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## 2010 Strategies: Where is the Capital Going?

### Feature Article

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2010 Strategies: Where is the Capital Going?

2010 is set to see many private equity real estate fund managers that held off making new deals last year resume investment activity. We look at the key areas they will be investing in.

### Fundraising Spotlight

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We take a look at private equity real estate fundraising.

### Fund Manager Spotlight

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Core-Plus Fund Managers

Each month Fund Manager Spotlight examines a particular group of fund managers, using Preqin's Real Estate Online database. This month we look at core-plus fund managers.

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We look at the upcoming events in the real estate world.

### Investor News

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All the latest news on real estate investors:

Including...

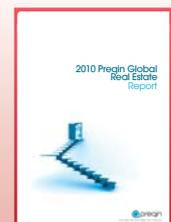
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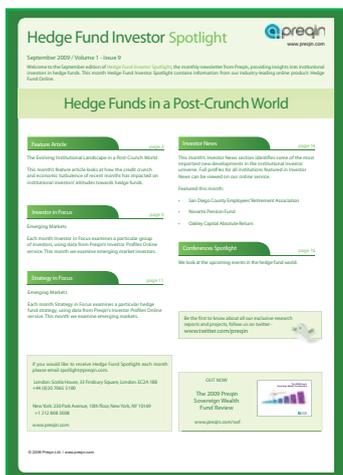


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# Private Equity Fund Managers in 2010 – Key Areas of Focus

2009 will be remembered as particularly challenging for the real estate industry. Property prices fell dramatically and few transactions were completed, with sellers looking to avoid large losses and buyers hesitant to invest before the markets had reached the bottom. Private equity real estate fund managers suffered significant write-downs on their investments, and investors, cautious and stung by poor returns, made few commitments to the asset class. The result was the worst year for private equity real estate fundraising since 2004.

However, 2010 is set to see many private equity real estate fund managers that held off making new deals last year resume investment activity. Many firms have significant dry powder reserves and with 2010 potentially representing an ideal buying opportunity as real estate markets finally bottom out, the coming year should see far more deals being completed.

## Dry Powder

Although fundraising was slow during 2009, the lack of deals made during the year means that, as of January 2010, private equity real estate firms have a total of \$189 billion in dry powder available to invest.

In terms of regional focus, \$99 billion of dry powder is focused primarily on North American opportunities, equating to 52% of the total dry powder available. \$46 billion is available for Asia and Rest of World investments, while \$44 billion is available for European investments. In addition to the dry powder already available, private equity real estate firms are currently marketing 366 funds, seeking aggregate commitments of \$150 billion. The regional breakdown of funds in market is very similar to the dry powder breakdown. 55% of capital targeted will be focused primarily on North America, with 25% primarily focused on European investments and 20% on investments in Asia and Rest of World. This suggests that in addition to opportunities in the developed markets of North America and Europe, fund managers believe that there are still good prospects for real estate investments in emerging markets. However, fundraising for Asia and Rest of World focused vehicles was particularly poor in 2009, with 24 funds raising an aggregate \$7 billion, representing 16% of all capital raised. This is partly due to a cautious investor universe in the US and Europe opting to invest closer to home. The allocation of dry powder to Asia and Rest of World may help

to stimulate fundraising to these regions in 2010.

## Strategies Targeted

Fig. 2 shows the strategies employed by private equity real estate funds in market. Globally, opportunistic strategies are the most commonly utilised, with 36% of the total capital targeted focused on opportunistic investments. 23% is focused on debt investments and 19% on value added plays.

Many fund managers focused on North America believe that real estate debt investments offer excellent opportunities in the current climate. North American debt funds are targeting a larger percentage of total commitments than North American opportunistic or value added funds. 34% of capital targeted by North America-focused vehicles will be directed to investments in real estate debt, compared with 26% for opportunistic investments, 19% for distressed opportunities and 17% for value added investments.

