Preqin Special Report: Real Estate Debt

Challenges and Opportunities

September 2013

Content Includes:

Real Estate Debt Fundraising

We examine changes in real estate debt fundraising in recent years, whether these funds are achieving their targets, the current real estate debt funds in market and their fund managers' experience level and more.

Investors in Real Estate Debt Funds

What is the current investor appetite for real estate debt? Which investors are most willing to invest in the strategy? We explore the answers to these key questions.

Performance

We look at how well solely debt-focused funds have performed in comparison to all other real estate funds, and the PrEQIn Real Estate Index by strategy.

Debt Fund Markets in Focus: US and Europe

We explore the key real estate debt markets in the US and Europe in more detail.

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Foreword

Private real estate debt funds have seen a surge in growth in recent years, with fund managers stepping in to fill the void left by traditional lenders retreating from the market. Fundraising for these vehicles peaked in 2011, with capital raised by solely debt-focused funds accounting for 16% of all capital raised by private real estate funds.

Although fundraising for this strategy has declined since then, fund managers are still confident of their ability to raise capital for debt funds, with the amount currently targeted by debt funds in market representing an increase of 155% compared to capital targeted by debt funds in February 2012.

Despite investor appetite for this strategy increasing considerably in recent years, there have been slight decreases in 2013, with investors often favouring funds making equity investments. However, with debt funds of recent vintage years demonstrating strong performance, investor appetite may increase further in the future.

Regionally, the US has accounted for the vast majority of capital raised by debt funds historically. However, increasing regulation and scrutiny of banks means many now believe it is an excellent time to invest in European real estate debt and fund managers are keen to take advantage of this opportunity. The capital targeted by Europe-focused debt funds in market currently stands at $12.4bn, compared to only $2.6bn targeted by funds in market in August 2011.

Preqin Special Report: Real Estate Debt provides a comprehensive overview of the real estate debt market, including key fundraising trends, investor appetite, recent performance of the strategy and regional variations. This report draws on the wide range of information available on Real Estate Online, the industry's leading source of intelligence on the private real estate market, covering over 4,100 funds, 1,700 fund managers and 3,800 active investors in private real estate.

Key Findings

- 10 solely debt-focused real estate funds have reached a final close in 2013 so far, raising an aggregate $2.5bn.
- The $25.2bn targeted by debt funds currently in market represents 155% more capital than was targeted by funds in market in February 2012.

Historical debt-focused fundraising data and a breakdown of current funds in market can be found on pages 3-6.

- 23% of investors are targeting debt funds in the next 12 months from August 2013, compared to only 8% in December 2011.

A detailed look at investors in debt funds can be found on pages 7-8.

- The PrEQIn Real Estate Index for debt outperformed the value added and opportunistic indices between December 2007 and December 2012.

More performance data for debt funds can be found on page 9.

- The number of Europe-focused debt funds in market has increased from five funds targeting $2.6bn in August 2011 to 17 funds targeting $12.4bn in August 2013.
- As of August 2013, there are 23 solely debt funds in market focusing on the US, targeting an aggregate $12.2bn.

A breakdown of the US and European debt fund markets can be found on pages 10-11.

Real Estate Debt Fundraising

With debt funds becoming increasingly prominent in the private real estate market in recent years, we examine the rise in fundraising for this fund type, the regions in which debt funds are most significant, and how successful debt funds are at achieving their fundraising target.

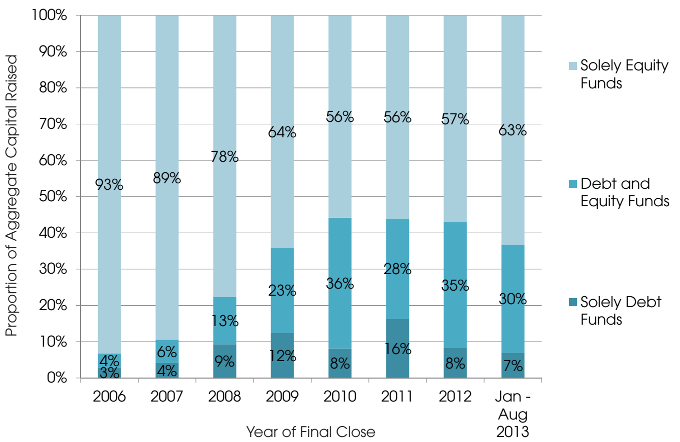
Debt funds played a very minor role in the private real estate industry prior to the financial crisis, with the majority of the aggregate capital raised by real estate funds accounted for by those focused solely on equity (Fig. 1). However, the private real estate debt market opened up considerably to alternative lenders following the financial crisis, with many traditional lenders retreating from real estate lending. Additionally, recent and incoming regulation, such as Basel III and Solvency II, has imposed tighter restrictions on banks, with many now unable or unwilling to provide loans at the same loan-to-value ratios as in previous years.

Debt vs. Equity

The subsequent funding gap left by these lenders retreating from the market has allowed many private real estate fund managers to diversify their business to include debt investments. Private lenders are able and more willing to provide credit with higher loan to value ratios than banks are necessarily willing to consider, possibly due to previous experience in such high-risk investments, as well as fewer regulations and restrictions. As a consequence, the proportion of aggregate capital raised by private real estate funds making a combination of debt and equity investments, as well as those focusing solely on debt, increased significantly following 2008. 2011 was a particularly strong year for solely debt-focused funds, with 25 of these funds reaching a final close, raising an aggregate $9.8bn, accounting for 16% of all capital raised by private real estate funds in the year. However, 43% of the $9.8bn raised by solely debt-focused funds in 2011 came from two funds: Blackstone Real Estate Special Situations Fund II, which raised $2.9bn, and AXA Real Estate's CRE Senior 1, which raised $1.3bn in investor commitments.

