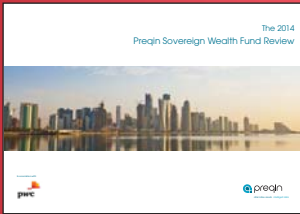


Real Estate Spotlight is the monthly newsletter published by Preqin packed full of vital information and data, all based on our latest research into the private equity real estate industry. Real Estate Spotlight combines information from our online products Real Estate Online and Real Estate Capital Sources.

November 2013
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Preqin 2014 Sovereign Wealth Fund Review



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November 2013

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Sovereign Wealth Funds Investing In Real Estate

With sovereign wealth funds representing a growing source of potential capital to the private real estate industry, [Jack Jackson](#), [Amy Bensted](#) and [Graeme Terry](#) provide an insight into this secretive and exclusive subset of the investor community using data from the recently launched [2014 Preqin Sovereign Wealth Fund Review](#).

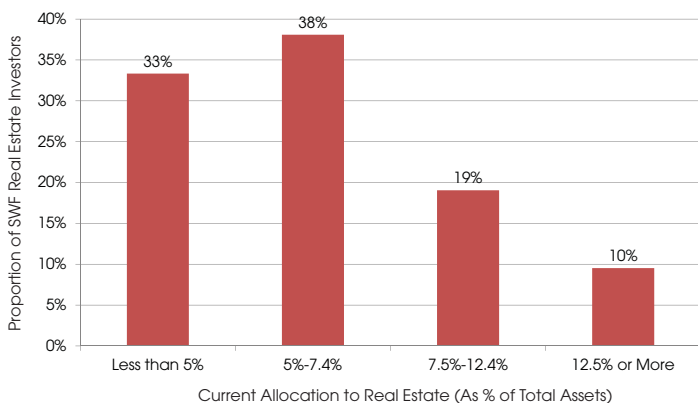
Sovereign wealth funds continued to make headline news in 2013 due to their large assets and growing influence over the global financial community. For the first time, assets of these sovereign wealth entities have surpassed the \$5tn mark, with total assets estimated at \$5.13tn as of October 2013. Concerning investments into real estate, sovereign wealth funds allocate more than \$180bn to the asset class, and therefore represent a significant source of potential capital for private real estate fund managers. Using data from Preqin's newly-released [2014 Sovereign Wealth Fund Review](#), this article looks deeper into the real estate investments of sovereign wealth funds.

Overview: What is a Sovereign Wealth Fund?

Sovereign wealth funds are investment funds owned by governments of sovereign states and funded by foreign exchange and reserve assets. They are generally funded by revenues accrued from the export of non-renewable natural resources, usually oil and other hydrocarbons taxed or owned by the government, or by transfers of reserves held by countries running current account and budgetary surpluses.

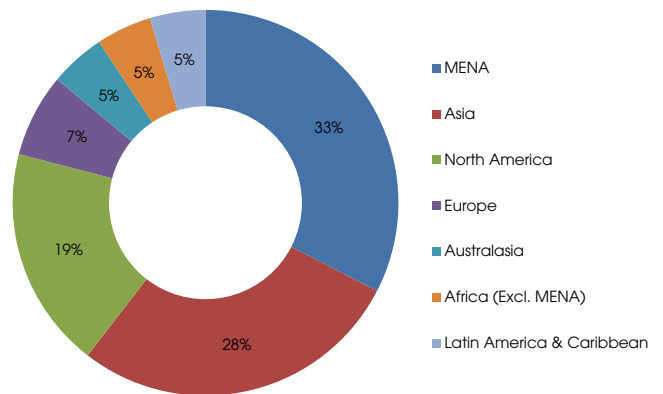
Sovereign wealth funds can be categorized by their longer-term investment horizons as well as their different objectives and, in general, lack of liabilities that need to be met, unlike pension funds. This allows them to take not only significant stakes in the funds and the securities they invest in, but also a long-term outlook when making an allocation. In fact, sovereign wealth funding can be the 'stickiest' of all institutional investors as they seek returns over long periods and do not divest in times of crisis.

Fig. 2: Breakdown of Sovereign Wealth Funds' Current Allocation to Real Estate



Source: 2014 Preqin Sovereign Wealth Fund Review

Fig. 1: Breakdown of Sovereign Wealth Funds Investing in Real Estate by Region



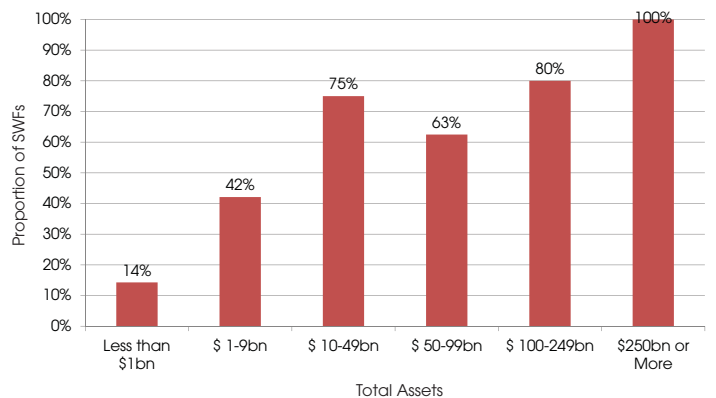
Source: 2014 Preqin Sovereign Wealth Fund Review

Breakdown of Sovereign Wealth Funds Investing in Real Estate

A significant proportion of sovereign wealth funds (54%) invest in private real estate. This includes Qatar Investment Authority, Abu Dhabi Investment Authority and China Investment Corporation, which all have over \$25bn allocated to real estate, often invested across the real estate spectrum, directly and indirectly through listed securities and private funds.