Of capital being sought by funds focused primarily on Europe, 32% is focused on value added investments, with the same percentage targeting opportunistic real

Fig. 1:

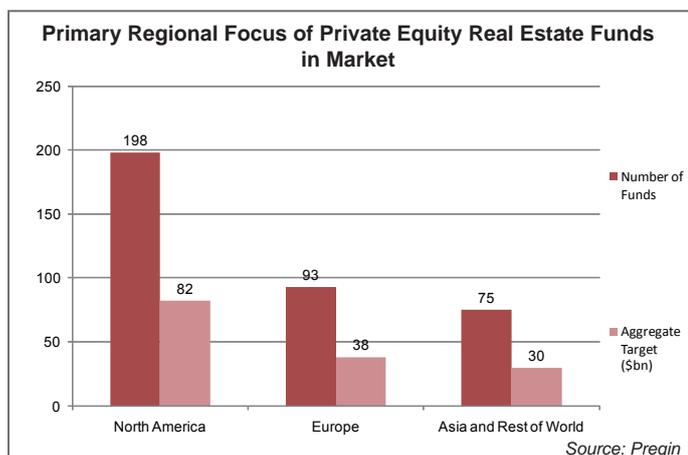


Fig. 2:

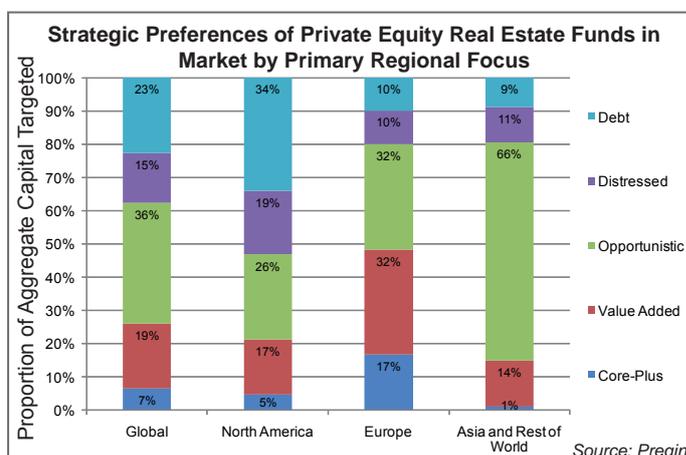


Fig. 3:

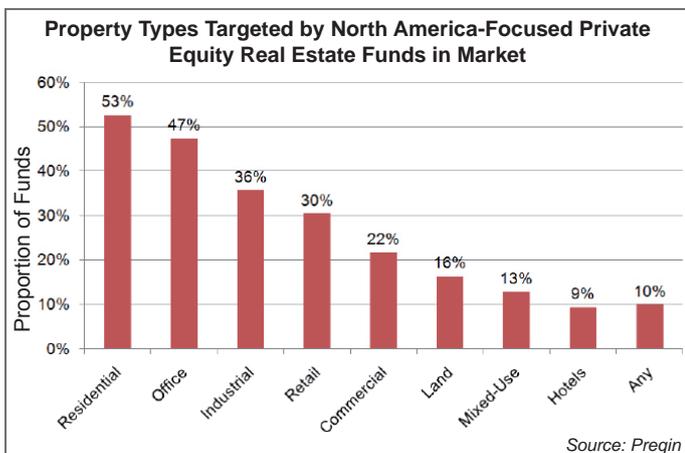
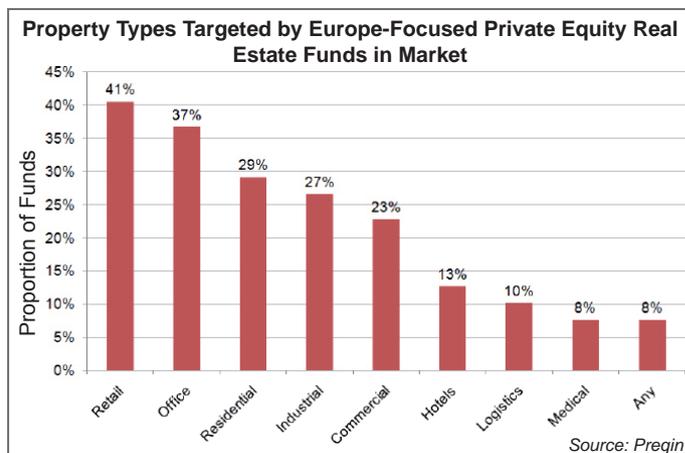


Fig. 4:



estate plays. Core-plus funds, which account for 17% of the capital targeted by European vehicles, are relatively more prevalent amongst Europe-focused vehicles than amongst North America- or Asia and Rest of World-focused funds. Debt and distressed funds each account for 10% of capital targeted.

Outside North America and Europe, the majority of capital sought will be invested in opportunistic deals, with 66% of capital targeted by Asia and Rest of World funds focused on opportunistic investments. 14% of capital is being targeted by value added funds, 11% by distressed funds and 9% by real estate debt funds.

