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- Available capital for investment into commercial real estate markets during 2012 has fallen 6% to US$298bn globally in the last six months (Figure 1).
- This decline in available capital was due to a 12% reduction in debt, which overwhelmed the 4% increase in equity capital. The average LTV ratio was down from 58% to 54% over the same period.
- Total available capital fell as funds put existing money to work, eating in to the stock of capital already raised. This was only partly offset by an increase in new capital, up to US$53bn from US$30bn.
- Our data indicates increased levels of cross border investment into APAC and EMEA. APAC remains popular, with 33% of investment capital coming from outside the region. This compares to EMEA at 19% and the Americas at 8%.
- The US and APAC now make up 64% of targeted capital. This is not surprising as they contain a larger number of attractive markets as indicated by the DTZ Fair Value Index™. However, we have not yet seen a corresponding decline in the capital targeting EMEA despite markets becoming less attractive.
- Available capital could be at risk, as many funds were raised before 2009 and now near the end of their investment period. This is especially relevant as:
  - Managers will seek to deploy this capital rather than return the investors’ commitments and endanger their core fee income
  - 55% of available capital at risk is with opportunity funds
  - Attractive opportunities for these at risk funds are expected to come from bank loan portfolio sales, across Europe in particular

Figure 1

Available capital for investment by region, 2012

<table>
<thead>
<tr>
<th>Region</th>
<th>YE 2009</th>
<th>Mid 2010</th>
<th>YE 2010</th>
<th>Mid 2011</th>
<th>YE 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMEA</td>
<td>229</td>
<td>281</td>
<td>329</td>
<td>316</td>
<td>298</td>
</tr>
<tr>
<td>Americas</td>
<td>63</td>
<td>97</td>
<td>111</td>
<td>114</td>
<td>108</td>
</tr>
<tr>
<td>APAC</td>
<td>112</td>
<td>112</td>
<td>114</td>
<td>111</td>
<td>107</td>
</tr>
</tbody>
</table>

Half year % change
-6% -9% -5% -3%

Source: DTZ Research
Introduction

This is the fifth edition of our “Great Wall of Money” report. The report tracks new capital targeting direct real estate globally and the opportunities that it is targeting.

The report is divided into five key sections. First we outline the amount of new capital available for investment in 2012 and compare this with our previous studies. Second we consider the amount of capital available by investor type. Third we look at the property types the capital is targeting before considering the geographical distribution in section four. Finally we look more closely at those funds nearing the end of their investment period.
New capital available

Reduction in new capital across all regions

The amount of new capital for investment in commercial real estate markets globally in 2012 has fallen to US$298bn. This represents a 6% fall on our mid-2011 estimate, and a 9% fall on the peak of US$329bn recorded a year ago (Figure 2).

Falls in the amount of new capital was seen across all three regions. The biggest fall was in APAC with a decline of 9% to US$83bn. This follows another year of strong investment activity and no doubt reflects the ability of funds to quickly deploy their capital.

Following a period of continued growth, available capital in the America’s fell 5% to US$108bn, though it still remains the region attracting the most capital. This is just ahead of the US$107bn targeting EMEA (down 3%). The relatively small fall in Europe no doubt reflects the difficulty funds are having in deploying capital with relatively few investment opportunities and continued uncertainty as the sovereign debt crisis persists.

Less capital due to lower gearing

The reduction in the amount of capital we estimate to be available for investment in 2012 reflects a reduced expectation on the amount of debt these funds can obtain. The amount of equity we estimate available for investment grew by a solid 4% to US$139bn. This was more than offset by a 12% reduction in debt available to US$160bn (Figure 3). Not only is the amount of debt available constrained, but the overall cost has also risen in recent months. Therefore we are not surprised to see funds reduce their target gearing as they seek to place more equity into deals.

Growth in new capital raising

In a reversal of recent trends we have seen a significant increase in the raising of new funds. We have tracked funds seeking to raise up to US$53bn in new capital for investment in 2012 (Figure 4). This compares favourably with the US$30bn recorded six months ago.
Investor type analysis
Publicly listed sector share declines

Third party managed funds maintain their dominance in the market, accounting for 55% of available capital, in line with their share a year ago (Figure 5).

Publicly listed companies have seen their share decrease from 24% at mid-year 2011 to 17% at the end of 2011. We believe this reduction reflects higher levels of volatility in equity markets during H2 2011. This resulted in fewer IPOs and rights issues. However, there are signs of renewed activity as we enter 2012, notably in the US where a number of REITs have mooted equity raisings to take advantage of distress in the markets.

