

News release

Andrew Neilly
Gallen, Neilly & Associates
+ 1 925 930 9848
Andrew@gallen.com

Aurelie Leonard
Ernst & Young Global media relations
+44 20 7980 0158
Aleonard1@uk.ey.com

More pain, some gain for real estate private equity sector in 2010 Broader investment opportunities anticipated in 2011

New York, NY – April 06, 2010 – Fund managers and others involved in the real estate private equity sector around the world expect further deterioration in commercial real estate prices throughout 2010 as unemployment leads to lower commercial occupancies and declining rents, finds a new report from Ernst & Young’s Real Estate Fund Services practice in the United States.

With the sector still in recession, many fund managers are preparing for the beginning of a “generational buying opportunity” that could manifest as early as the first quarter of 2011.

The report – *Market Outlook: Trends in the real estate private equity industry 2010* – includes a survey of over 100 real estate private equity sponsors and investors in the US, United Kingdom, Japan, India and China.

The survey reveals that most market participants polled expect a gradual opening of debt and equity markets to occur by the end of this year as investors shift their strategy away from preservation of capital to search for higher returns on investment. Almost nine in ten US respondents (87%) believe that the availability of debt and equity capital will increase by the end of 2010. However, few respondents see the US real estate leveling out before the end of this year and most expect 2011 to be the year in which investment opportunities start to appear in some abundance.

“Significant amounts of opportunistic capital have been accumulated to invest in distressed real estate, but simply stated, there is not enough distress to go around,” said Gary Koster, Ernst & Young’s Global Leader of Real Estate Fund Services.

“Real estate lenders are not forcing the issue with respect to maturing debt which is under collateralized. If the banks won’t take action and instead choose to just extend loan maturities, there is little incentive for real estate owners to trade at current valuations. Given the impact that alternatives – such as foreclosure – will have on bank earnings and capital, it’s not difficult to see why lenders’ “extend and pretend” strategy is still being widely deployed for maturing loans,” says Koster.

A majority of respondents to the survey clearly believe the commercial real estate crisis among US banks is still only in the “middle innings” – 70% expect that banks will feel increasing pressure to trade troubled loans at reduced valuations or move to foreclose on problem assets by the end of this year.

Koster explains: “The consensus, at least in the US, seems to be that 2011 will be the year in which transaction velocity in the real estate private equity market returns in earnest. However, before fund sponsors can take advantage of the returning market opportunity, they must address any existing problems in their legacy investment portfolios and generally set their houses in order.”

Koster continues: “Natural selection applies to all living things and that includes investment managers. Not all will make it through this downturn. Best of class fund managers will have set themselves apart by effectively dealing with their key business issues, such as deftly managing investor relations, aggressively addressing and working out legacy investment issues, quickly establishing a platform to attract fresh capital and motivating and retaining their key talent.”

The report also points to a central dichotomy in the mindset of US real estate private equity managers. Koster comments: “The banking community’s strategy of deferring the impact of distress is a double-edged sword for the real estate fund sector. The lending community’s reliance is a lifeline for investors short on capital and holding problem assets, but it’s a challenge for investors long on capital yet to be invested and anxious to

put that capital to work at current valuations. Whatever the eventual outcome, one side of the market will ultimately be disappointed,” Koster concluded.

In addition to detailed analysis of US market conditions and sentiment, the report concludes with some global perspective, including regional market snapshots of the UK, Eurozone, China, Japan and India. The full report is available for download at www.ey.com/realestate.

-ends-

Notes to editors

About Ernst & Young's Global Real Estate Center

Today's real estate industry must adopt new approaches to address regulatory requirements and financial risks – while meeting the challenges of expanding globally and achieving sustainable growth. The Ernst & Young Global Real Estate Center brings together a worldwide team of professionals to help you achieve your potential – a team with deep technical experience in providing assurance, tax, transaction and advisory services. The Center works to anticipate market trends, identify the implications and develop points of view on relevant industry issues. Ultimately it enables us to help you meet your goals and compete more effectively. It's how Ernst & Young makes a difference.

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 144,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit www.ey.com

This news release has been issued by EYGM Limited, a member of the global Ernst & Young organization that also does not provide any services to clients.