundraising, there are reasons to be optimistic that a return to the 2006-2008 levels could be forthcoming. 71% of Asia-focused funds have out performed the median return for all global private equity real estate funds. If this trend continues once the property markets recover, then investors will quickly recognize the benefits of committing to Asian funds.

Furthermore, the increasing experience being gained by domestic fund managers, as well the increased sophistication of institutional investors in the region, indicates that Asian funds can begin to command an even more prominent position within the global fundraising market. This, combined with the renewed enthusiasm of foreign managers and investors for the region, means a growing supply of capital can be expected to enter the Asian fund industry in the near future.

It is within the context of this exciting new period for Asian private equity real estate that we are pleased to announce the launch of our first Asian office, in Singapore. We hope this new office will enable us to provide better coverage of activity in this region, and allow us to better serve our clients in Asia and all other regions worldwide.

2011 Preqin PE Real Estate Compensation & Employment Review

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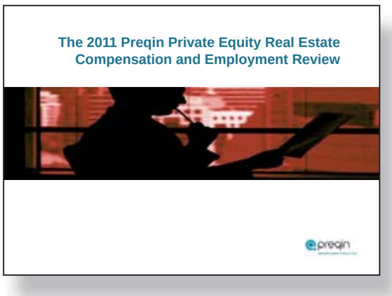
The 2011 Preqin PE Real Estate Compensation and Employment Review is a source of reliable and accurate information on the latest trends in private equity real estate compensation and employment is a vital tool in enabling decision-makers and advisors to examine existing compensation practices against wider industry benchmarks.

Key content includes:

- Private equity real estate compensation by position
- Survey of compensation practices at private equity real estate firms
- Overview of firm-level compensation
- Current employment within the private equity real estate industry
- Growth of the PERE industry over time
- Centres of employment activity



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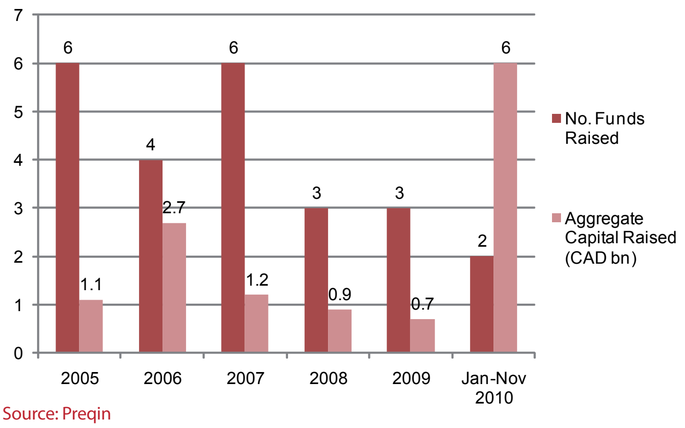
Canadian Fund Managers

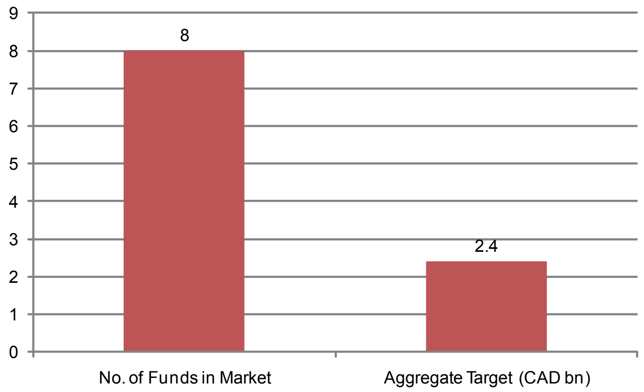
Clare Bowden examines fundraising by Canadian Fund Managers.

