INREV RESEARCH & MARKET INFORMATION

INVESTOR UNIVERSE NETHERLANDS SURVEY 2010

SEPTEMBER 2010

INREV
STRAWINSKYLAAN 631
1077 XX AMSTERDAM
THE NETHERLANDS

T +31 (0)20 799 39 60
INFO@INREV.ORG
WWW.INREV.ORG

INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. Our aim is to improve the accessibility of non-listed real estate funds for institutional investors by promoting greater transparency, accessibility, professionalism and standards of best practice.

As a pan European body, INREV represents an excellent platform for the sharing and dissemination of knowledge on the non-listed real estate funds market. The association's primary focus is on institutional investors, although other market participants such as fund managers, investment banks, lawyers and other advisors provide additional support.

CONTENTS

ACKNOWLEDGEMENTS

The contribution of the pension fund, insurance company, private fund and charity investors who provided data and information on their real estate investments and strategies is warmly appreciated. Most wished their identities to remain anonymous. The report would have not been possible without their contribution.

Warm thanks are also due to the investment managers, consultants and the Dutch Association for International Investors in Real Estate (IVBN) who provided insights and information on the real estate strategies adopted by Dutch institutional investors.

Of course, those contributing information are not responsible for the views expressed in this report.

EXECUTIVE SUMMARY

This is the third report in a series of studies INREV is conducting to capture the size and composition of the European institutional non-listed real estate universe and the real estate strategies of institutional investors. This research provides estimates of the current and future size of the Dutch institutional non-listed real estate universe and the overall real estate market. A further objective is to understand the influences behind these real estate exposures and strategies. The research mainly draws on an on-line survey and face-to-face interviews.

The Dutch institutions covered are primarily pension schemes and insurance companies. Funds managed on behalf of other institutional and retail investors are not covered. The sample in this study has a total Assets Under Management (AUM) of €684 billion, and €72.5 billion of real estate assets. The total assets under management of Dutch institutional investors are estimated at €1,150 billion, which is roughly comparable in size to the German institutional investment market and somewhat smaller than the UK institutional investment market. The sample therefore represents almost 60% of Dutch institutional capital.

Using the evidence from the survey and additional sources, the total Dutch institutional real estate universe is estimated at €121.7 billion, which is twice the size of the German institutional real estate universe and about the same size as the UK institutional real estate universe. The Dutch institutional real estate universe represents 10.5% of the institutions' total assets. The non-listed share of the Dutch real estate universe is estimated to be €41.6 billion, representing 3.5% of their total assets and 34% of their total real estate investments.

Direct real estate investments by Dutch investors, valued at approximately €45 billion, are only slightly larger than non-listed holdings. This is in contrast to the German and UK investment universes where direct real estate investments dominate institutional portfolios. Insurance companies and a limited number of the large pension funds hold most of these direct real estate investments, the vast majority of which are domestic. Many of the small and medium-sized pension funds have converted their direct domestic holdings into non-listed funds, realising that a full team is needed to manage even a small sized portfolio of direct real estate, but that the costs for a small portfolio are inefficient.

Insurance companies and some of the large pension funds are considering or are already in the process of restructuring their portfolios into funds that can open up to third-party investors. The reasons for this are to have more flexibility and because some Dutch investors feel that direct real estate investments can in some cases have an undesirable negative impact on the image of the investor.

Non-listed real estate continues to play an important part in Dutch institutional portfolios. The vast majority of the real estate allocations of most small and medium-sized pension funds are already invested via non-listed (75% and 60% respectively). They invest this way mainly because they do not have the resources and scale to invest directly. When investing through indirect vehicles they prefer the more stable returns of non-listed and the lower correlation to equities than listed real estate.

For many small and medium-sized Dutch investors, non-listed is accepted as a recognised investment strategy. These small and medium-sized pension funds have invested in core and value added, as well as in opportunity vehicles. However most currently seem to be heading back to real estate fundamentals and prefer low leverage.

Large investors have a less of uniform view of non-listed real estate. Insurance companies have invested approximately 60% of their real estate exposure in direct domestic real estate, 20% in non-listed funds (domestic and non-domestic) and 20% in other categories like mortgage-backed securities (MBS). Large pension funds put much less emphasis on direct domestic real estate, however. Instead, they have a preference for non-listed (41%), while 33% is invested in listed real estate and only 21% is invested in direct real estate.

The main reason cited for investing via non-listed funds is access to expert/specialist management, followed by easier implementation than direct real estate. A further reason many respondents gave is that non-listed has more stable returns and lower volatility than listed real estate. An additional reason for using non-listed vehicles for domestic exposure is that direct real estate is perceived to have a higher integrity risk. Furthermore, many investors try to have investment teams for each of the different asset classes. With direct real estate, an investor needs to have a larger team in place to manage the assets, while with non-listed the team is basically outsourced.

Almost 60% of Dutch institutional real estate investments are invested abroad, a far greater percentage than in either Germany or the UK. Of the domestic investments, 65% is in direct real estate and 24% is in non-listed real estate vehicles. An equal share of respondents, 16%, have either not invested in non-listed real estate at all, or made all their domestic investments through non-listed vehicles. Three-quarters of the investors without non-listed exposure are considering adding it within the next three years.

The total assets under management by Dutch institutional investors are expected to grow by 8% to €1.245 billion and the institutional real estate universe by more than 18%, from €121.7 billion to €142 billion, within three years. There are two reasons for this relatively strong real estate growth. First, exposures to real estate are currently below targets by 0.35%, resulting in a potential demand of around €4 billion. Secondly, investors expect to increase their target allocations from a current average of 10.45% to 10.9% in three years, resulting in an additional €16.6 billion of real estate investments.

The non-listed share of the total real estate universe is also expected to increase from the current 34% to 38%. Some investors with a limited allocation to non-listed will increase it, and investors with larger direct portfolios are faced with pressure to gradually convert their holdings into non-listed real estate, although the timing of them doing so is not clear. Some of those investors will open their existing portfolios to other investors.

In three years, the non-listed real estate universe, with a current total size of €41.6 billion, is expected to grow by €12.5 billion to €54 billion, which is an increase of 30%.

1 INTRODUCTION

1.1 Objectives

This report is the third report in a series of studies that looks at allocations to estimate current and future size of the European institutional non-listed real estate market and the strategies behind these allocations in a wider real estate universe. The objective of this report is to estimate the allocation Dutch institutional investors are making globally to real estate, and the corresponding size of the total institutional real estate universe and specifically the non-listed universe. A further aim is to understand the influences behind their real estate asset allocations and the form these investments take, as well as to understand their general strategies towards real estate.

Section 2 of the report first considers the total size (all asset classes) of the Dutch institutional universe, of real estate in the aggregate and, briefly, the types of real estate which make up the universe. Section 3 presents detailed estimates of these various forms of real estate before non-listed real estate is examined in more detail in Section 4.

Section 5 examines the real estate strategies being adopted by the Dutch institutional investors and the role of non-listed real estate within these strategies. Section 6 presents indicative estimates of the future size of the total and non-listed real estate universes.

1.2 Methodology and sample

This study has been conducted by Dutch consultant ALMAZARA and follows a similar approach used in the two previous studies covering the UK and German institutional markets.

The institutions covered in this study are those investors making multi-asset allocation decisions to meet a future liability, including pension schemes and insurance company funds. It also includes the Dutch subsidiaries of foreign insurance companies, but not the foreign subsidiaries of the Dutch insurers. Private funds and similar types of organisations are also included in the definition.

The universe excludes the funds the insurance companies manage on behalf of other institutional investors (thereby avoiding double-counting). Also excluded are the funds they manage on behalf of non-institutional investors and those where the decision to allocate capital to real estate is out of their hands. The pension funds of Dutch companies invested for foreign branches are also excluded, even when they are managed from the Netherlands, to avoid double counting. These criteria generally exclude funds managed for retail and other private investors as well as most insurance companies' unit-linked insurance and pension schemes. By definition, the research relates to the capital of investors rather than that managed by fund managers.

The analysis covers institutions' global investments, thereby including their Dutch real estate and that outside the Netherlands. Real estate is defined by the investors themselves and potentially includes REITs/listed property companies, etc.

The total size of the Dutch institutional universe is estimated at €1,150 billion. This estimate is derived from the figures published by the Dutch Centraal Bureau voor Statistiek (CBS) for 2008 adjusted to today and an estimate of the remaining institutional funds that did not respond to this survey. The figures from CBS in 2008 adjusted to today would indicate total assets under management close to €1,300 billion, whereas the estimate for the remaining respondents indicates a figure closer to €1,100 billion. For this survey we have chosen a conservative estimate of €1,150 billion.

The analysis is based on in-depth face-to-face interviews with institutional investors, supplemented by an on-line questionnaire completed by additional institutions with AUM of at least €150 million. Information was received from 50 schemes – 43 pension funds, one charity/similar real estate fund and six insurance company funds – with total assets (equities, bonds, real estate, etc.) under management of €684 billion, representing roughly 60% of the universe. The data for this study were collected mainly between February and May 2010.

