INREV RESEARCH & MARKET INFORMATION

INVESTMENT INTENTIONS SURVEY 2014

INREV

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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 industry.

KEY FIGURES

	2013	2014

Institutional investors

	2013	2014
NUMBER OF PARTICIPANTS	72	142
TOTAL REAL ESTATE ASSETS UNDER MANAGEMENT (€ BILLION)	148.5	364.5

Fund of funds managers

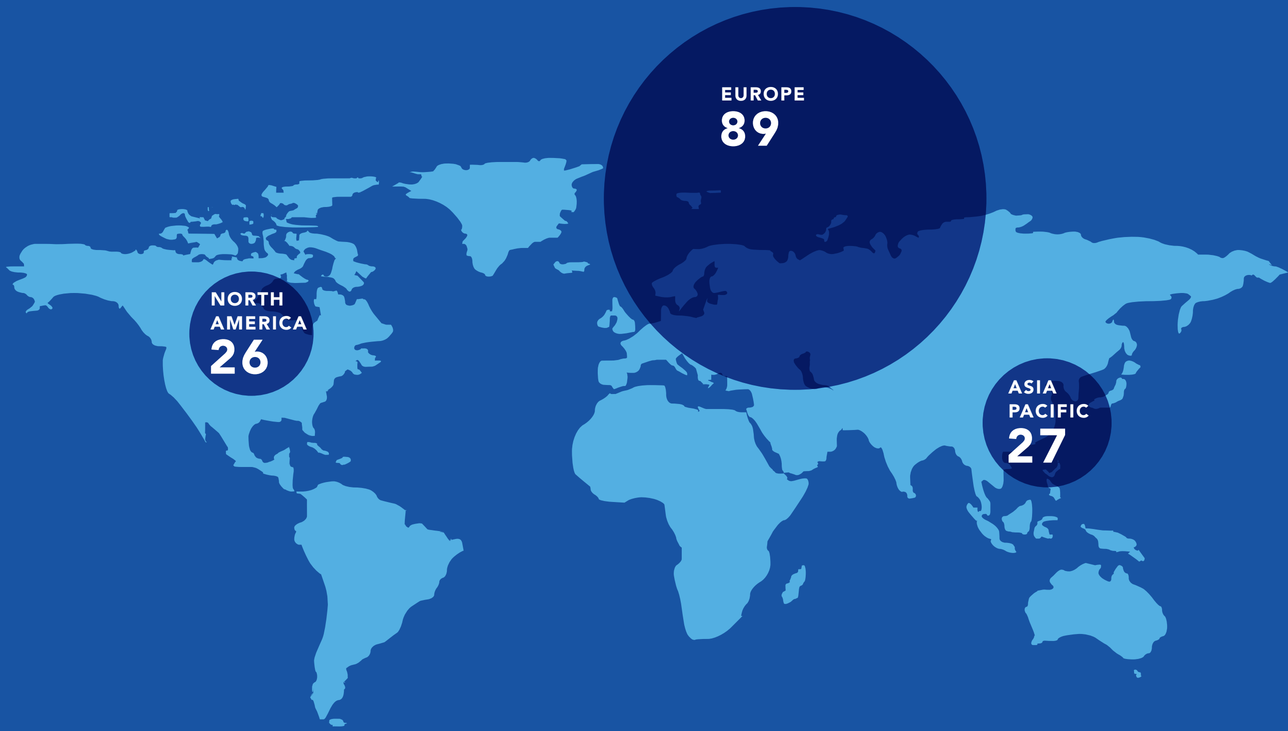
	2013	2014
NUMBER OF PARTICIPANTS	18	15
TOTAL REAL ESTATE ASSETS UNDER MANAGEMENT (€ BN)	18	18

Fund managers

	2013	2014
NUMBER OF PARTICIPANTS	103	167
TOTAL REAL ESTATE ASSETS UNDER MANAGEMENT (€ BN)	960	1100

INSTITUTIONAL INVESTORS

Domicile of participants



Sample size

COUNTRY	NUMBER OF PARTICIPANTS	TOTAL REAL ESTATE ASSETS UNDER MANAGEMENT
NETHERLANDS	17	80.9 BILLION
UNITED STATES	24	61.8 BN
GERMANY	17	61.7 BN
OTHER	10	45.3 BN
FRANCE	8	39.5 BN
SWEDEN	9	20.4 BN
SWITZERLAND	21	18.3 BN
JAPAN	15	11.0 BN
FINLAND	7	10.8 BN
DENMARK	5	10.3 BN
REP. OF KOREA	9	4.5 BN

EXECUTIVE SUMMARY

The results of the INREV Investment Intentions Survey show confidence from investors in the non-listed property sector, of which the European industry will benefit.

This confidence is reflected in both the global allocations to real estate by investors, attitudes to risk, as well as diversification across a range of products.

