

Surging Fund Market Fuels Placement Agents

The number of placement agents for real estate funds and joint ventures continued to grow this year, with two new institutional players and one high-end boutique all grabbing respectable slices of market share.

UBS and **Deutsche Bank** were the latest institutions to join the real estate fund-raising world, while **Park Hill Group**, a start-up backed by fund operator **Blackstone Group**, also entered the market with a splash. Meanwhile, **Citigroup's** private equity placement-agent unit is working on setting up an operation, and **Lazard Freres'** private equity fund-raising group also may take on real estate mandates soon.

All told, more than two dozen placement agents are either soliciting real estate assignments or preparing to do so, according to a survey by Real Estate Alert (see list on Pages 10 and 11).

The new players each took on a number of mandates this year, while market leaders such as **Credit Suisse**, **Morgan Stanley** and **Presidio Partners** continued to increase their business. The surging activity reflects continued growth in the real estate fund market, with investors plowing increasing amounts of capital into the sector.

While experienced fund operators don't need placement agents to persuade existing investors to re-up in successor funds, they are often willing to tap fund-raisers to build relationships with new investors.

Meanwhile, newer fund operators lacking a track record desperately need placement agents to help them attract investors.

Sponsors of start-up funds typically pay placement agents a fee equal to 3% of the amount of capital raised. More-established players can often negotiate fees closer to 2% or even less, while paying nothing for commitments from investors returning from previous funds.

That pay scale doesn't appear to be changing. "We've been able to hold the line on our fees," said one executive at a leading placement agent. "People who really want the service are willing to pay the full fee."

The demand for placement agents from real estate funds has not escaped boutique firms trying to make their way into the crowded private equity fund-raising world. A number of smaller private equity placement agents, such as **Alternative Investment Source** of Philadelphia, **Chatsworth Group** of Greenwich, Conn., and **Capstone Partners** of Dallas,



have increasingly been pursuing real estate assignments to supplement their business at a time when competition for traditional private equity mandates is especially high.

Some market players warned, however, that such firms cannot bank on getting a steady supply of work. Newcomers, they said, will have to prove their longevity by landing assignments even when the market takes a dive. And, although there are a handful of exceptions, it is rare for a placement agent not backed by a brand-name investment bank to land big-league mandates.

"I don't think everybody is going to make it," said one market player. "There's going to be room for people to come in, but I think it's going to be hard to get into the top four or five." ❖