Fig. 1: Fundraising by Canada-Based Firms, 2005 - November 2010



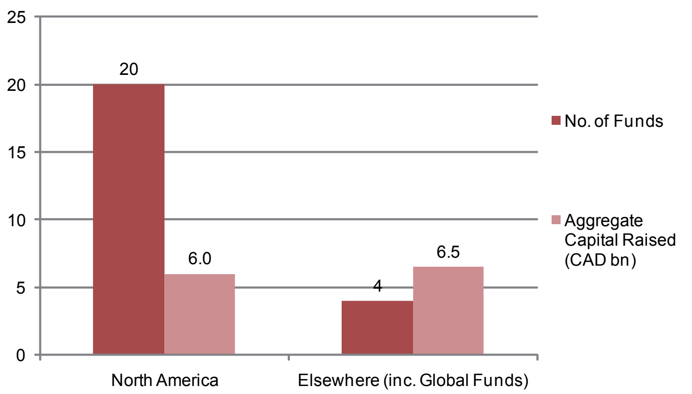
Source: Preqin

Fig. 2: Funds on the Road Managed by Canada-Based Firms



Source: Preqin

Fig. 3: Primary Geographic Focus of Funds Raised by Canada-Based Firms, 2005 - November 2010



Source: Preqin

Data Source:

Real Estate Online

Preqin's industry-leading Real Estate Online service features detailed profiles on 16 Canada-headquartered fund managers, including background, funds managed, performance and key contacts.

www.preqin.com/reo

Fig. 4: 10 Largest Canada-Based Firms by Capital Raised for Private Equity Real Estate Funds in the Last 10 Years

Firm	Total Capital Raised for Private Equity Real Estate Funds in Last Ten Years (CAD mn)	Firm Headquarters
Brookfield Asset Management	10,792	Toronto
KingSett Capital	1,040	Toronto
Tricon Capital Group	958	Toronto
Northam Realty Advisors	391	Toronto
Conundrum Capital	338	Toronto
Greiner-Pacaud Management	295	Toronto
Realstar Group	139	Toronto
Redbourne Group	136	Montreal
Bentall Capital	132	Vancouver
Woodbourne Canada Management	127	Toronto

Source: Preqin

Impact of Solvency II Directive on Real Estate Investments

The revised set of EU-wide capital requirements and risk management standards that will replace the current Solvency requirements is likely to have a huge effect on the industry. Andrew Moylan investigates how insurance companies' real estate investments will be affected.

Solvency II is a fundamental review of the capital adequacy regime for the European insurance industry. It aims to establish a revised set of EU-wide capital requirements and risk management standards that will replace the current Solvency requirements. It aims to implement solvency requirements that better reflect the risks that companies face and deliver a supervisory system that is consistent across all EU member states.

During September and October 2010, Preqin surveyed more than 20 Europe-based insurance companies to assess the impact of the Solvency II Directive on the indirect real estate investments of these firms. The results show that the Directive will have a significant impact upon the real estate investment strategy of these institutions, and the size and composition of their real estate portfolios.

Impact of Solvency II on Real Estate Investments

76% of respondents said that the Solvency II legislation would have an impact on their real estate portfolios. Only 19% felt that their real estate investments would be unaffected, while 5% were unsure. The impact that the Directive is expected to have varied across respondents to the survey. Several insurance companies said that real estate allocations would fall as a result. One Finland-based insurance company, however, anticipated doubling its real estate allocation from 5% to 10%, reducing its equities allocation to accommodate this increase.

Impact of Solvency II on Indirect Real Estate Investments

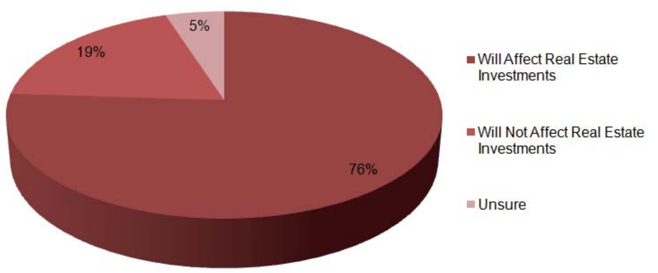
Insurance companies that invest in private real estate funds were asked how Solvency II would affect these indirect investments specifically. 74% felt that the Solvency II legislation would impact their investments in these funds. Just over a quarter felt their fund commitments would be unaffected by the Directive.

