Q3 2011 OCTOBER 2011

The Preqin Quarterly

Real Estate

Insight on the quarter from the leading provider of alternative assets data

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Changing Investor Universe

How was the evolving economic climate of the past few years affected investor attitudes to private real estate?

Latest Fundraising Figures and Future Predictions

How has fundraising fared against a backdrop of global financial uncertainty.

Latin America

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Q3 Special Guest Contributor: Nicholas Sproats, Fortius Funds Management

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Editor's Note

Fundraising in the third quarter of 2011 saw $11.0bn raised by 17 closed-end private real estate funds holding a final close, a small decline on the $13.1bn raised in Q2 2011, but a greater amount than was raised in Q1 2011 or Q4 2010. While some firms are having considerable success, with several exceeding their fundraising targets in the quarter, the fundraising market remains extremely overcrowded. There are currently 436 funds on the road targeting an aggregate $148bn.

Investor appetite for private real estate funds remains mixed and the gradual pick up in the fundraising market will not constitute enough demand to satisfy the supply of funds on the road. Many fund managers will continue to find fundraising an extremely challenging prospect in the final quarter of 2011 and beyond.

Like all risk assets, private real estate funds currently find themselves caught between two countervailing forces – the medium- to long-term attractions of these funds (which clearly indicate potential for growth), balanced by the short-term flight to safety of investors everywhere. The flight to safety is clearly prevailing in the short term, but the medium-term appetite among investors for these funds looks positive. Using data compiled from hundreds of in-depth interviews carried out by Preqin's analysts in recent months, we take a detailed look at changing institutional investor attitudes on page 6, examining changing allocations, preferences, attitudes to first-time funds, and plans for the next 12 months.

Secondary activity has increased during 2011, with interest from both traditional and non-traditional buyers. We examine appetite for buying funds on the secondary market on page 9. The real estate fund industry in Latin America has grown significantly in recent years and we take a look at this rapidly developing market on page 8.

Our detailed look at the fundraising market (pages 10-15) features key information on fundraising in the third quarter, as well as funds on the road and new funds hitting the road. We also examine dry powder on page 16 and the latest performance figures on page 17.

This quarter we are also delighted to feature an interview with Nicholas Sproats from Fortius Funds Management, who shares his thoughts on the Australian real estate market and the fundraising environment.

We hope that you find this report to be interesting and informative and as ever we welcome any feedback that you may have. If you would like more information on any of our products and services, please feel free to contact us at our New York, London or Singapore offices.

Andrew Moylan, Editor

Nicholas Sproats,

Fortius Funds Management

Interview with Nicholas Sproats, Fund Manager
Fortius Funds Management
Conducted by Claire Wilson, September 2011

Tell me a bit about the fund you're about to launch – which markets will you be looking at, what property types are you keen to invest in?

It's a value add fund with the aim of generating a higher total return than that able to be achieved by core or passive real estate investment. We target assets with a higher initial yield, or the potential for a higher yield on cost than core or passive real estate. The fund will focus on office and CBD retail and potentially some grocery-related retail. Essentially we target non-prime buildings in core locations and A-grade buildings in secondary locations in Australian capital cities. We focus on the mid to small-cap end of the market; assets and projects are generally under $200mn. We take a position on strategies to enhance and realize value and sell into a market that wants fixed assets that are stable and able to be held more passively.

You're launching the fund while the real estate market is very difficult and competitive. How will you attract investors to the fund?

I would argue that the fundraising environment is certainly difficult but I don't know that it's necessarily more competitive than at other times. When there's cash available everyone wants some, maybe for the wrong reasons, and when capital is scarce, investors still need it to capture opportunities as they appear. Arguably a lot of our competitors have wound down or are focusing on other areas of the investment markets since the economic crisis, or are concentrating on areas in which they have scale already.

In terms of what we're focusing on to ensure success, we've always focused on achieving the best outcome for our clients – a lot of people would say that but it's very important to us. The culture of commitment and rolling our sleeves up is pretty demonstrable, especially during the difficult times the real estate market has faced since mid-2008 – we're very hands on and active investors. We're very detailed with our investments and strategies and we've got a strong record to prove it.

We'll be showing our commitment to our belief in our investment capabilities and methods by personal investment into the fund by the employees working on the fund, ranking equally with other investors, not on a preferential returns basis, and for the life of the fund. The firm will also be making a co-investment. In terms of fundraising, we do have a large network of investors that we will be targeting along with a list of potential investors around the world. There is already substantial evidence in terms of capital flow and direct property purchases by offshore participants, from the North American, Asian and European regions, and we are structuring our products and offerings to cater to investors in those regions in addition to domestic clients. Over the last 12 months there have been some beneficial tax changes for foreign investors investing into commercial real estate in Australia, and offshore investors have been taking advantage of that.

Will these tax changes lead to more new, foreign investors entering the Australian market?

Most definitely. Since mid 2009 foreign investors have been the dominant buyers of Australian commercial real estate, outstripping domestic real estate investment trusts. We're starting to see investors from countries who've not made serious investments in Australia before. Koreans, Canadians and some new guys from the US are examples. So we're certainly seeing more investment from offshore players in Australia and I'd expect that to continue.

What do you think the strengths and weaknesses are in the Australian real estate market at present?

The real estate market in Australia can be described as stable but far from buoyant. Office tenants are reluctant to take up new and improved space until they get a really clear direction on the future of their businesses and the industries they work in. Businesses related to the mining industry are still very strong and in some markets are taking up the space left behind by downsizing financial services businesses. A lot of people think that all the mining is done in remote parts of the country, but in reality remote access computer technology and the number of consultants and advisory businesses related to that industry means there is strong demand in the capital cities from these users. The weight of capital for domestic investors continues to reside in or is waiting to be invested in prime core assets, in fact almost all of the equity raised for real estate in Australia in the past 12-18 months has been allocated to core investments. This has meant that there is a capital gap for non-prime assets at both the debt and the equity level, opening up opportunities for investors in that part of the market. So arguably this will lead to the situation where prime will get more expensive and the gap between prime and non-prime will accordingly widen.

How does the Australian market compare to other established real estate markets?

One obvious difference is the size of the market. Not surprisingly the size of our market is linked to the size of our economy and the size of our population, which are still small compared to the US and Europe. However one significant factor in Australia is the level of institutional ownership of property, especially core property, and the smaller number of institutions and the flow-on effect to the concentration of ownership. This leads to fewer mispricing opportunities in the big end of the market that you may see in Boston, Manhattan, London and other Northern Hemisphere markets.

We've got pretty effective regulatory bodies, especially in the financial markets, so the Australian real estate market is consistently ranked at the top, or close to, in transparency. This continues to attract investors, particularly those that want exposure to Asia without the vagaries and opaque nuances that some markets in Asia have, where transparency and regulation is still very much evolving.

What do you think the general outlook for the industry in Australia is like?