On average investors expect to increase allocations to real estate from 9.5% to 10.3% of their overall investment portfolios, with Asia Pacific investors leading the growth as they continue to build up their real estate portfolios.

This translates into a total of €34.9 billion that is intended to be invested into real estate globally in 2014, according to survey responses.

Within Europe, the survey results reflect the continuing trend for joint ventures and club deals, although interest levels have now passed their peak. Investors expect to increase allocations to these products – as a net balance of 33.3% of investors expects to increase investments to these products. This compares with 43.9% in 2013. The results show that larger investors tend to dedicate more investments towards such products.

Expected increases in allocations to non-listed property funds in 2014 remain in line with 2013 results, at 37.1% compared with 37.3%. However, the net balance has improved with 18.5% of respondents expecting to reduce their allocation to non-listed property funds this year, compared with 30.5% last year. Further analysis shows that it is mainly smaller investors that intend to increase allocations to funds.

The responses suggest a general division between larger and smaller investors in their product preferences.

Fund of funds managers expect to reduce their allocation to non-listed property funds, which is their traditional investment product. Going forward, 60% will increase their allocations to joint ventures and club deals. In the same way that funds of funds have given smaller investors access to property funds, this aggregation is now being used to take part in joint venture and club deals.

For the first time since the launch of this survey, the availability of suitable products emerged as the main reason not to invest into European non-listed property funds. Last year it was alignment of interest with the fund manager. Liquidity is one of the top three obstacles for investors, also for the first time.

Style preferences are consistent with last year's results, with just over half of investors continuing to prefer core funds. Further analysis shows that larger investors have more appetite for risk, and consider value added as the most interesting style today. Fund of funds managers continue to have a greater appetite for risk with value added as the most preferred style.

There are changes to the locations that investors would like to gain exposure to in 2014, with a continued focus on Germany and the UK. France has returned to the top of the ranking in second place and there is reduced interest in the Nordic region. Spain has made a comeback, with 41.7% of fund of funds managers and 22.6% of investors expecting to invest there in 2014.

The ranking of the sectors remains the same as last year with retail, office and residential holding the top three spots.

CONTENTS

1 INTRODUCTION

The INREV Investment Intentions Survey analyses the expected investment trends in the real estate industry, with a specific focus on non-listed funds. The report also explores investors' investment plans over the next two years. For the first time, the survey has a global outreach as it is a joint research project of INREV, ANREV and PREA.

Chapter 2 describes the survey methodology while chapter 3 focuses on global real estate allocations. Here the institutional investor group is split between Europe, Asia Pacific and North America, showing specific regional investor trends. For this chapter, all 324 responses to this survey are included in the results.

From Chapter 4 onwards, the report focuses on the European real estate markets, exploring the preferences for different types of real estate products in Europe.

In Chapter 5, country and sector preferences for European real estate are explored. Chapter 6 looks at the pros and cons of investing in non-listed funds, while chapter 7 looks at preferred fund styles and structures.

In chapter 8 we focus solely on the UK. Here we explore the key drivers in the market, and how allocations to real estate are shifting as investors look more widely to find new opportunities.

In the final chapter we back-test the INREV Investment Intentions Survey 2013 results for country/sector preference.

INREV would like to thank KTI Finland, the Lucerne University of Applied Sciences and Arts and the INREV Research Committee and all members that have contributed to the success of this report.

2 SURVEY METHODOLOGY

This research is based on the results of an online survey sent to the members of various industry associations and other participants in the non-listed real estate funds industry.

The 2014 survey attracted 324 responses (2013: 155) in total from 142 investors (2013: 65), 167 fund managers (2013: 73) and 15 fund of funds managers (2013: 18). All responses are taken into account in chapter 3, where the expectations for global real estate allocations are explored.

Chapters 4 to 7 focuses on the European market, reporting the responses of institutional investors and fund managers that have already invested in, or intend to invest, in Europe. The data in this section comprises 128 investors, 125 fund managers and 15 fund of funds managers. In chapter 8 we focus solely on the UK. Here we explore the key drivers in the market, and at how allocations to real estate are shifting as investors look more widely find new opportunities.

In the final chapter, Real Capital Analytics (RCA) presents a summary of its analysis into the relationship between the predictions within INREV Investment Intentions Surveys and how these compared to the investment activity that followed, using its database of global transactions.

To better understand the differences between large and small investors, some results are presented as weighted and equally weighted throughout the report. ‘Equally weighted’ results mean that all responses to a particular survey question are given the same weight. While ‘weighted’ results have been analysed according to the investors total market value of real estate assets under management. All graphs and data used in the analysis are equally weighted unless specifically indicated.