However, this area of the private real estate market is still relatively small, with some investors unfamiliar with the strategy and therefore less willing to invest in debt funds. Consequently, funds focusing solely on debt as a strategy account for only 7% of aggregate capital raised so far in 2013. As demonstrated in Fig. 2, the aggregate capital raised by solely debt-focused real estate funds reached a peak of 35 funds raising an a total of $13.0bn in 2008, and has subsequently decreased to 16 funds reaching a final close on $5.3bn in 2012. 2013 so far has seen only 10 solely debt-focused funds reach a final close, raising an aggregate $2.5bn, with the proportion of aggregate capital raised by solely equity funds increasing for the first time in four years.

Fig. 1: Annual Closed-End Private Real Estate Fundraising, 2006 - August 2013: Equity vs. Debt

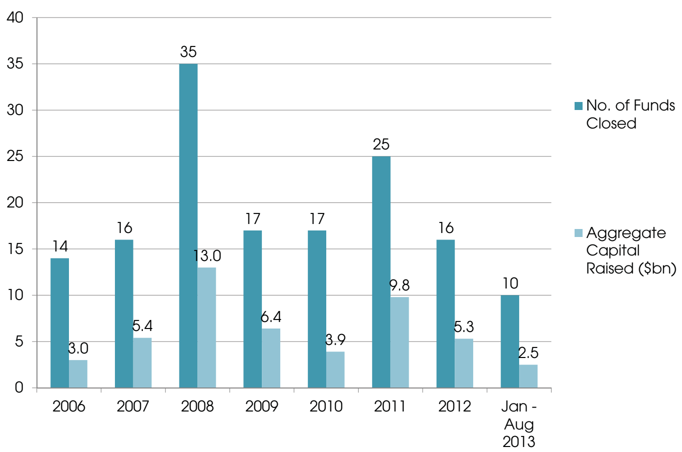


Source: Preqin Real Estate Online

Debt Funds by Geographic Focus

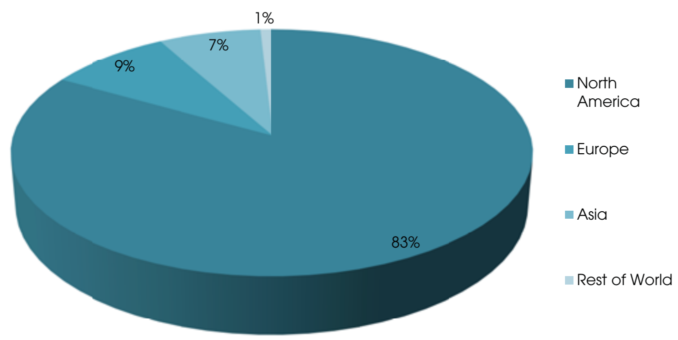
Looking at which regions are most prominent for debt funds, Fig. 3 reveals that North America accounts for 83% of the aggregate

Fig. 2: Annual Solely Debt-Focused Private Real Estate Fundraising, 2006 - August 2013



Source: Preqin Real Estate Online

Fig. 3: Breakdown of Aggregate Capital Raised by Solely Debt-Focused Funds by Primary Geographic Focus, Funds Closed 2006 - August 2013



Source: Preqin Real Estate Online

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capital raised by solely debt-focused funds in the period 2006 to August 2013, with Europe accounting for only 9%, and Asia 7%. The US real estate debt fund market is considerably more advanced than its European counterpart, although investors globally are increasingly looking towards Europe due to the abundance of opportunities left by retreating lenders and a large volume of maturing debt. We take a closer look at the US debt fund market on page 10, and page 11 explores Europe-focused real estate debt funds.

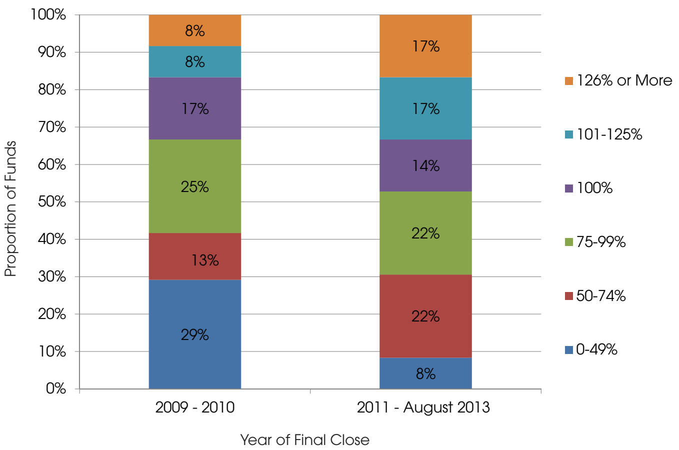
Do Debt Funds Achieve Their Fundraising Targets?

Recent years have seen solely debt-focused real estate funds achieve a larger proportion of their initial target sizes, as shown in Fig. 4. From 2009-2010, 67% of debt funds raised failed to reach their initial target size, with a significant 29% raising under 50% of their target. However, from 2011 to August 2013, 48% of funds closed have achieved or exceeded their initial target size, with a notable 17% achieving 126% or more of their initial target size. This is encouraging news for debt funds in market, as it reflects the increasing appetite for these funds among institutional investors.

Largest Funds Closed

Fig. 5 shows the 10 largest solely debt-focused funds closed from 2006 to August 2013; the two largest of these are Blackstone Real Estate Special Situations Fund II, which reached a final close in 2011 on $2.9bn, and Goldman Sachs Real Estate Mezzanine Partners, which raised an aggregate $2.6bn in 2009.

Fig. 4: Breakdown of Solely Debt-Focused Funds by Proportion of Target Size Achieved, Funds Closed 2009 - 2010 vs. 2011 - August 2013



Source: Preqin Real Estate Online

The $16.8bn raised in total by the 10 largest funds from 2006 to August 2013 represents 34% of the aggregate capital raised by solely debt-focused funds over this time period. Eight of the 10 largest debt funds in this time period have focused on investments in the US, with one Japan-focused fund and one Europe-focused offering completing the list, further demonstrating the significant role the US market has played historically for private real estate debt funds.

