

Q1 2011 - APRIL 2011

## Content Includes....

### Consistent Performing Managers

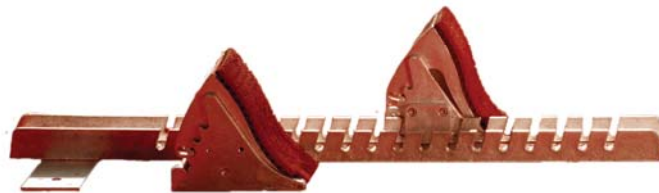
We present the private equity real estate managers whose funds have performed the most consistently.

### Latest Fundraising Figures and Future Predictions

Figures from the first quarter of the year show that real estate fundraising is still struggling to make a recovery.

### Attitudes to Asian Private Real Estate

Investor study reveals how LPs feel about investing in this rapidly growing market.



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## Editor's Note

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As we enter the second quarter of 2011, there are signs of confidence slowly returning to the private equity real estate industry. The sluggish fundraising results from Q1 2011 reveal that we are far from returning to the levels of 2006-2007, but with more interim closes taking place we are at least seeing some momentum returning.

Our conversations with institutional investors do reveal an increasing appetite for private equity real estate and these institutions are now considering new opportunities more actively than a year ago. The fundraising market remains extremely overcrowded, however, with more funds in market than at any other time in the history of the industry. While some firms have achieved considerable success in recent months, many others still face the prospect of long fundraising periods, with no guarantee of success.

The private equity real estate industry that we see today is significantly different from the one that existed prior to September 2008 and further changes seem likely. The first quarter of 2011 saw the announcement of CB Richard Ellis Group's acquisition of ING Real Estate Investment Management and, given that supply of funds on the road outstrips demand, further consolidation during 2011 is probable.

A consistent track record is one of the most important factors for an investor considering a new commitment. Investors want managers that have a proven ability to produce strong returns in a variety of market conditions. In order to shed some light, we present our consistent performers ranking on page 4.

Our consistent performers ranking is very simple: we look at the universe of fund managers which have raised three or more mature funds, and look at the average quartile placing for their funds. We hope you find this table interesting, with some brand names, but also some less well-known firms making the list.

We give details for all the latest events in the fundraising market on pages 9-10, for current funds in market on pages 11-13, and provide our predictions for the year on page 14. Elsewhere we look at the latest performance of private equity real estate funds, and compare this to REITs and direct property. Please see page 17 for more information. We also look at the latest dry powder figures on page 16.

The results of an extensive study of institutional investor attitudes to Asian private real estate funds are revealed on pages 6-7.

We hope you find the publication to be useful and informative, and as ever we welcome any feedback or suggestions that you may have for future editions.



Andrew Moylan, Editor

# Consistent Performing Managers

A consistent track record is one of the most important factors for an investor considering a new commitment. Although past successes are no guarantee of future returns, it is always pertinent to consider a fund manager's track record as it provides an indication of the manager's skill in seeking out potentially profitable investments and generating a good return for its investors. This section looks into the most consistent private real estate fund managers. It in no way seeks to endorse fund managers but rather to illustrate those that are the most consistent.

The methodology used to compile this list looks at the quartile rankings assigned to each fund, where a top quartile fund will be ascribed a score of one, a second quartile fund will be scored two and so on. Preqin only assigns quartile rankings to funds of more mature vintages and so funds with a vintage of 2009 or 2010 will not be considered. Furthermore, the list is restricted to only those managers that have raised three or more funds and those that have raised a fund in the last six years, and only includes those managers for which Preqin holds performance data. All fund managers appearing on the list have achieved a score of 1.50 or less.

Two firms have the best possible score of 1.00. JBG Companies, a value added and opportunistic investor in the Washington, DC real estate market, has five funds ranked as top quartile. Singapore-headquartered Pacific Star Financial, which invests

across Asia, also has a score of 1.00, with three funds ranked in the top quartile. DRAAdvisors has three top quartile funds and one second quartile fund. The firm makes value added investments across the US through its DRA Growth & Income Fund series. Mapletree Investments also has a score of 1.25. The Singapore-headquartered firm invests in Singapore, China, India, Japan, Vietnam and Malaysia.

Fig. 1: Consistent Performing Real Estate Managers

Firm	Location	Overall Number of Funds with Quartile Ranking	Number of Funds in Top Quartile	Number of Funds in Second Quartile	Average Score
JBG Companies	US	5	5	0	1.00
Pacific Star Financial	Singapore	3	3	0	1.00
DRA Advisors	US	4	3	1	1.25
Mapletree Investments	Singapore	4	3	1	1.25
Brookfield Asset Management	Canada	7	5	2	1.29
John Buck Company	US	3	2	1	1.33
Rockspring Capital	US	6	4	2	1.33
Secured Capital Japan Co.	Japan	3	2	1	1.33
Covenant Capital Group	US	7	4	3	1.43
Cornerstone Real Estate Advisers	US	4	3	0	1.50
Hines	US	6	5	0	1.50
RockBridge Capital	US	4	2	2	1.50

Based on a universe of 98 firms and 550 funds fulfilling the selection criteria.

# Public Pension Plans' Returns

Public pension plans are experienced investors in alternative assets, and they make significant commitments to real estate. The long-term, higher-risk nature of alternatives are well matched to long-term liabilities of pension plans, providing diversity to investment portfolios, and giving potential to yield high returns.

Fig. 2 shows the median returns across the one-, three-, five- and ten-year periods (where available) earned by pension funds from listed equity, fixed income, private equity, hedge funds and real estate investments, as well as the median returns of the entire portfolio. As of Q2 2010, one-year real estate returns are in the red. All asset classes show positive returns across five and ten years (where available), but across the three-year period only fixed income and private equity show positive returns, at 7.6% and 0.6% respectively.

Focusing only on US-based public pension funds, Preqin sought to establish which fund managers were the most popular amongst pension funds investing in real estate. The results are shown in Fig. 3. 84 US public pension systems have invested in real estate funds managed by Pramerica Real Estate Investors, making the firm the most popular real estate fund manager amongst these investors. The firm, also known as Prudential Real Estate Investors, is the real estate investment management business of Prudential Financial.