Fig. 3 shows that private real estate fund managers should expect to receive fewer commitments from EU-based insurance companies in years to come: 26% of respondents felt that they would make fewer commitments to private real estate funds as a result of the legislation, and a further 16% said that the Solvency II legislation was a contributing factor in their decision to no longer invest in private real estate funds whatsoever. One French insurance firm said, "The decision to stop investing in private real estate was partly due to the Solvency II regulations, which place stricter guidelines on the level of risk insurance companies are allowed to take with regards to their investments."

5% of investors expected to target more core funds, while 5% said that they would need to target opportunistic investments. One German insurance company said that returns from core or value added funds would not be sufficient for them to reach their equity return target. It said, "Only opportunistic investments, mainly in emerging markets would be sufficient."

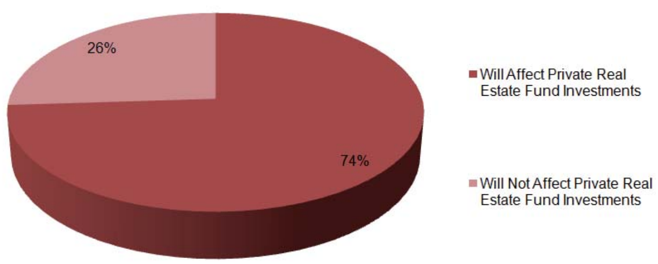
Preqin has identified more than 90 Europe-headquartered insurance companies, managing combined assets in excess of €315 billion, that invest in real estate. These

Fig. 1: Effect of Solvency II Directive on European Insurance Companies' Real Estate Investments



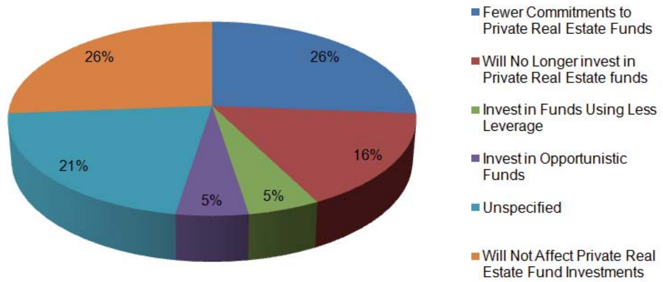
Source: Preqin

Fig. 2: Effect of Solvency II Directive on European Insurance Companies' Private Real Estate Fund Investments



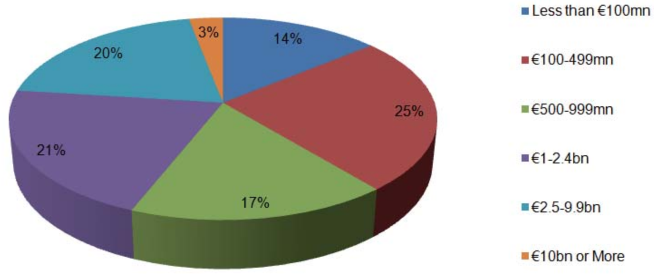
Source: Preqin

Fig. 3: How Solvency II Directive Will Affect European Insurance Companies' Private Real Estate Fund Investment



Source: Preqin

Fig. 4: Breakdown of European Insurance Companies by Real Estate Allocation



Source: Preqin

institutions are often significant investors in real estate, as indicated in Fig. 4. 44% of European insurance firms that invest in real estate have €1 billion or more allocated to the asset class, with 23% allocating €2.5 billion or more.

These results show that the Solvency II legislation will have a dramatic impact on the real estate investments of insurance companies based in Europe. Those raising private real estate funds are likely to receive far fewer commitments from this group of investors. But as a German insurance firm stated, the impact of the legislation could be greater than simply reducing real estate investments. It argued that Solvency II will have "underestimated consequences not only for European insurers but also for the whole real estate industry (developers, banks and funds). Insurers are an important source of capital for real estate, which itself fulfils an important function in the domestic, as well as the global, economy."