Generally the outlook for the asset class continues to be positive in both the immediate and long term. We didn't have substantial over-supply in most areas when the financial crisis hit, so we weren't left in a situation where we were clawing our way out of huge vacancy. The Australian corporates, which are the main users of office space, have got pretty robust balance sheets and business models at this point in time, so the outlook continues to be strong.

The real estate market will continue to some degree to be affected by the cyclical behaviour of the investment markets, but at the end of the day space is a commodity; we are a very urbanized country and this won't change any time soon. Our population growth is positive, our largest trading partners are in Asia, education is our third largest export after iron ore and coal, we have very little government debt, terms of trade are strong, our dollar is strong but not excessive, and our planning and government regimes, while always able to be improved, are for the most part effective and real estate friendly. I don't think retail assets will continue with the stellar run they've had since the 1980s, especially in the regional and suburban categories, as not all parties can go on forever. There will be some opportunities, but I don't expect the growth to be like we saw for the better part of 30 years. There will be opportunities where vendors and investors become too bearish, just as they become too bullish.

The office sector is quite stable. While still relatively small, one of the emerging trends we are seeing is internet-based businesses becoming serious office occupiers. IT companies have been strong office users for quite some time; however, internet companies are now gaining strength, size and creditworthiness. An obvious example is Google, which occupies whole buildings here and elsewhere, and those kinds of occupiers are on the rise. The space they are taking may have previously been occupied by more traditional users.

Investment in industrial is starting to see some resurgence of late. Australia has a very small manufacturing industry; however the interest lies more in the distribution-centre and logistics industrial assets, e.g. tenants distributing groceries, food and beverage and retailers geared up for internet sales.

The Changing Private Real Estate Investor Universe

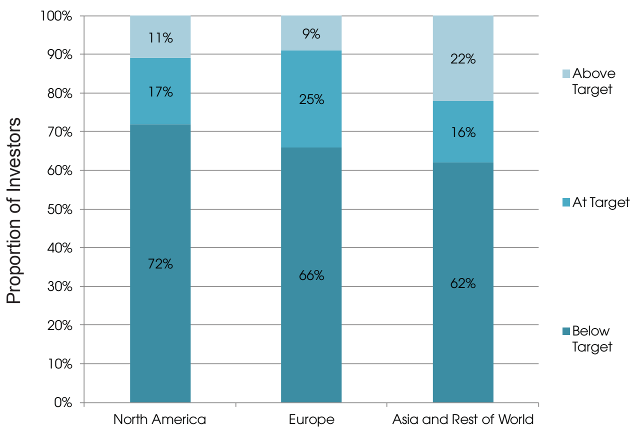
Recent years have seen huge changes in the private real estate fund market, and institutional investor attitudes to the asset class are constantly evolving. In response to uncertain market conditions, a significant number of investors have halted their indirect real estate activity, and those that are making fund investments are doing so on a smaller scale. There are some recent signs of improvement, but as the fundraising market remains extremely competitive, fund managers will need to work hard to stand out from the crowd.

Despite slow fundraising, there are signs that the market may be improving, with recent research conducted by Preqin suggesting that an increasing number of the larger investors in the asset class are returning to market. A series of extensive interviews with 400 private real estate fund investors of varying size, location, and type, revealed that 35% of respondents expect to make fund commitments in the next 12 months, 49% of respondents are unlikely to invest, and a further 16% have yet to decide whether they will be active in the coming year. Fig. 2 shows that the likelihood of committing to funds in the next 12 months increases as respondents' total assets increase, and 43% of institutions with $10bn or more in assets under management are looking to invest in private real estate funds in the next 12 months.

Another encouraging sign for fund managers is that the majority of investors are maintaining their target allocations to real estate and are not abandoning the private real estate fund market. 69% of all investors in private real estate funds are currently below their overall target allocations to real estate, 20% are at their targets and 11% are above their target allocations. This means that fundraising should pick up in the next few years as property markets stabilize, valuations improve, and investors seek to meet their strategic asset allocations.

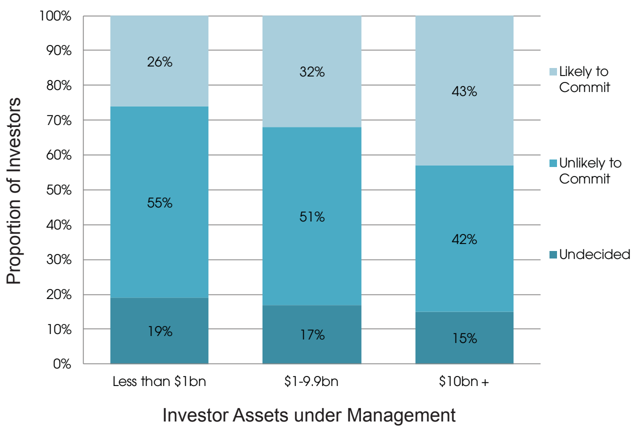
The average proportion of capital allocated to the real estate asset class as a percentage of assets under management varies across investor types. Superannuation schemes and asset managers typically allocate the greatest proportion of assets under management to real estate of all investor groups listed in Fig. 3, with average current allocations of 11.5% and 10.6% respectively. There is little difference between average real estate allocations of insurance companies, foundations, private pension funds and public pension plans. Endowment plans have a lower average allocation than the other types of investor listed, and also have a lower target allocation to the asset class.

Fig. 1: Real Estate Allocations Compared to Target Allocations by Investor Region



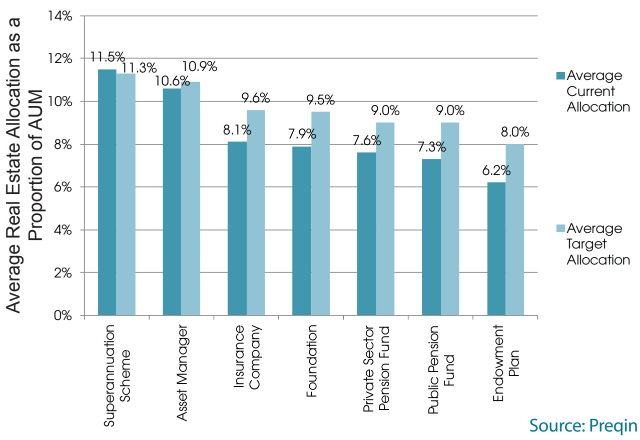
Source: Preqin

Fig. 2: Investors' Intentions for Private Real Estate Funds in Next 12 Months by Investor Assets under Management



Source: Preqin

Fig. 3: Average Real Estate Allocation by Investor Type (as a Proportion of AUM)



Source: Preqin

Changes in the Market

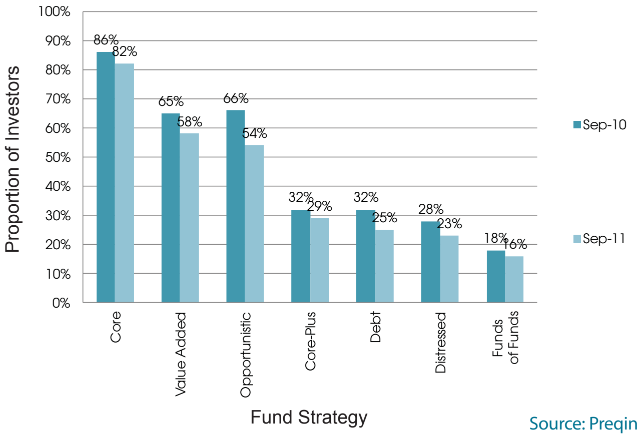
Market conditions have caused a shift in the strategic preferences of institutional investors. The higher-risk strategies are viewed less positively and there has been an increase in appetite for low-risk core funds. As can be seen in Fig. 4, preference for value added and opportunistic funds has decreased in the last 12 months, and although there has also been a small decline in appetite for core funds in 2011, these vehicles are still the most favoured strategy for investors in private property funds.