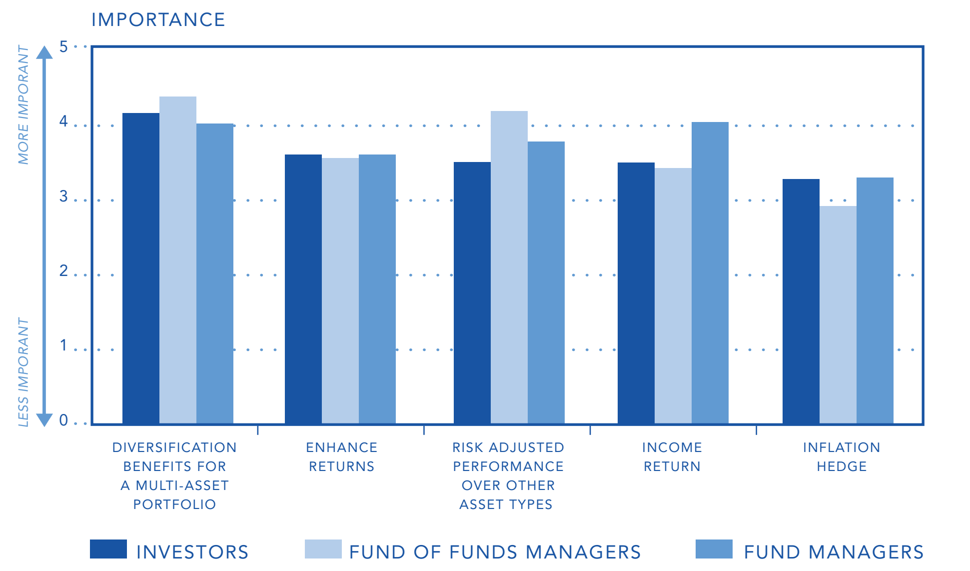
3 EXPECTED GLOBAL REAL ESTATE ALLOCATIONS

In this chapter, all participants were asked about their reasons behind their real estate investments. The survey invited investors to explain why they invest in real estate, fund of funds managers to explain the reasons on behalf of their investors, and fund managers to provide their views on the most important factors for their investors. Respondents could rank answers by importance.

This year's survey was completed against a backdrop of improved economic stability and global real estate activity, with the major global investment markets reporting transactions growth and heightened risk appetite in 2013.

The prospect of tapering by the US Federal Reserve Bank means institutional investors are seeking assets that offer potential for stable returns and risk diversification. This shift in strategy bodes well for real estate in 2014, and this is positively indicated in the results of the survey.

FIGURE 01: REASONS TO INVEST IN REAL ESTATE



As more stable economic conditions slowly return, real estate's historically weak correlation to bonds and equities mean the asset class offers investors the diversification requirements they need, as well as the ability for income growth.

These improvements appear to be already having an impact in investors' attitudes to real estate. As this year's study shows, diversification is the most important factor for both investors and fund of funds managers investing in real estate. It was rated 4.2 on average (on a scale of 5) across all investors, supporting the view that real estate is a good diversification tool in a wider portfolio of stocks and bonds. The score also represents an increase on last year, when diversification attracted an average (leading) score of 3.9.

By adding real estate to a multi-asset portfolio, risk can be lowered and returns can be enhanced at the same risk level. Real estate has delivered strong returns in recent years, compared to more volatile equities and bond markets. Hence, risk adjusted performance was the second most popular choice for all groups – gaining an average ranking of 3.5

among investors and 4.2 and 3.8 among fund of funds managers and fund managers respectively. Since the same factor came lowest on participants' priorities last year, it appears that going forward, institutional investors are increasingly focusing on risk management in their portfolios.

Strongly correlated to this is the ability of real estate to enhance returns, and this reason attracted a score of 3.5 for all investor respondents.

Surprisingly, income return ranks only fourth by investors, rated an average of 3.5. Given the current demand for properties with a steady income return, this factor was expected to feature more prominently. Income return was also considered to be the second most important reason to invest in real estate in the 2013 survey.

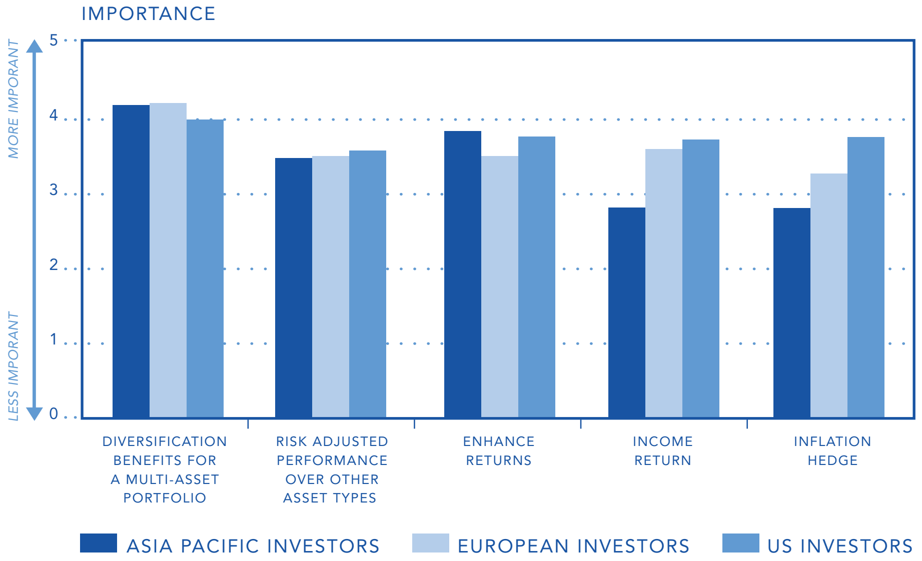
Fund managers, however, did view income return as the key factor for investing in the sector, considering this as the number one reason for investors to invest in real estate. This outcome might reflect the specific sample responding to this study, or be a reflection of the current positive spreads of real estate yields over government bonds and the low interest rate environment.