The precise impact the Solvency II Directive will have on the real estate investments of insurance companies is unclear, and institutions are expecting to adopt dramatically different strategies in response to the Directive. The responses to Preqin's survey, however, do indicate that it will significantly alter the investment approach of these institutions and will therefore have a major impact on many other firms within the real estate industry.

Data Source:

Real Estate Online

Preqin Real Estate Online features profiles for over 2,200 active investors in real estate, including more than 90 Europe-based insurance companies investing in the asset class.

For more information, or to register for a demo please visit:

www.preqin.com/reo

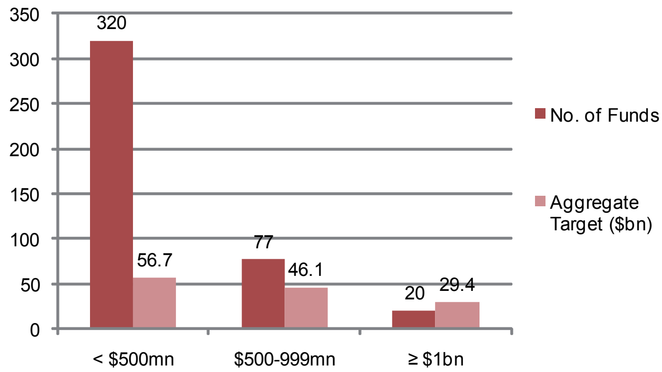
Private Equity Real Estate Fundraising

Fig. 1: Real Estate Funds on the Road

	North America	Europe	Asia and Rest of World	Total
Number of Funds	226	113	83	422
Aggregate Target Size ($bn)	67.7	38.3	26.1	132.1
Average Target Size ($mn)	312	372	348	335

Source: Preqin

Fig. 2: Funds in Market by Target Size



Source: Preqin

Fig. 3: 10 Largest Funds on the Road

Fund	Manager	Target Size (mn)	Strategy	Focus
Lone Star Fund VII	Lone Star Funds	4,000 USD	Debt and Distressed	Japan, North America, West Europe
Lone Star Real Estate Fund II	Lone Star Funds	4,000 USD	Debt, Distressed and Opportunistic	Global
Aberdeen European Shopping Property Fund	Aberdeen Asset Management: Property Division	1,500 EUR	Core-Plus and Value Added	West Europe
Carlyle Realty Partners VI	Carlyle Group	2,000 USD	Debt and Opportunistic	North America
KSL Capital Partners III	KSL Capital Partners	1,500 USD	Core-Plus	North America
MacFarlane Urban Real Estate Fund III	MacFarlane Partners	1,500 USD	Opportunistic	US
PS Fund IV – Asia Fund Select	Pacific Star Financial	1,200 USD	Core, Core-Plus, Opportunistic and Value Added	Asia
Legal & General Limited Price Inflation Income Property Fund	Legal & General Property	750 GBP	Core	UK
UK Property Income Fund	Legal & General Property	700 GBP	Core and Core-Plus	UK
Aetos Capital Asia IV	Aetos Capital Asia	1,000 USD	Debt, Distressed and Opportunistic	China, Japan, South Korea

Source: Preqin

Recently Closed Real Estate Funds

Boston Capital Tax Credit Fund XXXIII

Manager: Boston Capital
Strategy: Opportunistic
Property Types: Apartment
Geographic Focus: US
Target Leverage: 50%
Final Close: 305 USD (Oct-2010)
Lawyer: Nixon Peabody

Partners Group Real Estate Secondary 2009

Manager: Partners Group
Strategy: Real Estate Secondaries
Geographic Focus: Global
Final Close: 750 EUR (Nov-2010)
Sample Investors: Avon Pension Fund, Oxfordshire County Council Pension Fund

Conferences Spotlight: Forthcoming Events

Conference	Dates	Location	Organizer
Real Estate Investment China Summit 2010	1 - 2 December 2010	Beijing	IQPC
Real Estate Investment World USA	1 - 3 December 2010	New York	Terrapinn
Western Non-Traded REIT Industry Symposium	8 - 9 December 2010	San Diego	IMN

Real Estate Investment World USA 2010

Date: 1-3 December, 2010
Location: New York Marriott Downtown, NY
Organiser: Terrapinn

At this conference you will:

- Meet institutional investors, private equity firms and real estate funds
- Learn how pension funds, endowments and other institutional investors are incorporating real estate as part of their asset allocation strategy
- Raise capital for listed vehicles
- Meet potential buyers to dispose/sell off assets
- Fund, launch and manage your IPO

Information: www.terrapinn.com/2010/reiwusa

Investor News

Forena Akthar takes a look at the latest real estate investor news.