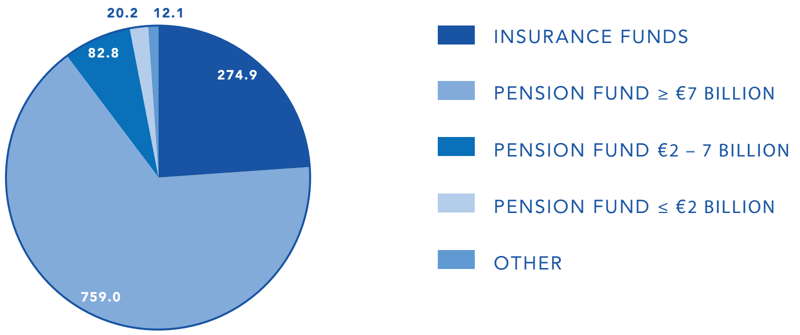
2 THE DUTCH INSTITUTIONAL UNIVERSE

2.1 Total assets

The total (all assets) investment universe of the Dutch institutions is approximately €1,150 billion. The investor sample for this study accounted for 59.5% of this universe. As Figure 01 shows, this universe is dominated by the large pension funds and to a lesser extent by insurance companies, which together account for almost 90% of the total universe.

FIGURE 01 / TOTAL DUTCH INSTITUTIONAL ASSETS BY TYPE OF INVESTOR

€ BILLION



2.2 The real estate universe

The Dutch institutional global real estate universe is estimated at €121.7 billion, of which €41.6 billion, or 34%, is non-listed. This total real estate figure equates to around 10.5% of the institutional universe, with non-listed representing approximately 3.5%. The real estate estimate relates only to those exposures which are part of institutions' real estate allocations. For example, REITs can be part of institutions' equity allocations and in that case would not be included in the real estate universe estimate.

FIGURE 02 / TOTAL DUTCH INSTITUTIONAL ASSETS BY TYPE OF INVESTMENT

€ BILLION

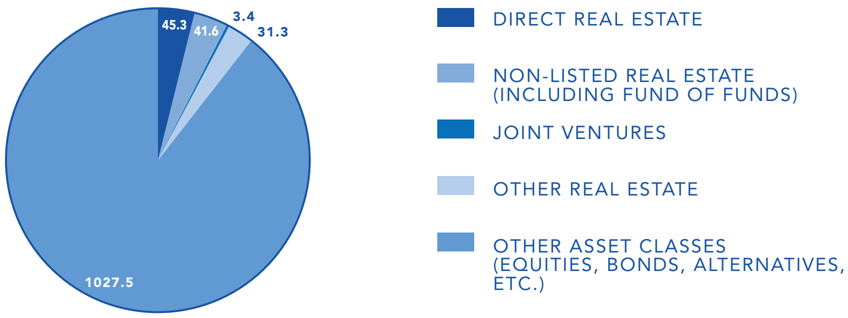
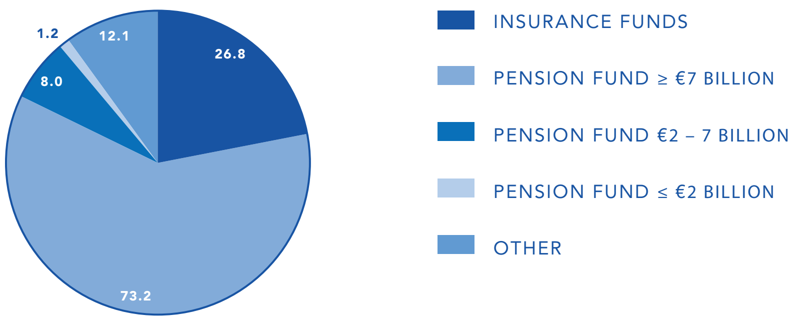


Figure 03 shows that insurance funds and the very large pension funds (total assets ≥ €7 billion) dominate the real estate universe, accounting for over 80% of the total. This is mainly a reflection of their size, as their real estate allocations compared to the other institutional investors are lower. There are more details on this later in the report. The 'other' category, representing 3% of the total, is comprised mainly of listed real estate and some mortgage-backed securities.

Joint Ventures (JVs) are not yet a substantial part of Dutch real estate allocations. Only 4% of respondents have actually invested using a JV while 26% are mandated to do so. The current allocation to JVs does not reflect an increased appetite for this method, however. While there has been more focus on JVs since the financial crisis, investors have invested little since then and therefore the allocation is still small.

FIGURE 03 / DUTCH INSTITUTIONAL REAL ESTATE BY TYPE OF INVESTOR

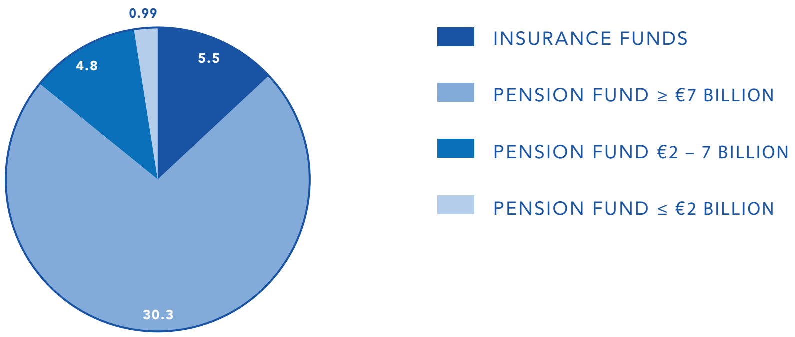
€ BILLION



The large pension funds also dominate the non-listed real estate universe with the largest pension funds accounting for almost three-quarters of the market (Figure 04). Insurance companies play a relatively smaller role in non-listed compared to their share of the total real estate universe.

FIGURE 04 / DUTCH INSTITUTIONAL NON-LISTED REAL ESTATE BY TYPE OF INVESTOR

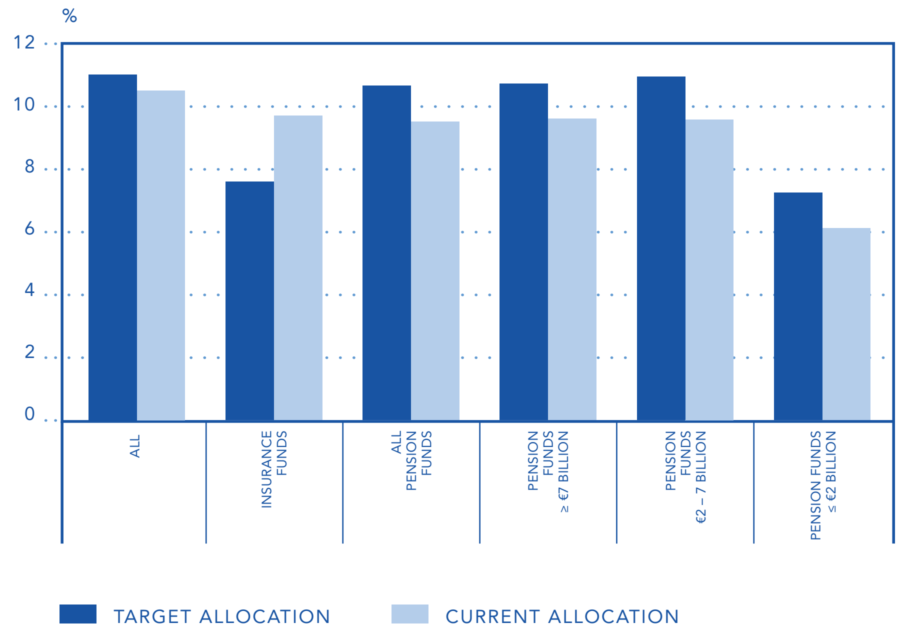
€ BILLION



2.3 Exposures to real estate

Figure 05 presents investors' allocations to real estate. On average, Dutch institutional investors have 10.55% of their portfolios invested in real estate and a slightly higher target allocation of 10.9%.

FIGURE 05 / EXPOSURES TO REAL ESTATE UNIVERSE BY TYPE



If the 'other' group is excluded from the universe average mentioned above to maintain data confidentiality, then the results show that insurance funds have a lower target allocation to real estate than pension funds, with 7.6% and 10.7% target allocations respectively. Insurance funds are overweight to real estate on average by 2.1 percentage points, given that the average allocation is 9.7%. Some insurance companies said they had no allocation to real estate, although it is likely that they have exposure to it through their equity investments. However, this is not included in this study.