Increased caution amongst institutional investors has also had an impact on attitudes to first-time funds, with the number of investors willing to invest with new managers decreasing in recent years. Overall, 26% of investors will definitely invest in first-time funds, with an additional 15% willing to consider first-time vehicles; the corresponding figures in 2010 were 34% and 16% respectively. 11% will only commit to first-time funds if they are operated by spin-off firms (16% in 2010) and the proportion of investors not willing to invest with first-time managers has increased from 34% in 2010 to 48%. Fig. 5 shows that 54% of investors based in North America will invest, or are prepared to consider investing, in funds managed by first-time or spin-off firms; the corresponding figure for European investors is 48%. 53% of investors in Asia and Rest of World are open to committing to vehicles managed by newly established firms.

Outlook

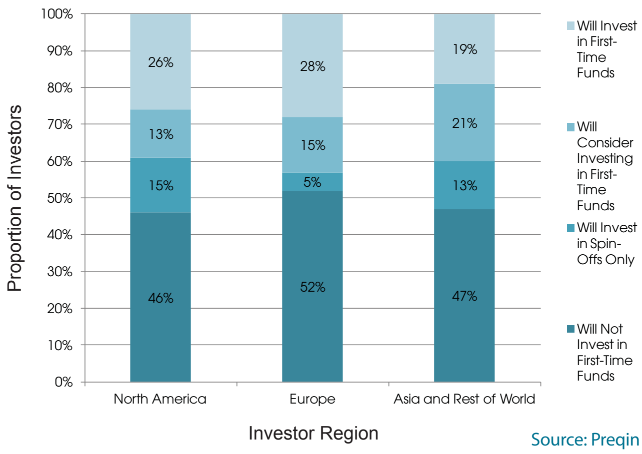
Investors are scrutinizing potential investments more closely than ever and, while the largest, brand-name firms will still be able to raise large funds, many institutions are looking for firms which can prove they are specialists in their particular market. Many of the firms that have been fundraising successfully in 2011 are managing funds which are focused on a particular sector and/or location and where the team has a proven track record in these markets.

Fig. 4: Unlisted Fund Strategy Preferences of Investors in Private Real Estate Funds



Source: Preqin

Fig. 5: Attitudes to First-Time Private Real Estate Funds by Investor Region



Source: Preqin

Latin American Private Real Estate Market

While it remains small in terms of the global market, the closed-end private real estate fund industry in Latin America has grown in size in recent years as investors look for increased diversification and higher returns. Both managers based in Latin America, and those headquartered elsewhere, have launched funds to look to take advantage of the developing real estate markets in the region.

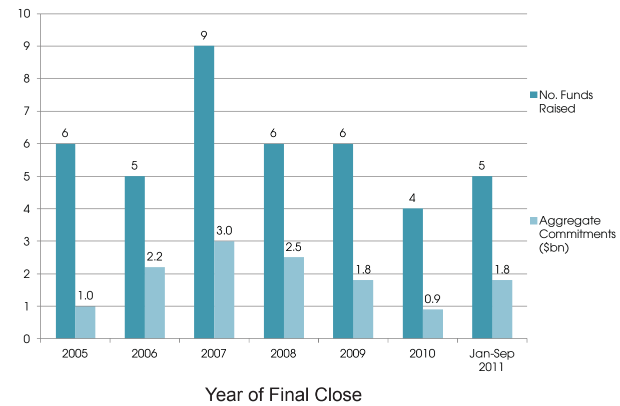
From 2005 to 2007, annual Latin America-focused private real estate fundraising trebled from $1bn to $3bn, with the number of funds solely focused on Latin America peaking at nine funds in 2007. In 2008, fundraising for Latin America-focused vehicles dipped slightly to $2.5bn, and in 2009 six funds closed on an aggregate $1.8bn.

Five funds closed between January and September 2011, having raised an aggregate $1.8bn in investor commitments, exceeding the total amount of capital raised in 2010 by 100%. Prosperitas Real Estate Partners III, a $750mn Brazil-focused opportunistic and value added vehicle managed by Prosperitas Investimentos, is the largest fund to close so far in 2011. Tishman Speyer Brazil Fund III and Pátria Brazil Real Estate Fund II also closed in the period, having raised $350mn and $550mn respectively.

Fundraising for Latin America-focused private equity has recovered somewhat following the downturn, with investors seeing attractive opportunities to invest in the region. Fig. 7 further demonstrates this increase in investor appetite, with the Latin American market's share of global private real estate increasing from 1.3% in 2005 to 5.4% in the period January – September 2011.

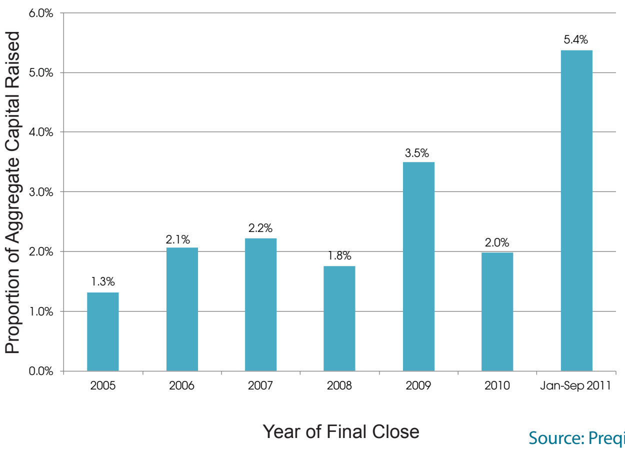
There are currently 11 Latin America-focused private real estate funds in market, seeking to raise an aggregate $3bn in equity commitments. This represents 2% of the total capital targeted by funds worldwide. The largest Latin American fund in market is GTIS Partners Brazil Real Estate Fund II. This opportunistic Brazil-focused fund is looking to raise $600mn. Six of the funds in market are being raised by firms located domestically, with these firms targeting an aggregate $1.7bn. Five funds are being raised by firms located elsewhere, targeting a total of $1.3bn.