A breakdown of sovereign wealth funds investing in real estate is shown in Fig. 1. This demonstrates that MENA, North America and Asia are the regions in which the largest proportions of sovereign wealth funds are based, with 33%, 19% and 28% of these investors

Fig. 3: Proportion of Sovereign Wealth Funds Investing in Real Estate by Total Assets



Source: 2014 Preqin Sovereign Wealth Fund Review

based in these regions respectively. One prominent Middle Eastern sovereign wealth fund is Kuwait Investment Authority, which has \$300bn in assets under management, with \$9.9bn currently allocated to real estate.

Fig. 2 reveals the distribution of sovereign wealth funds' current allocations to real estate. This shows that the vast majority (71%) have a current allocation of less than 7.4%, with the largest proportion (38%) currently allocating between 5% and 7.4% of their assets under management to the asset class. In comparison, the average target allocation to real estate of sovereign wealth funds is 7.9%. This would suggest that there is still capital to be invested in the asset class by sovereign wealth funds. Qatar Investment Authority has the largest allocation to real estate as a proportion of assets under management, with 32% of its total assets invested in the asset class.

Proportion of Sovereign Wealth Funds Investing in Real Estate by Total Assets

Larger sovereign wealth funds show a greater preference for investing in real estate, with all of the largest firms including an allocation to the asset class. Fig. 3 shows that all sovereign wealth funds with over \$250bn in assets are currently actively investing in the asset class, with 80% of those with \$100-249bn including a real estate allocation. Sixty-three percent of funds with total assets of \$50-99bn, and 75% of funds with \$10-49bn are investing in real estate.

Smaller sovereign wealth funds are less likely to invest in real estate. Forty-two percent of funds with total assets of \$1-9bn are investors in real estate, while only 14% of funds with less than \$1bn in assets invest in the asset class. Palestine Investment Fund is an example of a smaller sovereign wealth fund with exposure to real estate, investing in the asset class through its real estate investment subsidiary AMAAR Group.

Private Real Estate Fund Strategy Preferences

While sovereign wealth funds are often seen as focusing on trophy assets, there is also demand for non-core exposure. For private real estate fund strategy preferences, opportunistic and value added vehicles are the most favoured by sovereign wealth funds, with 74% and 65% of sovereign wealth funds investing in

these strategies respectively, as shown in Fig. 4. China's State Administration of Foreign Exchange is a sovereign wealth fund that has gained opportunistic exposure by committing to Blackstone Real Estate Partners VII.

Fifty-seven percent of sovereign wealth funds that invest in private real estate currently show a preference for core real estate, a slight increase from the 55% of funds that showed a preference for this strategy in 2012. Sovereign wealth funds have also shown an increased appetite for distressed and debt vehicles, with the proportion of funds targeting each of these strategies standing at 57%. Core-plus vehicles are favoured by 48% of sovereign wealth funds, while real estate secondaries and fund of funds vehicles are targeted by just 9% and 4% respectively.

Geographic Preferences for Real Estate Investments

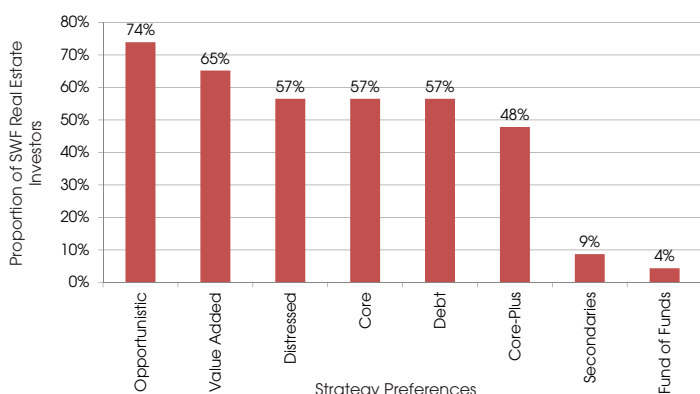
North America continues to be the most favoured region to invest in real estate for sovereign wealth funds. As Fig. 5 shows, 72% of funds express a preference for investing in North America through private fund commitments. Europe and Asia are preferred by 55% and 52% of sovereign wealth fund private real estate investors, while 31% and 24% of sovereign wealth funds have a preference for MENA and Australasia respectively. Fifty-two percent of sovereign wealth funds that invest in private funds invest globally, showing that many desire a diverse real estate portfolio by location to minimize concentration risk. Just 10% of sovereign wealth funds have expressed a preference for investing in private funds in South America.

The MENA region has seen rapid development in the last few years, and MENA-based sovereign wealth funds have helped drive the development of real estate in the region. Ninety percent of MENA-based sovereign wealth funds invest in the MENA region, with the most notable exception being the Abu Dhabi Investment Authority, which does not invest in the region as a matter of practice. No sovereign wealth fund outside of the MENA region has expressed an interest in investing in MENA-focused private real estate funds.

Outlook

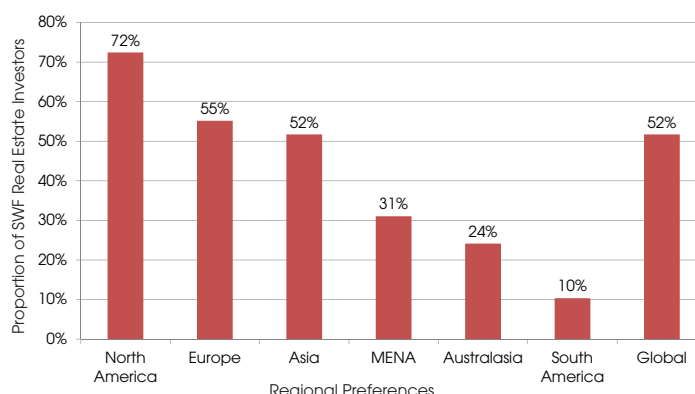
The real estate industry has had a tough road to recovery since the financial crisis, with fund performance not living up to the returns of the pre-2008 era. Investors in private real estate funds

Fig. 4: Strategy Preferences of Sovereign Wealth Funds Investing in Real Estate



Source: 2014 Preqin Sovereign Wealth Fund Review

Fig. 5: Regional Preferences of Sovereign Wealth Funds Investing in Real Estate



Source: 2014 Preqin Sovereign Wealth Fund Review

are more selective in choosing fund managers, and many are committing less capital to the asset class. Despite this, sovereign wealth funds remain prolific investors in the sector, providing much needed capital to help stimulate development domestically and internationally.