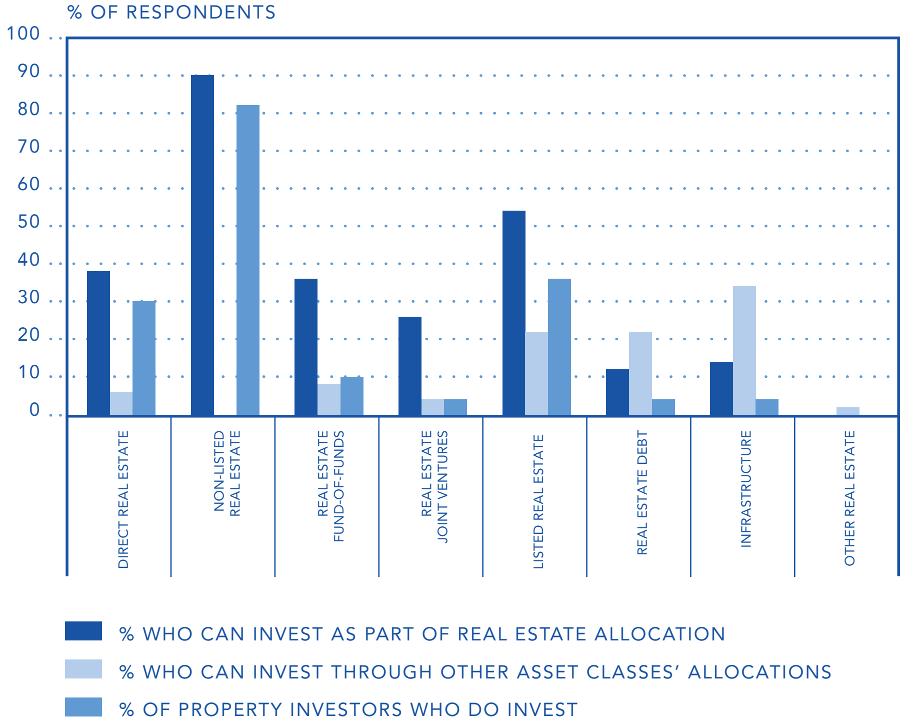
If we look in more detail at the different pension funds we see that on average the medium-sized (11%) and large (10.8%) pension schemes have significantly higher target allocations to real estate than small pension schemes (7.3%). Again, there were noteworthy differences between the respondents.

3 REAL ESTATE EXPOSURE

3.1 Type of real estate investments

Investors were asked which types of real estate investments they were allowed to invest in as part of their real estate allocations, and which types were permitted elsewhere in other allocations (Figure 06).

FIGURE 06 / REAL ESTATE INVESTMENTS THROUGH REAL ESTATE OR OTHER ALLOCATIONS



Investing in direct real estate or through non-listed real estate funds appears to be a strategic approach. The results show that the percentage of respondents who have a mandate and use it to invest in direct real estate or non-listed is closer than for any of the other real estate investment types. Almost all those who have a mandate to invest directly do – 38% have a mandate and 30% invest directly.

Almost all real estate investors (90%) can invest in non-listed real estate vehicles and, again, most do so. The few who do not were in the process of doing so in the short term, as a result of a recent switch from direct to non-listed. There are a number of investors that recently sold or are in the process of selling their direct real estate and are preparing to start investing via non-listed vehicles.

Few Dutch institutional investors have their real estate investments through JVs (4%) while more then a quarter of them have a mandate to make these investments.

Over one-third of respondents can invest in real estate fund of funds, but only 10% actually do so. Small pension funds (less than €500 million) are more likely to invest in funds of funds. If only small pension funds are examined, the percentage of respondents investing in funds of funds increases to 17%. In this survey the small investors (less than €500 million) are under-represented and this is likely reflected in the fund of funds' investments.

Over half of the respondents could invest in listed real estate funds and 36% are actually doing so. In reality, this number might be higher because 22% of the respondents may invest in listed real estate from their equities allocations but respondents generally could not disclose information about other asset classes.

Real estate debt is permitted by only a few investors within their real estate allocations. It typically falls between the real estate and fixed income teams. Some investors said that they might have exposure to real estate debt through a fund of funds, or via an opportunity fund with a broader mandate. Infrastructure is permitted in a few cases, but for one-third of the respondents, these allocations lay elsewhere. The majority of respondents that do not have allocations to infrastructure are reconsidering this position.

FIGURE 07 / TYPES OF REAL ESTATE EXPOSURE

€ BILLION

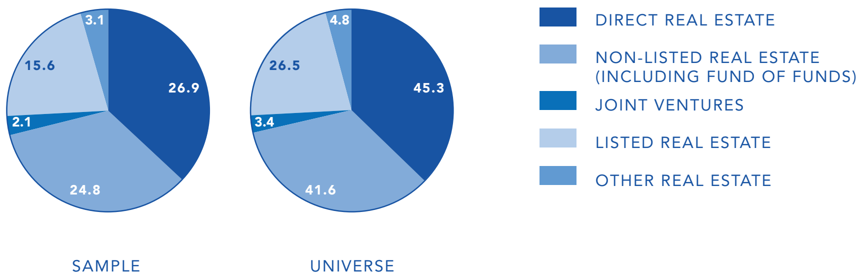


Figure 07 shows that the total real estate universe is €121.7 billion, with the main shares held as direct real estate (€45.3 billion), non-listed funds (€41.6 billion) and listed real estate (€26.5 billion).

Although only 30% of the investors allocate to direct real estate, as shown in Figure 06, it is the major part of the total real estate exposure. This is because large pension funds and insurance companies are the largest direct investors. When going direct, Dutch investors tend to make it either a substantial part or all of their portfolios. This results in the small number of investors (30%) allocating to direct real estate, but it being the largest part of the total real estate universe.

3.2 Current real estate exposures by type of institutional investor

Direct real estate dominates the real estate exposures of the insurance funds, while non-listed dominates that of pension funds, especially small ones. Small pension funds have a 75% exposure to non-listed, compared to 41% for large pension funds, and 60% for medium-sized funds as shown in figure 08.

Any direct exposure for small pension funds is usually not strategic and is more related to specific reasons such as owning its own office building. Just under one-quarter of the medium-sized and large pension funds still hold a substantial direct portfolio.

FIGURE 08 / DISTRIBUTION OF REAL ESTATE IN THE SAMPLE BY TYPE

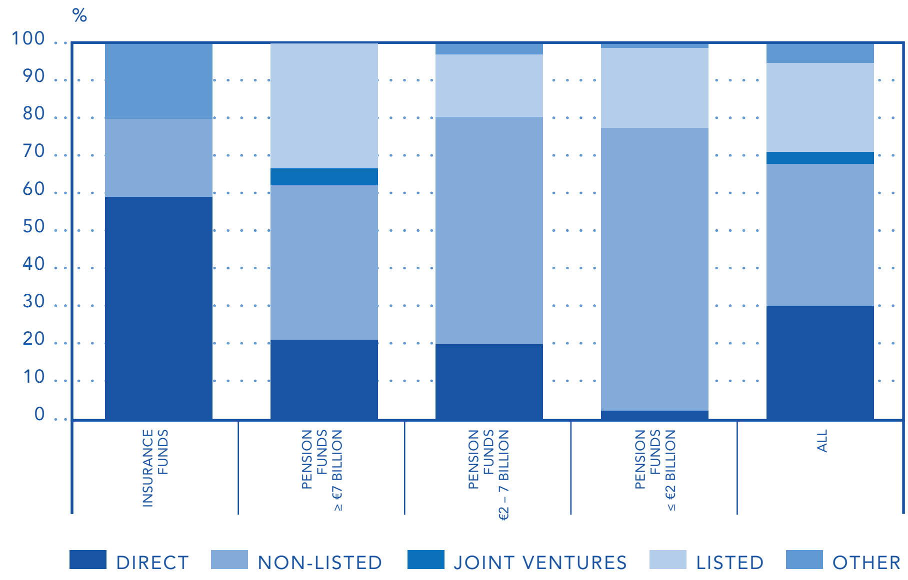
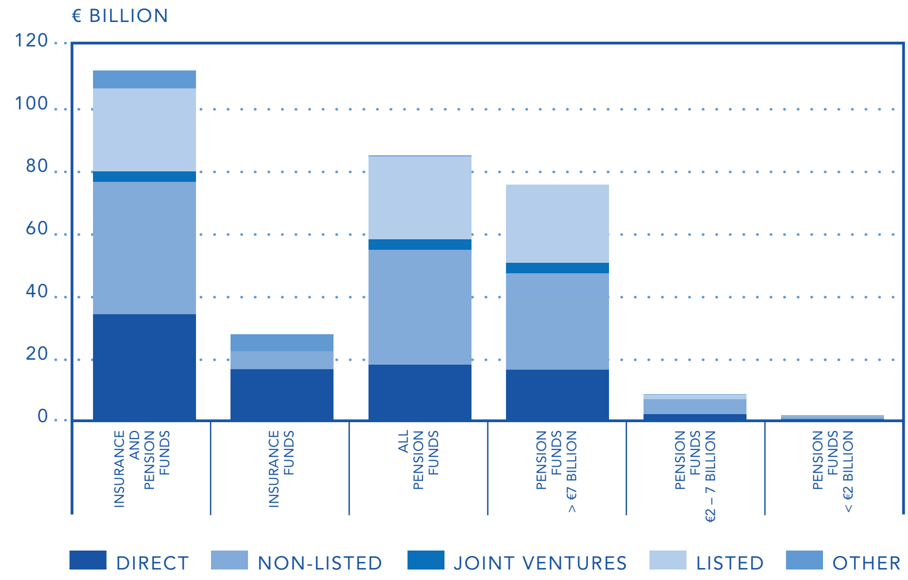


FIGURE 09 / REAL ESTATE UNIVERSE EXPOSURE BY TYPE



The total real estate universe presented in Figure 09 excludes 'other' respondents to maintain data confidentiality because this group contains a limited number of respondents.

With the 'other' category, the total real estate universe would amount to €121.7 billion. The figure shows that the real estate universe is dominated by large pension funds and to a lesser extent by insurance funds.