Fig. 6: Annual Latin America-Focused Closed-End Private Real Estate Fundraising, 2005 - September 2011



Source: Preqin

Fig. 7: Latin America-Focused Closed-End Private Real Estate Fundraising as a Proportion of Aggregate Capital Raised Globally, 2005 - September 2011



Source: Preqin

Fig. 8: Five Largest Latin America-Focused Closed-End Private Real Estate Funds in Market

Fund	Firm	Fund Focus	Strategy	Target Size (mn)
GTIS Partners Brazil Real Estate Fund II	GTIS Partners	Brazil	Opportunistic	600 USD
Brazil Real Estate Opportunities Fund II	VBI Real Estate	Brazil	Opportunistic	500 USD
Tellus II	SDI Desenvolvimento Imobiliário	Brazil	Opportunistic	450 USD
PLA Industrial IV	Pramerica Real Estate Investors	Brazil	Opportunistic	350 USD
VOGA Properties Brazil I	VOGA	Brazil	Opportunistic	250 USD

Source: Preqin

Secondaries

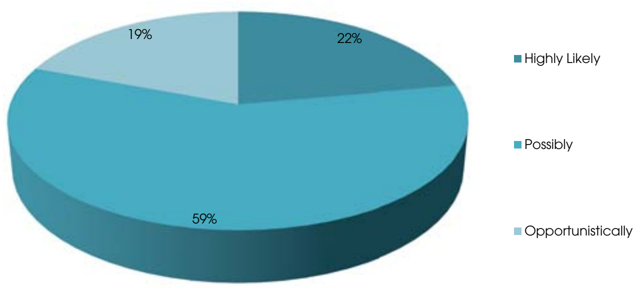
Interest in real estate secondaries has increased over the past few years as the market has evolved. Of the institutional investors Preqin has spoken to with an interest in purchasing closed-end private real estate fund stakes on the secondary market, 22% are highly likely to do so within the next 24 months, 59% would possibly do so, and a further 19% said they would do so on an opportunistic basis.

As illustrated in Fig. 9, a wide range of institutional investor types are interested in buying secondary fund stakes. Public pension funds make up the largest proportion (22%) of investors looking to purchase real estate fund interests on the secondary market within the next 24 months. Of the public pension funds that have stated some level of interest in secondary market opportunities, 74% expect to make a secondary market purchase within the next 12 months.

The secondary market for real estate was previously dominated by primary and secondary real estate fund of funds managers, but institutional investors looking to take part in secondary transactions now make up a significant proportion of secondary market buyers. The proportion of traditional secondary market vs. non-traditional secondary market buyers is illustrated in Fig. 11. While the proportion of non-traditional buyers is higher at 76%, traditional buyers do still dominate the market as they account for the majority of the secondary market deal volume.

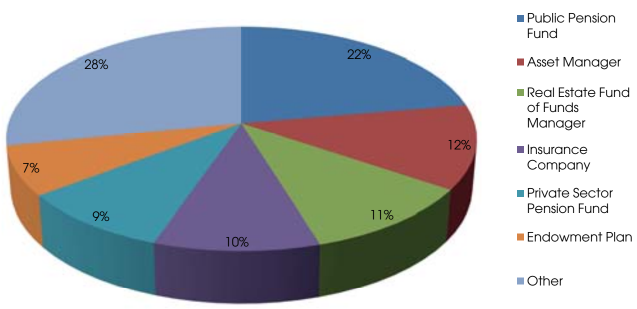
Preqin's Secondary Market Monitor provides detailed information on potential secondary market buyers, sellers, and intermediaries, as well as secondaries fundraising, secondary transactions, and pricing. It currently contains profiles for more than 600 potential buyers of fund interests on the secondary market. For more information or to register for a demo, please visit: www.preqin.com/smm

Fig. 9: Breakdown of Likelihood of Investors Looking to Buy Real Estate Fund Stakes within the Next 24 Months



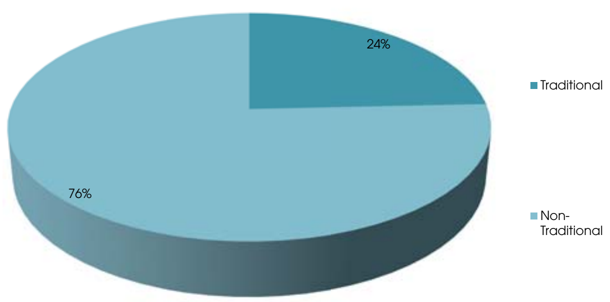
Source: Preqin

Fig. 10: Breakdown of Investors Looking to Buy Closed-End Private Real Estate Fund Stakes on the Secondary Market in the Next 24 Months by LP Type



Source: Preqin

Fig. 11: Traditional vs. Non-Traditional Closed-End Private Real Estate Secondary Market Buyers



Source: Preqin

Fundraising Overview

In Q3 2011, 17 private equity real estate vehicles reached a final close having raised an aggregate $11.0bn. Aggregate fundraising declined by 16% compared with Q2 2011. Quarterly fundraising totals remain well below the pre-crisis 2006-2008 levels, when quarterly totals regularly exceeded $30bn. In addition to the funds that held a final close in this quarter, 27 funds held an interim close in Q3 2011, raising $7.4bn towards their overall targets. The largest fund to close in this period was Lone Star Fund VII, which raised $4.6bn to invest in distressed loans and securities including single family, corporate and consumer debt products, and control investments in banks, financially oriented and asset-rich operating companies. It invests in Japan, Western Europe and North America.

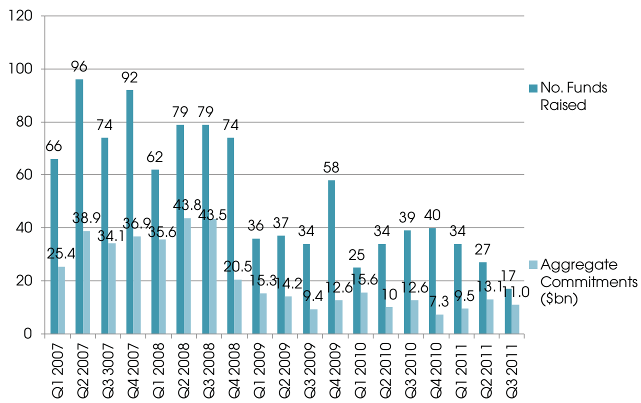
North America-focused funds raised the most capital in Q3 2011, with six funds garnering $5.5bn in commitments. Nine Europe-focused funds closed in the quarter having raised an aggregate $4.8bn, led by the €775mn final close of ECE European Prime Shopping Center Fund, managed by ECE Real Estate Partners. This core-plus and value added vehicle focuses on large properties that combine upscale stores with necessity retailers. The vehicle can invest throughout Europe, but will predominantly focus on the property markets of Central and Eastern Europe.

Two Asia and Rest of World-focused funds closed in this quarter, including the $350mn final close of Tishman Speyer's Tishman Speyer Brazil Fund III, an opportunistic fund that develops mixed use, multi-family and office properties located in the major markets of Brazil. The 10 largest funds to close in the quarter are shown in the table on page 11.