In the coming year, sovereign wealth funds will continue to expand their real estate portfolios. For instance, State Oil Fund of the Republic of Azerbaijan (SOFAZ) is looking to acquire more commercial property in North America, Asia and Australasia. Norway's Government Pension Fund – Global (GPF) will

continue to build its North American direct property portfolio as it slowly works towards its 5% target allocation. New Mexico State Investment Council and Alabama Trust Fund are also looking to invest in the asset class via private real estate funds in the next 12 months. While some sovereign wealth funds may directly acquire trophy assets, these investors will also be very important sources of capital for private equity real estate fund managers in 2014.

Fig. 6: 10 Notable Sovereign Wealth Funds Investing in Real Estate

Investor	Location	Assets under Management (\$bn)	Geographic Focus	Route(s) to Market
Abu Dhabi Investment Authority	United Arab Emirates	627	Global	Direct, Listed, Private Real Estate Funds
China Investment Corporation	China	575	Global	Direct, Listed, Private Real Estate Funds
GIC	Singapore	248	Global	Direct, Listed, Private Real Estate Funds
Government Pension Fund - Global	Norway	763	Global	Direct
Hong Kong Monetary Authority	Hong Kong	372	Asia, Australasia	Direct, Private Real Estate Funds
Kuwait Investment Authority	Kuwait	300	Global	Direct, Listed, Private Real Estate Funds
National Social Security Fund - China	China	180	Greater China	Listed
Qatar Investment Authority	Qatar	115	Global	Direct, Private Real Estate Funds
State Administration of Foreign Exchange	China	568	Global	Direct, Private Real Estate Funds
Temasek Holdings	Singapore	255	Asia, Emerging Markets, North America	Direct, Listed, Private Real Estate Funds

Source: 2014 Prequin Sovereign Wealth Fund Review

Data Source:

The [2014 Prequin Sovereign Wealth Fund Review](#) features extensive profiles for 38 sovereign wealth funds investing in real estate, including investment preferences, current and target allocations, previous investments, key contact information and more.

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Preqin Industry News

[Olivia Harmsworth](#) looks at the latest news in the North American private real estate fund market.

Appetite among investors for North American private real estate investment has increased in the last 12 months, corresponding with a decrease in appetite for Europe- and Asia-focused funds, as shown on page 11.

With this month's lead article showing that the capital invested and distributed by fund managers targeting the US has also increased (see page 8) and assets under management at an all-time high, the outlook for the North American private real estate fund market is looking increasingly positive.

One investor targeting North America-focused private real estate funds is [Prince George's County Pension Plan](#), which plans to commit to two to three new private real estate funds in North America in the next 12 months. The pension plan has previously invested in opportunistic vehicles and invests in real estate through its 10% target allocation to real assets.

[Texas Municipal Retirement System](#) is also planning to invest domestically in the next year; the pension fund will commit between \$400mn and \$600mn to between four and 12 private real estate funds in North America and Europe.

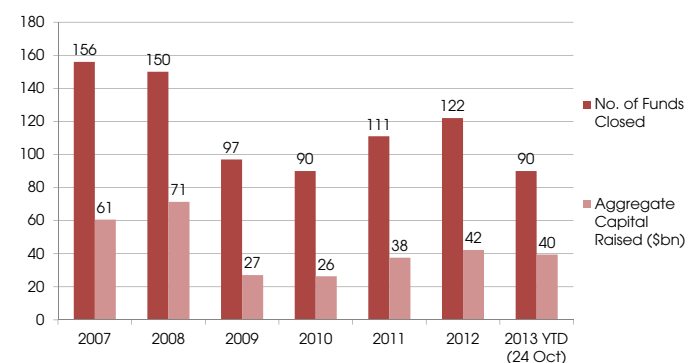
A number of international investors are also looking to invest in the region. For instance, [Korea Post - EverRich Postal Savings](#) intends to gain exposure to the asset class via distressed, opportunistic and value added strategies in the US. [Gothaer Insurance Company](#), a German insurance company, is another such investor; it has a particular interest in value added funds targeting the US and Asia.

As demonstrated in the Chart of the Month, North America-focused fundraising has increased over the past three years, and the average fund size for 2013 so far stands at \$470mn, its highest point since 2008. While fundraising remains competitive, for the 283 North America-focused closed-end private real estate funds in market targeting \$85bn in capital commitments, the fundraising outlook is increasingly positive.

October 2013 has seen a number of successful North America-focused fund closes, including [Long Wharf Real Estate Partners IV](#), which raised \$254mn in investor commitments and targets value added and distressed opportunities in the US. [Cerberus Institutional Real Estate Partners \(Series Three\)](#) also reached a final close in October, raising a significant \$1.4bn to make opportunistic, distressed and debt investments in the US and also Europe.

How has North America-focused private real estate fundraising changed recently?