Insurance funds typically have a large direct portfolio, although respondents' portfolios range from zero to 100% direct real estate exposure. Some insurance funds are in the process of, or already have, ring-fenced some or all of their portfolios and might open them up to other investors. This means that they do not dispose of their assets but rather create a fund and possibly seek third-party investors to invest alongside them. The rationale behind this differs between insurance funds. It can be to bring the actual allocations in line with the target allocations, or to leverage off their expertise in direct real estate in their domestic market. They then sell shares in the portfolio but keep the portfolio and asset management. In all cases Dutch investors are reluctant to let go entirely of their direct real estate portfolio.

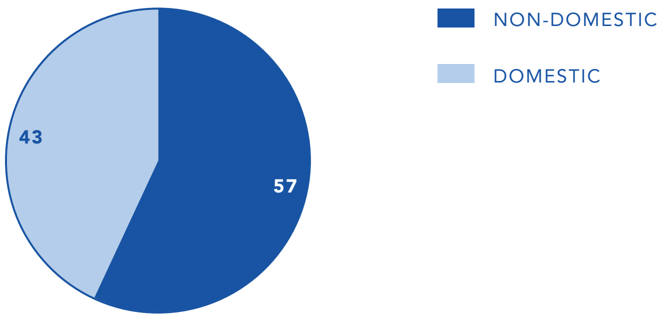
3.3 Non-domestic real estate exposures

Dutch pension funds invest more in real estate abroad than in the Netherlands, while insurance funds prefer direct domestic investments. Overall, non-domestic real estate exposure is 57% of the total real estate allocation. In contrast, in Germany non-domestic real estate investments are 35% of the total real estate universe, while in the UK they are only 13% of the total.

Dutch pension funds in general are experienced real estate investors with a long history of both domestic and non-domestic investment. This partly explains the relatively large non-domestic share of their portfolio. Their sheer size and the relatively small Dutch real estate market further support their non-domestic strategies.

FIGURE 10 / NON-DOMESTIC AND DUTCH REAL ESTATE

%



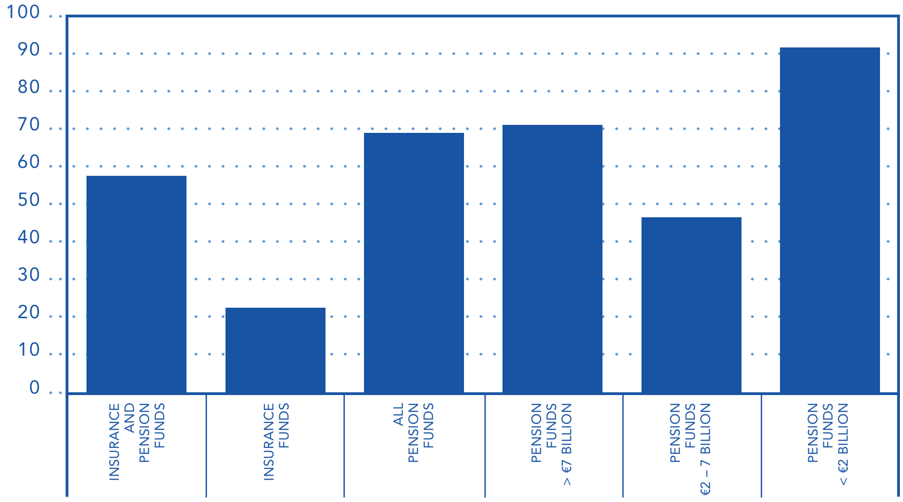
Non-domestic investments are mainly made through non-listed or listed real estate. Listed real estate investments are 100% non-domestic, while non-listed tends to be either domestic or non-domestic It must be noted that the listed mandates given are either European or broader, but no investor has a specific allocation for Dutch listed real estate.

The reason behind this is that the Dutch listed real estate universe is not big and the majority have European portfolios. Approximately 65% of the domestic investment is done directly while 24% is invested via non-listed funds.

Figure 11 details the proportion of real estate invested non-domestically for the various types of investors. This again shows that the insurance funds have a relatively small proportion (22%) of their real estate allocations invested non-domestically.

FIGURE 11 / NON-DOMESTIC REAL ESTATE EXPOSURE

% OF REAL ESTATE THAT IS NON-DOMESTIC, WEIGHTED



Medium-sized pension funds have a relatively low percentage of non-domestic investments compared to other pension funds, as many have substantial real estate allocations to domestic non-listed funds. Large pension funds show a more diverse picture. Some have a substantial domestic direct portfolio resulting in a large allocation to domestic real estate. On the other hand, funds with larger non-listed allocations have relatively small domestic allocations.

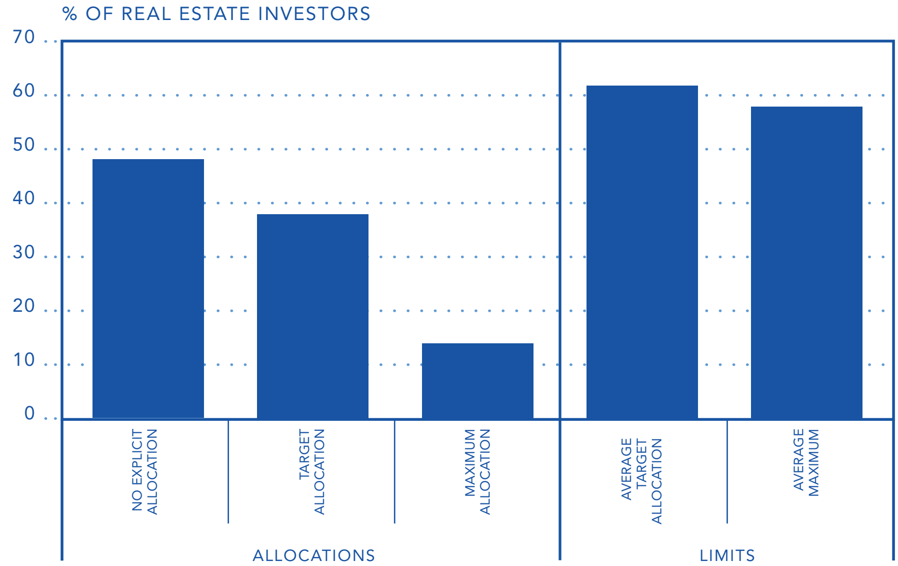
4 THE NON-LISTED REAL ESTATE UNIVERSE

4.1 Allocations to and restrictions on non-listed investments

At 52%, just over half of investors that invest in non-listed real estate have an explicit allocation or target for this part of their portfolio. Those with no target or maximum allocation often have an informal understanding of what the limits are. Some of these investors said they do not differentiate between non-listed, direct or another type. Instead, they differentiate by sectors and regions, irrelevant how to meet these targets.

Figure 12 indicates that 48% of those investing in non-listed real estate have no explicit allocation to non-listed, 38% have a target allocation and only 14% have a maximum allocation.

FIGURE 12 / ALLOCATIONS TO AND LIMITS ON NON-LISTED REAL ESTATE INVESTMENTS



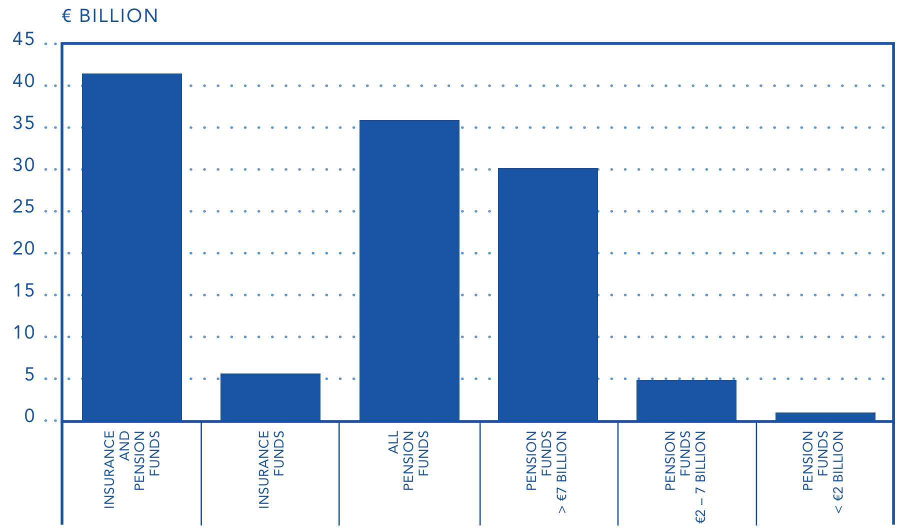
In fact, all the respondents have a target allocation to non-listed real estate. This can be agreed and written in a mandate (52%), or it can be a preference or an informal allocation.

The target allocations to non-listed relative to the entire real estate portfolio range from 50% to 100% with an average target allocation of 62%. Of those respondents with a maximum allocation it ranged from 40% to 75%, with an average of 58%.

4.2 The non-listed universe

The insurance and pension funds non-listed universe is estimated at approximately €41.6 billion; Figure 13 shows that the large pension funds (total assets ≥ €7 billion) are the biggest investors in non-listed real estate.

