Hong Kong: Asia's main cities proved a big draw for fundraising in 2008.

Continental shift

An otherwise flagging 2008 fundraising market was invigorated by high demand for Asian funds, according to proprietary data from *PERE*. By Jonathan Brasse

It will be remembered as the year Asia eclipsed the West. For the first time, Asian private equity real estate funds drew more capital commitments than did North American-focused funds or European funds.

In 2008, general partners raised $64.4 billion in equity for private equity real estate funds, which this magazine defines as equity for commingled, blind pool, discretionary, limited partnerships across the world focused on value added and opportunistic strategies.

Proprietary data from *PERE* magazine shows an overall drop of nearly 30 percent from the previous year – $83.8 billion was raised in 2007 (see graph on p.43). And, according to those responsible for this year's equity haul, the market should expect much less in the year to come.

Indeed, some fundraising market insiders predict the total for 2009 will be between $20 billion and $30 billion, reflecting a steep drop in available capital, as well as a drop in investor sentiment.

Both fund managers and advisors expect minimal capital commitments in the first half of 2009. This, they said, is partly because of the denominator effect. Those investors still able to be active are sitting on the market sidelines until a pricing rationalisation materialises, a date which remains, for the most part, elusive.

Within the gloomy larger story for 2008, the *PERE* data showed a key subplot – more equity was closed last year for Asia-facing funds ($18.4 billion) than for any other category, including North America ($16.7 billion), Europe ($14.5 billion) and global funds ($14.3 billion).

Global vehicles experienced the largest drop when compared with 2007. Equity raised for global funds fell by two thirds from $33.6 billion to $14.3 billion.

Denominator effects and sidelines

Simon Treacy, chief executive officer of Asia Investments at MGPA, explained the grim effects of a shrunken "denominator" on the real estate asset class: "Real estate typically made up between 6 percent and 10 percent of a portfolio. For some, that grew to 20 percent because equities have gone down. So, even if investors wanted to invest more into real estate it was difficult as many were currently over their limits."

Treacy added: "The majority of investment committees have gone to the sidelines to look at their liquidity positions and understand their portfolios better. You're going to see another 12 to 18 months of deliberation, possibly, before they firm up their strategies and start investing again confidently and that's understandable."

MGPA is largely responsible for Asia's increased share of the fundraising pie, having raised $3.9 billion for the region through its MGPA Asia Fund III last summer. Treacy is adamant that the continent will remain the world's "growth engine" for the next decade.

He also recounts Asia's massive and ever-increasing affluence and urbanisation, its rapidly sophisticating governments and its aggressive infrastructure programmes as ample reason to continue to sell the Asia investment story. The firm has spent $2.2 billion of its equity from the fund so far with the majority being committed to its 2.6 million-square-foot Marina View project in Singapore.

LaSalle Investment Management's Asia chief executive officer Jack Chandler said the region clearly needs the increased equity piles owing to larger lot sizes and more abundant investment opportunities. "The majority of investments we are looking at in places like mainland China, Hong Kong and Singapore have nine-figure lot sizes," he said. "To do those with the level of diversification we want requires a large vehicle."

LaSalle's Asia Opportunity Fund III closed last October on $3 billion, of which 20 percent has already been committed. The fund has invested in standing assets and developments in Japan, Korea, Hong Kong, Singapore and mainland China as well as in one, as yet, undisclosed entity investment.

Looking forward however, both Treacy and Chandler expect to deploy little capital in 2009, their caution mirroring that of their investors, many of whom are repeat investors from previous funds.

Asia favoured by fundraising cycle?

Robin Hubbard, director at San Francisco-based placement agent Probitas Partners believes Asia benefited from timing, attracting much of its equity before the credit troubles really began to bite.

While many of the Asia-fund final closes were announced (and counted by *PERE*) in 2008, much of the capital commitments were agreed in the more robust 2007. LaSalle, for example, raised most of its total $3 billion in 2007.

Whether Asia will still lead the fundraising landscape in 2009 is debatable. Mounir Guen, chief executive and founder at London-based placement agent MVision foresees Asia driving an "irreversible" flow of investment capital.

"China in particular has a clear government objective and India has a structural necessity to attract investment. The two giants of the region are creating a momentum and the other economies around them will benefit," he said.

But Hubbard believes that as real estate values bottom out in the mature western markets, 2009's equity haul could even out between Asia, North America and Europe. He said: "The UK and the US and other places in Europe are pretty close to the bottom whereas in Asia the knife has really just been let go."

Chandler said up to 40 percent of 2009's equity raising total could be focused on North America. Treacy agreed: "For the first time in more than a decade American investors can get opportunity-style products and returns in their home market in addition to investing overseas. That will increase the US percentage although generally investors are underweight in Asia and want to increase their share in the region over the medium term."

According to *PERE* data, 34 percent of all funds currently in the market fundraising are focused on North America, eclipsing those active or planned for Asia, Europe or global investment programmes (see pie chart, p. 43). Planned North American funds include a vehicle from Stockbridge Capital Partners, which is targeting a final equity close of $3 billion and a vehicle from Tishman Speyer which is hoping to complete fundraising on $2 billion.

Global shrinking

PERE's data also demonstrates a seismic reduction in equity raised by global funds in 2008. The amount of equity to spread worldwide rose from $27.4 billion in 2006 to a peak of $33.6 billion in 2007. But in 2008, this figure fell by nearly two-thirds, to just $14.3 billion.

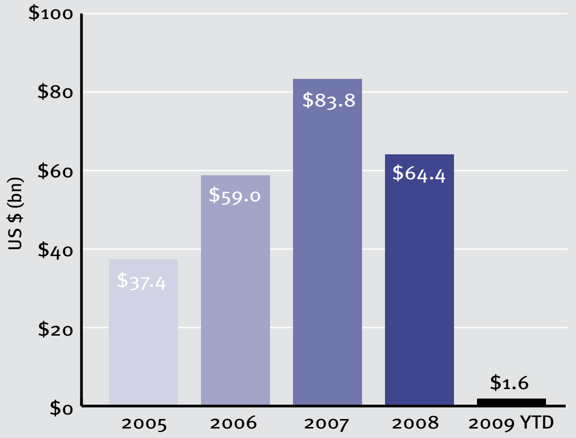
Chandler said investors are relying less on global vehicles as they gain more experience in the sector. "There's an evolution among investors. Those who started their off shore investing by not making trips and allowing their global managers to decide where to put their money are now operating in a lot more vehicles. Investor experience will lead them to focus more."

Indeed, a focus on quality managers may be the only trend driving the 2009 fundraising market. It will take a lot more than the right geography or sector play to convince limited partners to part with their precious capital. It will take a demonstrable track record of investing successfully through very challenging times. It will also help to have an investment team that isn't already consumed in trying to keep right-side-up a portfolio of deals done during the boom years.

That combination is pretty rare in today's market. ◘

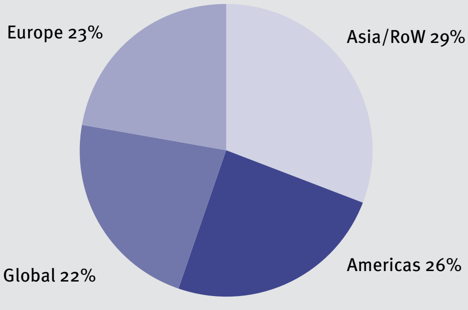
Upstairs, downstairs

Amount raised by private equity real estate funds over past five years



Funds closed in 2008: Asia dominates

Percentage of total fundraising by geographic focus for funds closed in 2008



Source: Private Equity Real Estate