The top performing US pension fund portfolios are shown in Fig. 4. The results are based on five-year returns. Omaha School Employees' Retirement System is at the top of the list, having achieved a return of 5.6% on its overall portfolio. All of the US pension funds appearing in the top 10 have set allocations to real estate apart from State of Delaware Board of Pension Trustees, which has generated the third-highest returns of all systems

Fig. 2: Median Returns of Public Pension Plans by Asset Class as of 30 June 2010

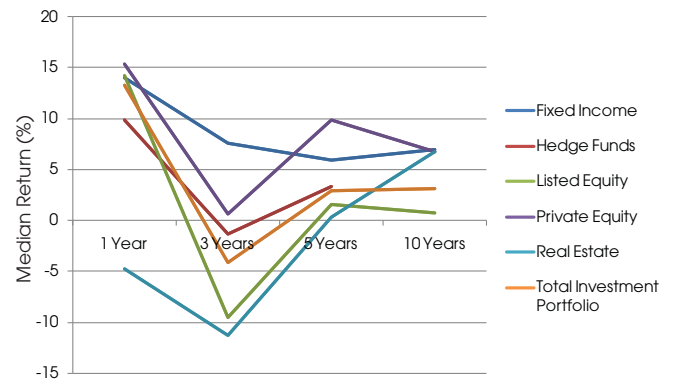


Fig. 3: Most Popular Real Estate Fund Managers amongst US Public Pension Funds

Fund Manager	No. of Investors
Pramerica Real Estate Investors	84
JP Morgan Asset Management	56
UBS Global Real Estate	52
RREEF Real Estate	50
BlackRock Realty	45

considered. The pension fund does invest in real estate, but does so through its allocation to fixed assets and alternatives.

Fig. 4: Top US Public Pension Fund Returns over a Five-Year Period

Pension Fund	Overall Portfolio: Five-Year Return	Allocation to Real Estate
Omaha School Employees' Retirement System	5.6%	10.7%
El Paso Firemen & Policemen's Pension	5.0%	6.3%
State of Delaware Board of Pension Trustees	4.3%	n/a
Missouri State Employees' Retirement System	4.2%	5.7%
New Jersey State Investment Council	4.2%	3.0%
Washington State Investment Board	4.1%	13.5%
Los Angeles County Employees' Retirement Association	4.0%	8.3%
Public Employees' Retirement System of Idaho	4.0%	7.1%
Iowa Public Employees' Retirement System	4.0%	7.7%
Arkansas Teacher Retirement System	3.7%	5.7%
State of Wisconsin Investment Board	3.7%	4.0%

# Attitudes towards Asian Private Real Estate

Over the last decade, both fund managers and investors in the private real estate market have shown great interest in Asia-Pacific property, looking to take advantage of the region's rapid economic growth. Preqin's Real Estate Online database features 241 Asia-focused firms, 400 Asia-focused funds and 574 institutional investors with a preference for funds targeting Asia-Pacific markets.

2004 marked the beginning of significant growth in fundraising for Asia-focused vehicles, with 15 funds raising an aggregate \$3.3 billion. The annual aggregate fundraising total peaked in 2008, with \$27.4 billion being raised by 45 funds.

Preqin undertook a series of extensive interviews with 76 institutional private real estate investors during February and March 2011. Institutions of varying size, type and geographic location were questioned in order to investigate investor sentiment towards Asian private real estate.

### Previous Asian Investments

57% of respondents in the study had previously invested in Asia-focused funds. 86% of participants based in Asia and Rest of World had committed to Asian funds in the past, demonstrating a preference for markets closer to home. The proportions of interviewees based in North America and Europe that had invested in Asia-focused vehicles are almost identical to one another, with 48% and 49% of respondents respectively having previously invested in Asian funds.

55% of participants made new private real estate fund commitments in 2010. However, only 14% of this group committed to funds targeting the Asia-Pacific region in 2010. Respondents with historical Asian investments that did not commit to such vehicles in 2010 were asked when they last made an Asian fund commitment. 55% made their last commitment in 2008, 5% had not committed to Asia since 2006, and 20% made their last commitment in 2007.

68% of interviewees had invested in Asia through managers headquartered in the region. This illustrates that investors have confidence in Asian firms' local expertise, and institutions based in the US or Europe will not necessarily only use domestic managers, or highly established firms, to invest in Asia.

As shown in Fig. 7, 46% of respondents stated they had invested in Asia through pan-Asian vehicles. This suggests that institutions are not only interested in specific countries like China or India, which are thought to have superior growth prospects, or developed Asian markets such as Japan, but seek exposure to the region as a whole.

Fig. 5: Proportion of Respondents That Have Previously Invested in Asia-Focused Funds (Split by Investor Region)

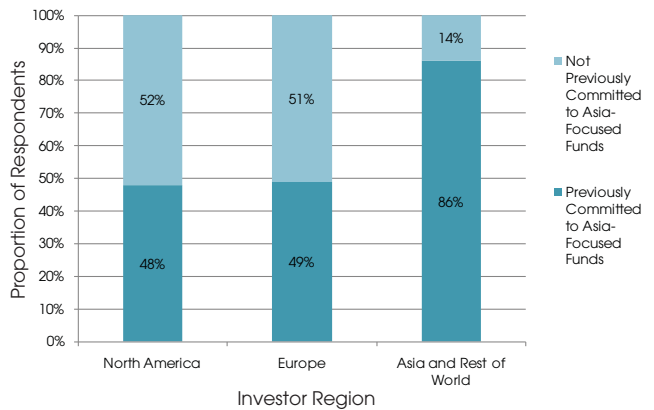


Fig. 6: Headquarters of Asia-Focused Fund Managers That Respondents Have Invested With

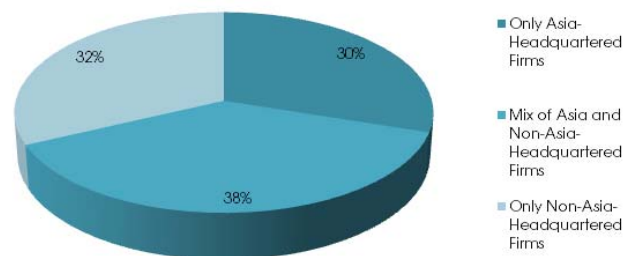
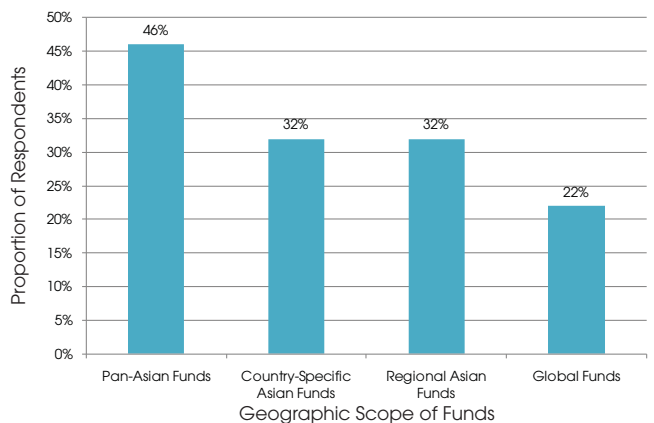


Fig 7: Geographic Scope of Respondents' Previous Asia-Focused Fund Investments



**Asian Investments in Next 12 Months**

68% of the institutions interviewed by Preqin stated that they are likely to make new private real estate fund commitments in the next 12 months. Participants were asked whether they would consider committing to Asian funds in the next 12 months, and of those likely to be active in the coming year, 42% said that they are likely to commit to Asia-focused funds. These findings are indicative of improving investor sentiment towards private real estate and to Asian property, and suggest that 2011 could mark the beginning of an upward trend in real estate fundraising.