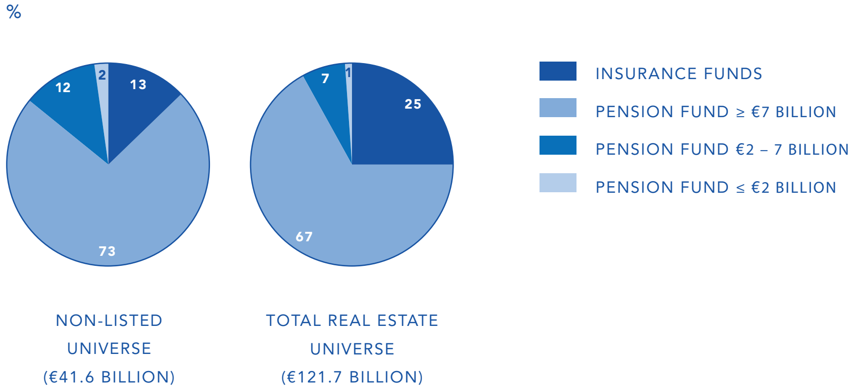
FIGURE 13 / NON-LISTED REAL ESTATE UNIVERSE BY TYPE OF INVESTOR



As a percentage, the insurance funds have 21% of their real estate investments invested in non-listed funds, while large pension funds have 41%, medium-sized have 60% and small pension funds have 75%. This is probably linked to the available staff resources relative to the size of the pension fund; small pension funds are unlikely to have the resources to run a direct portfolio so have less investment options, with non-listed being the best approach. Large pension funds, however, have more options. Some have substantial direct portfolios and others substantial listed portfolios. For the small pension funds, non-listed is the main route chosen with listed as the main alternative (21%).

Figure 14 illustrates how, relative to the overall real estate universe, insurance funds are under-represented in the non-listed universe. Insurance funds are responsible for 25% of the real estate universe but only 13% of the non-listed universe. The medium-sized and large pension funds together dominate the non-listed universe in the Netherlands (85%).

FIGURE 14 / NON-LISTED REAL ESTATE VS. TOTAL REAL ESTATE BY TYPE OF INVESTOR



4.3 Variations in exposures to non-listed real estate

Investors in the sample use different ways to invest in real estate. On average, Dutch institutional investors have 34% of their real estate portfolios invested in non-listed real estate vehicles, but there are some significant variations. One-third of insurance funds invest exclusively through non-listed. However, if this figure is re-weighted to the assets under management, it is recalculated as 13%. The small pension funds also have a large share of their portfolios invested in non-listed real estate funds. Half of the small pension funds have an exclusively non-listed portfolio and the other half have a high allocation to non-listed.

FIGURE 15 / PROPORTION OF REAL ESTATE INVESTORS WITH EXCLUSIVELY NON-LISTED PORTFOLIOS

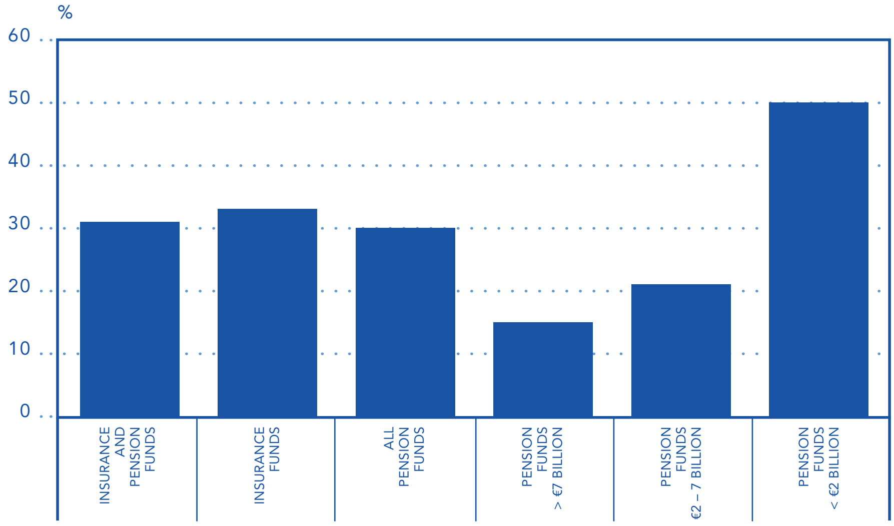


FIGURE 16 / FREQUENCY DISTRIBUTION OF NON-LISTED EXPOSURES TO REAL ESTATE OF DIRECT INVESTORS IN THE SAMPLE

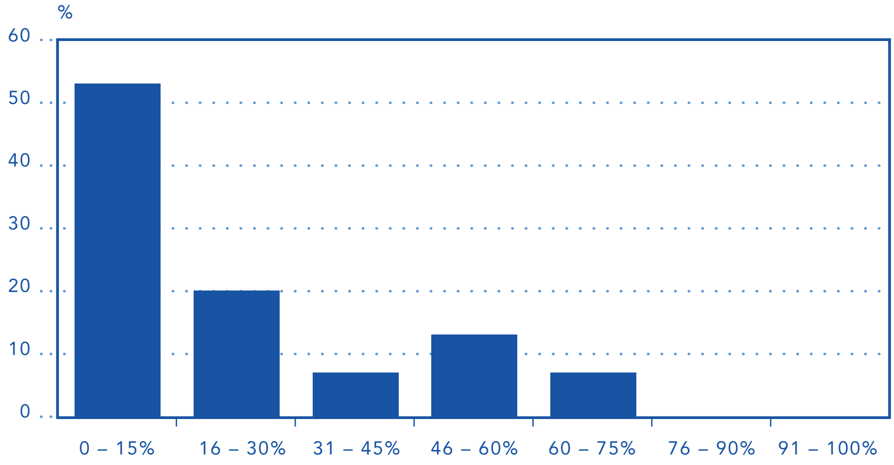


Figure 16 indicates that, for a large number of investors with direct real estate investments, non-listed accounts for a relatively small proportion of their real estate portfolios. More than half had 15% or less of their real estate exposure in non-listed vehicles, while 73% had 30% or less of their real estate in non-listed.

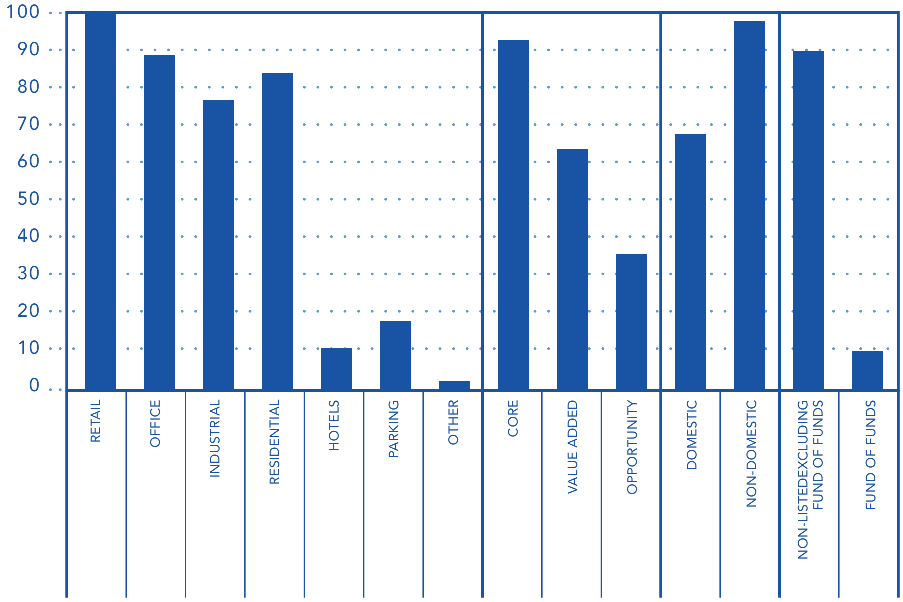
An interesting outcome of this study is that it seems that institutional investors either choose the route of non-listed or the route of direct real estate, but they do not mix well in Dutch investors' portfolios.

4.4 Types of exposure to non-listed vehicles

Figure 17 illustrates that most investors in non-listed funds are invested in the four core sectors, retail, office, residential and industrial. All non-listed investor respondents have exposure to retail.

FIGURE 17 / TYPES OF NON-LISTED INVESTMENTS

% OF RESPONDENTS WITH A NON-LISTED EXPOSURE



Core was the most applied style with 93% of the respondents having these types of investments. This is followed by 64% with value added and 36% with opportunity investments. Non-listed investors without core non-listed exposure appear to have a substantial direct domestic portfolio that serves as the core part of their portfolio. Almost all non-listed investors, 98%, have non-domestic exposure, while only 68% of non-listed investors have domestic exposure. The vast majority of non-domestic investments are made through non-listed vehicles.

