

# Property

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## Blackstone's \$US13bn fund

### Exclusive

Gretchen Friemann

Blackstone Group is on target to attract \$US1.3 billion for its latest real estate fund by the end of the year, according to sources familiar with the matter.

The private equity giant has raked in \$US10.5 billion for its seventh property vehicle but is confident it can bag a further \$US2.5 billion by December, cementing Blackstone's position as one of the world's dominant property investors. It will also rank the fund, known as BREP VII, as the largest ever closed-end real estate fund by a substantial margin.

The firm's two recent acquisitions in Australia — Lloyd's \$1.3 billion sourced debt portfolio and the \$43 million purchase of 149 Castlereagh Street, a Sydney office block — have been funnelled into this vehicle.

While Blackstone's ability to raise eye-popping amounts in a difficult economic environment underscores the renewed international demand for property, very little, if any, of the cash is believed to have come from Australia. Some attribute this to concerns about venturing offshore while others argue the investment funds are simply ignorant about how firms such as Blackstone operate.

The nation's ballooning trillion-dollar pensions industry has become a favoured hunting ground for international companies looking to raise cash for their investment vehicles. But the charm offensive appears to be falling flat as retirement funds shovel money into domestic outfits.

Quadrant and Challenger, which both advance loans to smaller scale

assets like neighbourhood shopping centres, have both won hundreds of millions of dollars from the super funds in recent years.

Kent Robbins, head of property and private markets at Unisuper, acknowledged Blackstone as one of the "best private equity real estate managers out there" but stressed he was not interested in investing in BREP VII. He claimed the pension funds' property focus was on domestic opportunities that are "income producing and relatively stable".

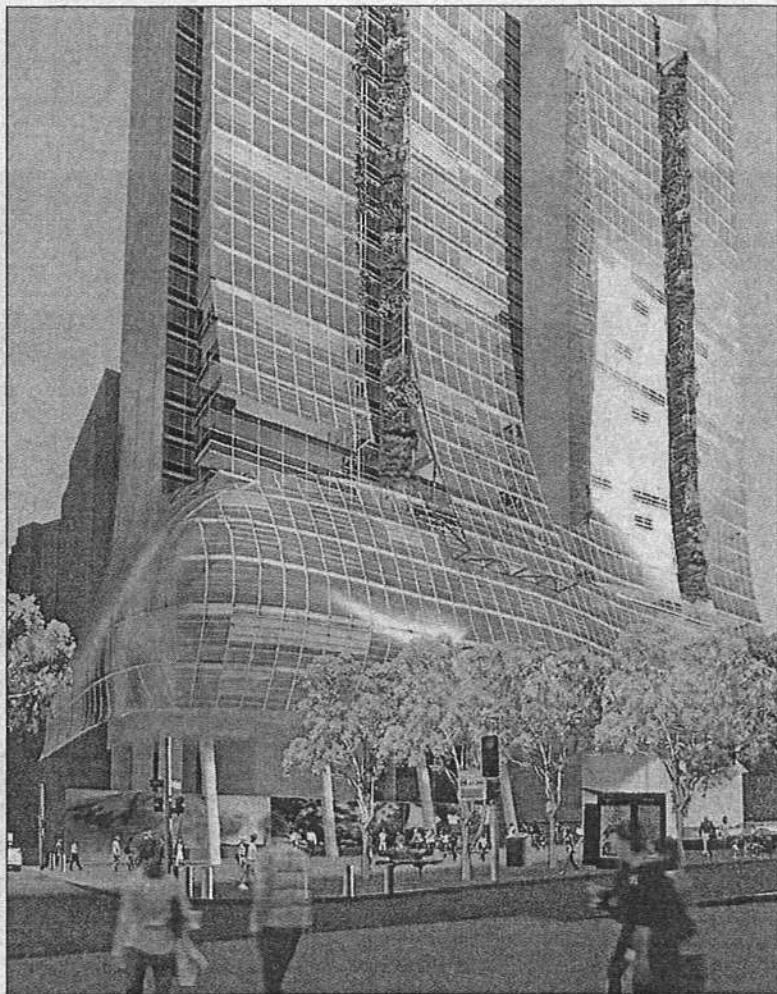
"We're not playing favourites," he said. "It just doesn't fit our risk allocation."

Ken Atchison of Atchison Consultants, which offers investment advice to superannuation funds, pointed out there is a deep-seated caution towards property heavyweights such as Blackstone and Morgan Stanley because many feared the gargantuan scale of their vehicles clouded transparency.

He said managers within the pension industry "want to see what is required in the balance sheet management of an asset" and emphasised the private equity firms had a "chequered history given their performance" during the credit crunch.

Yet Blackstone is forecasting a multiple of invested capital of 2.3 per cent on its sixth real estate fund, which translates roughly to a 13 per cent return. The vehicle attracted a record \$US10.9 billion by the time it closed in March 2008.

At that stage, Blackstone did not have an office in Australia, and the firm barely registered on the radar until it swooped on Valad Property Group, one of the high riders of the boom years, in August last year.



**Blackstone's purchase of Valad Group included Sydney's Gold Fields House.**

One fund manager, who preferred to remain anonymous, predicted the financial clout of Blackstone and its rising prominence would eventually lure in the superannuation funds.

He said BREP VII's size meant Blackstone "will be the first port of call" for the sector for the next two years as the firm comes under pressure to allocate its wall of cash.

He added that the private equity giant's string of acquisitions in Australia showed it "can play across the entire scope of the real estate investment universe".

Blackstone is one of the lead con-

tenders on the \$400 million Black-Rock property portfolio, but its name is usually associated with any large-scale deal in the sector.

Rather than jettisoning Valad's domestic assets, including the Gold Fields House development project in Sydney, which many assumed it would, the firm has used the platform to expand its presence in the country.

And while the focus of BREP VII will be on Europe and the US, the firm is likely to continue fishing in Australia as falling borrowing costs restore the sector's positive yield spread to government bonds.