67% of respondents that said they are likely to invest in Asia will seek pan-Asian funds, 20% stated a preference for global vehicles and 13% will target country-specific Asian funds.

15% of participants that are likely to commit to Asian funds in the next 12 months will be making a maiden allocation to the region, suggesting that Asia-Pacific real estate is attracting new investors. Fig. 8 indicates that investors based in Asia and Rest of World are more likely to invest in Asian funds than organizations based elsewhere.

**Expectations of Asian Investments**

Fig. 9 shows that the most commonly cited reason for investing in Asian funds was achieving portfolio diversification. 43% said that the projected superior returns from Asian investments attracted them to such vehicles, and 39% aimed to take advantage of the region's growth potential.

Fig. 10 illustrates that the majority of investors that had previously committed to Asia-focused funds, or are looking to do so in the next 12 months, believe such investments will provide superior long-term returns compared to developed economies. 19% thought Asian funds would not provide superior returns and 14% were unsure whether such funds would perform better than those investing in developed markets.

**Outlook**

The outcome of this study has positive implications for Asia-focused firms and the private real estate market as a whole. With 68% of participants looking to commit to private funds in the next 12 months, and over a third of this group looking to commit to Asian vehicles, 2011 may see an increase in investor commitments to all funds, as well as Asian vehicles.

68% of respondents have invested in Asia through managers headquartered in that region, highlighting investor confidence in the more recently established Asian firms. Institutions largely believe that the economic growth in the region will continue to fuel the growth of Asian real estate markets, with 67% of investors interviewed believing that their Asian investments will provide superior returns compared to developed markets. The Asian private real estate fundraising market therefore seems likely to regain momentum over the coming years.

Fig. 8: Respondents' Intentions for Asia-Focused Fund Investments in Next 12 Months (Based on Those Likely to Invest in Private Real Estate)

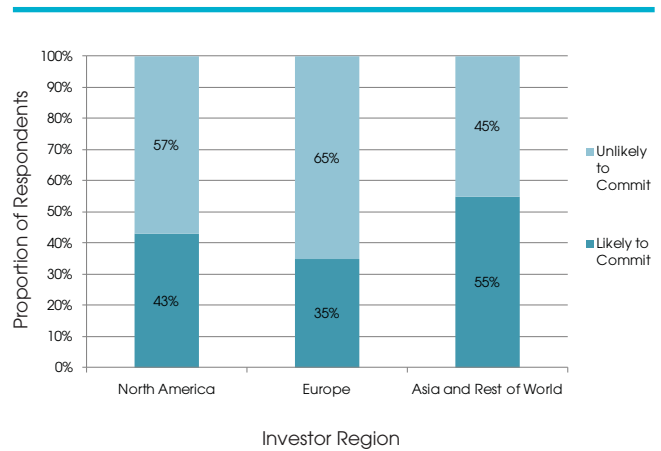


Fig. 9: Respondents' Motivations for Investing in Asia-Focused Funds

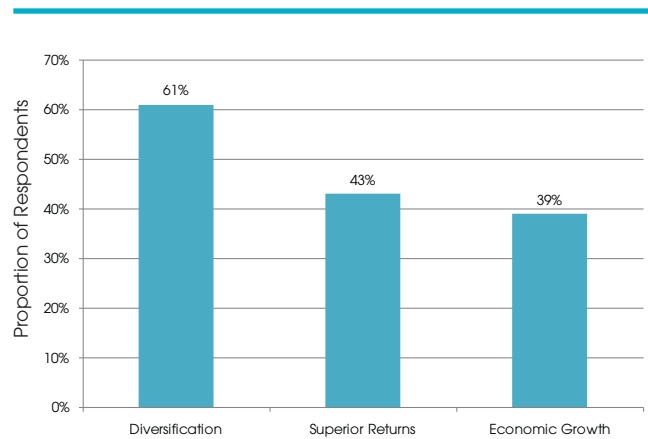
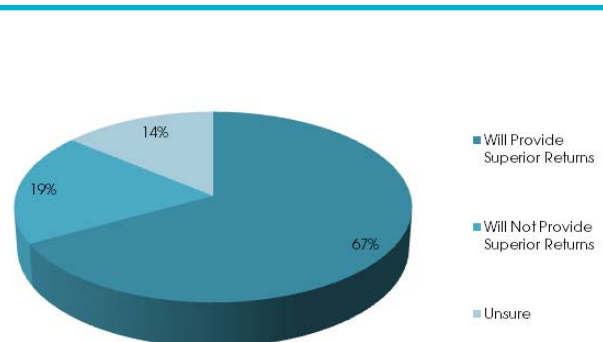


Fig. 10: Respondents' Long-Term Returns Expectations of Asia-Focused Fund Investments Compared to Developed Markets



# Sovereign Wealth Funds in Real Estate

The collective influence of sovereign wealth funds as a global group of large investors has once again increased over 2010-2011. The aggregate value of sovereign wealth fund assets under management has increased from \$3.59 trillion in 2010 to \$3.98 trillion in 2011.

As of 2011, 56% of all sovereign wealth funds have exposure to real estate investments, while a further 5% are currently considering making investments in the space. This represents an increase from the proportion in 2010, when 51% of sovereign wealth funds were invested in the asset class.

While 31% of sovereign wealth funds access real estate via direct investments only, 50% invest through a combination of both direct stakes and indirect exposure via private real estate funds or listed investments, as shown in Fig. 11. In general, those sovereign wealth funds with a preference for real estate have been extremely active in the asset class. The sovereign wealth funds that currently invest in real estate have an average target allocation of 8.3% and an average current allocation of 7.1% to the asset class. Some sovereign wealth funds place a high degree of importance on the real estate holdings within their wider investment portfolio by targeting elevated allocation levels. For example, Alberta Heritage Savings Trust Fund maintains a target allocation range of up to 20% of its total AUM to the real estate space and is set to increase investment throughout 2011.

Asia is the most popular region for sovereign wealth funds to make real estate investments and 75% of sovereign wealth funds that invest in real estate have a preference for investments in this region. North America and Europe are the next most popular regions. 91% of sovereign wealth funds with a preference for MENA-based real estate are themselves located in the MENA region. MENA-based investors have diverse preferences in terms of the geographic location of their investments and also account for 56% of the sovereign wealth funds with a preference for Europe-based investments and 40% of those with a preference for North America-based investments.

