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## Flow of Real Estate Capital Surges

### *\$35.5 Billion Raised in the Second Quarter; Money Makes Firms More Attractive to Lenders*

Companies and funds reported raising \$35.48 billion from investors in the second quarter for real estate-related deals and refinancings.

The amount of funding raised brings the total inflow for the first six months of the year to more than \$66.43 billion from approximately 1,075 funds and firms. It took nine months to raise the same amount last year.

CoStar Group tracks the fundraising activity of almost 3,000 entities on an ongoing basis and adds about 125 new entities per month.

Of the money raised in the second quarter, about \$5.42 billion was to be used primarily to repay debt, while about \$30.5 billion was primarily targeted for investments and acquisitions. Of that amount, approximately 18% or about \$5.49 billion was earmarked for non-property-related investments, including debt, mortgage or securities purchases.

That leaves approximately \$25 billion of the money raised available for property investments.

Of the total amount raised in the second quarter, \$17.22 billion was from publicly offered shares in REITs and real estate operating companies with more than \$5.55 billion specifically to be used debt repayment or refinancing.

The other \$18.54 billion raised in the second quarter came from private fund raising efforts and is all earmarked for new investment. Of that amount, pooled investment funds including private equity and hedge funds raised \$9.96 billion.

The highest percentage of funds raised (approximately 22%) was earmarked primarily for hospitality-related investments. Funds targeting debt and mortgages raised about 15% of the total. Office-, multifamily-, health care- and industrial-related amounts each accounted for about 10% to 13% of the totals.

The top six money-raisers in the second quarter brought in more than \$8.6 billion - or about one-fourth of the total amount.

The top three sponsors raising money were: Lone Star Funds, KSL Capital Partners and W. P. Carey & Co.

Lone Star Funds, a Dallas-based global investment firm that acquires distressed debt and equity, was the clear winner in the quarter. The group publicly reported raising \$2.6 billion in the quarter for its second real estate fund. (Industry reports say the group has closed out the offering for Lone Star Real Estate Fund II raising a total of \$5.5 billion; however, Lone Star has not confirmed that amount.) REF II was known to have received \$300 million in commitments from the Teacher Retirement System of Texas and \$100 million from each the New Jersey Division of Investment and the Oregon Investment Council.

KSL Capital Partners, a Denver-based private equity firm dedicated to investments in travel and leisure businesses, reported raising more than \$2 billion for its KSL Capital Partners III. The final closing significantly exceeded the original target amount of \$1.5 billion. Investors in the fund include public and private pensions, foundations, endowments, institutions and high net worth individuals and families.

W. P. Carey & Co. LLC, a New York-based investment management company that provides long-term sale-leaseback and build-to-suit financing for companies worldwide and manages a global investment portfolio of approximately \$11 billion, reported raising \$1.5 billion for its Corporate Property Associates 17 - Global Inc. CPA-17 is a REIT that invests primarily in income-producing commercial properties and owns interests in a diversified pool of 135 properties. The publicly held non-traded REIT just this week acquired a 24-property portfolio of self-storage facilities from A-American Self Storage for about \$86 million. The properties comprise 1.6 million square feet across 18 properties in California, five in Illinois and one in Hawaii.

#### Combining Bank Debt with New Capital

One notable trend among firms raising new capital this quarter was their efforts at combining that money with new bank lending agreements.

For example, ProLogis Inc., which sold \$1.05 million of its common stock in a public offering this quarter, also entered into a \$1.75 billion global senior credit agreement with a syndicate of 20 banks. An accordion feature to the financing agreement will allow ProLogis to increase the credit facility to \$2.75 billion.

Senior Housing Properties Trust in Newton, MA, raised \$258.75 million in a common stock offering. SNH used the proceeds to repay amounts outstanding under its revolving credit facility. The company then entered into a new \$750 million unsecured revolving credit facility. The new facility also includes a feature under which the maximum borrowing may be increased to up to \$1.5 billion in certain circumstances.

Tanger Factory Outlet Centers Inc. in Greensboro, NC, raised \$118 million through a common stock sale. The company paid down its senior unsecured lines of credit. It then closed on the \$150 million senior unsecured bridge loan committed by Wells Fargo Bank.

And, Kennedy-Wilson Holdings Inc. in Beverly Hills entered into an agreement with two global institutional investors, including an affiliate of Fairfax Financial Holdings Ltd. This transaction will result in gross proceeds of approximately \$51.4 million and broaden the company's shareholder base. In addition, the company's joint venture with The LeFrak Organization refinanced two of its multifamily properties with new debt in the amount of \$56.4 million at an average interest rate of 4.6%.

Marcus J. Mollmann, president and founder of Reliquid, a Denver-based firm that facilitates the financing of commercial real estate by connecting sources of capital, said the process of raising more equity has generated 2.5 times more interest since the fourth quarter of 2010 if a borrowers' equity need is greater than \$5 million.

"Multifamily, closely followed by anchored retail, is the favored asset class with regards to investor interest, generating interest 20% more than average," Mollman said. "The next most favored asset class is office, followed closely by unanchored retail and hospitality."

"Location and quality still reign," Mollman added. "By a 2 to 1 margin, there is more interest in Class A and B properties in Class A and B locations than Class C properties in Class C locations."

"Surprisingly, there is broad, equal interest in opportunistic, value-add and core plus investment opportunities," he said. "Most surprising is the demand for development opportunities, multifamily development that is."

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