Chart of the Month: Annual North America-Focused Closed-End Private Real Estate Fundraising, 2007 - 2013 YTD (As at 24 October 2013)



Source: Preqin Real Estate Online

Closed-end private real estate funds focusing on investments in North America have seen improved fundraising in recent years, increasing from 90 funds raising an aggregate \$26bn in 2010 to 122 funds raising an aggregate \$42bn in 2012. 2013 so far has seen only 90 funds reach a final close, but the aggregate capital raised amounts to \$40bn, representing 95% of the capital raised by real estate fund managers in the whole of 2012.

Do you have any news you would like to share with the readers of Spotlight?

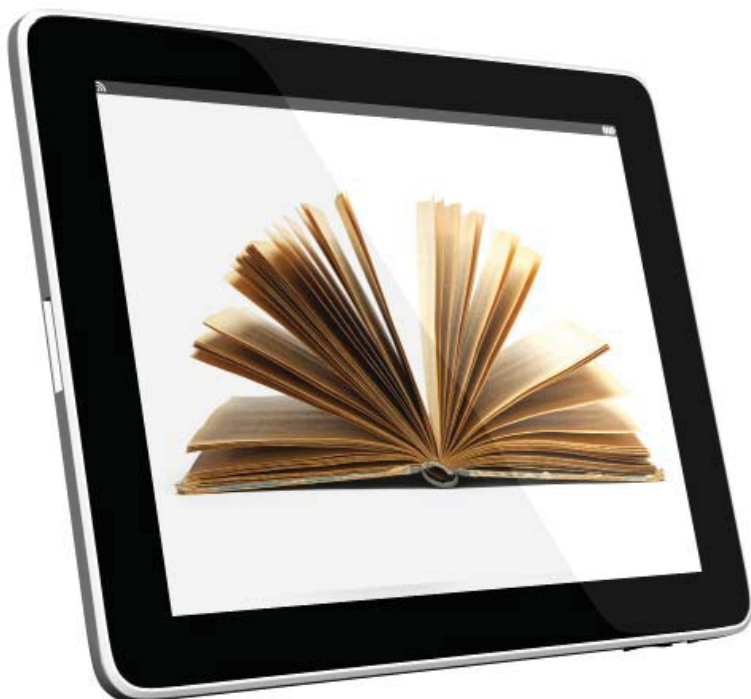
Perhaps you're about to launch a new fund, have implemented a new investment strategy, or are considering investments beyond your usual geographic focus?

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Private Real Estate in the US: Assets under Management and Dry Powder

With the assets under management of the US private real estate industry reaching an all-time high and the amount of capital invested annually returning to the levels seen in 2007, [Olivia Harmsworth](#) looks at the growth of the industry and recent levels of investments and exits.

The aggregate assets under management* of the private real estate industry in the US reached an all-time high in December 2012, with \$335bn either invested in real estate or held as dry powder (Fig. 1). This represents a 57% increase on the \$214bn held in assets under management by US-focused private real estate funds as of December 2009. Using data from the recently released [Preqin Special Report: US Private Equity Real Estate Fund Management Industry](#), we further examine the trends surrounding the growth in industry assets under management, the amount of capital invested by private real estate managers, and which fund strategies have seen the greatest growth in dry powder levels.

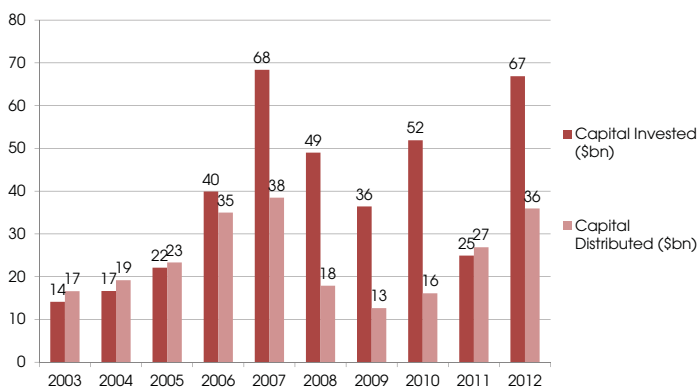
US-Focused Fundraising and Dry Powder

The challenging fundraising environment experienced as a result of the financial crisis saw dry powder in 2010 decrease for the first time since 2002, to \$80bn. As of December 2012, dry powder stood at \$79bn, its lowest point since 2006, but the increase in the rate of fundraising in 2013 has seen this grow to \$98bn as of August 2013. The growth in industry assets under management can mainly be attributed to the large amount of unrealized value of assets in firms' portfolios, as a result of increasing property values and investment activity from fund managers. From January 2010 to December 2012, private real estate firms put a significant amount of capital to work, investing a total of \$144bn (Fig. 2).

Capital Invested and Distributed

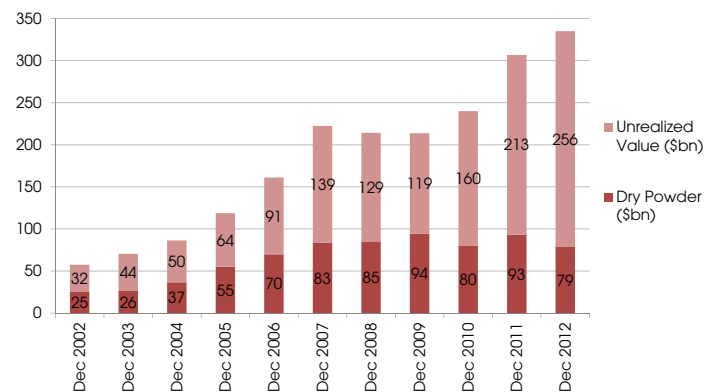
2012 in particular has seen private real estate fund managers scale up activity in the US, both in terms of acquisitions and dispositions. Firms are putting their available dry powder to work, with the amount of capital invested in 2012 increasing to \$67bn, reaching its highest point since the financial crisis. Additionally, managers are also selling more assets and the amount of capital distributed to investors has