Fig. 5: 10 Largest Solely Debt-Focused Funds Closed 2006 - August 2013

Fund	Firm	Final Close Size (mn)	Final Close Date	Fund Primary Geographic Focus
Blackstone Real Estate Special Situations Fund II	Blackstone Group	2,900 USD	2011	US
Goldman Sachs Real Estate Mezzanine Partners	Goldman Sachs Merchant Banking Division	2,630 USD	2009	US
Blackrock Mortgage Investors Fund	BlackRock Realty	1,858 USD	2008	US
Cornerstone Core Mortgage Fund I	Cornerstone Real Estate Advisers	1,750 USD	2010	US
Fortress Japan Opportunity Fund II	Fortress Investment Group	130,000 JPY	2012	Japan
Five Mile Capital Partners II	Five Mile Capital Partners	1,530 USD	2008	US
CRE Senior 1	AXA Real Estate	1,000 EUR	2011	Europe
Guggenheim Structured Real Estate Fund III	Talmage	1,250 USD	2007	US
Investcorp Real Estate Credit Fund	Investcorp	1,000 USD	2008	US
NREP Real Estate Debt Fund	Capmark Financial Group	1,000 USD	2006	US

Source: Preqin Real Estate Online

Real Estate Debt Funds in Market

Capital targeted by private real estate debt funds in market has risen considerably over the last two years, demonstrating managers' confidence in this strategy. We examine which regions these funds are focusing on, and the experience of managers raising debt funds.

An examination of the real estate debt funds in market over time reveals a significant growth in the aggregate capital targeted by these funds over the last 18 months. The $25.2bn targeted by funds currently in market represents 155% more capital than was targeted by debt funds in market in February 2012, demonstrating the confidence fund managers have in their ability to raise significant levels of capital from investors to make debt investments. The number of solely debt-focused funds on the road has increased from 34 in August 2010 to 44 in August 2013, and the aggregate target capital has also increased from $11.8bn to $25.2bn over the same time period, despite fluctuations.

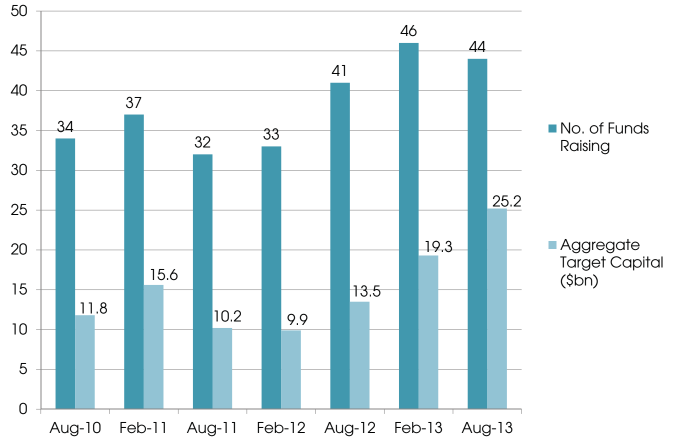
Funds by Primary Geographic Focus

As shown previously, the US has historically been the primary geographic focus for the majority of debt-focused private real estate funds. Fig. 7 reveals that 23 of the debt funds currently in market are focusing on the US, 17 are focused on Europe, and no funds are focusing solely on debt investments in Asia.

However, Europe-focused debt funds are targeting slightly more capital than US-focused funds, with fund managers looking to raise $12.4bn for investments in Europe, compared to $12.2bn for US-focused funds. This illustrates the rising prominence of Europe as a focus for debt funds in recent years, with investors and fund managers alike increasingly interested in plugging the funding gap left by banks in the region.

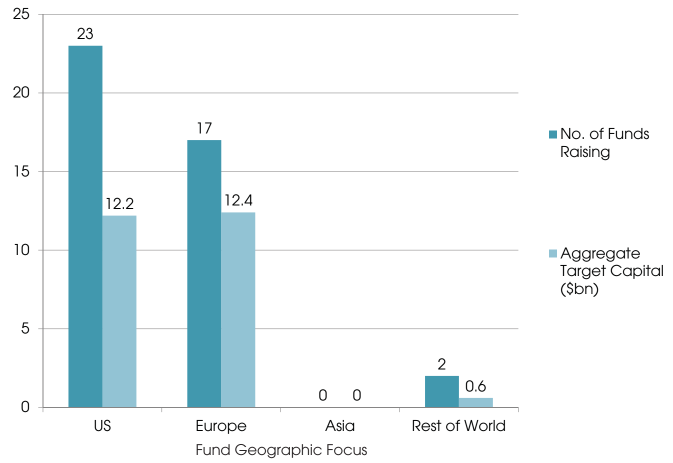
Fig. 8 shows the 10 largest solely debt-focused funds in market, with Blackstone Real Estate Debt Strategies II and Goldman Sachs Real Estate Mezzanine Partners II heading the list, each targeting $3bn in investor commitments. Of these 10 funds, six are primarily focusing on investments Europe, with the remainder focusing primarily on the US market. This is particularly interesting in comparison to the list of the 10 largest solely debt-focused funds closed in 2006 to August 2013 on page 4, with only one of these funds focusing on European investments and eight focusing on the US.

Fig. 6: Solely-Debt Focused Private Real Estate Funds in Market Over Time, August 2010 - August 2013



Source: Preqin Real Estate Online

Fig. 7: Breakdown of Aggregate Capital Targeted by Solely Debt-Focused Private Real Estate Funds in Market by Primary Geographic Focus



Source: Preqin Real Estate Online

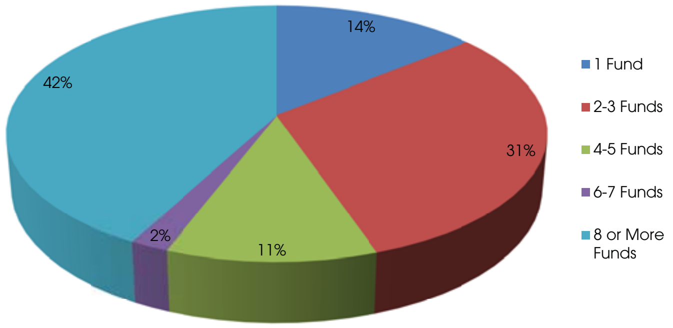
Fig. 8: 10 Largest Solely Debt-Focused Private Real Estate Funds in Market (As of August 2013)