### Property Types

The property types being targeted by North America-focused funds in market are shown in Fig. 3. Residential assets are the most commonly targeted, with 53%

of funds expecting to make residential investments. Office assets will be targeted by 47% of North American funds on the road, and industrial properties by 36%. Of the four main property types, retail is the least frequently targeted, with 30% of funds targeting these assets. Land development is targeted by a relatively small 16% of funds in market. 13% of funds are targeting mixed-used assets and 9% hotels.

Retail assets are the most frequently targeted property type by European funds in market. 41% of funds in market plan to make retail investments. 37% of funds are targeting office investments, while 29% target residential and 27% industrial. Other notable areas of focus for European fund managers are hotels, which are targeted by 13% of funds, and logistics assets, which 10% of funds will invest in.

For funds focused outside North America

and Europe, it is residential assets that are most commonly targeted. A significant 61% of funds in market focused on Asia and Rest of World will invest in residential properties. Other important areas of focus include retail properties, which are targeted by 42% of funds and office properties, which are targeted by 39%. 19% of funds will invest in hotels, a higher proportion than in the other two regions, while just 18% of funds will look to invest in industrial properties, a lower percentage than for Europe or North America-focused funds.

### Property Situations

Fig. 6 shows the situations that private equity fund managers currently on the road are targeting. Half of firms are looking to take advantage of distressed situations. Many owners will be forced to sell at considerable discounts as projects struggle to complete and financing options remain scarce. With many fund managers

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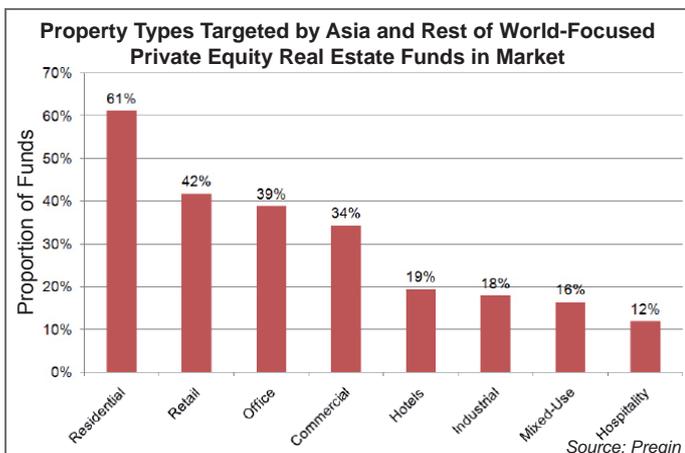
As the global economy recalibrates and China rebalances itself in a post GFC, REIW China 2010 heads back to the fundamentals and investigates the implications of China's emergence as a major player in the world economy. **How can global real estate investors position themselves to seize the opportunities on the horizon?**

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Fig. 5:



believing markets to be bottoming out, a number of transactions for distressed property could take place. 33% of fund managers see income-producing assets as important, perhaps encouraged by the possibility of significant increases in property prices in the near future.

Other situations targeted by fund managers include undermanaged assets and properties in areas with positive demographic trends, which are both targeted by 32% of firms. 30% of firms target assets that are underperforming and 27% will look for deals involving assets priced below replacement cost.

**Debt Strategies**

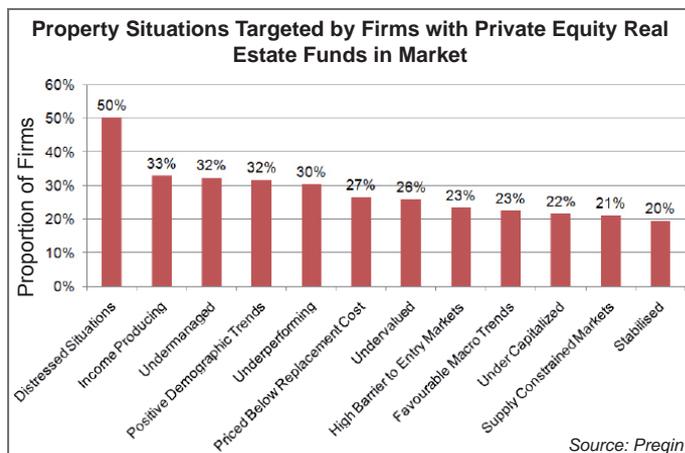
With such a large percentage of North America-focused capital targeted for investments in real estate debt, it is important to analyse which are the most

commonly sought debt investments. Fig. 7 shows the debt strategies targeted by North America-focused debt funds currently in market. Distressed debt is the most commonly targeted strategy, with 47% of debt funds making this type of investment. 43% of funds plan to invest in mezzanine loans. Other strategies commonly targeted by fund managers surveyed include non-performing loans, targeted by 25% of firms, whole loans (21%), CMBS (20%) and preferred equity (20%).