Fig. 2: Annual US-Focused Closed-End Private Real Estate Capital Invested and Distributed, 2003 - 2012



Source: Preqin Real Estate Online

Fig. 1: US-Focused Closed-End Private Real Estate Assets under Management, December 2002 - December 2012



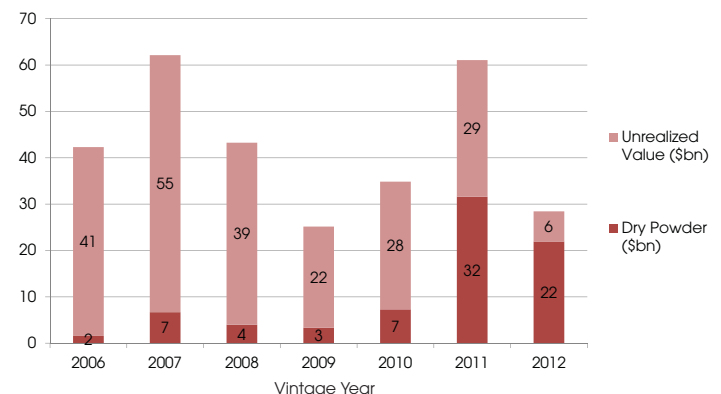
Source: Preqin Real Estate Online

increased year-on-year since 2010; \$63bn was distributed in 2011 and 2012, compared with just \$29bn in 2009 and 2010. This may have a positive impact on the fundraising market, with institutional investors able to reinvest these distributions and put more capital back to work in real estate.

Assets under Management by Vintage Year

Fig. 3 shows the aggregate assets under management of US-focused private real estate funds by vintage year from 2007 to 2012. The chart reveals that vintage 2007 funds still have a large amount of aggregate unrealized value, with \$55bn currently still invested in real estate. The strong fundraising environment in 2006 and 2007 meant that a large amount of capital was raised and invested, but as yet the majority of investments have not been realized. The assets

Fig. 3: US-Focused Closed-End Private Real Estate Assets under Management by Vintage Year (As at December 2012)



Source: Preqin Real Estate Online



under management for vintage 2011 US-focused funds at \$61bn is significantly higher than for vintage 2010 funds, with 2011 vintage funds having dry powder of \$32bn available. For vintage 2012 funds, assets under management are at a much lower \$28bn, with a large proportion of capital called still to be put to work.

Dry Powder by Strategy, Fund Manager Location and Sector Focus

US-focused real estate debt funds have shown a large proportionate increase in dry powder since 2003, increasing from \$7bn in December 2006 to \$17bn as of August 2013, despite falling from \$21bn to \$12bn during 2012 (Fig. 4). Private real estate funds focusing on debt as a strategy have seen significant growth in recent years, with the availability of finance declining, and fund managers stepping in to fill the gap left by the retreat of traditional lenders. Opportunistic funds primarily focusing on the US have seen an increase in dry powder since December 2010, increasing from \$25bn to \$33bn, while dry powder for value added investments has fallen from \$32bn in December 2009 to \$24bn in August 2013. Closed-end funds focusing on core or core-plus as a strategy have shown a relatively small increase in dry powder, from \$3bn to \$5bn.

As of August 2013, the largest proportion of dry powder for US-focused private real estate funds is held by fund managers headquartered in New York (Fig. 5) and represents 31% of all uncalled capital commitments. California- and Texas-based fund managers also hold a large amount of dry powder, with \$14.3bn and \$13.2bn respectively. The vast majority (93%) of all dry powder for US-focused real estate funds is held by fund managers based in the US, with only \$7bn held by those based outside the US.

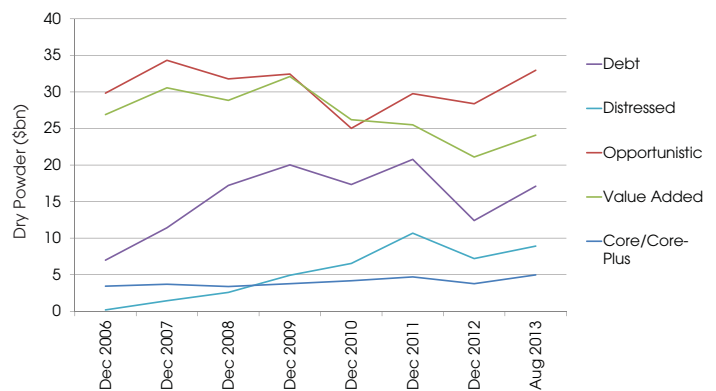
When looking at the amount of dry powder available for US-focused funds by property focus, it is clear that diversified funds make up the majority (63%), with these funds holding \$53bn in uncalled capital. Funds solely targeting residential property make up 18% of available dry powder, with office, industrial and other types of property making up the remainder.

Outlook

With fundraising for the private real estate industry in the US showing increasing signs of improvement, and the assets under management of US-based firms at an all-time high, the outlook for the industry is particularly positive. 2012 witnessed the highest levels of capital invested and distributed by US-focused private real estate funds since the financial crisis, indicating that fund managers are not only able to find suitable investment opportunities in US real estate, but have also been able to exit many investments, resulting in significant distributions to investors. As capital is returned, investors are then able to re-invest this capital, which is likely to lead to further improvement in the fundraising market.