Fund	Firm	Target Size (mn)	Fund Geographic Focus
Blackstone Real Estate Debt Strategies II	Blackstone Group	3,000 USD	North America, Europe
Goldman Sachs Real Estate Mezzanine Partners II	Goldman Sachs Merchant Banking Division	3,000 USD	US, Europe
Aalto Commercial Real Estate Loan Programme	Aalto Invest	1,500 GBP	Europe
CRE2	AXA Real Estate	1,000 EUR	Europe
Torchlight Debt Opportunity Fund IV	Torchlight Investors	1,000 USD	US
Colony Distressed Credit & Special Situations Fund III	Colony Capital	1,000 USD	North America, Europe
Fundo de Lazer e Imobiliário Turístico	ECS Capital	660 EUR	Portugal
ICG-Longbow UK Real Estate Debt Investments III	ICG-Longbow	500 GBP	UK
AgFe Senior Debt Fund	AgFe	500 GBP	UK
Aviva UK Commercial Real Estate Senior Debt Fund	Aviva Investors	500 GBP	UK

Source: Preqin Real Estate Online

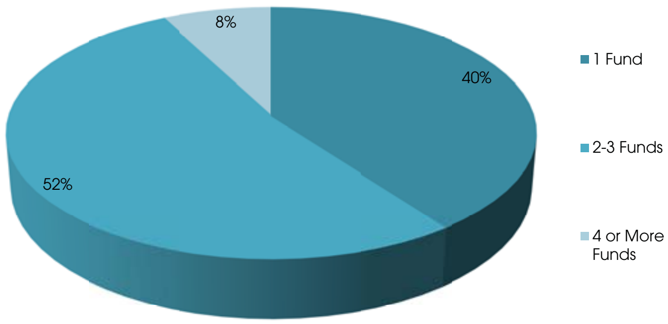
Click here to download the data pack.

Fig. 9: Breakdown of Aggregate Capital Targeted by Private Real Estate Debt Funds in Market by Number of Real Estate Funds Managed



Source: Preqin Real Estate Online

Fig. 10: Breakdown of Aggregate Capital Targeted by Private Real Estate Debt Funds in Market by Number of Solely Debt-Focused Funds Managed



Source: Preqin Real Estate Online

Debt Fund Manager Experience

As shown above, the number of private real estate debt funds in market is at an all-time high, and with some traditional lenders now more actively lending for real estate projects, there is significantly more competition. However, due to the relatively recent involvement of private real estate fund managers in real estate debt, many lack a long track record in this area.

Fig. 9 shows a breakdown of the aggregate capital targeted by real estate debt funds in market by the number of real estate funds the firm manages, and Fig. 10 shows a similar breakdown by the number of solely debt-focused funds managed. Significantly, Fig. 9 demonstrates that the majority (55%) of the aggregate capital targeted by debt funds in market is by fund managers raising at least their fourth fund, with 42% raising at least their eighth offering.

In comparison, the proportion of fund managers that are experienced in raising solely debt-focused funds is significantly less. Fig. 10 reveals that 40% of capital targeted by debt funds in market is by fund managers raising their first solely debt-focused fund, and 52% of capital targeted is by fund managers that are raising their second or third debt fund.

This demonstrates that although many managers raising debt offerings may have significant experience in managing private real estate funds, very few have long track records of managing solely debt-focused offerings. With a great deal of competition in the fundraising market, and many investors unwilling to invest with first-time managers (see page 8), it is likely to be the fund managers that can demonstrate a strong track record in making debt investments that are more likely to be able to successfully raise capital for their funds.

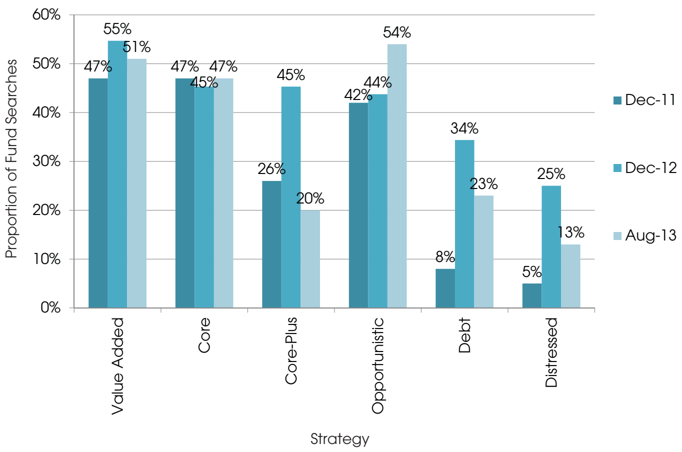
Investors in Real Estate Debt Funds

With the number of debt funds in market on the rise, has investor appetite for the strategy risen accordingly? We look at the types of investors interested in debt funds, their appetite for first-time managers and their allocations to real estate.

The significant availability of real estate debt opportunities resulting from a large volume of maturing debt and tighter restrictions on banks has led to an increase in the number of institutional investors committing to debt funds. The risk adjusted returns offered by debt funds may provide an attractive alternative to equity investments for investors that are looking for stable returns from their real estate portfolios. Preqin's interviews with private real estate investors have demonstrated the growth in investor appetite for debt funds, with 23% of investors targeting the strategy in the next 12 months from August 2013, compared to only 8% in December 2011 (Fig. 11). However, this does represent a decline from December 2012 and the strategy remains less widely targeted by investors compared to core, value added and opportunistic funds.

The vast majority of real estate debt investors (73%) are based in North America (Fig. 12), with 15% based in Europe, 8% in Asia and 4% outside of these regions.