**Conclusions**

Despite the slow fundraising market in 2009, many fund managers are coming to the market with new vehicles. The coming year should see many private equity real estate fund managers with dry powder available making new investments, capitalizing on the low prices of property markets. Fund managers in North America

Fig. 6:



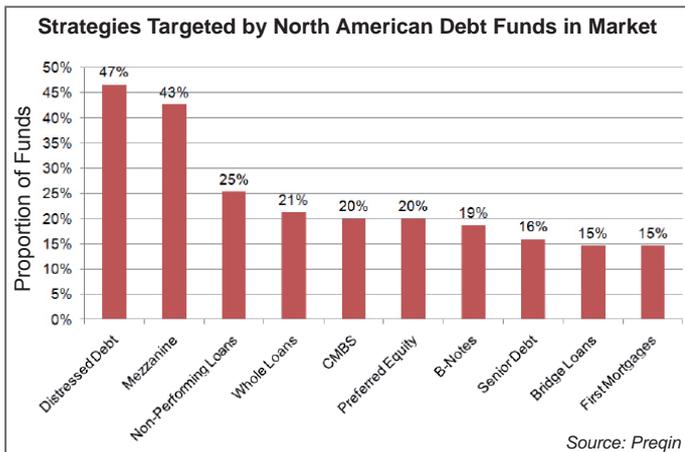
emerging markets. There is still a great deal of dry powder available to invest in Asia and Rest of World as well as a good stock of funds in market hoping to raise capital to invest in the region.

Fund managers also believe that 2010 will be an ideal opportunity to take advantage of sellers or developers in distress, with 50% targeting distressed situations. Additionally, some fund managers also placing a greater emphasis on income rather than appreciation, given the depressed market. For North America-focused vehicles in market, residential property will be the most targeted this year, with the same applying to managers with funds focusing on Asia and Rest of World. However, European focused vehicles are most keen on retail properties.

A number of troubling issues clearly remain active within real estate markets worldwide, but with many predicting that the slide in property prices to be at or close to reverse, that large stock of dry powder, which has been the consequence of market inactivity, is likely to be exposed to the market in 2010. Private equity real estate firms with capital available to invest feel that the market presents many opportunities. Those raising and investing in funds with 2010 vintage could be the ones to benefit from the real estate market's recent difficulties.

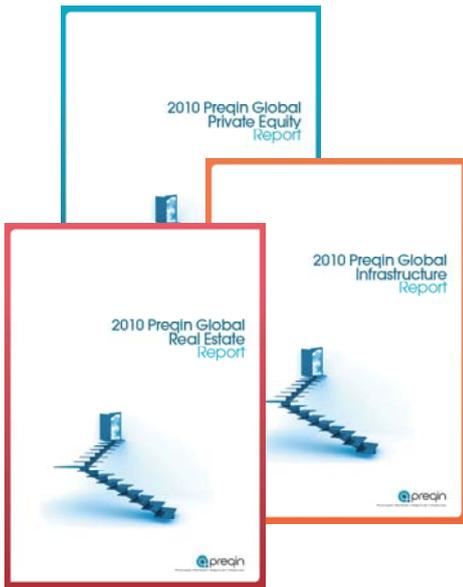
Andrew Moylan

Fig. 7:



in particular believe that there are excellent opportunities to invest in real estate debt, with distressed debt being of notable interest. Despite a decline in fundraising for Asia and Rest of World funds in 2009, many firms still believe that there are excellent opportunities in which to invest in

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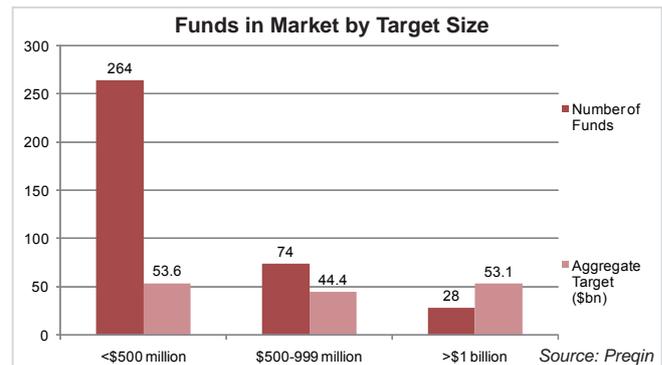
# Fundraising Spotlight: Private Equity Real Estate