In terms of strategic preferences, the higher-risk opportunistic and value added vehicles are those most favoured by sovereign wealth funds that invest through private real estate funds. As shown in Fig. 12, 81% and 75% of such investors have a preference for these strategies respectively. Ireland's National Pension Reserve Fund is an example of a sovereign wealth fund that has committed to numerous opportunistic and value added vehicles. Its commitments include the value added AREA Domestic Emerging Markets Fund, which targets urban residential and retail redevelopment opportunities, and the opportunistic

Fig. 11: Proportion of Sovereign Wealth Funds Investing in Real Estate That Invest Directly and/or Indirectly

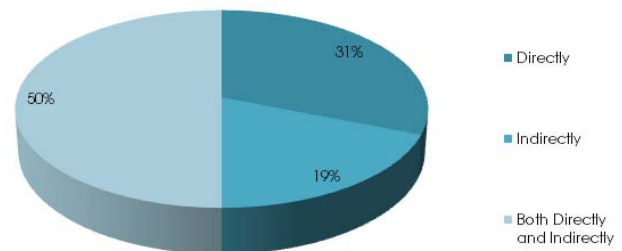
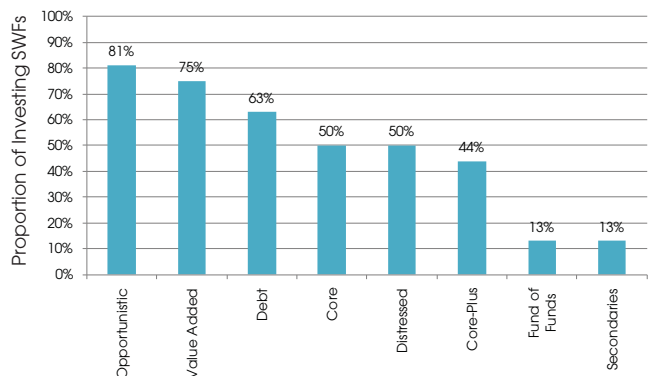


Fig. 12: Private Real Estate Fund Strategy Preferences of Investing Sovereign Wealth Funds



vehicle Fortress Investment Fund V, which targets investments backed by real estate in North America and Western Europe. Over half of SWFs that invest in private real estate funds have a preference for debt, core and distressed vehicles. Fund of funds and secondaries remain the least preferred strategies and only 13% have an interest in each of these strategies.

Despite the slow and steady return of institutional investor confidence, fundraising for real estate fund managers has lagged behind the general recovery rate and has remained comparatively depressed in the last year. Given the resources available to sovereign wealth funds, and their specific investment preferences, such institutional investors can be a vital source of capital for real estate fund managers on the road in 2011.

# Fundraising Overview

Seventeen private equity real estate funds reached a final close in Q1 2011, raising an aggregate \$5.8 billion. This represents a small decrease on the \$6.5 billion raised in Q4 2010 and makes it the slowest quarter since Q4 2003 in terms of aggregate capital raised for final closes. Quarterly totals remain significantly lower than 2006-2008, when they regularly exceeded \$30 billion. In addition to the funds that held a final close in the quarter, 40 funds held an interim close during Q1 2011, raising a total of \$5.7 billion towards their overall targets. This does suggest that the fundraising environment is showing signs of improvement, despite the fact that this has not yet translated into an increased number of funds reaching a final close.

Funds primarily focusing on North America raised the most capital in the quarter, with eight funds receiving aggregate commitments of \$3.5 billion. The largest of these was Blackstone Real Estate Special Situations Fund II, which raised \$1.5 billion to invest in distressed loans, mezzanine debt, preferred equity, recapitalizations, listed equity and debt securities, and limited-control/minority interest investments. Vornado Capital Partners closed with commitments of \$800 million. It focuses on acquiring high-quality assets at distressed prices, primarily in New York and Washington, DC. Five Asia and Rest of World-focused funds received an aggregate \$1.2 billion, the largest being the Brazil-focused Pátria Brazil Real Estate Fund II. Four Europe-focused funds raised \$1.1 billion, including Sveafastigheter Fund III, which closed on €317 million. The 10 largest funds to close in the quarter are shown in the table on page 10.

The length of time that funds spend on the road is an excellent indicator of investor appetite and the degree of competition in the fundraising market. As shown in Fig. 15, funds that closed in Q1 2011 spent an average 17.3 months in market, a small increase from the 16.7 months for funds closed in 2010. It is taking firms significantly longer to raise funds than it did in previous years; for funds closed in 2006, fund managers spent an average 9.3 months in market.

Preqin's Real Estate Online database contains detailed profiles for 3,200 unlisted real estate funds including Limited Partnerships, Property Unit Trusts, LLCs, FCPs and more encompassing all strategies including core, core-plus, value added, opportunistic, debt and distressed, and fund of funds. For more information about this product and how it can assist you, please visit: [www.preqin.com/reo](http://www.preqin.com/reo)

Fig. 13: Quarterly Private Equity Real Estate Fundraising, Q1 2007 - Q1 2011

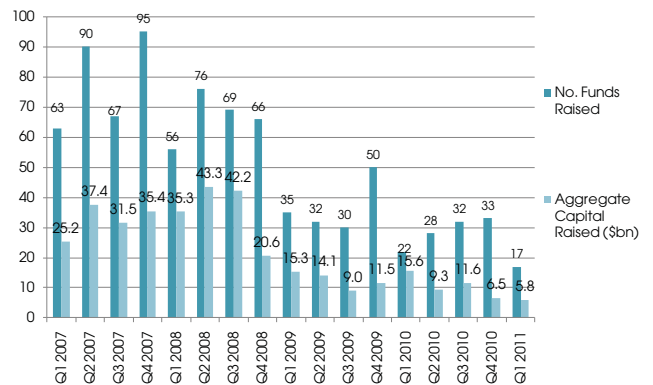


Fig. 14: Q1 2011 Fundraising by Fund Primary Regional Focus

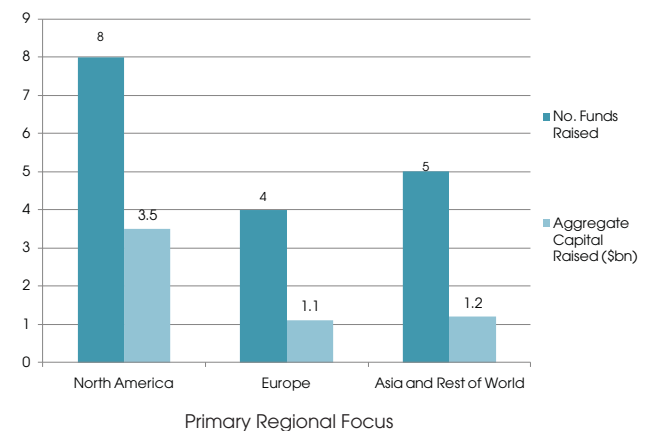


Fig. 15: Average Time Taken for Funds to Close, 2006 - Q1 2011

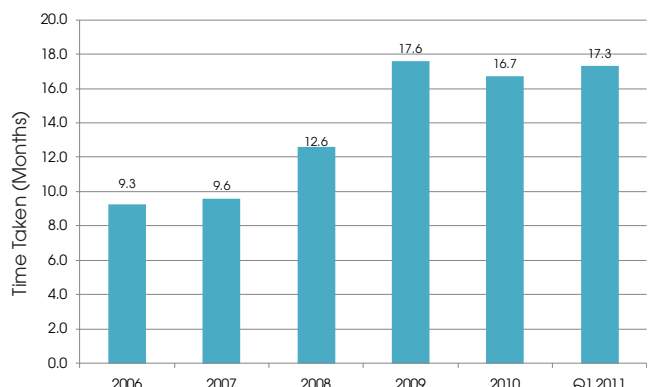


Fig. 16: Top 10 Private Equity Real Estate Funds to Closed in Q1 2011 by Final Close Size