Vital Insurance to no longer invest in private real estate funds

The EUR 25.9 billion Vital Insurance is not looking to invest in private real estate vehicles in the foreseeable future. The Solvency II regulations had an impact on its decision to abandon the indirect investment route, as well as over-exposure to non-domestic real estate markets. It has an 18% allocation real estate and its portfolio is split 98% to direct real estate in Norway and Sweden, and 2% to private real estate vehicles targeting Europe. It expects to allocate to direct real estate in the next 12 months but is not yet sure as to how the Solvency II legislation will affect such investments. Once its fund holdings have naturally liquidated, Vital Insurance will have a portfolio comprising solely of direct property.

Northeast Utilities Pension Fund to invest in private equity real estate funds in next 12 months

The USD 1.9 billion private sector pension fund is planning to commit to private equity real estate funds over the next 12 months. It is unsure as to how much capital it will allocate, but it will target funds with opportunistic, debt, distressed and value added strategies and will make its next investment in either Q2 2011 or H2 2011. Northeast Utilities Pension Fund gains exposure to real estate solely through investments in private real estate funds and has a target allocation to the asset class of 3-5%. It currently has 2.2% allocated to the asset class.

Government Pension Fund - Global makes maiden investment in real estate

The NOK 3 trillion Government Pension Fund - Global has acquired a 25% stake in Crown Estate's GBP 1.6 billion Regent Street portfolio, marking its maiden investment in the asset class. The sovereign wealth fund acquired the stake in the London-based retail portfolio for GBP 448 million. Crown Estate wanted an investment partner for this portfolio because it is not permitted to utilize leverage for its investments. Crown Estate will still retain management control of the portfolio, and therefore occupiers and other stakeholders will not see any alterations to the management of Regent Street.

Aberdeen Asset Management: Property Division looks to build global property fund of funds platform with US appointment

Aberdeen Asset Management: Property Division has announced the appointment of Katherine Giordano as Indirect Property Portfolio Manager. Based in Philadelphia, her primary role will be to cover the US property fund market, undertaking due diligence and selecting funds suitable for global indirect portfolios as well as for dedicated US portfolios. Katherine Giordano joined Aberdeen from ING Real Estate Investment Management. Aberdeen Asset Management: Property Division operates a series of real estate funds of funds and also has a series of separate mandates for investing client assets in real estate funds.

PFA Pension to consider making commitments to private real estate funds in Q2 2011

The EUR 35 billion PFA Pension did not commit to any private equity real estate funds in 2010, but it is considering the possibility of re-entering the sector in Q2 2011. It has yet to decide the amount of capital it will allocate, or the types of strategies and locations to target. It feels that one of the key issues facing the unlisted real estate market is the current fee structures. It believes that the fee structure is inappropriate given the current environment and hopes to see this addressed by fund managers. Furthermore, PFA Pension is concerned about the uncertainty resulting from the Solvency II regulations and is cautious about its effects.

Aviva Investors Real Estate Multi-Manager and Henderson Global Investors – Property commit to Standard Life European Property Growth Fund

Aviva Investors and Henderson collectively committed EUR 60 million to Standard Life European Property Growth Fund on behalf of their underlying clients. The fund is a semi open-ended English limited partnership providing investors with exposure to direct continental European real estate, through income producing investments and, to a limited extent, development opportunities. Aviva Investors Real Estate Multi-Manager, which invests on a global basis, has approximately GBP 3.5 billion committed to third-party funds. Henderson Global Investors - Property invests in private real estate funds through its real estate fund of funds programs and client mandates.

Data Source:

Real Estate Online

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