The length of time spent on the road by funds gives an indication of investor appetite and the extent of competition in the fundraising market. Fig. 14 shows that funds which closed in Q3 2011 spent an average 16.6 months in market, a slight increase on Q2 2011. Funds to close in 2006 and 2007 spent an average of just of 9.4 and 9.1 months in market respectively. This highlights the challenging fundraising conditions that exist in the current climate.

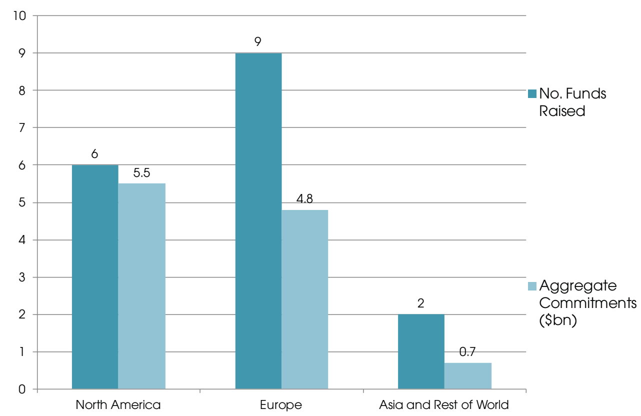
In the last 12 months, 118 unlisted private real estate funds have closed – Real Estate Online allows you to see individual details for them all: initial target size; final close size; property types and geographies targeted; and much more. For more information on this product or to register for a demo, please visit:
www.preqin.com/realestate

Fig. 12: Quarterly Closed-End Private Equity Real Estate Fundraising, Q1 2007 - Q3 2011



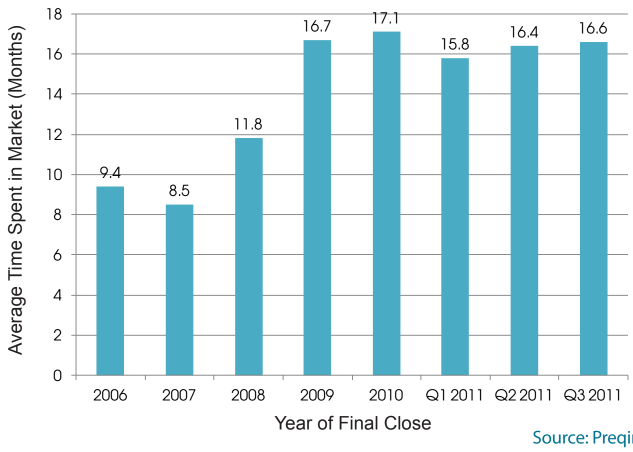
Source: Preqin

Fig. 13: Closed-End Private Real Estate Fundraising by Primary Regional Focus, Q3 2011



Source: Preqin

Fig. 14: Average Time Taken for Funds to Achieve a Final Close, 2006 - Q3 2011



Source: Preqin

Fig. 15: Top 10 Private Equity Real Estate Funds to Close in Q3 2011 by Final Close Size

Fund	Firm	Strategy	Amount Closed (mn)	Geographic Focus	Property Focus
Lone Star Fund VII	Lone Star Funds	Debt and Distressed	4,630 USD	Japan, North America, West Europe	
ECE European Prime Shopping Center Fund	ECE Real Estate Partners	Core-Plus and Value Added	775 EUR	Germany, Poland, Europe	Retail
AltaFund Value-Add I	Altarea Cogedim	Value Added	630 EUR	France	Office
UK Property Income Fund	Legal & General Property	Core and Core-Plus	500 GBP	UK	Industrial, Office, Retail
Grosvenor European Retail Partnership	Grosvenor	Core-Plus	400 EUR	France, Sweden	Retail
Duet European Real Estate Debt Fund	Duet Private Equity	Debt	300 GBP	Europe	Commercial
Green Courte Real Estate Partners III	Green Courte Partners	Value Added	407 USD	US	Car Parks, Residential
Longbow UK Real Estate Debt Investments II	Longbow Real Estate Capital	Debt	242 GBP	UK	Any
Tishman Speyer Brazil Fund III	Tishman Speyer	Opportunistic	350 USD	Brazil	Commercial, Mixed Use, Office, Residential
Hampshire Partners Fund VIII	Hampshire Companies	Debt, Distressed and Value Added	339 USD	US	Industrial, Office, Retail, Self Storage

Source: Preqin

Funds on the Road

As of October 2011, there are 436 private real estate funds in market targeting an aggregate $148bn, a similar amount of capital to that being sought by funds in market in July 2011. The fundraising environment remains highly competitive and crowded, and is compounded by investor caution. The aggregate capital sought by private equity real estate firms is over three times the amount of capital that was raised in 2010.

As seen in Fig. 16, the number of funds in market throughout 2009 remained relatively constant; however the aggregate amount of capital sought by fund managers declined quarter-on-quarter, from $228bn sought by 381 funds in Q1 2009, to $178bn targeted by 363 funds in Q4 2009. This can partially be explained by fund managers revising fundraising targets down to reflect the challenging market conditions. Throughout the course of 2010, the number of funds in market increased but the aggregate amount of capital targeted continued to decline as fund managers coming to market set lower targets and those already in market continued to revise their targets.

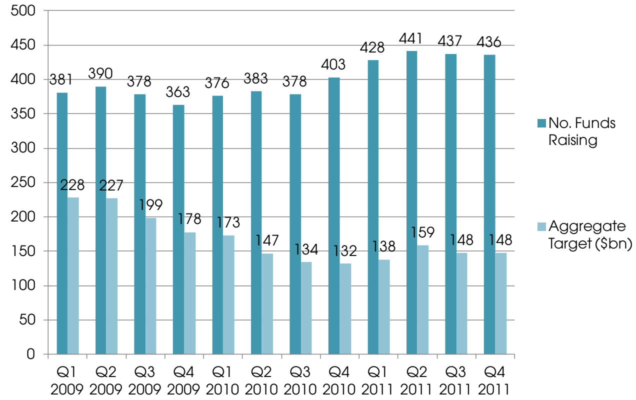
A number of large real estate vehicles were launched in Q1 2011, causing the aggregate amount of capital sought by funds in market to increase by $21bn. The figure then fell somewhat over the course of the quarter and has remained around the $148bn mark since.

Of the 436 funds in market, 252 are primarily focused on investment in North America, with these funds looking to raise an aggregate $83.9bn, accounting for 57% of the capital being sought by all funds on the road. The largest fund in market is Blackstone Real Estate Partners VII, which is targeting $10bn. This opportunistic fund will seek to acquire high-quality distressed and/or undermanaged properties at below market value.

Europe-focused vehicles are targeting the second largest amount of capital. 97 Europe-focused funds are looking to raise an aggregate $35.8bn. The largest Europe-focused fund on the road is European Diversified Fund, managed by AXA Real Estate. This core and core-plus vehicle is seeking €1.5bn to invest across industrial, logistics, office and retail properties.