Fund	Firm	Strategy	Amount Closed (mn)	Geographic Focus	Property Focus
Blackstone Real Estate Special Situations Fund II	Blackstone Group	Debt	1,500 USD	US	
Vornado Capital Partners	Vornado Realty Trust	Value Added, Distressed	800 USD	NY, DC	Office, Retail
Pátria Brazil Real Estate Fund II	Pátria Investimentos	Core-Plus, Opportunistic, Value Added	550 USD	Brazil	Commercial, Industrial, Office, Retail
Madison International Real Estate Liquidity Fund IV	Madison International Realty		510 USD	US, UK, West Europe	Hospitality, Industrial, Multi-family, Office, Retail
Waterton Residential Property Fund XI	Waterton Associates	Opportunistic, Value Added, Debt, Distressed,	500 USD	US	Multi-family
Sveafastigheter Fund III	Sveafastigheter	Opportunistic, Value Added, Distressed	317 EUR	Nordics, Baltics	Hotels, Industrial, Logistics, Office, Retail
SoTan China Real Estate I	Tan-Eu Capital	Opportunistic, Distressed	400 USD	China	Residential, Mixed Use
Warburg - Henderson KOOP	Warburg - Henderson	Core	200 EUR	West Europe	Office, Retail
Melford Special Situations	Melford Capital Partners	Value Added	125 GBP	UK	Any
DIC Office Balance I	DIC Asset	Core, Core-Plus	120 EUR	Germany	Office

# Funds on the Road Overview

As of April 2011, there were 441 private equity real estate funds in market targeting an aggregate \$159 billion. Over the first quarter of 2011, there was a 3% increase in the number of real estate funds on the road and a 15% increase in the aggregate capital targeted by such vehicles. This has led to an extremely crowded market, where the aggregate target of all funds in market is higher than the total capital raised in 2008, and nearly four times the amount gathered in 2010.

During 2009, the number of funds in market remained relatively constant, while the aggregate capital being sought by such vehicles decreased significantly as a result of difficult fundraising conditions forcing many managers to set lower, more realistic fund targets. The number of funds in market increased by 52 over the course of 2010, while the aggregate capital being sought by these vehicles declined by \$35 billion. In the first quarter of 2011, a number of large real estate funds were launched, which led to the aggregate target of funds in market growing to its highest level since the end of 2009. Furthermore, the tough fundraising conditions in recent years have made it increasingly hard for managers to close funds. This has created a saturated market in which more funds are currently on the road than at any time in the past.

Of the 441 funds in market, 240 are primarily focused on North America. These funds are seeking to raise an aggregate \$87.0 billion, which accounts for 55% of the capital being sought by all funds of the road. The largest fund in market is the primarily North America-focused Blackstone Real Estate Partners VII, which is targeting \$10 billion. The opportunistic fund will acquire high-quality distressed and/or undermanaged properties at below market prices.

Europe-focused funds are targeting the second-largest amount of capital. 113 such funds are targeting an aggregate \$42.2 billion, which accounts for 26% of funds on the road and 27% of the capital sought.

The largest fund in market not primarily focused on North America is Aberdeen European Shopping Property Fund, which is targeting €1.5 billion. The fund focuses on retail property markets in Europe, with a specific focus on Belgium, France, the Netherlands and Germany.

There are currently 88 primarily Asia and Rest of World-focused funds in market aiming to raise an aggregate \$30.0 billion. Such funds account for 19% of the global targeted capital and 20% of the number of funds on the road.

Fig. 17: Private Equity Real Estate Funds in Market over Time, 2009 - 2011

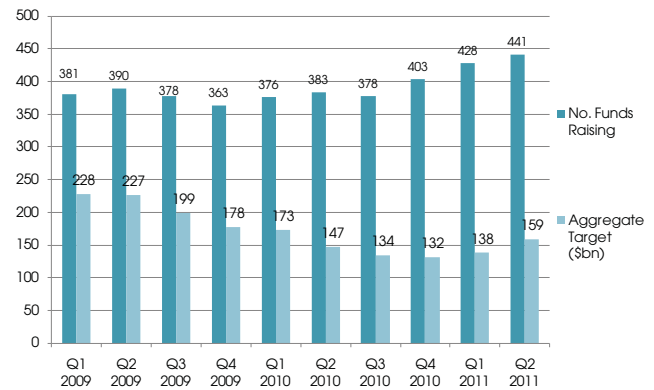
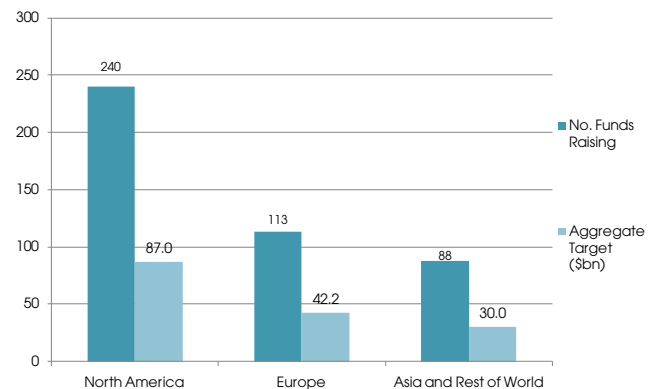


Fig. 18: Private Equity Real Estate Funds in Market by Primary Geographic Focus



# Recently Launched Funds

Despite the poor levels of fundraising in recent quarters, managers are still bringing a significant number of funds to market. 45 funds were launched in the first quarter of 2011, with these vehicles targeting an aggregate \$20.7 billion. The aggregate target size of funds launched in Q1 2011 is more than the combined capital targeted by funds launched in the final two quarters of 2010. This indicates that a degree of momentum could be returning to the market as managers are beginning to launch new funds to take advantage of a perceived upturn in investor confidence.

28 North America-focused funds were launched in Q1 2011, with these vehicles aiming to garner an aggregate \$12.6 billion. Nine Asia and Rest of World funds were launched in the quarter, with an aggregate target of \$5.4 billion, while eight Europe-focused funds were brought to market, aiming to raise \$2.6 billion.