Fig. 11: Strategies Targeted in the Next 12 Months by Private Real Estate Investors, December 2011 - August 2013



Source: Preqin Real Estate Online

Investor Types and Assets under Management

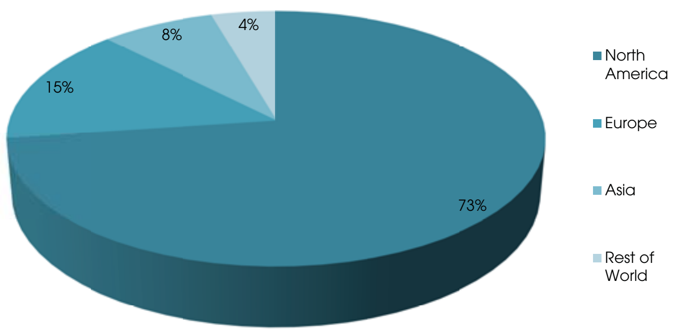
When looking at which types of investors will or will not invest in debt funds (Fig. 13), sovereign wealth funds and real estate fund of funds managers are overwhelmingly the most willing to invest in debt funds, with 59% and 49% of each respectively willing to do so. Thirty-seven percent of insurance companies and asset managers will invest in debt funds. These investor types typically have larger assets under management, or more internal resources to evaluate new areas of investment, and are also more likely to invest in a range of strategies. Typically smaller investors, such as wealth managers and foundations, are much less likely to invest in debt funds, with only 24% and 23% respectively willing to do so.

This is further demonstrated in Fig. 14, which reveals that those investors with larger assets under management are more likely to invest in debt funds, with just over half (51%) of those managing $30bn or more in assets willing to do so, and 43% of investors managing $10bn to $29.9bn willing to invest in debt funds. Conversely, 88% of investors with less than $100mn in assets under management will not invest in debt funds.

Preferences for First-Time Fund Managers

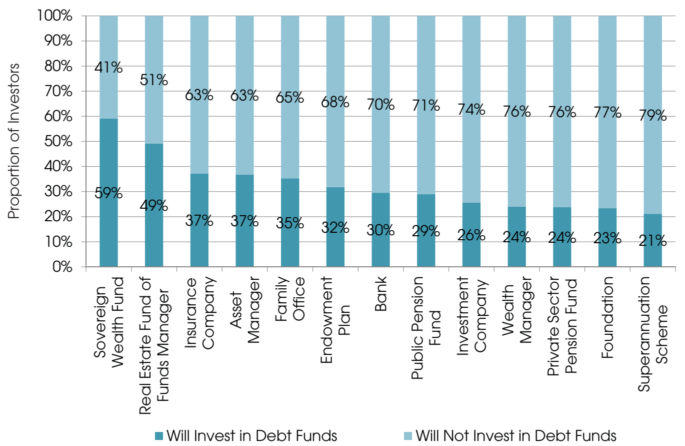
With 40% of the aggregate capital targeted by debt funds in market accounted for by managers raising their first solely debt-focused fund (see page 6), it is unsurprising that debt investors are much more willing to invest in first-time fund managers than all private real estate investors. With fewer experienced fund

Fig. 12: Breakdown of Real Estate Debt Investors by Location



Source: Preqin Real Estate Online

Fig. 13: Proportion of All Real Estate Investors that Will or Will Not Invest in Debt Funds by Investor Type



Source: Preqin Real Estate Online

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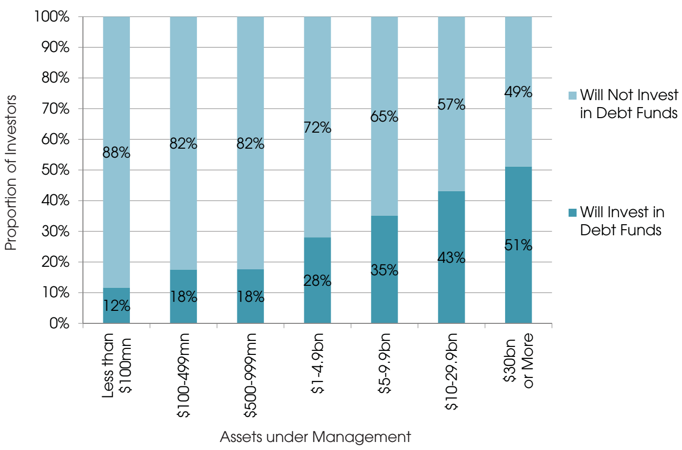
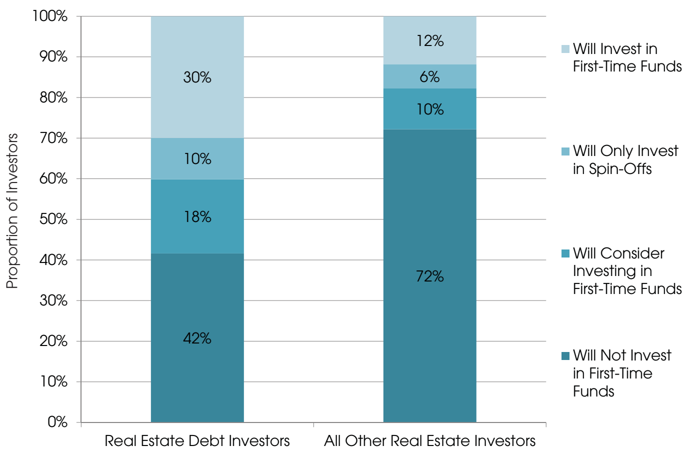
Fig. 14: Proportion of All Real Estate Investors that Will or Will Not Invest in Debt Funds by Assets under Management



Source: Preqin Real Estate Online

Fig. 15: Investors' Preferences for First-Time Funds: Real Estate Debt Investors vs. All Other Real Estate Investors