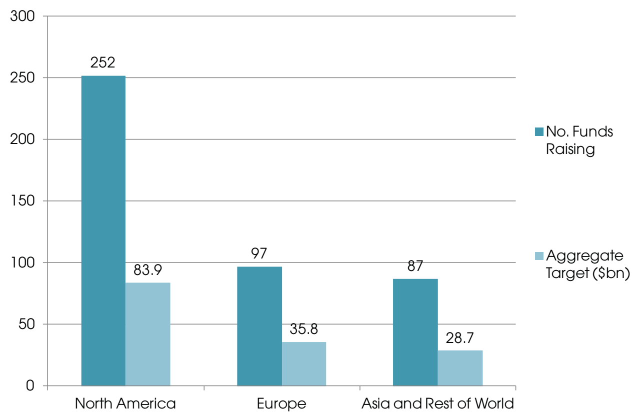
There are currently 87 primarily Asia and Rest of World-focused funds in market aiming to attract $28.7bn. Such funds account for 19% of the aggregate global target, and include funds such as Alpha Asia Macro Trends Fund II, managed by Alpha Investment Partners, which is seeking $1.5bn in capital. The fund will employ a core-plus and value added strategy and will invest across the spectrum of residential, hotel, retail, office, logistics and warehouse/distribution properties.

Fig. 16: Closed-End Private Real Estate Funds in Market over Time, Q1 2009 - Q4 2011



Source: Preqin

Fig. 17: Closed-End Private Real Estate Funds in Market by Primary Regional Focus



Source: Preqin

Details on all of the 436 private real estate funds currently seeking capital can be found on Preqin's Real Estate Online. For each fund you can view: initial target size; property types and geographies targeted; and much more. For more information or to register for a demo, please visit: www.preqin.com/realestate

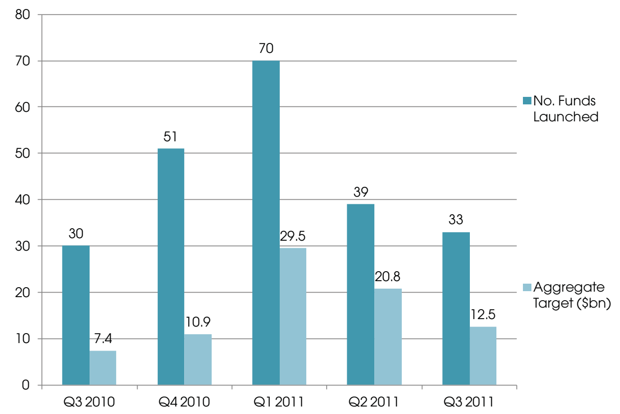
Recently Launched Funds

There were 33 new closed-end private real estate funds launched in Q3 2011, targeting an aggregate $12.5bn. Fewer funds were launched in Q3 than in the previous quarter, and the Q3 figure was significantly lower than the number of funds that commenced fundraising in the first quarter of 2011. The aggregate target of funds launched in the quarter was also significantly lower than the aggregate target of funds launched in Q2 2011, although the launch of Blackstone Real Estate Partners VII accounted for almost half of the aggregate target of funds launched in Q2. The aggregate target of funds launched in Q3 2011 is, however, an increase on the target of funds launched in the same quarter in 2010.

18 of the funds launched in Q3 2011 have a primary focus on North America, with these vehicles targeting an aggregate $7.3bn. Eight Asia and Rest of World-focused funds are targeting commitments of $2.9bn, while seven European funds were launched, targeting $2.3bn.

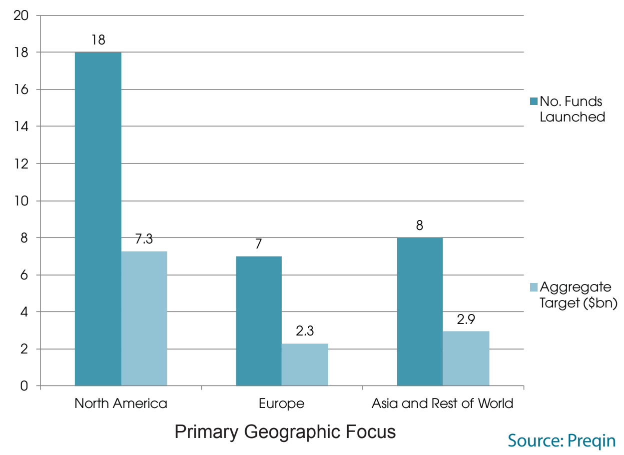
The 10 largest funds to start fundraising in Q3 2011 are shown in Fig. 20. The largest of these is Starwood Distressed Opportunity Fund IX, which is seeking $2.5bn to make opportunistic investments globally. UBS Global Real Estate is targeting €1bn to invest in core properties in major European cities. TA Associates Realty has set a $1.25bn fundraising target for its tenth offering. TA Realty Associates X makes core-plus to value added investments in industrial, suburban office, multi-family and retail assets. Secured Capital Japan is targeting $1bn for Secured Capital Real Estate Partners V, which invests in properties and distressed and debt opportunities mainly in Japan. The 10 largest funds represent 72% of the aggregate target of all funds launched in the quarter.

Fig. 18: Closed-End Private Real Estate Funds by Fundraising Launch Date



Source: Preqin

Fig. 19: Closed-End Private Real Estate Funds Launched in Q3 2011 by Primary Geographic Focus



Source: Preqin

Fig. 20: Top 10 Closed-End Private Real Estate Funds Launched in Q3 2011 by Target Size

Fund Name	Firm	Target Size (mn)	Strategy
Starwood Distressed Opportunity Fund IX	Starwood Capital Group	2,500 USD	Debt, Distressed, Opportunistic
UBS (D) European Mega Core Property Fund	UBS Global Real Estate	1,000 EUR	Core
TA Realty Associates X	TA Associates Realty	1,250 USD	Core-Plus, Value Added
Secured Capital Real Estate Partners V	Secured Capital Japan	1,000 USD	Debt, Distressed, Opportunistic
CITIC Capital China Retail Investment Fund	CITIC Capital	600 USD	Value Added
U.S. Gateway Cities Fund	Fremont Realty Capital	500 USD	Value Added
Normandy Real Estate Fund III	Normandy Real Estate Partners	500 USD	Debt, Distressed, Value Added
Fortius Active Property Trust No2	Fortius Funds Management	400 AUD	Core-Plus, Value Added
HUH US Real Estate Income Fund	Hermes Real Estate	400 USD	Core
Real Estate Capital Asia Partners III	Real Estate Capital Asia Partners	400 USD	Opportunistic, Value Added