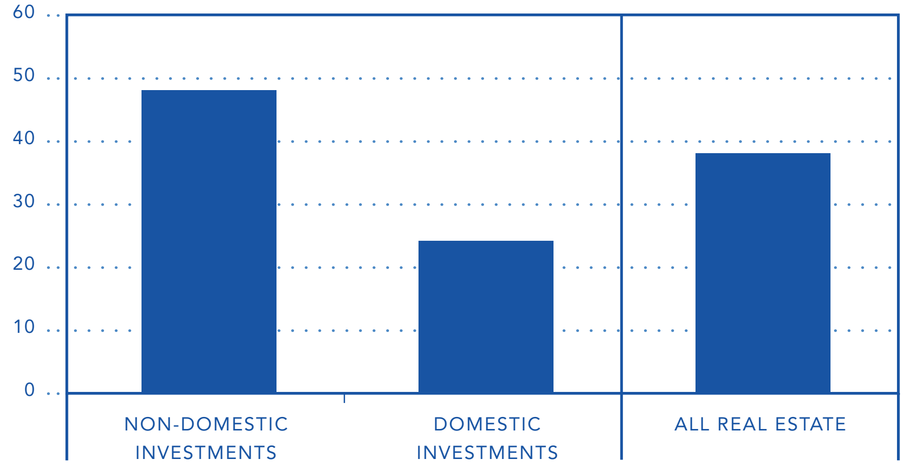
Only 10% of investors invested through fund of funds. Again, this low figure is likely because investors that invest in fund of funds, often the smaller pension funds are under-represented in this survey.

4.5 Non-domestic investment in non-listed vehicles

Figure 18 shows that, of the domestic investments, only 24% is invested in non-listed vehicles. The main contribution to domestic investments comes from direct investments, which are 65% of all domestic investments. Dutch investors use two main ways of investing non-domestically: non-listed or listed. Of the non-domestic real estate exposure, 48% is invested via non-listed vehicles, and 41% is invested via listed vehicles. A small percentage of the non-domestic investment, 4.5%, is invested directly but this primarily comes from exposures left over from previous strategies or mergers.

FIGURE 18 / NON-LISTED EXPOSURE IN DOMESTIC AND NON-DOMESTIC UNIVERSE

% OF NON-LISTED REAL ESTATE



Roughly one-quarter of all non-listed exposure is invested in domestic real estate.

FIGURE 19 / NON-LISTED REAL ESTATE — THE NETHERLANDS VS. NON-DOMESTIC

€ BILLION

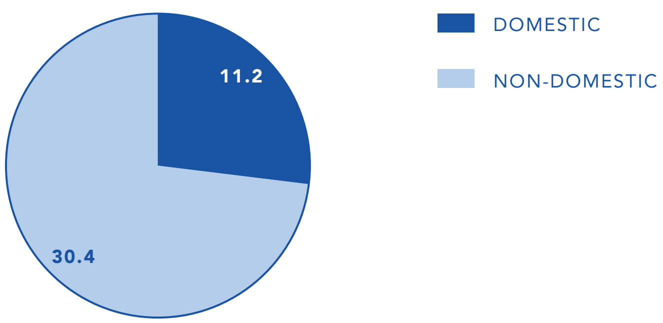
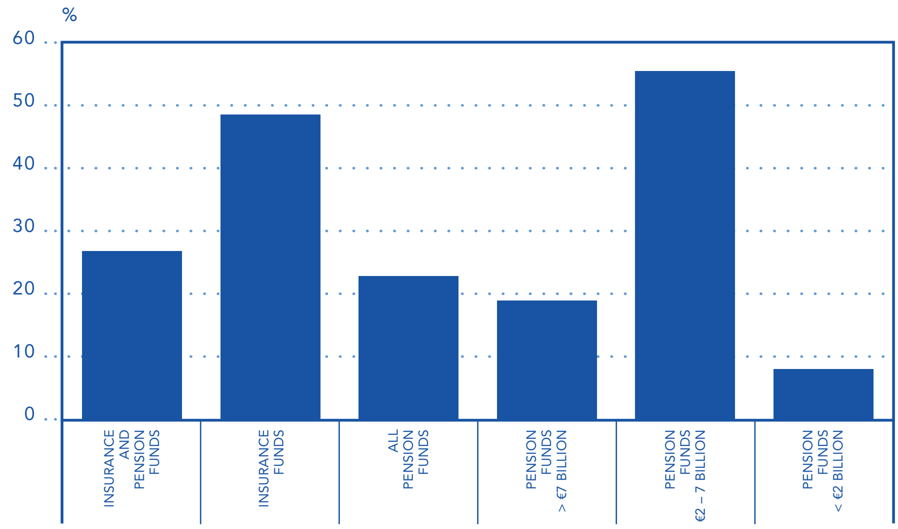


Figure 20 shows the domestic part of non-listed portfolios. Pension funds have 23% of their non-listed portfolios invested domestically while insurance funds have 48% of their non-listed allocations invested in the Netherlands. The difference can be explained by the fact that insurance funds generally tend to invest domestically. The few non-listed allocations they have made are largely domestic investments in product market combinations that they are less familiar with and could not achieve directly.

By size, there is a significant difference. Small pension funds have only 8% of their investments dedicated to domestic non-listed real estate. Their portfolio size is too small to make several investments in different product market combinations and they tend to invest in pan-European funds rather than in domestic non-listed funds. The medium-sized pension funds have the highest allocations to domestic non-listed funds, with 56% allocated on average. This is likely to be influenced by the fact that several medium-sized pension funds in this sample have invested all of their non-listed money in Dutch funds.

FIGURE 20 / DOMESTIC NON-LISTED REAL ESTATE EXPOSURE BY TYPE OF INVESTOR



5 REAL ESTATE STRATEGIES AND THE PROS AND CONS OF NON-LISTED REAL ESTATE FUNDS

5.1 Reasons and obstacles to invest in non-listed real estate vehicles

Investors with an allocation to non-listed real estate vehicles were asked to list the three most important reasons for investing in this type of real estate asset class.

FIGURE 21 / REASONS FOR INVESTING IN NON-LISTED REAL ESTATE

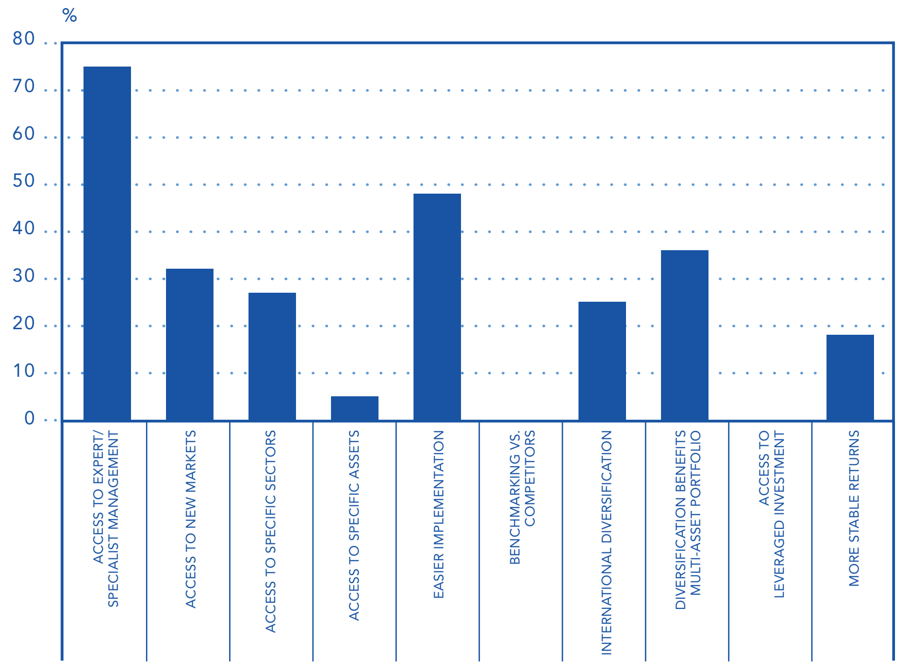


Figure 21 shows that 75% of the participating investors consider access to expert/specialist management to be the main reason to invest in non-listed real estate funds.

The second most important reason, cited by 48% of investors, is the easier implementation, although many added that it has become clear in the last few years that non-listed investments require more attention than previously thought. The third most important reason is the diversification benefit non-listed can offer for a multi-asset portfolio. These three reasons are followed by a variety of other reasons (rated between 20 and 35%), including access to new markets and specific sectors and international diversification, which confirms that non-listed is often used when investing abroad or in markets or sectors that the investor is less familiar with, and when an investor wants to invest with a local expert fund manager.

Around 18% of the investors mentioned under 'other' perceived the stable returns of non-listed as an important motive to choose it. This was confirmed by the interviewees who mentioned the fact that, compared to listed real estate, non-listed has a lower correlation with equity markets. The returns and volatility are perceived to be more in line with the underlying real estate markets than listed real estate.

None of the respondents invest in non-listed to get access to leveraged portfolios or for benchmarking versus competitors.

Dutch investors have chosen the non-listed route internationally, and to a lesser extent for their domestic exposures. There is no significant difference in the reasons why to invest in non-listed by size of investor. Some mentioned that non-listed investments removed the need to build up costly in-house expertise, which would be otherwise be required to obtain exposure to certain out-of-reach sectors.

A few of the small pension funds have no exposure to non-listed despite having real estate investments. The main reason for this was the lack of control, followed by the lack of liquidity and the lack of transparency. The respondents that are concerned about lack of liquidity tend to invest via listed vehicles.