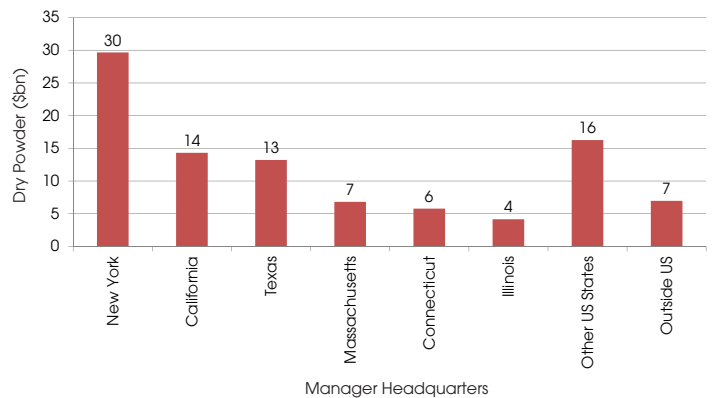
*Preqin defines a firm's assets under management as the sum of its dry powder and unrealized value of portfolio assets.

Fig. 4: US-Focused Closed-End Private Real Estate Dry Powder by Strategy, December 2006 - August 2013



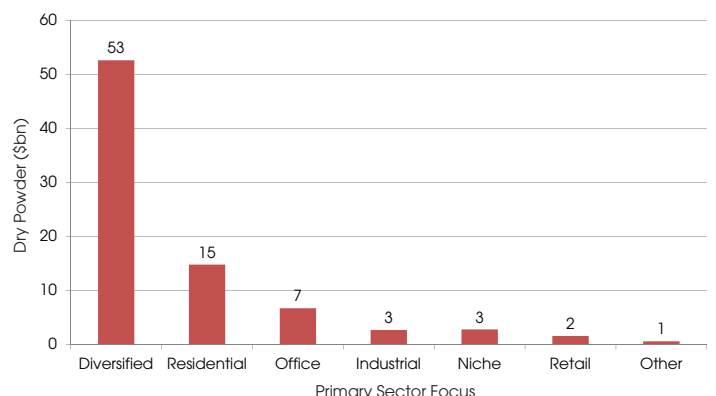
Source: Preqin Real Estate Online

Fig. 5: US-Focused Closed-End Private Real Estate Dry Powder by Fund Manager Headquarters



Source: Preqin Real Estate Online

Fig. 6: US-Focused Closed-End Private Real Estate Dry Powder by Sector Focus



Source: Preqin Real Estate Online

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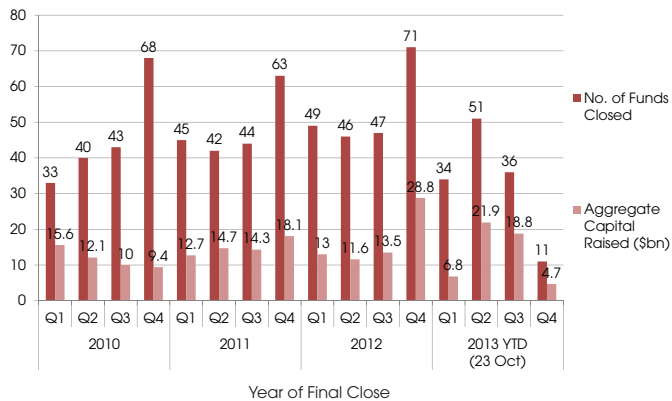
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Fundraising Update

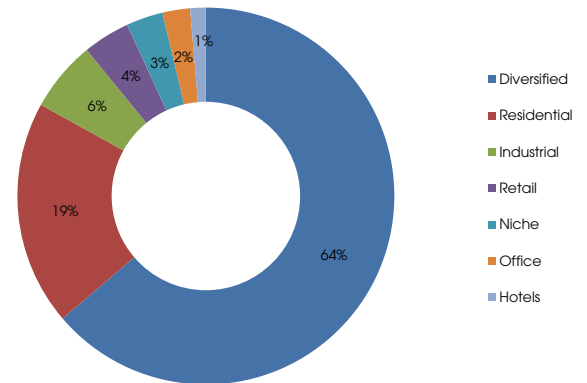
We provide a breakdown of the latest private real estate fundraising stats, including which property sectors and regions account for the largest proportion of capital raised in 2013 so far.

Fig. 1: Quarterly Closed-End Private Real Estate Fundraising, Q1 2010 - Q4 2013 YTD (As at 23 October 2013)



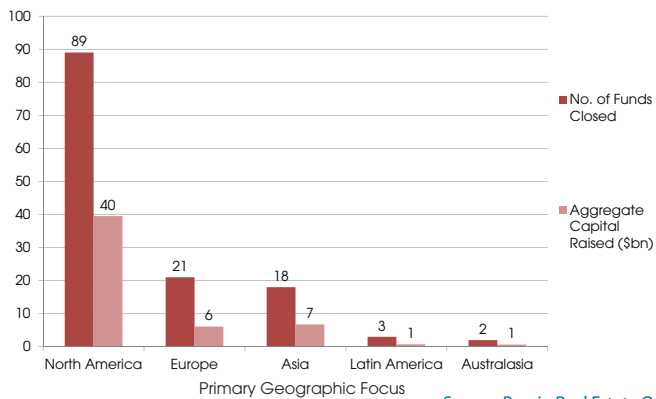
Source: Preqin Real Estate Online

Fig. 2: Breakdown of Aggregate Capital Raised by Primary Property Focus, Closed-End Private Real Estate Funds Closed in 2013 YTD (As at 23 October 2013)