Inflation was identified as the least important reason for investing in real estate, down from the number three spot in 2013. A lot of research has been done into whether the sector provides a hedge to inflation, with mixed results. This specific survey result is therefore unsurprising; participants are either not convinced by the inflation hedging characteristics, or simply not investing because of the inflation reasoning.

Figure 02 shows the reasons to invest in real estate, but is presented according to investor domicile.

Presenting the results in this way, it is possible to identify specific regional trends and differences between investor groups.

FIGURE 02: REASONS TO INVEST IN REAL ESTATE BY INVESTOR DOMICILE



As expected, diversification is of great importance to all investors, regardless of their regional background.

European and Asia Pacific investors, in particular, regarded this as a key factor, giving it both a score of 4.2 out of 5.

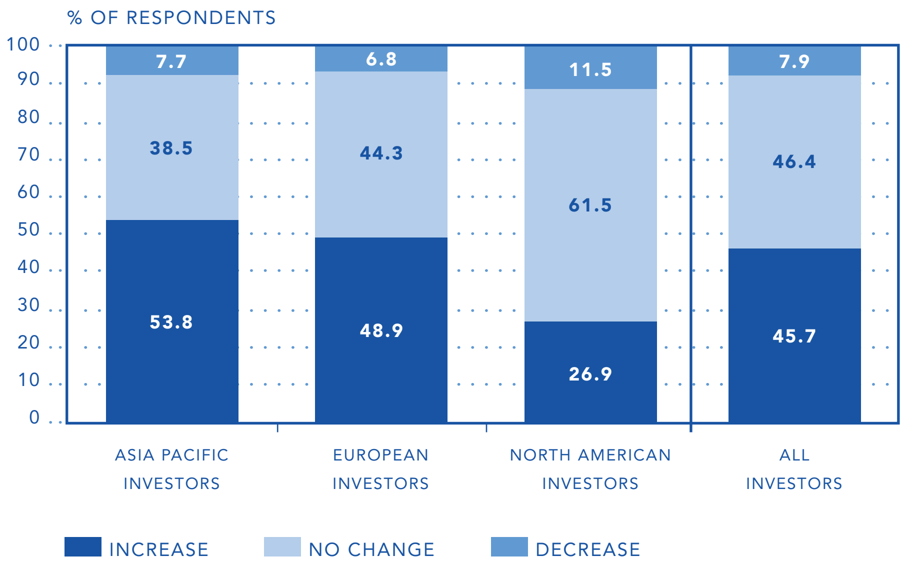
Similarly predictable, given the commentary above, is that risk adjusted performance is important for investors. Asia Pacific, European and North American investors were relatively united on this point, giving this factor a score of 3.5, 3.5 and 3.6 respectively.

But when it comes to income return and inflation hedging, investors do appear to think differently. North American investors view inflation hedging and income returns as more important compared to investors from Asia Pacific, which see these two factors as by far the least important. For this latter group, diversification is the most important reason to invest.

Next, investors were asked for their views on how they see their global real estate portfolio developing over the next two years.

When investors were asked if they expected to increase their allocations to real estate as part of a total multi-asset portfolio, the results were very positive; 45.7% expect to increase allocations to the sector (Figure 03). Only a small percentage at 7.9% expected to decrease exposure.

FIGURE 03: INVESTORS' VIEWS ON DEVELOPMENT OF GLOBAL REAL ESTATE PORTFOLIO



This data provides further evidence that real estate is set to benefit as institutional investors seek stable returns, and a relatively stable investment environment. There are indications that economic performance is set to modestly improve in both advanced and emerging markets over 2014. But bond yields in the US, Europe and Asia are likely to remain under pressure, while equities in these major markets are still constrained. Real estate, by contrast, offers greater stability and insulation from the risks of public equity markets.

At 53.8%, over half of Asia Pacific investors expect to increase their allocation in the next two years. Similarly positive were European respondents, of which 48.9% intend to increase exposure. Only 26.9% of North American investors expected to do the same, but a large proportion, at 61.5%, expected no change to their portfolio.