Fig. 21 shows the 10 largest funds launched in Q1 2011 by target size. Of the 10 largest funds brought to market, seven are primarily focused on North America, two are Asia and Rest of World-focused and one is Europe-focused. The largest fund launched in the quarter was Rockpoint Real Estate Fund IV, which is aiming to raise \$2.5 billion. The opportunistic fund will invest in distressed properties located in the US, Europe and Asia. The largest primarily Asia and Rest of World-focused fund launched in Q1 2011 was Alpha Asia Macro Trends Fund II, which is targeting \$1.5 billion. The fund will focus on developed property markets in Asia such as Singapore, Japan, Taiwan, South Korea and Hong Kong.

Fig. 19: Private Equity Real Estate Funds by Launch Date

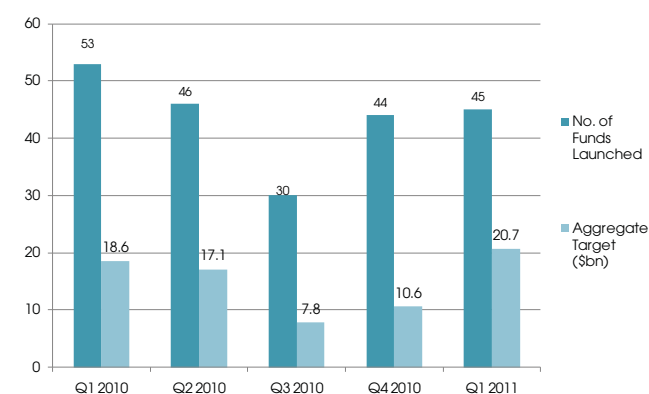


Fig. 20: Private Equity Real Estate Funds Launched in Q1 2011 by Primary Geographic Focus

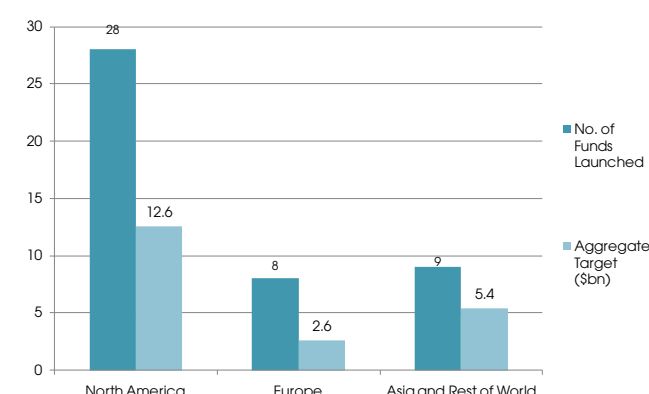


Fig. 21: Top 10 Real Estate Funds Launched in Q1 2011 by Target Size

Fund Name	Firm	Target Size (mn)	Strategy
Rockpoint Real Estate Fund IV	Rockpoint Group	2,500 USD	Distressed, Opportunistic
Alpha Asia Macro Trends Fund II	Alpha Investment Partners	1,500 USD	Core-Plus, Value Added
ARA Asia Dragon Fund II	ARA Asset Management	1,000 USD	Opportunistic
OCM Real Estate Opportunities Fund V	Oaktree Capital Management	1,000 USD	Debt, Opportunistic
Paramount Group Real Estate Fund VII	Paramount Group	1,000 USD	Core-Plus
Greenfield Acquisition Partners VI	Greenfield Partners	1,000 USD	Debt, Distressed, Value Added
DRA Growth & Income Fund VII	DRA Advisors	850 USD	Distressed, Value Added
Related Distressed Opportunity Fund I	Related Companies	750 USD	Debt, Distressed, Opportunistic
LaSalle Income & Growth VI	LaSalle Investment Management	650 USD	Value Added
Doughty Hanson & Co Euro Real Estate III	Doughty Hanson & Co	400 EUR	Opportunistic

Fig. 22: Top 10 Largest Real Estate Funds in Market

Fund	Firm	Strategy	Target (mm)	Geographic Focus
Blackstone Real Estate Partners VII	Blackstone Group	Opportunistic	10,000 USD	US, Global
Lone Star Fund VII	Lone Star Funds	Debt and Distressed	4,000 USD	Japan, North America, West Europe
Lone Star Real Estate Fund II	Lone Star Funds	Debt, Distressed and Opportunistic	4,000 USD	Global
Rockpoint Real Estate Fund IV	Rockpoint Group	Distressed and Opportunistic	2,500 USD	US, Europe, Asia
Aberdeen European Shopping Property Fund	Aberdeen Asset Management: Property Division	Core-Plus and Value Added	1,500 EUR	West Europe
Carlyle Realty Partners VI	Carlyle Group	Debt and Opportunistic	2,000 USD	North America
CIM VI: Urban REIT	CIM Group	Core	2,000 USD	North America
Alpha Asia Macro Trends Fund II	Alpha Investment Partners	Core-Plus and Value Added	1,500 USD	Asia
MacFarlane Urban Real Estate Fund III	MacFarlane Partners	Opportunistic	1,500 USD	US
Blackstone Real Estate Special Situations Europe	Blackstone Group	Debt	1,000 EUR	Europe

# Fundraising Future Predictions

Although the fundraising environment for private equity real estate remains extremely challenging, confidence among both investors and fund managers is slowly returning. While current final close figures show fundraising at a low point, there is certainly more momentum in the market than there was throughout much of 2009 and 2010. Much of the capital raised for final closes which took place in 2009 and the first half of 2010 was from commitments which were secured prior to the global financial crisis. In contrast, the funds which closed in Q1 2011 did so largely with commitments secured since September 2008. The number of interim closes also offers encouragement, with 40 funds holding an interim close during Q1, raising a total of \$5.7 billion towards their overall targets.

Institutional investors remain cautious when committing to new funds, but are no longer as constrained as they were during recent quarters. As real estate deal flow has increased, investors have received increased distributions from their existing commitments and so have more capital to put to work. Many institutions also believe there are excellent opportunities to invest in real estate in the coming months.

The results of Preqin's latest study of institutional investors show that 68% of investors expect to make new commitments in the next 12 months. Although some investors will no longer consider private equity real estate funds, with CalPERS being the most notable example, these are very much in the minority. Most institutions still want access to the skill, experience and unique opportunities provided by fund managers.

The nature of the funds that have closed in Q1 gives an indication of the changing appetite of investors. Only one fund to close in the quarter did so with commitments of more than \$1 billion, and most funds to close are specifically focused on a particular property type and/or region. Fund managers that can demonstrate to LPs that they are true experts in their particular region or market are the ones which are seeing the most success.

The fundraising market remains extremely overcrowded, however, with more funds in market than at any other time in the history of the industry and the aggregate target of funds on the road equating nearly four times the amount raised in 2010. There will still be many firms which are forced to delay or abandon their fundraising efforts, and the industry is likely to see further consolidation during 2011.

While it does make the market more competitive, the increase in the number and aggregate target of funds on the road suggests that fund managers believe that they can be successful in the fundraising market. Firms such as Rockpoint Group, Alpha Investment Partners and Oaktree Capital Management all launched new funds in Q1 2011, while Blackstone Group began marketing Blackstone Real Estate Partners VII at the start of April.