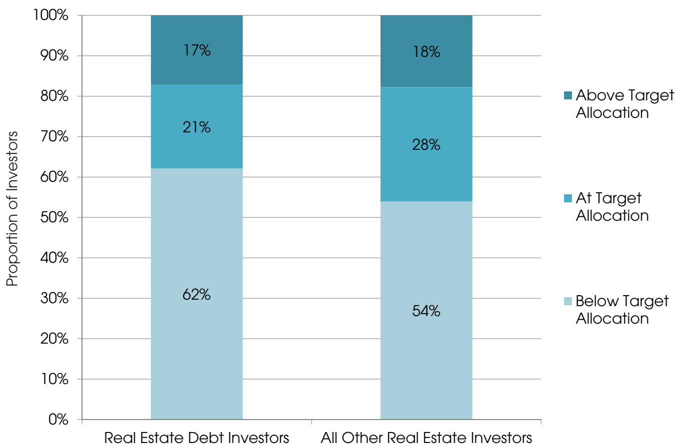
Source: Preqin Real Estate Online

managers raising debt funds, investors targeting the strategy may need to be more open to first-time managers in order to gain debt exposure. Fig. 15 demonstrates that 30% of debt investors will invest in first-time fund managers, compared to just 12% of all other real estate investors. Additionally, 18% of debt investors will consider first-time fund managers, with only 10% of all other real estate investors willing to do so.

Allocations

It is also encouraging to note that the majority (62%) of real estate debt investors are below their target allocations to the asset class, with only 17% above their target allocations to real estate, demonstrating the potential for further investment in real estate debt funds in the future. This is slightly higher than the proportion of all other real estate investors that are below their target allocations to the asset class, with 54% under-allocated to the asset class, and 18% over-allocated. As a result, it is likely that debt investors are likely to commit more capital to the asset class in the coming months in order to reach their target allocations.

Fig. 16: Proportion of Investors At, Above, or Below Their Target Allocation to Real Estate: Real Estate Debt Investors vs. All Other Real Estate Investors



Source: Preqin Real Estate Online

Real Estate Debt Fund Performance

We examine the latest performance data for private real estate debt funds to establish their performance in comparison to other real estate strategies and the industry as a whole.

Net IRRs

Following the decline in property values resulting from the global financial crisis, many investors in real estate equity funds suffered significant losses. The potential for risk-adjusted returns provided by the real estate debt fund market offer some protection for investors against further declines in values, alongside the prospect of stable returns.

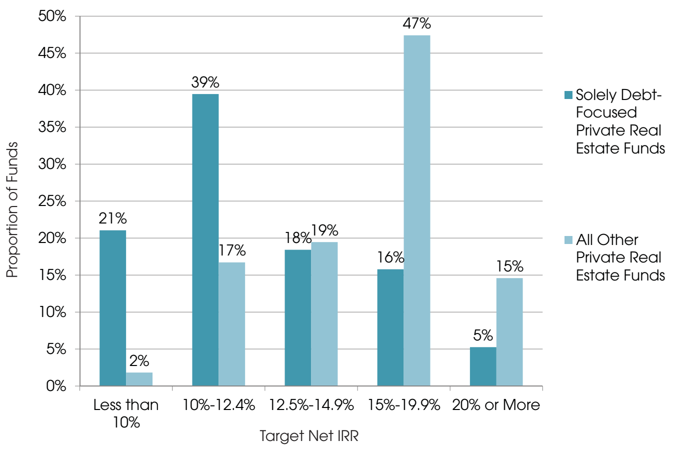
However, in offering this protection, the potential returns offered by debt funds are generally lower than those offered by many other private real estate funds. Fig. 17 shows the target net IRR distribution of funds in market and funds closed from 2012 to August 2013, comparing solely debt-focused funds to all other private real estate funds. The chart reveals that the spread of target IRRs of debt funds is at the lower end of the spectrum, with 60% of debt funds targeting a net IRR of less than 12.5%; this is comparable to the returns offered by core and core-plus real estate funds. In contrast, 62% of all other private real estate funds in market and closed from 2012 to August 2013 have targeted returns of more than 15%, which is at the opportunistic end of the scale; only 21% of debt funds target these higher returns.

The median net IRRs of debt funds by vintage year in comparison to all private real estate funds is shown in Fig. 18, with the median IRR increasing significantly for funds of more recent vintage years. Many 2009 and 2010 vintage debt funds look set to be strong performers, with the median IRRs standing at 10.6% and 12.6% respectively.

PrEQIN Real Estate Index

The PrEQIn Real Estate Index captures the returns earned by investors on average in their private real estate portfolios, based on the actual amount of money invested in these partnerships. Despite the declines suffered by each strategy in 2008 and 2009, the real estate debt index suffered lower decreases in returns in this time period, with a steady recovery since (Fig. 19). In the time period shown, the PrEQIn Debt Index has outperformed the value added and opportunistic indices, standing at 77.2 at the end of 2012, in comparison to the opportunistic index, which stood at 64.3, and the value added index, which stood at 54.5. The performance of the PrEQIn debt index during this period suggests debt funds are less volatile than other strategies, which is encouraging for investors which believe debt funds can provide them with strong risk-adjusted returns.

Fig. 17: Target Net IRR Distribution of Funds in Market and Funds Closed, 2012 - August 2013: Solely Debt-Focused Funds vs. All Other Real Estate Funds

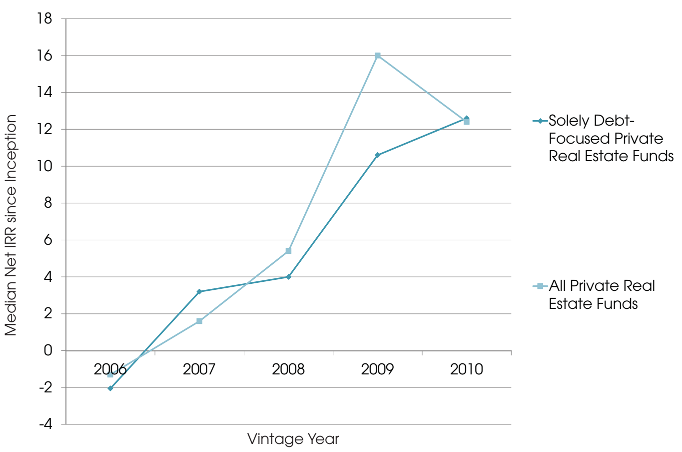


Source: Preqin Real Estate Online

Preqin's Real Estate Online service contains performance data for over 1,100 individual private real estate funds. For more information, please visit:

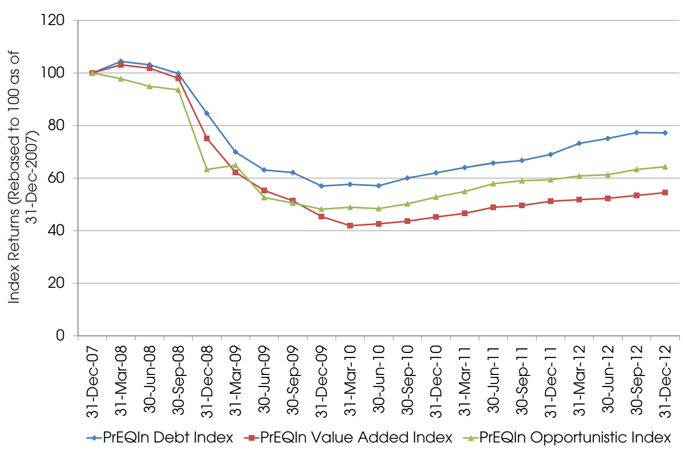
www.preqin.com/reo

Fig. 18: Median Net IRR by Vintage Year: Solely Debt-Focused Funds vs All Private Real Estate Funds



Source: Preqin Real Estate Online

Fig. 19: PrEQIn Real Estate Index by Strategy: Debt, Value Added and Opportunistic



Source: Preqin Real Estate Online

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US Debt Fund Market

The US has been the main focus for private real estate debt funds for many years, with the market more advanced than that of other regions. Fig. 20 shows US-focused real estate fundraising for solely debt-focused funds closed from 2006 to August 2013. There was a significant increase in fundraising levels for US-focused debt funds in 2008, with the number of funds more than doubling from 14 in 2007 to 29 in 2008, and the aggregate capital raised increasing from $4.6bn to $12.6bn. Since this peak however, US-focused debt fundraising has decreased, with 2013 so far seeing nine US-focused debt funds reach a final close, having raised an aggregate $2.1bn.

Fig. 22 shows the 10 largest US-focused debt funds to close from 2006 to August 2013. The two largest funds to close in this period were Blackstone Real Estate Special Situations Fund II, which reached a final close in 2011 on $2.9bn, and Goldman Sachs Real Estate Mezzanine Partners, which closed on $2.6bn in 2009.

As of August 2013, there are 23 solely debt-focused funds in market focusing on the US, targeting an aggregate $12.2bn. The four largest of these are collectively targeting $8bn in investor commitments, demonstrating that the majority of capital targeted is for only a select few funds.

US Debt Investors

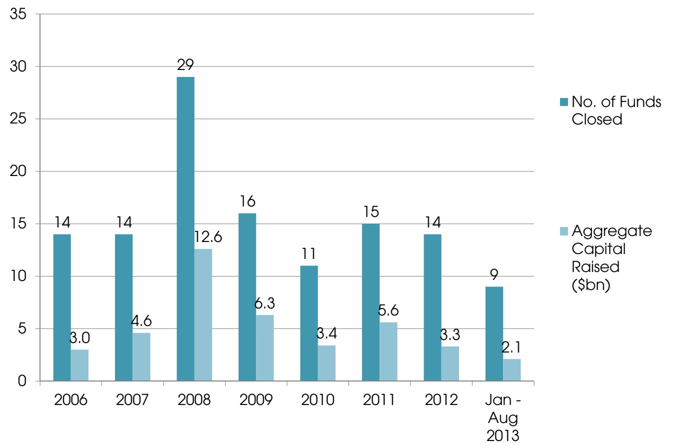
As a result of the region being exposed to real estate debt funds for a longer period of time, a significant proportion of investors based in the US are open to investing in this strategy. While the strategy remains less widely targeted than core, value added and opportunistic strategies, 35% of US-based investors will invest in debt funds (Fig. 21).

Explore the US Debt Fund Market Further on Real Estate Online

Access details on the 23 solely-debt focused real estate funds in market focusing on the US, examine key stats on over 550 active US-based real estate investors that have previously invested in funds with debt exposure, and more. For more information, or to arrange a demonstration, please visit:

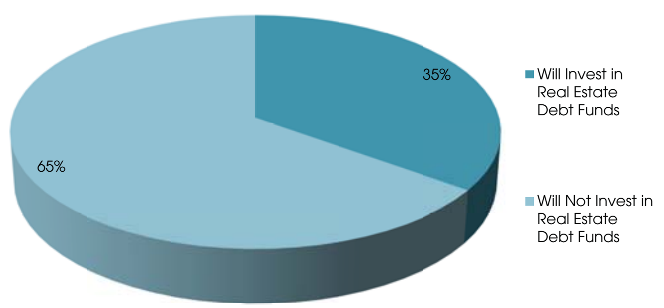
www.preqin.com/reo

Fig. 20: US-Focused Real Estate Debt Fundraising, 2006 - August 2013



Source: Preqin Real Estate Online

Fig. 21: Proportion of US-Based Investors that Will or Will Not Invest in Real Estate Debt Funds



Source: Preqin Real Estate Online

Fig. 22: 10 Largest US-Focused Real Estate Debt Funds Closed 2006 - August 2013

Fund	Firm	Final Close Size ($mn)	Final Close Date
Blackstone Real Estate Special Situations Fund II	Blackstone Group	2,900	2011
Goldman Sachs Real Estate Mezzanine Partners	Goldman Sachs Merchant Banking Division	2,630	2009
Blackrock Mortgage Investors Fund	BlackRock Realty	1,858	2008
Cornerstone Core Mortgage Fund I	Cornerstone Real Estate Advisers	1,750	2010
Five Mile Capital Partners II	Five Mile Capital Partners	1,530	2008
Guggenheim Structured Real Estate Fund III	Talmage	1,250	2007
Investcorp Real Estate Credit Fund	Investcorp	1,000	2008
NREP Real Estate Debt Fund	Capmark Financial Group	1,000	2006
AREA Real Estate Finance Corporation	AREA Property Partners	932	2007
Colony Distressed Credit Fund	Colony Capital	885	2008

Source: Preqin Real Estate Online

European Debt Fund Market

The involvement of a substantial number of Europe-based fund managers in debt is a relatively recent evolution in comparison to the US. Historically, only 12 Europe-focused debt funds have been raised since 2008, raising an aggregate $4.3bn in investor commitments.

