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Follow the Money: Another \$6.9 Billion Pours into Real Estate Investors' Coffers

Investment Buying Power Continues to Build as More Funding is Coming in than Flowing Out To Fund Property Deals

Companies and funds reported raising \$6.88 billion in September for real estate-related investments and financing. The funding imbalance continues however, as the buying power of the portion of funds targeted for properties is far more than the total value of monthly acquisitions lately.

The amount raised brings the total inflow for the first nine months of the year to \$69.69 billion raised from about 1,352 funds and firms. CoStar Group tracks the fundraising activity of more than 1,800 entities on an ongoing basis and has added an average of about 125 new entities per month.

For September, 174 different funds and firms reported raising \$2.5 billion earmarked for debt repayment and \$700 million earmarked for debt, mortgage or securities purchases. That leaves approximately \$3.68 billion of the money raised available for property investments.

At a conservative 65% loan-to-value ratio, the money raised in September could fund \$27.6 billion in property purchases. That amount far outpaces the amount of deals getting done. Property sales of \$1 million or more have totaled slightly more than \$14 billion in both August and July, according to CoStar Group's COMPs database. (As of this writing CoStar has verified more than \$11.5 billion in September property sales of \$1 million or larger, and continues to tally the total transaction volume for the month.)

Of the total amount raised in September, \$5.47 billion was raised from publicly offered shares in REITs and real estate operating companies with a little more than half of that money specifically to be used debt repayment or refinancing.

The other \$1.42 billion came from private fund raising efforts and is all earmarked for new investment. Pooled investment funds including private equity and hedge funds raised \$730 million of the total of private efforts - the lowest monthly amount for such funds this year.

The highest percentage of funds raised (approximately 23%) was earmarked primarily for office-related investments. Funds targeting multifamily investments raised 17% of the total; health care-related real estate 15%; and industrial-related 10%. Funds targeting investments related to hotels, retail and debt/mortgages each accounted for about 8% of the total.

The top three money raisers in September were Health Care REIT Inc., Principal Real Estate Investors and UDR Inc.

During September, Toledo, OH-based Health Care REIT sold \$450 million of senior notes and completed an offering of 8 million shares of common stock raising another \$366 million. The company intends to use the net proceeds for general corporate purposes, including investing in health care and senior housing properties and repaying borrowings under its unsecured line of credit and other outstanding debt.

Health Care REIT used a chunk of the money to complete its \$817 million partnership with Merrill Gardens LLC, one of the top owner/operators of independent and assisted living retirement communities in the country and the largest in Washington state. Merrill Gardens consists of 56 communities in 10 states with the capacity to serve more than 7,700 residents.

Principal Real Estate Investors in Des Moines, IA, reported raising \$425 million for a new fund called the Strategic Real Estate Equity Fund.

Denver-based UDR Inc. sold 16 million shares of its common stock raising \$359 million. The company expects to use the net proceeds to fund potential and recent multifamily acquisitions, to pay down debt and for general corporate purposes. In September, UDR acquired apartments in Anaheim and Marina del Rey, CA; Boston's historic Back Bay; Braintree on Boston's South Shore; and in Baltimore, MD. UDR also entered into a pre-sale venture with an affiliate of The Hanover Co. to develop a 240-home community in the Boston area.

Other Successful Fund-Raising Highlights

Liberty Property Trust, an office REIT in Malvern, PA, sold \$350 million of senior unsecured notes with the proceeds to be used to repay debt.

Alexandria Real Estate Equities Inc. in Pasadena, CA, raised about \$343 million through the sale of common stock. Alexandria focuses on the redevelopment, development and acquisition of properties containing life science space.

Harrison Street Real Estate Capital in Chicago completed the second closing of its third fund, Harrison Street Real Estate Partners III, raising more than \$330 million to date. This milestone comes three months after the firm held its first closing in June of this year. Since the beginning of the year through the end of August, Harrison Street has made more than \$250 million of new investments in the storage, student housing and senior segments.

CoreSite Realty Corp. in Denver raised about \$310 million from its initial public stock offering. The company intends to use the net proceeds to fund redevelopment and development of data centers, repay debt and for general corporate purposes.

BioMed Realty Trust Inc. in San Diego sold about \$302 million of common stock. BioMed focuses on properties containing life science space.

BRE Properties Inc. in San Francisco sold \$300 million of senior notes to be used primarily to repay borrowings under its \$750 million unsecured credit facility.

Washington Real Estate Investment Trust, an office REIT in Rockville, MD, sold \$250 million of senior unsecured notes. WRIT intends to use the net proceeds to purchase some of its outstanding convertible senior notes.

Wyndham Worldwide Corp. in Parsippany, NJ, raised \$250 million from the sale of notes to be used to reduce outstanding debt.

Realty Income Corp. in Escondido, CA, closed a public offering of common stock, raising net proceeds of about \$197 million. The money will be used to fund a substantial portion of \$150 million of planned property acquisitions during the third and fourth quarters of 2010. Realty Income signed a purchase agreement this week to acquire 136 retail properties for approximately \$250 million under long-term, triple-net lease agreements.

Apollo Commercial Real Estate Finance Inc. in New York raised \$110 million through the sale of common stock. Proceeds will be used for general corporate purposes, including the repayment of debt and investment in target assets, with a focus on performing commercial first mortgage loans, commercial mortgage-backed securities, mezzanine financings and other real-estate related debt investments.

USAA Real Estate Co. and Admiral Capital Group formed Admiral Capital Real Estate Fund, a partnership with NBA Hall of Famer, philanthropist and 1987 U.S Naval Academy graduate David Robinson. The partnership, launched with \$50 million in capital, will pursue hospitality opportunities serving entertainment and convention venues nationally.

Goldman Sachs Group Inc., through its Urban Investment Group, committed \$23 million to Rose New Jersey Green Affordable Housing Preservation Fund, a new fund sponsored by Jonathan Rose Cos. The fund will acquire existing, CRA-eligible affordable housing in mass-transit accessible locations throughout New Jersey, with a focus on Hudson and Essex counties.

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