Fig. 1:

Funds on the Road				
	US	Europe	ROW	Total
Number of Funds	198	93	75	366
Aggregate Target Size (\$bn)	82	38	30	150
Average Target Size (\$mn)	431	428	447	434

Source: Preqin

Fig. 2:



Source: Preqin

Fig. 3:

10 Largest Asia and Rest of World Funds on the Road			
Fund	Manager	Target Size (mn)	Strategy
NN Advanced Property Fund	Nauerz & Noell	2,000 EUR	Opportunistic
Pacific Star Asia Fund Select	Pacific Star Fund Management	2,000 USD	Core and Value Added
Forum Asian Realty Income III	Forum Partners	1,000 USD	Debt and Opportunistic
AG Asia Realty Fund II	Angelo, Gordon & Co	1,000 USD	Distressed and Opportunistic
CDL China Real Estate Opportunity Fund	Canada Land	1,000 USD	Distressed and Opportunistic
Trophy Property Development II	Winnington Capital	1,000 USD	Opportunistic
Fortress Japan Opportunity Fund	Fortress Investment Group	800 USD	Opportunistic
Apollo Asia Pacific Property Fund	Apollo Global Real Estate Management	750 USD	Debt and Distressed
Harvest China Real Estate Fund II	Harvest Capital Partners	750 USD	Opportunistic
ING Real Estate China Opportunity Fund II	ING Real Estate Investment Management	750 USD	Opportunistic

## Recently Closed Funds

### Beacon Capital Strategic Partners VI

**Manager:** Beacon Capital Partners  
**Strategy:** Value Added  
**Property Types:** Office  
**Geographic Focus:** US, West Europe  
**Target IRR (Net):** 15-17%  
**Final Close:** 2,500 USD (Jan-2010)  
**Known Investors:** California State Teachers' Retirement System (CalSTRS), School Employees' Retirement System of Ohio, Houston Police Officers' Pension System

### Morgan Stanley Real Estate Fund VII Global

**Manager:** Morgan Stanley Real Estate  
**Strategy:** Opportunistic, Debt, Distressed  
**Property Types:** Hospitality, Industrial, Mixed Use, Multi-Family, Office, RE Companies, Residential, Retail  
**Geographic Focus:** China, Germany, India, Japan, US, West Europe, Asia, Global, Emerging Markets  
**Target IRR (Gross):** 20%  
**Final Close:** 5,200 USD (Feb-2010)  
**Known Investors:** China Investment Corporation, New York State Common Retirement Fund, CPP Investment Board, State of Wisconsin Investment Board, Pennsylvania Public School Employees' Retirement System, New Mexico Public Employees' Retirement Association

# Fund Manager Spotlight: Core-Plus Fund Managers

Fig. 1:

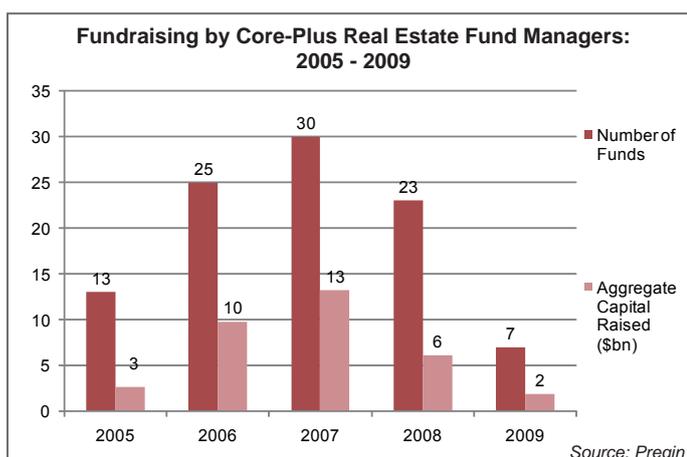


Fig. 2:

