

## News Release

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### **Maturing debt and refinance risk top concerns for real estate private equity fund sponsors, according to new survey by Ernst & Young**

NEW YORK, NY – May 28, 2009 – Mortgage financing and the ability of fund sponsors to refinance maturing debt on commercial properties in the next 12 to 18 months is the single most important concern in today's market, according to results of a survey of more than 40 major funds released today by Ernst & Young LLP.

In fact, the firm's *2009 Market Outlook – Trends in the real estate private equity industry* is dominated by concerns over financing with three of the top five strategic priorities for 2009 identified by respondents as debt-related. In addition to refinance risk, the ability to procure acquisition financing and an overall deleveraging of fund portfolios occupied the fourth and fifth highest priorities, respectively.

“It seems that, despite the widespread infusions of capital into various lending institutions through economic stimulus programs it appears, there is still very little if any lending taking place in the real estate industry right now,” says Gary Koster, head of the Real Estate Fund Services Practice at Ernst & Young LLP. “Our survey suggests that fund sponsors are not obtaining non recourse financing on new deals.”

Another key concern for fund sponsor respondents centers on valuations. According to the survey, capitalization rates for stable income-producing commercial properties in

the US are expected to continue to expand this year furthering the value declines experienced in 2008. Of the fund sponsors surveyed, 41% indicated that cap rates would increase by up to 100 basis points with another 33% of respondents indicating that cap rates would increase by more than 100 basis points.

Says Koster, “Two years ago values were based on peak earnings at peak multiples in 2007. Today our survey suggests that values this year may reflect declining earnings at depressed multiples.” Koster adds that the decline in values to date in the commercial property sector have largely been the result of the increasing cost of capital and have been amplified by the amounts of excessive debt leverage employed.

“The great concern for 2009,” Koster says, “is declining real estate fundamentals and their impact on net operating income.”

The survey found 92% believe that there will be no economic recovery in the US until after 2009. Says Koster, “The upside to a market with severe liquidity constraints and depressed asset values is that the outlook for investing in distressed assets is becoming increasingly attractive. Fund sponsors are scrambling to raise capital to build up their war chests in order to take advantage of what may be the best buying opportunities in decades.”

Fund sponsors indicated that raising capital for a new fund is the second highest strategic priority for sponsors in 2009. “During the past five years capital was plentiful and fund sizes grew dramatically with each new raise, but now we are going to see fewer and smaller funds coming to market,” Koster concludes.

The full survey can be accessed on Ernst & Young LLP’s website at [www.ey.com/realestate](http://www.ey.com/realestate).

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