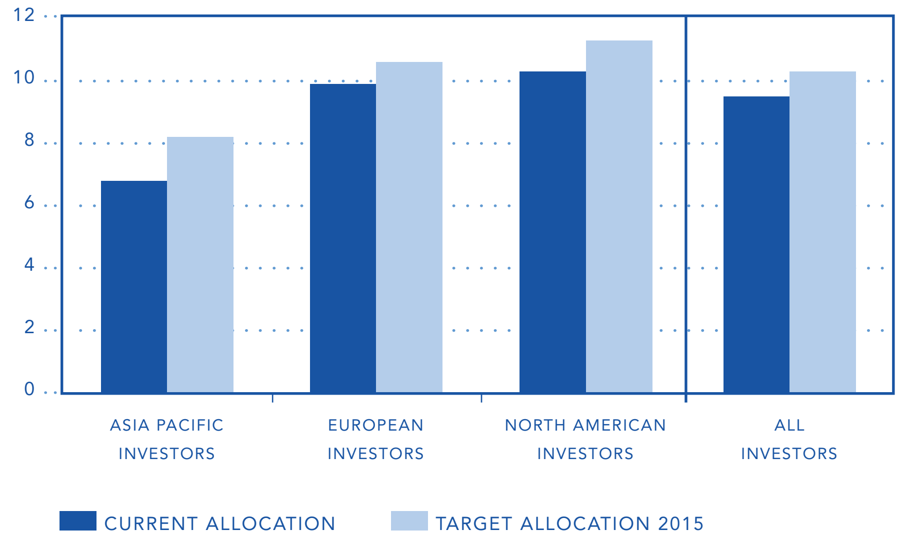
These significant differences can be explained by the fact that a majority of Asia Pacific investors are in the early stages of building their real estate portfolios, driven largely by the increasing demand of an emerging middle class for diversified and long-term savings. A large number of North American investors, by contrast, already have the highest percentage allocation to real estate, compared to investors from other regions.

This is supported by Figure 04, where equally weighted current and target allocations of investors from different regions are compared. At present the average real estate allocation, as a percentage of total portfolio for the survey participants, is 9.5%. But currently, investors from Asia Pacific allocate the lowest portion of their portfolio to real estate at 6.8%.

North American investors have 10.3% of their portfolios allocated to the sector. These investors were also extremely active overseas in 2013, which may suggest appetite to markedly increase allocations has been satisfied for now.

FIGURE 04: EXPECTATIONS FOR REAL ESTATE ALLOCATIONS (EQUALLY WEIGHTED)

% OF RESPONDENTS

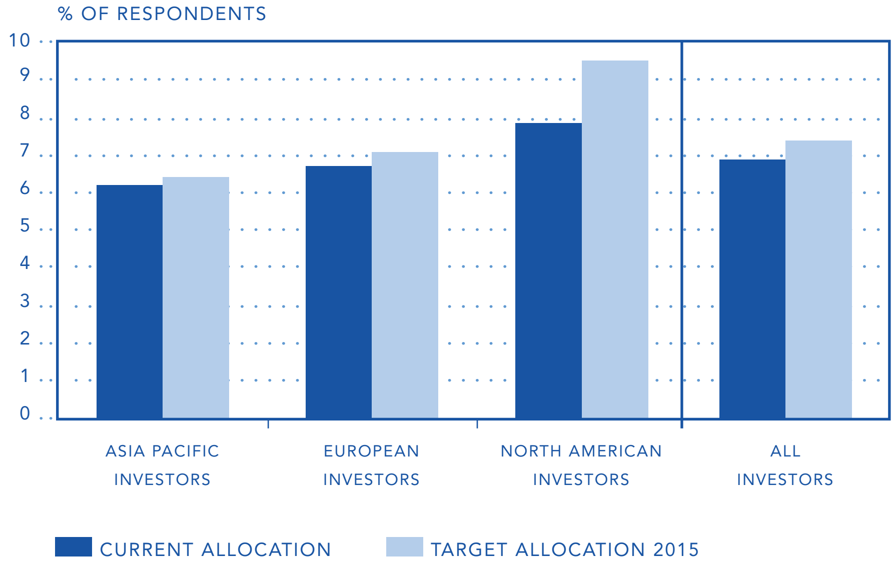


On average investors expect to increase their allocation to real estate from 9.5% to 10.3% of their overall investment portfolios. But on a relative basis, Asia Pacific investors intend to increase their allocation by the largest amount, expecting to increase the currently low real estate share of their overall multi-asset portfolio from 6.8% to 8.2%.

While North American investors will up their allocation from 10.3% to 11.3%, European investors are the least adventurous in this respect; they intend to increase exposure by less than one percentage point.

The size of the investor was not taken into account in this data set. But Figure 05 (page 11) shows the answers weighted according to the current size of the real estate portfolio, and indicates differences between small and large investors.