Source: Preqin

Fig. 21: Top 10 Largest Real Estate Funds in Market by Target Size

Fund	Firm	Strategy	Target Size (mn)	Geographic Focus
Blackstone Real Estate Partners VII	Blackstone Group	Opportunistic	10,000 USD	North America, Global
Rockpoint Real Estate Fund IV	Rockpoint Group	Distressed and Opportunistic	2,500 USD	North America, Europe, Asia
Starwood Distressed Opportunity Fund IX	Starwood Capital Group	Debt, Distressed and Opportunistic	2,500 USD	Global
Carlyle Realty Partners VI	Carlyle Group	Debt and Opportunistic	2,000 USD	North America
CIM VI: Urban REIT	CIM Group	Core and Core-Plus	2,000 USD	North America
European Diversified Fund	AXA Real Estate	Core and Core-Plus	1,500 EUR	West Europe, North Europe
Alpha Asia Macro Trends Fund II	Alpha Investment Partners	Core-Plus and Value Added	1,500 USD	Asia
UBS (D) European Mega Core Property Fund	UBS Global Real Estate	Core	1,000 EUR	Europe
AG Realty Fund VIII	Angelo, Gordon & Co	Debt and Opportunistic	1,250 USD	North America, Europe, Asia
TA Realty Associates X	TA Associates Realty	Core-Plus and Value Added	1,250 USD	North America

Source: Preqin

Fundraising Future Predictions

The $11.0bn raised in Q3 2011 represents a small decline on the $13.1bn raised in Q2 2011, but is more than was raised in Q1 2011 or Q4 2010. Quarterly fundraising totals have ranged between $7.3bn and $15.6bn since the start of 2009. The capital raised for more recent quarters has been secured since the global financial crisis, however, while many of the funds to reach a final close in 2009 did so having secured significant commitments prior to the downturn. Several firms closed funds on or above target in Q3 2011, demonstrating that fundraising success is possible in the current market.

The number of interim closes to take place in Q3 does show there is momentum in the fundraising market. $7.4bn was raised by 28 funds holding interim closes, including a $4bn first close held by Blackstone Real Estate Partners VII. 38% of funds in market have held at least one interim close and will be able to put capital to work.

The number and aggregate target of funds in market remained fairly constant during Q3 2011 and competition in the fundraising market is intense. With funds on the road targeting $148bn, well over three times the amount of capital raised in the past 12 months, many firms have been forced to delay closings as they have struggled to secure investor commitments. Funds to close in the third quarter spent an average of 16.6 months in market. This is a small decline on the 17.1 month average for funds which closed in 2010, but still indicates how hard it has been for fund managers to secure commitments. Of all the funds in market, 56% have been on the road for one year or more, while 17% have spent two or more years in market.

Investor appetite for private real estate funds remains mixed. A Preqin study of the plans of 400 institutional investors found that only 35% of investors expect to make new fund commitments in the next 12 months, although a further 16% have yet to decide whether they will be active in the coming year. The figures are more positive for larger investors. For institutions with over $10bn in assets under management, 43% are planning to make investments, with a further 15% undecided. Recent stock market turbulence will also have an impact on investors' short-term plans. In the medium and longer term, very few investors are abandoning the asset class, however, and 69% of all investors in private real estate funds are currently below their overall target allocations to real estate. These investors will be looking to make investments in the future to move closer to their target allocations when conditions improve.

Fund managers are having to work hard to stand out from the crowd and, aside from a handful of the largest firms, it is managers that are raising funds investing in a specific sector or geography that are having the most success. Firms need to prove to investors that they are experts in creating value in their particular market.

While many investors are more actively reviewing opportunities and conducting due diligence, there are also a large number that have no plans to make new commitments in the coming year. The fundraising environment is likely to continue to improve gradually, but this will not be dramatic and fundraising looks set to remain challenging in the coming months. With such a high number of funds on the road, fund managers will be facing tough choices regarding the prospects of their funds.

Fig. 22: Sample of Funds Closing On or Above Target in Q3 2011

Fund	Firm	Target Size (mn)	Final Close Size (mn)
Activum Fund II	Activum SG Capital Management	200 EUR	238 EUR
AltaFund Value-Add I	Altarea Cogedim	630 EUR	630 EUR
Duet European Real Estate Debt Fund	Duet Private Equity	300 GBP	300 GBP
ECE European Prime Shopping Center Fund	ECE Real Estate Partners	500 EUR	775 EUR
Green Courte Real Estate Partners III	Green Courte Partners	250 USD	407 USD
UK Property Income Fund	Legal & General Property	500 GBP	500 GBP
Lone Star Fund VII	Lone Star Funds	4,000 USD	4,630 USD
Optimum Evolution Fund Sicav - Property II	Optimum Asset Management	100 EUR	130 EUR
Phillips Edison Strategic Investment Fund II	Phillips Edison & Company	50 USD	55 USD

Source: Preqin

Dry Powder

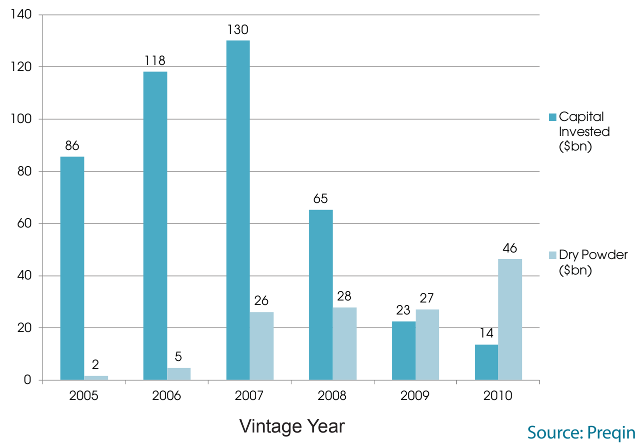
There is a total of $161bn in dry powder available to private equity real estate fund managers globally. While this is a decline on the $184bn which was available in December 2009, it represents a small increase on the $158bn available in December 2010. Fig. 23 illustrates the dry powder available and the capital invested for private real estate funds of vintage years 2005-2010. There is $46bn in dry powder available to 2010 vintage funds, while 2007, 2008 and 2009 vintage funds have $26bn, $28bn and $27bn available respectively.

The levels of dry powder available each year since 2003 by primary regional focus are shown in Fig. 24. Funds with a primary focus on North America have $87bn available, a small increase on the $84bn available in December 2010. The amount of dry powder available primarily for European investments has also seen a small increase since December 2010, rising from $36bn to $39bn. Asia and Rest of World dry powder has declined in the same period, from $38 to $35bn. European dry powder levels have remained fairly consistent since December 2009, while the amount of dry powder available to primarily North America- and Asia and Rest of World-focused funds has declined over the same period.

Fig. 25 shows dry powder by fund strategy over time. The levels of dry powder available for both opportunistic and value added strategies have declined significantly since December 2009. There is currently $65bn available to opportunistic funds and $38bn available to value added funds, declines from December 2009 of $22bn and $21bn respectively. Dry powder available for real estate debt investments has increased from $21bn in December 2009 to $27bn in September 2011. $7bn is available to closed-end funds making core investments, with the same amount available for closed-end funds making core-plus investments.