For the remaining investor groups there has been little change in their share of activity, although institutions have marginally increased their proportion of capital. Despite planned new regulations in Europe under Solvency II, we have seen no negative impact towards commercial real estate investment by insurance companies so far.

Property type analysis
Diversification across sectors

Investors continue to favour a strategy of focussing on multiple sectors. Over 80% of available capital remains targeted on multiple sectors, with just 19% focussed on single sectors. This has changed little since the end of 2009 (Figure 6).

Of those funds targeting a single sector, we do see some changes, albeit reflecting a much smaller portion of available capital.

Retail remains the most targeted sector accounting for a quarter of single sector funds down from 35% at mid 2011. Industrial accounts for a further 20% together with residential. The attraction of residential is mostly down to investment in the US and a number of funds targeting multi-family opportunities in Germany.

Offices has maintained its share of capital, although hotels have slipped back with other sectors, predominantly healthcare grabbing a bigger share.
Geographic analysis
Single country funds remain popular

The diversity across markets has remained broadly balanced since mid-2011. Single country funds have maintained their marginal dominance with 51% of targeted capital (Figure 7). This compares to 30% two years ago. Funds targeting multiple geographies still remain popular with a 49% share.

Of the single country funds the US continues to attract the greatest share of capital at 48% and reflects just a marginal drop compared to recent periods (Figure 8). The UK maintains its 10% share of single country funds along with China at 8%.

Over the past two years we have seen a growing number of funds targeting Japan. Its share of single country funds has risen from 1% to 6% in the past eighteen months. This reflects the attractiveness of the Japanese market as it finally bottoms out after a long recession and is seen as a relative safe haven. The market is also seeing growing interest as it becomes clear that the country is in a recovery mode following the earthquake last year.

New funds focus on US and China

The recent interest in single geographies reflects the desire for investors to focus on markets they know well. Analysing those funds that have announced or are in the process of raising capital, the proportion of single country funds is even higher at 61% (Figure 9).

Of these the US remains the favoured target geography representing 43% of capital. This is followed by China with 25%. Consequently, combined these markets attract over two thirds of capital.

The focus of new funds on China highlights the attraction of this growing market, whose economy has remained relatively stable in the face of the wider Global turmoil. With China now the third largest market by invested stock, it is not surprising to see an increasing interest from funds attracted to this emerging powerhouse.

The UK continues to attract 8% of new capital followed by Japan at 6%. The focus on these four markets underscores the attraction of funds towards the largest markets where there is clear potential to deploy capital.
More cross border activity expected

Comparing the domicile of the vehicle and the target geography we can explore likely patterns in cross border activity from these newly raised funds. Based on this analysis we see potential turning points in capital flows (Figure 10).

Our analysis points towards a higher level of cross border investment into APAC. Up to a third of investment could come from outside the region (inter-regional), with a further 30% from within the region (intra-regional). This would represent a dramatic shift on the 10% cross border investment in 2011.

EMEA is set to attract the second highest level of inter-regional activity at 19%. A further 52% is set to be invested from within the region. Although we see higher levels of intra-regional investment in Europe, this is still high. In contrast, activity in the Americas is set to remain dominated by domestic investment at 86%.

Misallocation in investment

The regions targeted are broadly consistent with our Fair Value analysis. The US and APAC contain a large number of attractive markets (Figure 11) and make-up 64% of targeted capital (Figure 12). The analysis also highlights some disparities in allocations.

The US remains the most attractive market in our Fair Value analysis and its share of capital has grown over time. But attracting just 36% of available capital suggests funds are under-allocating to the region.

EMEA attracts a similar 36% of available capital, but there has not been a corresponding decline in targeted capital, despite markets becoming less attractive over recent years. This implies funds are over allocating capital to the EMEA region. This might be due to risk aversion within part of the investor base. It could also be due to delayed deployment of capital raised in 2009 when Europe was more attractively priced. APAC has continued to take the lowest share of capital despite remaining relatively attractive.
Pressure on legacy funds
Opportunity funds at risk of returning capital

We estimate that funds have on average an investment period of three years. Some may have the provision, or agreement to extend this with investors. Those funds raised before 2009 will be under greatest pressure to deploy capital or risk returning equity to investors.

In a previous report\(^1\) we looked in more detail at this group of funds. Our updated analysis shows little change with opportunity funds accounting for 55% of available capital, with value-added funds representing a further 24% (Figure 13).