Two investors stated that internal reasons were hindering an exposure to non-listed real estate funds.

Internal costs, management efforts and lack of resources were not given as arguments against non-listed investments. Interestingly enough, the respondents that only gave lack of liquidity or transparency as a reason did mention that they are in a phase of re-orientating and will seriously reconsider entering the non-listed arena. Although they see these factors as negative points, they also mentioned the more stable returns compared to listed.

5.2 Investment strategies

The responses to the survey and the interviews reveal a number of different real estate strategies. The majority of respondents pursue a predominantly non-listed real estate investment approach, although large life funds favour a more direct real estate approach.

The typical strategy is a well balanced non-listed portfolio across different sectors and regions topped up by a portion of value added and maybe some opportunity investments. The respondents seem to choose one of the follow three main strategies.

First there is the direct real estate approach. This means that the preferred option is to invest in directly held real estate. Only if a desired product market combination is not achievable through direct investments, is an alternative route an option. The majority of the large insurance funds follow this strategy. Most of the investments following this direct real estate approach are all-equity investments with a low risk profile. This is mainly for reasons of control and lower management costs. The Dutch real estate market has been shown to be a stable market relative to other countries and the real estate sector has proven to be a good diversifier to other asset classes. Another explanation for the larger direct domestic portfolios is historic reasons. Investors who have built their direct real estate portfolios and the expertise to manage them prefer to keep them.

The second approach is to have a substantial domestic direct portfolio in combination with a non-domestic non-listed portfolio. A fifth of the respondents apply this strategy, mainly the large pension funds. The domestic direct portfolios of this group, with a total of around €10 billion, are again mainly equity without leverage and are low risk. Higher risk products (value added and opportunity) are permitted for the international investments through non-listed funds.

The third strategy is to choose predominantly non-listed real estate for both domestic and non-domestic investments. This approached is followed by many small and medium-sized pension schemes. The reason for choosing this last strategy is mainly because non-listed has the characteristics of direct real estate, but without the need to have a full in-house team to manage it.

Many investors said they shied away from listed real estate because of its volatility.

As shown in figure 17 of section 4.4, 93% of the respondents have invested in core funds, 64% in value add funds and 36% in opportunity funds.

In a portfolio which is built up mainly with non-listed vehicles, the typical strategy is to have 50% to 65% core diversified, 30% value added and sometimes topped up with some opportunity.

6 THE PROSPECTIVE REAL ESTATE AND NON-LISTED UNIVERSE

6.1 Prospective changes in real estate exposures and allocations

Figure 22 shows the difference between current exposures and the target allocations to real estate of the different investors. The information is presented on a weighted basis. A positive percentage means that the fund is currently under-exposed to real estate.

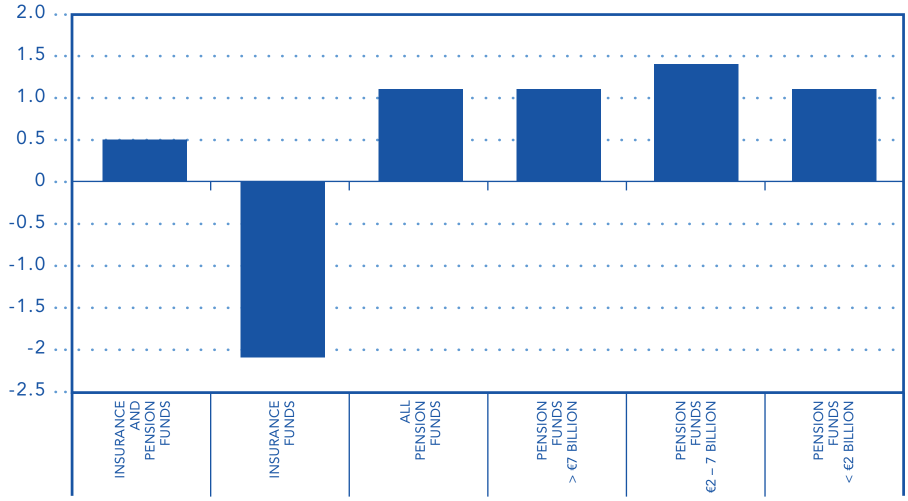
Overall, the current exposures of all real estate investors in the sample are below targets by 0.35 percentage points on a weighted basis. Pension funds in general are more than one percentage point under-allocated to real estate, which means a potential current real estate demand of €9.5 billion. Two-thirds of the insurance funds have exposures close to their target allocations, while one-third is very over-exposed and needs to seriously cut back. Overall, insurance funds have 2.1 percentage points (close to €6 billion) more real estate investments than their targets.

There were several factors behind these differences:

- In recent years, investments have been halted due to the financial crisis.
- During the financial crisis, share prices suffered more with the consequence that the actual relative allocation to real estate rose (the denominator effect).
- The recent rally of stock prices helped the denominator effect.
- In recent years, commitments have not been drawn because of a lack of attractive opportunities to the funds. This argument can partly be offset by the lack of recycling money, especially for value added and opportunity funds due to worsening market conditions for asset disposals.
- Some investors have recently increased their target allocations to real estate.

On this basis, the insurance and pension funds' targets suggest an increase in the total real estate universe from €121.7 billion to around €125 billion.

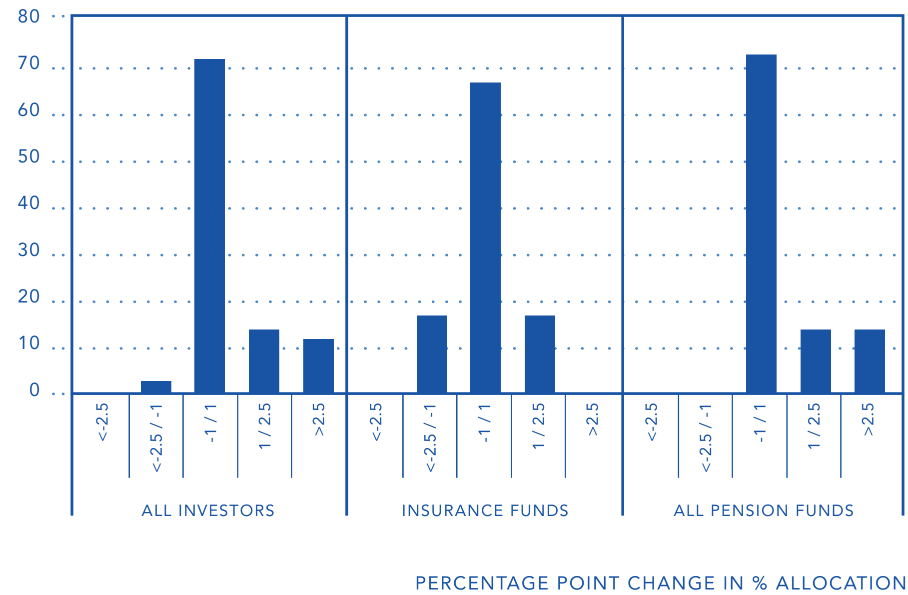
FIGURE 22 / DIFFERENCE BETWEEN TARGET/ALLOCATION TO REAL ESTATE AND CURRENT TARGET/ALLOCATION



Looking ahead to the next three years, Figure 23 illustrates the changes in target allocations. Almost three-quarters of real estate investors anticipate little or no change in their allocations compared to their current allocations. Only 2% see a small decline in target allocations to real estate by 1% – 2.5%, but more expect to increase their targets. One-quarter of the investors expect to have higher targets; 14% will increase their allocations by 1% – 2.5% and 12% by more than 2.5%.

FIGURE 23 / EXPECTED CHANGE IN TARGET / ALLOCATION TO REAL ESTATE IN THE NEXT THREE YEARS

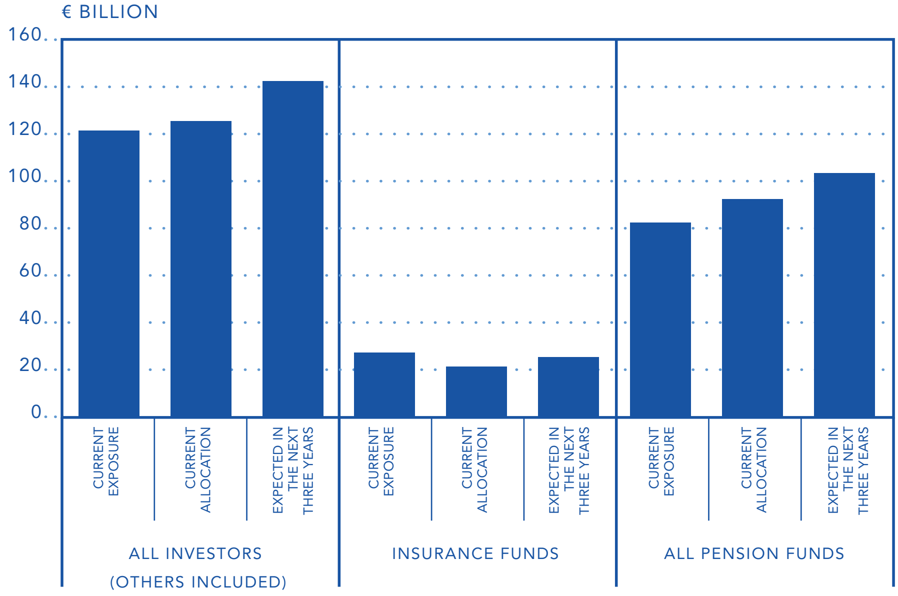
DIFFERENCE BETWEEN TARGET / ALLOCATION AND CURRENT EXPOSURE



The main trigger for the prospective growth in the next three years is the estimate of the growth of assets under management of the funds. The growth of assets under management in the next three years is expected to be 10.5%. On top of that, the Dutch institutional market is also expected to slightly increase its target allocations to real estate. The increase from the current target to the target in three year's time is expected to be 80% due to increased assets under management and 20% due to increased real estate allocations.