Based on Preqin's conversations with institutional investors, placement agents and fund managers across the globe, it seems likely that fundraising will improve throughout the remainder of 2011, with a particular improvement coming towards the end of the year.

Fig. 23: Sample of Funds Closing Above Target in 2010 or Q1 2011

Fund	Firm	Target (mn)	Final Close (mn)
Brockton Capital II	Brockton Capital	GBP 300	GBP 496
Boston Capital Tax Credit Fund XXXII	Boston Capital	USD 150	USD 225
Morgan Stanley AIP Phoenix Global Real Estate Secondaries Fund	Morgan Stanley Alternative Investment Partners	USD 250	USD 370
Real Estate Turnaround Consortium	Brookfield Asset Management	USD 4,000	USD 5,565
Pátria Brazil Real Estate Fund II	Pátria Investimentos	USD 400	USD 550
Mesa West Real Estate Income Fund II	Mesa West Capital	USD 450	USD 615
Fortress Credit Opportunities Fund II	Fortress Investment Group	USD 2,000	USD 2,600
Madison International Real Estate Liquidity Fund IV	Madison International Realty	USD 400	USD 510
Shorenstein Realty Investors Ten	Shorenstein Properties	USD 1000	USD 1232
Harmony China Real Estate Fund	China Overseas Land & Development	USD 250	USD 300

# Investor Allocations

The allocation of an investor relative to its target allocation is an important factor affecting whether it is likely to make new commitments to bring it closer to its target level of exposure. Comparing the proportion of investors which are below, at or above their targets may give an indication of which groups of investors are likely to be the most active this year.

Of all investors globally, 66% are currently below their target allocations to real estate. The reasons for this will differ from investor to investor, but many institutions have seen stronger performance from other asset classes than from their real estate portfolios over the past 12 months, and may therefore find themselves below their targets. Others have set long-term targets and will gradually make new commitments to move towards this target level of exposure.

77% of public pension funds are below their target to the asset class, with just 23% of these institutions at or exceeding their target allocation. Many of these investors may be looking to make new real estate investments in the coming months in order to move closer to their target allocations. 66% of endowment plans are below their target real estate allocations, with 25% meeting their targets and just 9% over-allocated. 60% of private sector pension funds and 59% of insurance companies are below their target allocations.

Although 52% of foundations are below their targets, this group of investors has the highest proportion of investors over-allocated, with 19% of foundations above their target real estate allocations. Asset managers appear to be the group least likely to be compelled to make new investments by their allocation to the asset class. Only 31% are below their target allocation to real estate. While 15% are above the target allocation, 54% are at their target. Those investors at their target allocation are still likely to make new commitments, as they will need to invest distributions from their existing commitments in order to maintain their level of allocation to the asset class.

North America-based institutions are most likely to be below their target real estate allocations. 73% of North American investors are under-allocated. 60% of European Investors are below their allocations, with 55% of Asia and Rest of World-based institutions below their target. Asia and Rest of World-based institutions are most likely to be over-allocated, with 25% of investors having a real estate allocation which exceeds their target.

Fig. 24: Current Level of Real Estate Allocation Relative to Target by Investor Type

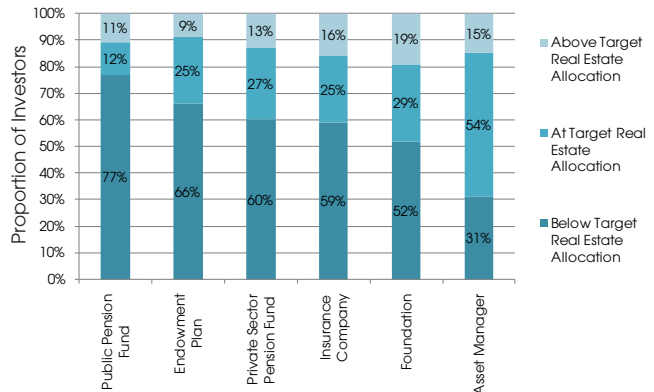
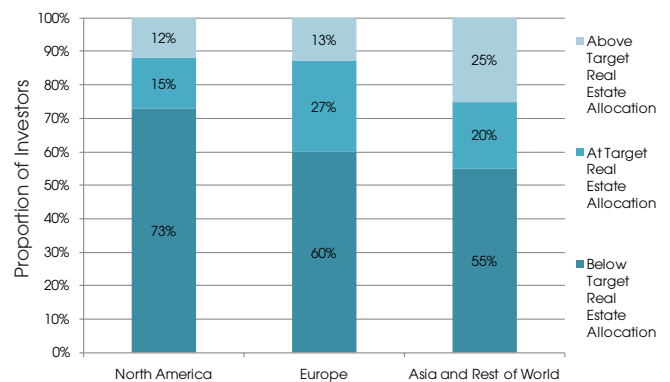


Fig. 25: Current Level of Real Estate Allocation Relative to Target by Investor Region



# Dry Powder

The amount of dry powder available to private real estate fund managers has fallen since December 2009 as fundraising has remained slow over the period. Fig. 26 shows the amount of dry powder available to private real estate funds of each vintage year from 2005 to 2010. Vintage 2007 funds, which are like to be nearing the end of their investment periods, still have \$41 billion available in uncalled capital. Vintages 2008-2010 all have similar amounts remaining for investment.

Fig. 27 shows dry powder levels since 2003 by primary geographic focus of private real estate funds. European dry powder has remained at a relatively stable level in recent years which, together with the low levels of fundraising, indicates that deal activity in this region has been low. North America-focused dry powder levels have fallen from \$100 billion in December 2009 to \$91 billion in March 2011, but the largest proportional decrease has been for Asia and Rest of World-focused funds, for which dry powder has declined from \$48 billion in December 2009 to \$37 billion in March 2011, demonstrating that investment activity has been relatively strong in this region.

Fig. 28 shows private real estate dry powder by fund strategy, with levels of uncalled capital falling over 2010 for both opportunistic and value added funds as rates of investment by the managers of these funds increased during the year. Levels of dry powder available to closed-end core and distressed funds has increased over recent years, suggesting that investors have been committing greater amounts of capital to these strategies.