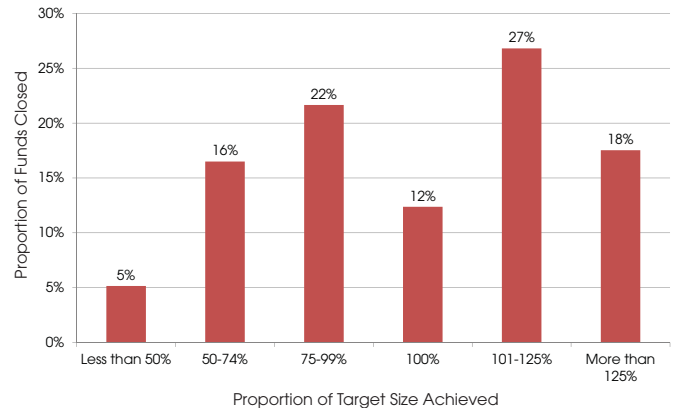
Source: Preqin Real Estate Online

Fig. 3: Closed-End Private Real Estate Fundraising by Primary Geographic Focus in 2013 YTD (As at 23 October 2013)



Source: Preqin Real Estate Online

Fig. 4: Proportion of Target Size Achieved by Closed-End Private Real Estate Funds Closed in 2013 YTD (As at 23 October 2013)



Source: Preqin Real Estate Online

Fig. 5: Sample of Funds that Held a Final Close in October 2013

Fund	Firm	Final Close Size (mn)	Strategies	Geographic Focus
Real Estate Opportunity Capital Fund II	Bridge Investment Group Partners	596 USD	Opportunistic, Value Added and Distressed	US
Cerberus Institutional Real Estate Partners (Series Three)	Cerberus Real Estate Capital Management	1,426 USD	Opportunistic, Debt and Distressed	US, Europe
Gateway Real Estate Fund IV	Gaw Capital Partners	1,025 USD	Core-Plus, Opportunistic and Value Added	Asia
IMT Capital Fund III	IMT Capital	400 USD	Value Added	US
BGV V	Real I.S.	500 EUR	Core and Core-Plus	Europe

Source: Preqin Real Estate Online

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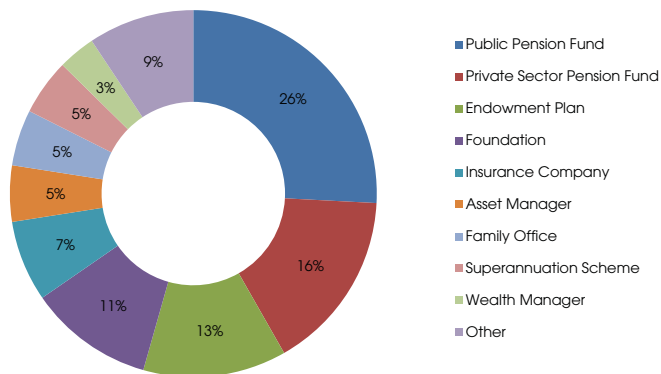
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Investor Fund Searches and Mandates

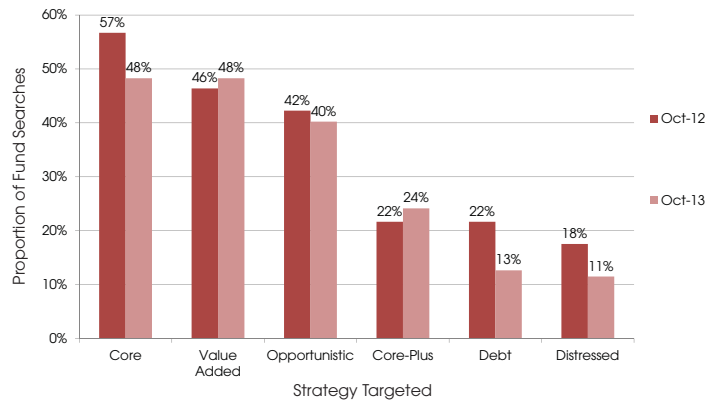
Using data from the Fund Searches and Mandates feature on Preqin's Real Estate Online, we examine the recent private real estate searches issued by institutional investors.

Fig. 1: Breakdown of Investors Searching for Private Real Estate Investments in the Next 12 Months by Type



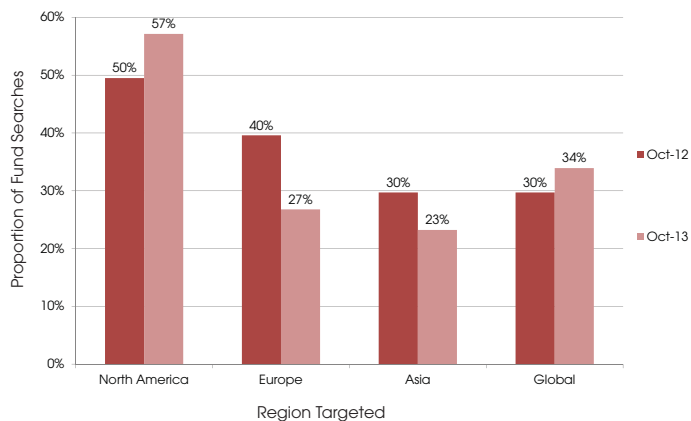
Source: Preqin Real Estate Online

Fig. 2: Strategies Targeted by Private Real Estate Investors in the Next 12 Months, October 2012 vs. October 2013



Source: Preqin Real Estate Online

Fig. 3: Regions Targeted in the Next 12 Months by Private Real Estate Investors, October 2012 vs. October 2013



Source: Preqin Real Estate Online

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Subscribers can click [here](#) to view detailed profiles of 379 institutional investors in real estate searching for new investments via the [Fund Searches and Mandates](#) feature on Preqin's [Real Estate Online](#).

Preqin tracks the future investment plans of investors in real estate, allowing subscribers to source investors actively seeking to invest capital in private real estate funds.