Figure 24 summarises the current real estate universe and estimates of prospective changes in it. Overall, the life and pension fund real estate universe, including the 'other' investors in the survey is anticipated to grow from the €121.7 billion current exposure to €142.3 billion in three years. This is entirely due to the activity of pension funds because insurance funds are currently over-weighted to real estate. The insurance funds expect to decrease their exposure first to meet their current target allocations, before growing again to their slightly higher future target allocations. Overall the real estate market is expected to grow by €4 billion to meet current targets and another €16.6 billion in three years to meet future targets to reach a total estimated size of €142.3 billion.

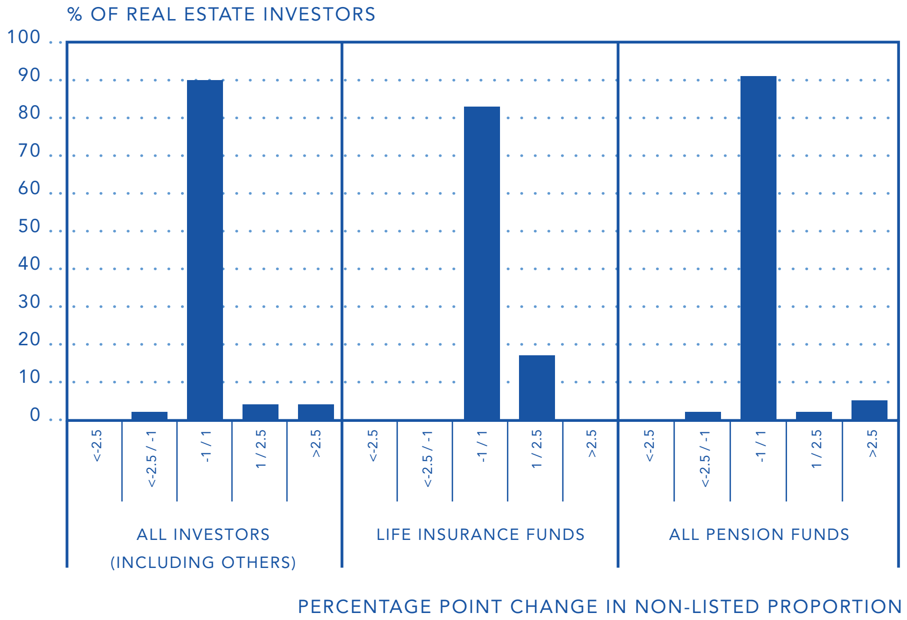
FIGURE 24 / GROWTH IN THE REAL ESTATE UNIVERSE



6.2 Prospective changes in exposure to non-listed real estate

Investors in the survey were asked how much they expected the proportion of non-listed in their real estate portfolios to change over the next three years. The responses are summarised in Figure 25.

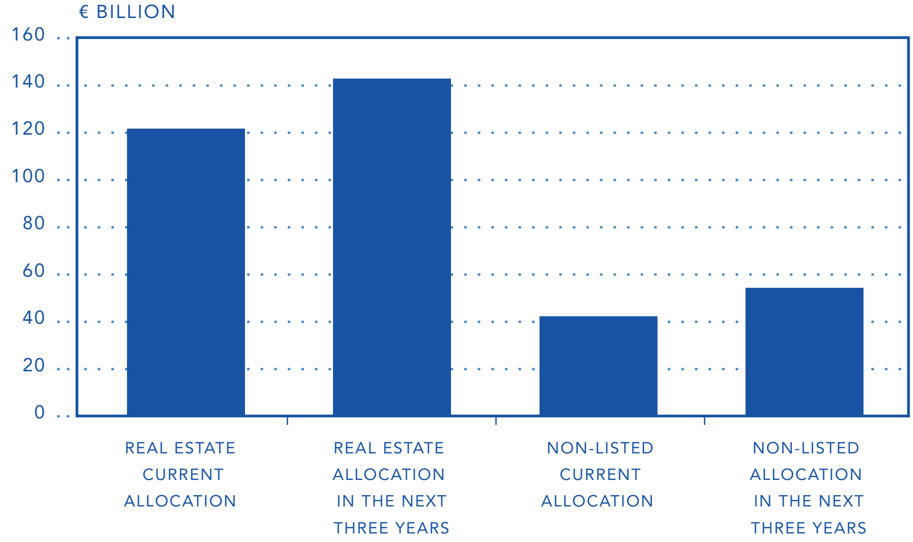
FIGURE 25 / EXPECTED CHANGES IN THE NON-LISTED PROPORTION OF REAL ESTATE (PERCENTAGE POINTS)



The results show that there is little appetite to adjust the portion of non-listed real estate as part of the total real estate allocation. In total this will increase from 34% to an expected 38% of the total real estate allocation. The few investors that do not invest in non-listed did expect to see some movement toward non-listed but no indication could be given on timing or amount.

Most of the investors that currently have limited or no exposure to non-listed real estate are insurance funds. Instead, they tend to have large domestic direct real estate investments. Some are keen to explore the international real estate world and this is likely to be via non-listed real estate. However, it is not clear when these funds will start to invest internationally.

FIGURE 26 / NON-LISTED UNIVERSE CURRENTLY AND EXPECTED IN THE NEXT THREE YEARS

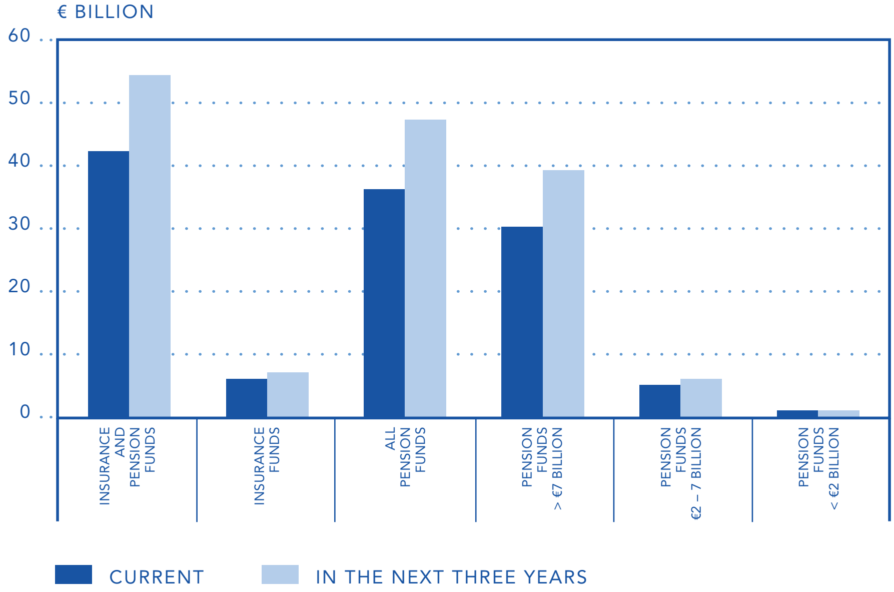


The current real estate allocations of all institutional investors total €121.7 billion. This figure is expected to grow to €142.3 billion in three years. Non-listed investments currently amount to €41.6 billion. In three years this amount is expected to grow to €54 billion. This means that real estate that is invested through non-listed vehicles will grow by €12.5 billion in three years, an increase of approximately 30%.

There are four reasons for the substantial growth in non-listed by Dutch investors:

1. The funds are, overall, currently under-allocated (0.35%);
2. The target allocation to real estate will increase in three years; from the current 10.9% to 11.2%;
3. Non-listed's share of the total real estate universe will increase from 34% to 38%; and
4. Total assets under management will increase by roughly 10%.

FIGURE 27 / THE NON-LISTED UNIVERSE NOW AND IN THE NEXT THREE YEARS, SPLIT BETWEEN DIFFERENT GROUPS OF INVESTORS



Broken down by type of investor, the chart shows that all types of investors will increase their non-listed allocations over the next three years. The insurance funds will invest only an additional €1.5 million while the large pension funds will increase by €8.8 billion, the medium-sized pension funds by €1.6 billion and the small funds by an extra €440 million. These numbers should be viewed cautiously because there are several effects that should be taken into account.

First, commitments should come before investments are realised and several commitments made in recent years have largely not been realised or have not yet been invested. Additionally, money from funds that should have been recycled did not materialise yet.

The relative degree of each effect is not clear. Investment periods of funds are extended, and strategies are changed. One thing is clear though; there is a substantial amount of money from Dutch institutional investors dedicated to non-listed real estate in the up-coming years.

INREV