However, as shown on page 5, 17 of the solely debt-focused funds currently in market are focused on Europe, demonstrating the increasing prominence of the region as a target for debt investments. Fig. 23 shows Europe-focused debt funds in market over time, from February 2010 to August 2013. This chart demonstrates the rapid growth seen in the number and aggregate target capital of Europe-focused debt funds in market over the last two years, increasing from five funds targeting $2.6bn in August 2011 to 17 funds targeting $12.4bn in August 2013.

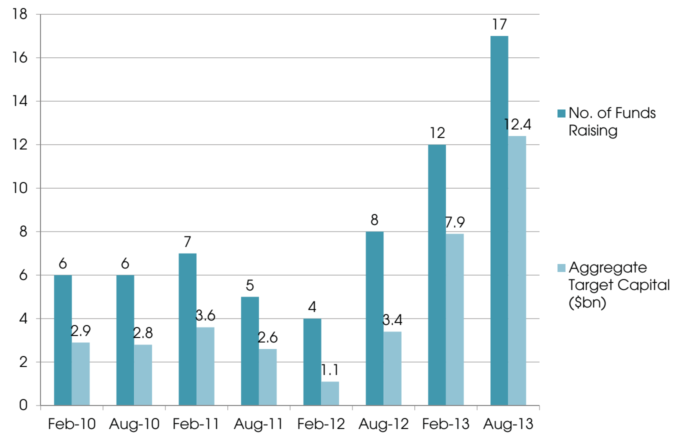
The top 10 largest Europe-focused real estate debt funds in market are shown in Fig. 25. The largest of these is Aalto Commercial Real Estate Loan Programme, which is targeting £1.5bn. The 10 largest Europe-focused debt funds in market alone are targeting an aggregate $9.1bn, representing 73% of the total capital sought by all Europe-focused debt funds in market.

European Debt Investors

Globally, investor appetite for debt funds has increased since December 2011 (see Fig. 11), and this is particularly evident when looking at Europe-based investors' appetite for this strategy. As shown in Fig. 24, in Q1 2012 only 8% of investors based in Europe included debt within their investment plans for the next 12 months; in Q1 2013, this increased to 27% of Europe-based investors. Although there has been a slight decrease in Europe-based investor appetite for debt funds as of August 2013, with 20% of investors including debt as a strategy within their fund searches for the next 12 months, appetite is still significantly higher than at the start of 2012.

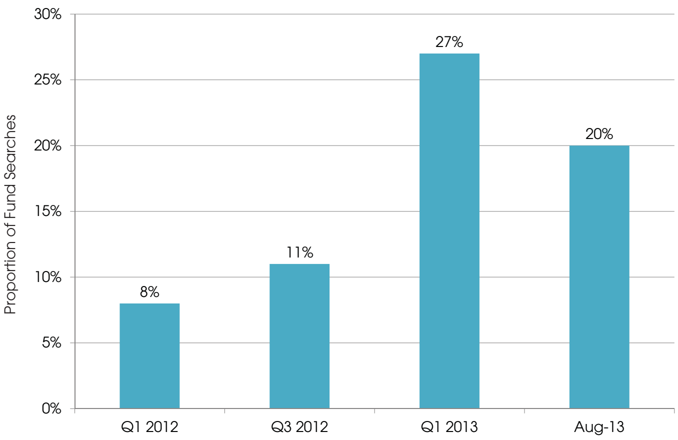
With the number of Europe-focused debt funds in market continuing to increase, and investor appetite for the strategy remaining strong, it seems likely that the private debt fund market will continue to grow in the year ahead. However, with the low level of fundraising seen in recent years, and most debt funds originating from managers that do not have a long track record, many investors have not yet seen realizations from their investments; therefore, it remains to be seen how successful this strategy will be in the European market.

Fig. 23: Europe-Focused Real Estate Debt Funds in Market over Time, February 2010 - August 2013



Source: Preqin Real Estate Online

Fig. 24: Proportion of Europe-Based Real Estate Investors Targeting Real Estate Debt Funds, Q1 2012 - August 2013



Source: Preqin Real Estate Online

Access details on the 17 solely-debt focused real estate funds in market focusing on the US, examine key stats on over 110 active Europe-based real estate investors that have previously invested in funds with debt exposure, and more.

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Fig. 25: 10 Largest Europe-Focused Real Estate Debt Funds in Market (As at August 2013)

Fund	Firm	Target Size (mn)	Fund Geographic Focus
Aalto Commercial Real Estate Loan Programme	Aalto Invest	1,500 GBP	Europe
CRE2	AXA Real Estate	1,000 EUR	Europe
Fundo de Lazer e Imobiliário Turístico	ECS Capital	660 EUR	Portugal
ICG-Longbow UK Real Estate Debt Investments III	ICG-Longbow	500 GBP	UK
AgFe Senior Debt Fund	AgFe	500 GBP	UK
Aviva UK Commercial Real Estate Senior Debt Fund	Aviva Investors	500 GBP	UK
M&G Real Estate Debt Fund II	M&G Investments	500 GBP	West Europe
M&G Real Estate Debt Fund III	M&G Investments	500 GBP	West Europe
Renshaw Bay Real Estate Debt Fund	Renshaw Bay	500 GBP	West Europe, Nordic
Senior European Loan Fund	AEW Europe	500 EUR	UK, Germany, France

Source: Preqin Real Estate Online

Preqin Special Report: Real Estate Debt

September 2013

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