Preqin's Real Estate Online product contains the latest dry powder figures for the private real estate industry, and features league tables of the top fund managers by the amount of dry powder they have available, as well as by the total amount of capital raised in the last 10 years. For more information or to register for a demo, please visit: www.preqin.com/realestate

Fig. 23: Closed-End Real Private Estate Funds - Capital Invested and Dry Powder Remaining by Vintage Year as of September 2011



Source: Preqin

Fig. 24: Closed-End Private Real Estate Dry Powder by Primary Regional Focus, 2003 - September 2011

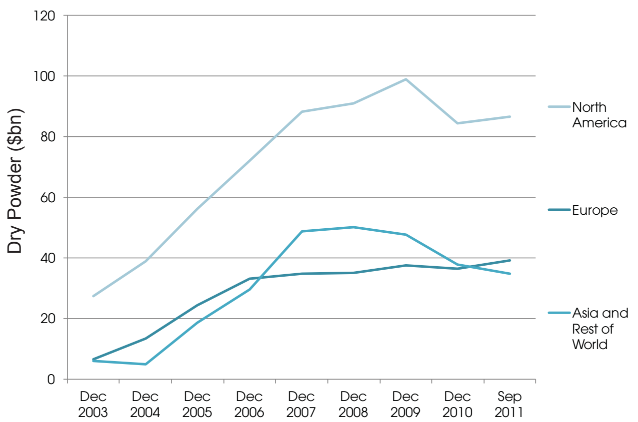


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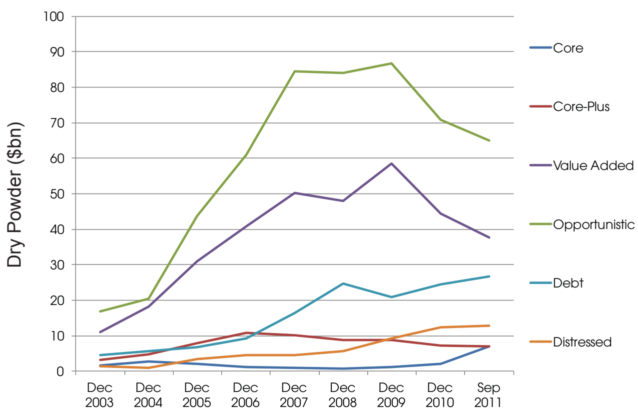
Fig. 25: Closed-End Private Real Estate Dry Powder by Fund Strategy, 2003 - September 2011



Source: Preqin

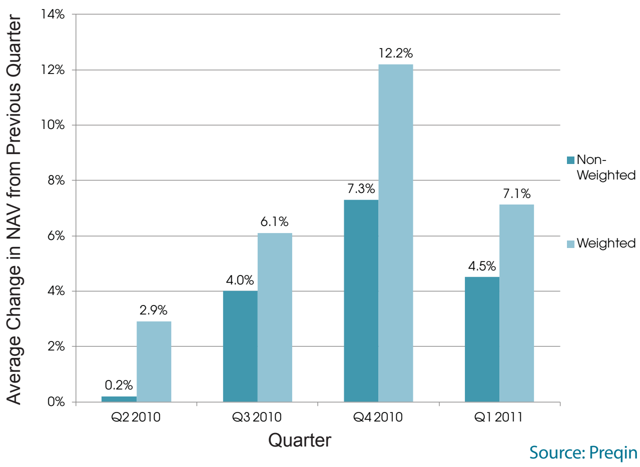
Performance Update

The change in net asset value (NAV) of private equity real estate funds in successive quarters from Q2 2010 to Q1 2011 is shown in Fig. 26. All four quarters saw a positive change in NAV, with a non-weighted increase of 4.5% in Q1 2011. This was a smaller increase than in Q4 2010, when there was a non-weighted increase in NAV of 7.3%. The weighted increase in NAV in Q1 2011, which takes fund size into account, was 7.1%. The weighted increase in NAV was also higher than the non-weighted in the previous three quarters, suggesting that valuations of larger funds are showing larger increase in NAVs than smaller funds. It is important to note, however, that many of the larger funds were more adversely affected by the economic downturn.

Fig. 27 plots the annual median net IRR at each quarter-end for funds of 2002 to 2008 vintage years. 2008 vintage funds have seen an increase in IRR in several successive quarters and the median IRR was 2.5% as of March 2011. The median IRRs for 2006 and 2007 vintage funds have also improved over the past year and, as of March 2011, stood at -5.3% and -9.3% respectively. The median IRRs of 2004 and 2005 vintage funds declined significantly as a result of the downturn, but have stabilized over more recent quarters.

The median IRRs of value added and opportunistic funds by vintage year are shown in Fig. 28. Returns for 2000-2002 vintage funds of both strategies have tended to be strong, with the median IRR for 2001 opportunistic funds standing at 26.0%. The median IRRs for both strategies are in negative territory for vintages 2005-2007. The median IRR for value added funds is lower than the opportunistic figure for each vintage year from 2003 to 2008. Vintage 2006 value added funds have been particularly affected by the downturn, with the median IRR standing at -10.3%.

Fig. 26: Closed-End Private Real Estate Funds - Change in NAV by Quarter



Source: Preqin

Fig. 27: J-Curve: Annual Median Net IRRs by Vintage Year

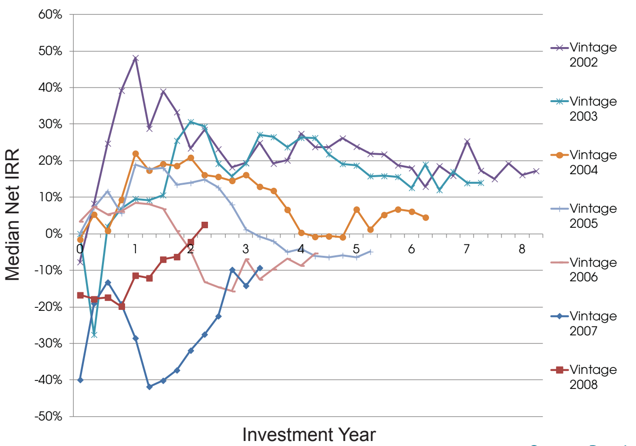


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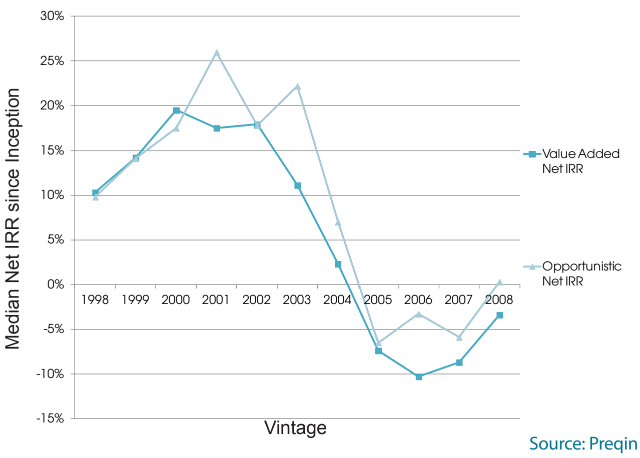
Fig. 28: Median Net IRR by Vintage Year: Value Added vs. Opportunistic Funds



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