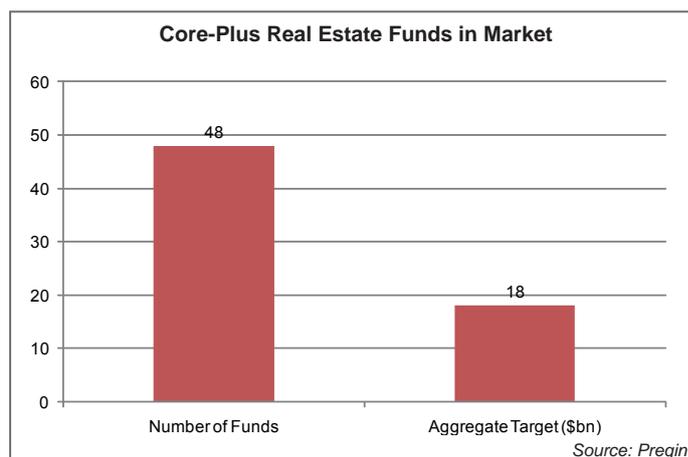


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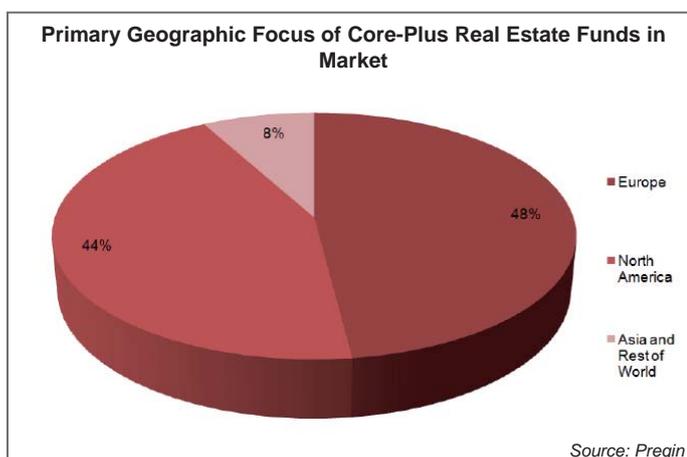


Fig. 4:

**Ten Largest Real Estate Firms by Capital Raised for Core-Plus Funds**

Firm Name	Total Capital Raised for Core-Plus Real Estate in Last 10 Years (\$bn)	Country Headquarters
Shorenstein Properties	4.5	US
ING Real Estate Investment Management	3.1	Netherlands
Crow Holdings	2.8	US
AEW Europe	1.8	France
Henderson Global Investors - Property	1.6	UK
KSL Capital Partners	1.5	US
Angelo, Gordon & Co	1.3	US
TA Associates Realty	1.2	US
AXA Real Estate Investment Managers	1.2	France
LBA Realty	1.2	US

Source: Preqin

The information in Fund Manager Spotlight is taken from Preqin's Real Estate Online product.

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Andrew Herman

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# Investor Spotlight: Core-Plus Real Estate Funds

Recently, core-plus vehicles have become an increasingly popular investment choice for private equity real estate investors. 34% of investors we have spoken to identify core-plus as an important part of their investment plans, as they seek to balance their risk-adjusted returns during times of turbulent market conditions. The regional make-up of investors in core-plus funds is similar to the make-up of investors in all private equity real estate funds. 50% of investors interested in core-plus vehicles are from North America, 43% are from Europe, and the remaining 7% are from Asia and Rest of World. Caution and uncertainty has led investors to turn to less risky core and core-plus strategies, which utilize less leverage and do not expose investors to the same level of risk as opportunistic and value added vehicles.

A number of significant investors in the real estate asset class invest, or are interested in investing in core-plus funds. Government of Singapore Investment Corporation (GIC) has over \$29bn allocated to real estate. The sovereign wealth fund has obtained exposure to core-plus markets in Europe in the past, using

managers including ProLogis. Dutch asset manager PGGM is another sizeable investor that commits to core-plus real estate funds. Half of the asset manager's 15% allocation to real estate is invested in private real estate funds. Core-plus commitments include an investment in Grosvenor London Office Fund.

A number of investors that Preqin has contacted have outlined investment plans which include investments in core-plus vehicles. ATP Real Estate is seeking to invest in core-plus funds in 2010. The Danish asset manager was looking to invest \$300 million across five core and core-plus funds in Western Europe and the US. Employees' Retirement System of Texas is another investor targeting core-plus vehicles. The public pension fund was looking to commit capital to 20-30 private real estate funds, and will maintain an emphasis on keeping a portfolio diversified in terms of strategy and location.