FIGURE 05: EXPECTATIONS FOR REAL ESTATE ALLOCATIONS (WEIGHTED)



Average allocations to real estate are lower across all regions when the data is analysed on a weighted basis, showing that large investors have a lower relative allocation to real estate.

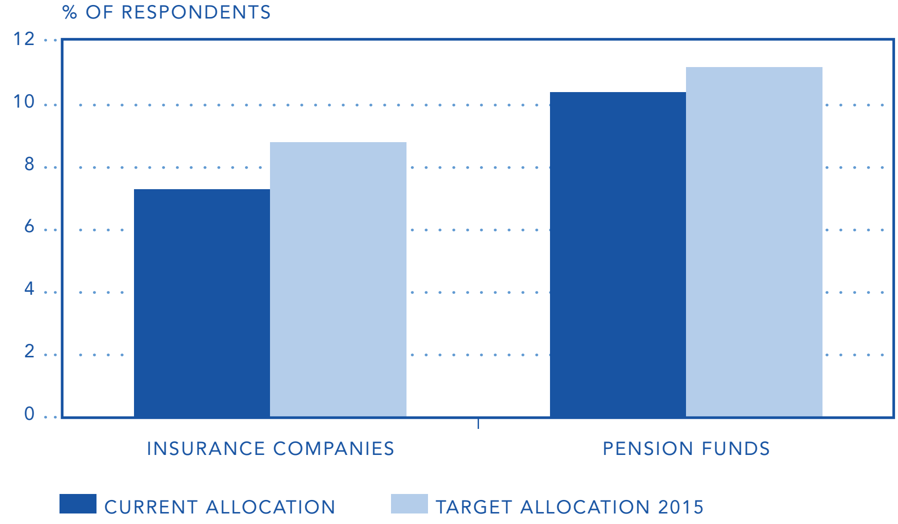
It is expected there will be a 0.5 percentage point increase of allocation to real estate across all investors between now and 2015, from a current allocation 6.9%. This compares to a 0.8 percentage point increase when the answers are not weighted.

This is mainly the result of European investors, where expected growth in allocations is low, or, as in the case of Asia Pacific investors, coming from a low base. American investors, on the contrary, expect to increase allocations, mainly driven by large investors when looking at individual responses.

The lower allocation to real estate by large institutional investors can be explained, in part, by the type of investors responding to this survey, and the number of large insurance companies that participated.

Figure 06 (page 12) shows insurance companies reporting an average allocation of 7.3% versus an average allocation of 10.4% for pension funds.

FIGURE 06: CURRENT AND TARGET ALLOCATIONS FOR INSURANCE COMPANIES AND PENSION FUNDS



Survey results show that insurance companies intend to increase allocations to real estate by a greater amount than pension funds between now and 2015. Figure 06 shows that this investor group expects to increase its allocations to 8.8% from 7.3%. Pension funds only expect to increase their allocations from 10.4% to 11.2% by 2015.

It is a possibility that insurance companies are forecasting these increases on account of the fact that real estate currently offers a higher return compared to government bonds, as well as more long-term trends such as portfolio diversification and capital preservation.

A total of €34.9 billion is likely to be invested into real estate globally in 2014, by the investor respondents (Figure 08, page 13). At 53.5%, just over half of that amount will be invested by European investors, and 36.8% by North Americans. Only 9.7% or €3.3 billion will be invested by Asia Pacific investors.

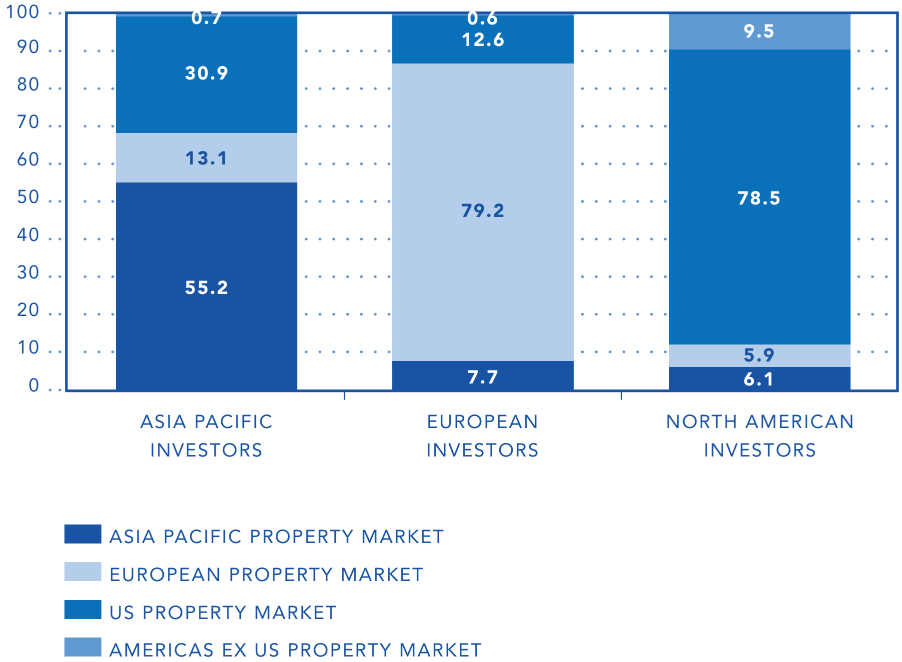
These figures should be treated as indication only as the sample is dominated by European investors. Especially given there were some major investments by Asia Pacific investors in 2013 outside their home region, particularly by Sovereign Wealth Funds – a trend that is anticipated to continue over the coming months.