Fig. 26: Closed-End Private Real Estate Funds - Capital Invested and Dry Powder Remaining by Vintage Year as of 31 March 2011

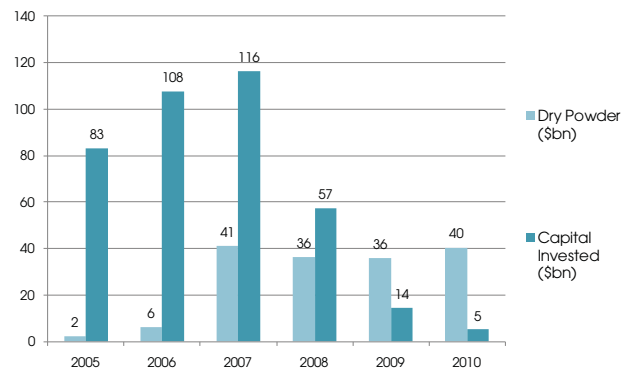


Fig. 27: Closed-End Private Real Estate Dry Powder by Primary Regional Focus, 2003 - 2011

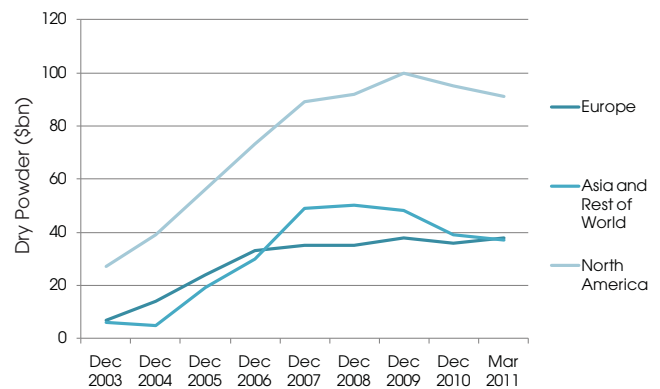
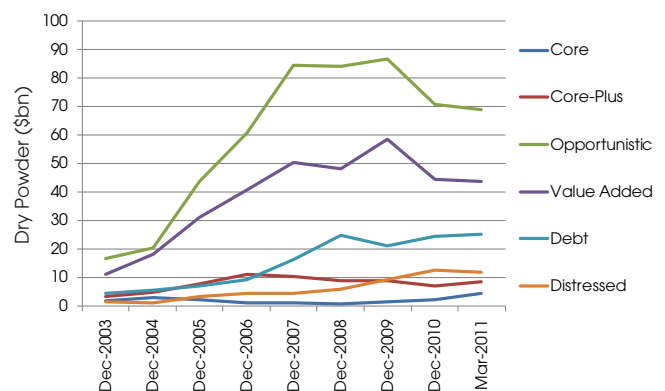


Fig. 28: Closed-End Private Real Estate Dry Powder by Fund Strategy, 2003 - 2011



# Performance Update

Fig. 29 shows the change in net asset value (NAV) between successive quarters from Q4 2009 to Q3 2010. While Q4 2009 saw a non-weighted average change in NAV of -3.9%, there has been an improvement in subsequent quarters. Q1 2010 saw a small negative change of -0.4% and there was a 0.2% increase in NAV in the following quarter. The average non-weighted change in Q3 2010 was 4.0%. A combination of slowly improving real estate markets and the active asset management being carried out by fund managers is starting to result in increased valuations for their funds' portfolios. The weighted data, which takes into account fund sizes, showed a 6.1% increase in NAV during Q3 2010; larger funds have outperformed smaller funds in each of the four quarters shown.

The annual median net IRRs at each quarter-end for funds of 2003 to 2008 vintages are plotted in Fig. 30. The median IRRs of funds of 2004, 2005 and 2006 vintage years declined significantly as a result of the downturn, before stabilizing or seeing small increases over the four quarters to Q3 2010. 2007 vintage funds had a median IRR which was deeply in negative territory in Q1 2009, standing at -41.8%. The median IRR for these funds has seen significant rises in recent quarters and was -9.8% in Q3 2010. The median IRR of 2008 vintage funds has also seen an increase and was -6.3% in Q3 2010.

Fig. 31 compares horizon IRRs of private equity real estate funds over one-, three- and five-year periods compared with the Wilshire REIT Index and the NCREIF Property Index. Private equity real estate funds have outperformed REITs and matched the returns from direct property over the five-year period to September 2010. Over one- and three-year periods, however, private equity real estate returns have been lower. The one-year private equity real estate horizon IRR was 0.1%, compared with returns of 5.8% for the NCREIF Property Index and 30.1% for the Wilshire REIT Index.

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Fig. 29: Private Equity Real Estate Change in NAV by Quarter

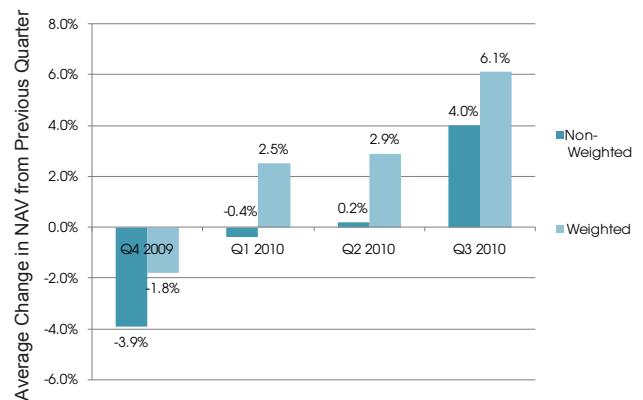


Fig. 30: J Curves: Annual Median Net IRRs by Vintage Year, as of 30 September 2010

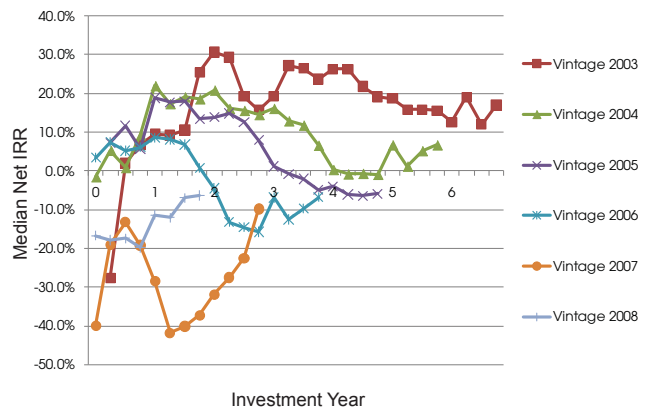
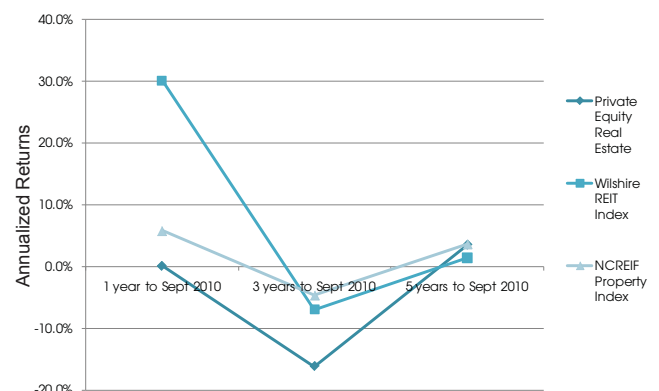


Fig. 31: Private Equity Real Estate Horizon IRR vs. REIT and Direct Property Indices as of 30 September 2010



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