Andrew Herman

Fig. 1:

Ten Largest Real Estate Core-Plus Fund Investors by Overall Real Estate Allocation		
Investor	Country	Real Estate Allocation (\$bn)
Government of Singapore Investment Corporation (GIC)	Singapore	29.7
APG - All Pensions Group	Netherlands	22.2
Allianz Real Estate	Germany	21.1
Allstate Investment Management	US	20.7
PGGM	Netherlands	18
Stichting Pensioenfondsgroep Zorg en Welzijn	Netherlands	15.8
Legal & General Property	UK	14.6
Immofinanz	Austria	14.1
California Public Employees' Retirement System (CalPERS)	US	13.6
TIAA-CREF	US	13

Source: Preqin

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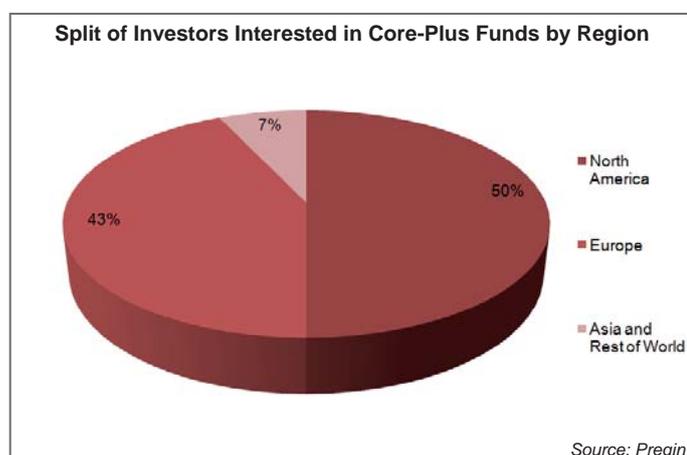


Fig. 3:

Sample of Investors Interested in Core-Plus Fund Commitments		
Investor	Investor Location	Geographic Preferences
ATP Real Estate	Denmark	Europe, US
Provinzial	Germany	UK
Employees' Retirement System of Texas	US	US
Whitbread Group Pension	UK	Asia, Europe, US
IGFCSS	Portugal	Asia, Europe, US

Source: Preqin

# Conferences Spotlight: Forthcoming Events

## Featured Conferences:

### REAL ESTATE MEZZANINE FINANCE SUMMIT 2010

**Date:** April 14th, 2010  
**Location:** New York  
**Organiser:** iGlobal Forum

The event will explore in greater depth the recent developments in the real estate mezzanine loan industry as well as unique investment strategies and opportunities. This senior-level forum will provide the perfect platform to meet face-to-face and network with industry-professionals to address the future of the Real Estate Mezzanine Loan industry.

**Information:**  
[www.iglobalforum.com/mezzanine](http://www.iglobalforum.com/mezzanine)

### REAL ESTATE INVESTMENT WORLD CHINA 2010

**Date:** 29 - 31 March 2010  
**Location:** Shangri-La's Kerry Centre Hotel Beijing, China

Real Estate Investment World China 2010 is well recognized as the benchmark and barometer for the year ahead in China real estate. The conference will shine the spotlight on foreign and domestic Chinese property players as they jockey for position in one of the world's fastest growing markets.

**Information:**  
[www.terrapinn.com/2010/reiwchina/](http://www.terrapinn.com/2010/reiwchina/)

## Featured Conferences:

Conference	Dates	Location	Sponsor
Global Real Assets Investment Forum	2 - 3 March 2010	New York	Institutional Investor
Asia GRI 2010	3 March 2010	Singapore	GRI Events
Asset Allocation Summit Asia 2010	15 - 17 March 2010	Hong Kong	Terrapinn
MIPIM 2010	16 - 19 March 2010	NAREIM	Cannes
Real Estate Mezzanine Loans	16 March 2010	New York	IIR
IPD US Annual Index Launch 2010	16 March 2010	New York	IPD
REITWise: NAREIT's Law & Accounting and Finance Conference	24 - 26 March 2010	Orlando	Nareit
Real Estate Investment World China 2010	29 - 31 March 2010	Beijing	Terrapinn
Real Estate Investment World India 2010	26 - 28 April 2010	Mumbai	Terrapinn
Deutsche GRI 2010	27 - 28 April 2010	Frankfurt	GRI Events
Real Estate Investment World Asia 2010	21 - 23 June 2010	Singapore	Terrapinn
Expo Real 2010	4 - 6 October 2010	Munich	Messe Munchen
Real Estate Investment World Australia 2010	6 - 8 October 2010	Sydney	Terrapinn
Real Estate Investment World Japan 2010	25 - 27 October 2010	Tokyo	Terrapinn