With expected increases in allocations for many of the participants, the survey also collected views on where new investments are likely to be made.

Current real estate allocations by region show a strong preference for domestic markets (Figure 07, page 13). European investors have almost 80% of their real estate portfolio invested in their own region. While, considering that the major part of real estate in the 'Americas ex US' category (displayed in Figure 07) is located in Canada, it is also safe to conclude that North American investors invest 88% in their own region.

FIGURE 07: CURRENT REGIONAL ALLOCATIONS TO REAL ESTATE BY INVESTOR DOMICILE

% OF RESPONDENTS



Asia Pacific investors, however, appear more diversified. At 44.8%, almost half of allocations were invested outside their own region. These results should be interpreted with a degree of caution; the data set having been largely influenced by investors with a large part of their real estate portfolio in North America.

However, in general terms, the market has seen an increasing appetite from the Asia Pacific region for real estate in Europe and North America in recent years. The relative small size of the investible Asia Pacific markets compared to those overseas, and their ambition to boost allocations and improve diversification, would also suggest increasing investments abroad is likely.

FIGURE 08: TOTAL EXPECTED AMOUNT TO BE INVESTED IN REAL ESTATE BY INVESTOR DOMICILE (TOTAL: €34.9 BILLION)

%

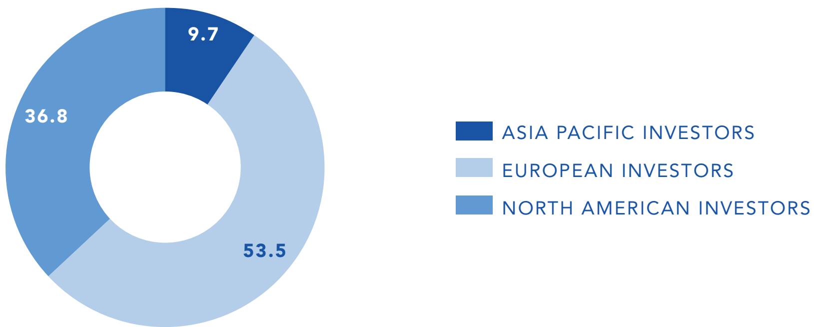
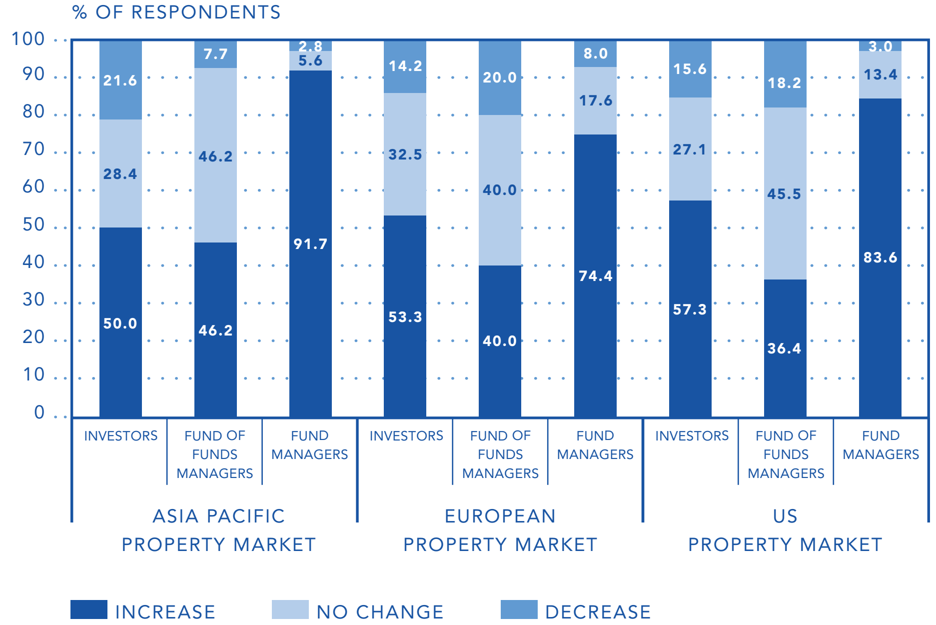


FIGURE 09: EXPECTED CHANGES IN REAL ESTATE ALLOCATIONS BY REGION



Investors were asked how they expected to change allocations to real estate in the regions across the world in which they invest. While fund managers and fund of funds managers were asked to indicate how they expected their investors to change their allocation to these regions (Figure 09).