Looking at unspent capital (Figure 14) we see that the top 50 funds account for 53% of available capital. The pressure to deploy this capital could see funds investing under less favourable terms. This is more likely to impact fund managers who have a relative smaller range of funds where the risk of returning capital could harm the sustainability of their business and endanger their core fee income. It is interesting to note that earlier this year Morgan Stanley agreed an annual extension to its MSREF VII Global fund. It also had to return some equity to investors.

Opportunity to acquire bank loan portfolios

As banks are put under greater pressure to place their balance sheets in order, we expect to see the release of more portfolios from the banks. This is especially so as loan maturities start to reach their peak in the coming years. Given their broader investment focus, we expect opportunity funds will be looking to acquire bank loan portfolios with a strong sense of urgency as investment periods expire.

Looking ahead, it is interesting to note that the style of funds is changing (Figure 13). Those funds currently seeking to raise capital are focussed more towards value-added opportunities, with just 28% seeking more opportunistic purchases. The lower proportion of opportunity funds is welcome as this is unlikely to saturate the market with too many funds seeking similar investments.

\(^1\) See The Great Wall of Money Addendum, Opportunity Funds Running Out of Time

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Figure 13
Available capital by fund style

<table>
<thead>
<tr>
<th>Fund Style</th>
<th>Raised Pre-2009</th>
<th>Announced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core</td>
<td>18%</td>
<td>4%</td>
</tr>
<tr>
<td>Value-added</td>
<td>24%</td>
<td>22%</td>
</tr>
<tr>
<td>Mix</td>
<td>55%</td>
<td>37%</td>
</tr>
<tr>
<td>Opportunity</td>
<td>28%</td>
<td>24%</td>
</tr>
<tr>
<td>Unknown</td>
<td>9%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: DTZ Research

Figure 14
At risk funds by commitment size

<table>
<thead>
<tr>
<th>Commitment Size</th>
<th>Top 11-50</th>
<th>Remaining 355</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$m</td>
<td>21%</td>
<td>47%</td>
</tr>
</tbody>
</table>

Source: DTZ Research
Appendix 1

Our approach to calculating the amount of available capital remains unchanged using a simple five step approach.

Step 1. US$417bn of equity raised

Our starting point for this research has been to update our previous database through amending existing records, adding in details on new or existing funds from existing and new sources and removing records where capital has been spent or the record has become historic for the purposes of this research. In total we have records on over 1,900 individual funds. Additionally we have utilised our Money into Property database. On the basis of this bottom-up data gathering exercise, we have identified US$417bn of raised equity.

Step 2. US$897bn in total raised capital

Assuming an overall LTV ratio of 54% we have estimated there to be US$897bn in total capital raised. Our overall LTV assumption of 54% is based on a combination of stated LTVs from the research we have undertaken and data from our Money into Property database for Institutions. We have assumed no gearing for Sovereign Wealth Funds. For funds with no stated gearing we have assumed these to have similar gearing to those funds where we have a stated LTV. Our assumptions are summarised in Table 1.

Step 3. US$160bn of capital to be withdrawn

We expect US$160bn of capital will be withdrawn by third party funds reflecting the fact that some fund managers have not been able to invest all committed funds. With close to 60% of capital available today having been raised since 2008 it is likely that some funds will not be able to deploy all the capital investors have agreed to provide.

Step 4. US$159bn capital being raised

A further US$128bn of equity is expected to be available for investment in the next few years. Assuming an overall LTV of 60%, this would equate to US$318bn in total capital. However, we expect that many of these plans will not be realised. Therefore, we assume only half of this capital (US$159bn) to be available for investment over the commitment period.

Step 5. US$298bn of capital available

DTZ Research estimates that US$298bn of capital will be available for investment in commercial property globally in 2012.

After taking into account the previous steps, we have a total amount of capital available for investment in the next three calendar years of approximately US$898bn. Just to recap, this consists of:

- US$897bn in raised capital
- Minus US$160bn of capital to be withdrawn
- Plus US$159bn of additional capital being raised

But this capital is expected to be available for investment over a three year period. Therefore, we estimate that a third will be invested in 2012.

Table 1

<table>
<thead>
<tr>
<th>Total (US$bn)</th>
<th>Equity</th>
<th>Debt</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>LTV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds: Stated LTV</td>
<td>417</td>
<td>480</td>
<td>897</td>
<td>54%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutions</td>
<td>109</td>
<td>37</td>
<td>147</td>
<td>25%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SWFs</td>
<td>10</td>
<td>0</td>
<td>10</td>
<td>0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>German Funds</td>
<td>5</td>
<td>5</td>
<td>11</td>
<td>50%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: DTZ Research
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