# Investor Spotlight: Investor News

## Maine Public Employees Retirement System is in the process of formulating an Investment Policy Statement

Maine Public Employees Retirement System, the USD 9.3 billion public pension fund, is putting together an IPS that will guide its future investment strategy. The process is likely to take several months and it is unlikely to commit to any funds during that period. However, the pension fund has an idea of the investments it will target upon resumption of investment activity. While it has only committed to core funds and listed vehicles in the past, it will invest in higher-risk private real estate funds in the future. Debt and distressed situations funds are likely to be part of its investment plans. It will target both US and international markets, and in terms of debt strategies it will pursue distressed debt, first mortgages, preferred equity, senior debt and whole loans. It wants exposure to distressed situations and debt in order to diversify its real estate portfolio and to provide attractive risk-adjusted returns. Any new fund manager needs to register with ORG Portfolio Management if wishing to present the pension fund with an investment opportunity.

## Ceska Sporitelna to hold off on fund commitments until at least H2 2010

Ceska Sporitelna is set to return to the private closed-end real estate market. It had planned to commit to the market in H2 2009, but this did not materialize. It will not invest in H1 2010, but may resume activity thereafter. Ceska Sporitelna's focus upon resumption of investment activity will include commitments to distressed situations funds and debt vehicles. It will only invest in vehicles targeting Central and Eastern

Europe. Its commitment size per fund varies depending on the fund itself, but it prefers not to invest more than EUR 100 million in any fund and has a typical bite size of EUR 10 million to EUR 15 million. It will consider first-time funds and new managers on a case-by-case basis. However, Ceska Sporitelna prefers reasonably experienced managers. The asset manager is willing to make co-investments.

## Oregon State Treasury (OST) to commit USD 600 million to real estate debt and distressed markets

OST, the USD 51.4 billion pension fund, remains keen to commit to distressed and debt vehicles. It has invested in a number of these vehicles in the past and wants to continue doing so in 2010. It is looking to commit up to USD 600 million across four vehicles that focus on either debt or distressed assets over the next 12 months. Recent investments in these markets include the USD 400 million it invested across two of Lone Star Funds' vehicles.

## National Pensions Reserve Fund (NPRF) looks towards second half of 2010

NPRF, the EUR 22.3 billion sovereign wealth fund, is hoping to resume real estate investment activity in H2 2010. It will only target markets via funds. It will continue to target core, value added and opportunistic markets, with an emphasis on core and value added. It will not seek exposure via funds of funds. Geographically, NPRF aims to make 50% of its investments in Europe focused funds, with 35% in North America focused funds and 15% in Asia focused funds. It will also consider making commitments to the Middle East. Although it usually likes to see some kind of track record

of performance, NPRF has previously invested in first-time private real estate funds. NPRF's typical bite size is between EUR 50 million and EUR 75 million.

## Valtion Eläkerahaston to focus on lower-risk core and core-plus funds in 2010

The EUR 12 billion pension fund is planning to invest in low-risk core and core-plus funds this year as it is satisfied with the stable long-term returns these funds provide. It will target the liquid markets of Europe for these investments, including individual countries in Western Europe. Valtion Eläkerahaston will invest with established managers and will consider both existing managers and those it has yet to form relationships with. The pension fund will focus on the terms and conditions of the funds and will invest in vehicles where the fee structure is more favourable to the investor. It may also invest in a fund of funds vehicle targeting Asia. The pension fund typically invests EUR 50-100 million per year in real estate.

## Majid Al Futtaim Investments to continue allocating to real estate funds

Majid Al Futtaim Investments is set to carry on investing in private real estate funds. If a good investment opportunity arises it will give it due consideration. The asset manager will commit to funds managed by spin-off teams. It is not looking to co-invest with a manager. The asset manager is interested in gaining further exposure to both distressed and debt vehicles. It will look to gain exposure to these strategies in developed markets.

Stuart Taylor

Each month Investor News brings you the latest institutional investor news from around the globe.

More information is available online for Real Estate Online subscribers. Contact us for more information - [info@preqin.com](mailto:info@preqin.com)