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Fig. 4: Sample of Recent Fund Searches Issued by Institutional Investors

Investor	Type	Location	Investment Plans
Union Central Life Insurance Company	Insurance Company	US	Union Central Life Insurance Company will commit to private real estate funds in the next 12 months. It will primarily target value added vehicles and seeks to have a globally diversified portfolio. Union Central has a typical investment size of \$3mn to \$5mn.
Trust Fund for the People of the Federated States of Micronesia	Public Pension Fund	Federated States of Micronesia	Trust Fund for the People of the Federated States of Micronesia will invest in private real estate funds in the next 12 months as it is trying to diversify its investment pool. It will invest globally in funds utilizing core strategies.
Bank of Singapore	Wealth Manager	Singapore	Bank of Singapore is looking to invest SGD 50mn to SGD 110mn in two to three private real estate funds. The wealth manager is interested in Asia-focused funds employing opportunistic strategies.

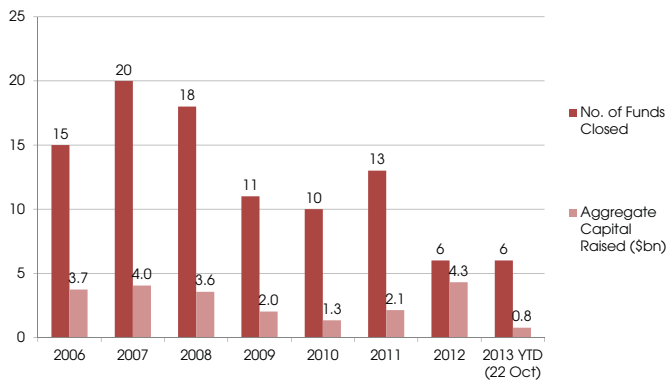
Source: Preqin Real Estate Online



Real Estate Funds of Funds

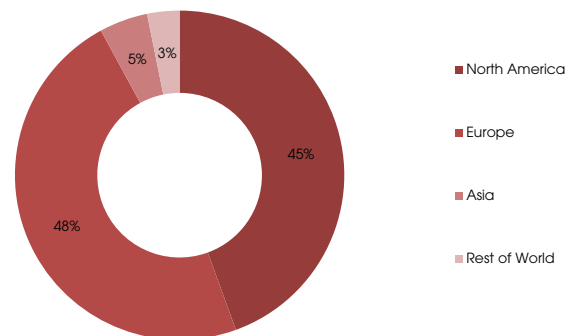
We look at the key facts concerning real estate funds of funds, including the latest fundraising data, strategies targeted and appetite for first-time funds.

Fig. 1: Annual Closed-End Private Real Estate Fund of Funds Fundraising, 2006 - 2013 YTD (As at 22 October 2013)



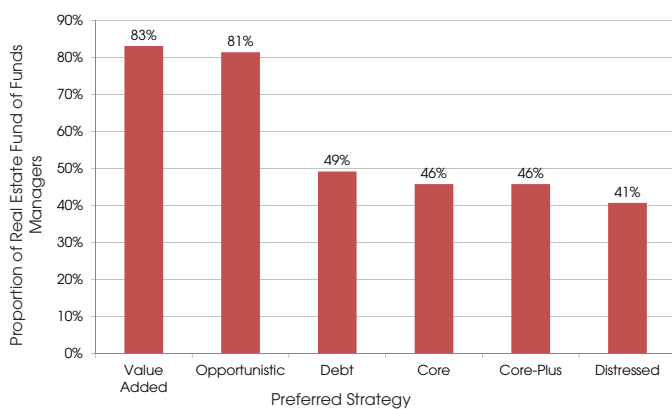
Source: Preqin Real Estate Online

Fig. 2: Breakdown of Real Estate Fund of Funds Managers by Location



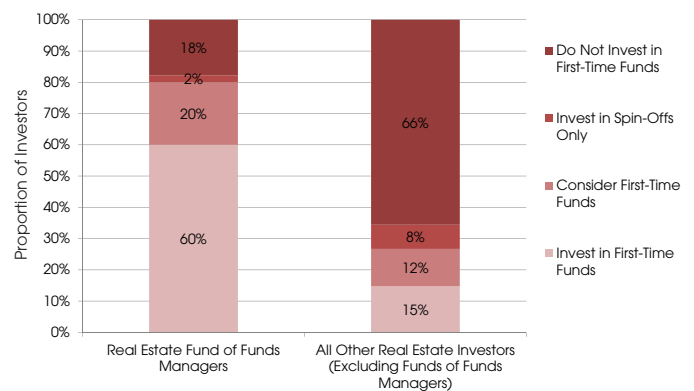
Source: Preqin Real Estate Online

Fig. 3: Preferred Strategies of Real Estate Fund of Funds Managers



Source: Preqin Real Estate Online

Fig. 4: Appetite for First-Time Funds: Real Estate Fund of Funds Managers vs. All Other Real Estate Investors



Source: Preqin Real Estate Online

Fig. 5: Five Largest Real Estate Funds of Funds in Market (As at 22 October 2013)

Fund	Firm	Target Size (mn)	Geographic Focus
Partners Group Global Real Estate 2013	Partners Group	1,000 USD	Global
Prelios Fund of Funds	Prelios	500 EUR	US, Asia
Siguler Guff Distressed Real Estate Fund II	Siguler Guff	600 USD	Global
Sparinvest Property Fund III	Sparinvest Property Investors	400 EUR	Global
AIP Phoenix Global Real Estate Fund II	Morgan Stanley Alternative Investment Partners	500 USD	Global

Source: Preqin Real Estate Online

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Conferences Spotlight

Conference	Dates	Location	Organizer	Preqin Speaker	Discount Code
2013 Women's Alternative Investment Summit	7 - 8 November 2013	New York	Falk Marques Group	-	-
ALFI European Alternative Investment Funds Conference	19 - 20 November 2013	Luxembourg	ALFI	Stuart Taylor	-
SuperInvestor	19 - 22 November 2013	Paris	ICBI	Mark O'Hare	15% Discount - FKR2345PRQW

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