The positive news for the sector is that the vast majority of market participants anticipate that real estate allocations in all regions will either increase or remain the same in the next 2 years. More than 50% of all investors expect to increase their allocations to Asia Pacific, North American and European real estate markets.

Fund manager are rather positive on investors' expected change in allocation to real estate. They expect that 91.7% and 83.6% of investors will increase their allocation to Asia Pacific and North American real estate markets respectively. This high figure for Asia confirms the current attractiveness of the Asian region as an investment location.

Fund of funds managers are less positive, they expect that less than 50% of their investors will increase real estate allocations to the individual regions.

4 EXPECTED INVESTMENT TRENDS FOR DIFFERENT TYPES OF EUROPEAN REAL ESTATE PRODUCTS

This chapter focuses on how investors from differing regions around the globe are expecting to invest in Europe.

Following INREV's Capital Raising Survey, released June 2013, the responses further demonstrate growing appetite from investors for European non-listed real estate.

On an equally weighted basis, a net balance of 18.6% of investors expect to increase their allocations to non-listed real estate funds; 37.1% expect to increase exposure and 18.5% forecast a reduction. When analysing the results on a weighted basis it is obvious that it is mostly small investors that intend to increase allocations, with a net-weighted balance increase coming out at 7.4%.

Joint ventures and club products are likely to be a popular products over the next two years. This demonstrates the growing importance of investor control, and continues a strong theme that has emerged since the financial crisis.

The move to increased involvement in outsourced investments has especially appealed to larger investors, with these products offering fewer co-investors and better access to large assets. This trend is confirmed in this year's survey results.

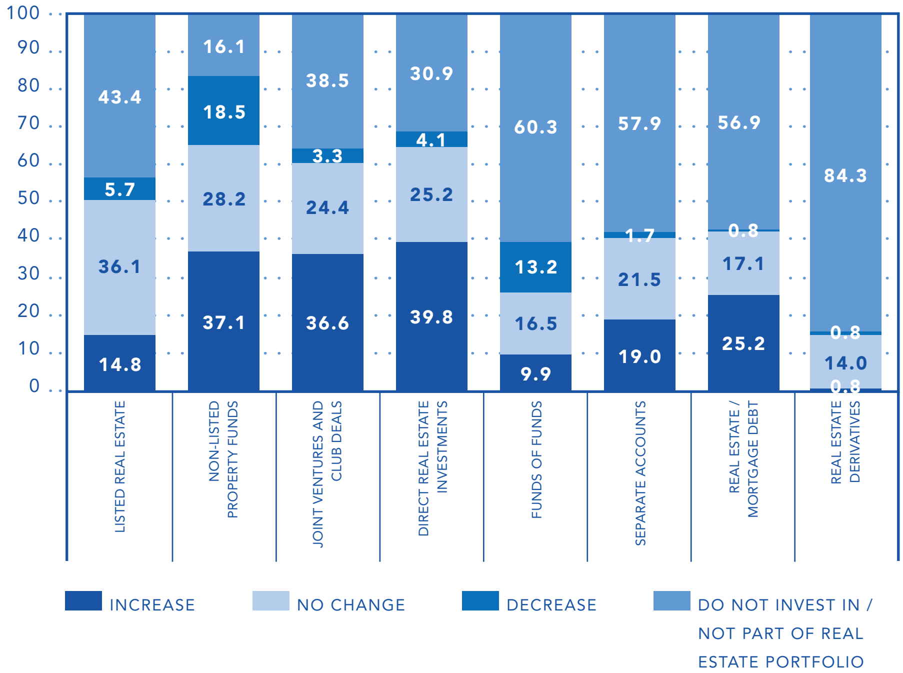
Investors are expected to increase allocations to joint ventures and club deals with a net balance of 33.3%. On a weighted basis however, the net balance is even greater, showing that large investors in particular anticipate dedicating more investments to joint ventures and club deals.

Compared to last year, these results represent a decline in interest, however. In 2013, there was a net balanced of 43.9% for these products. This fall in popularity was also reflected in INREV's latest Capital Raising survey.

Direct real estate will be the investment route with the highest increase in allocation. Again, this confirms the continued desire for investor control. A net balance of 35.7% of investors expect to make new investments in this way over the next two years, with only 4.1% forecasting a reduction in their allocations via this route. The results do not vary significantly between the weighted and equally weighted data sets.

43.4% of investors are not invested in listed real estate and only 14.3% expect to increase their allocation to it. This is may be attributed to listed real estate not being seen as part of a real estate portfolio.

FIGURE 10: EXPECTED CHANGE IN INVESTORS' EUROPEAN ALLOCATIONS OVER THE NEXT TWO YEARS (EQUALLY WEIGHTED)

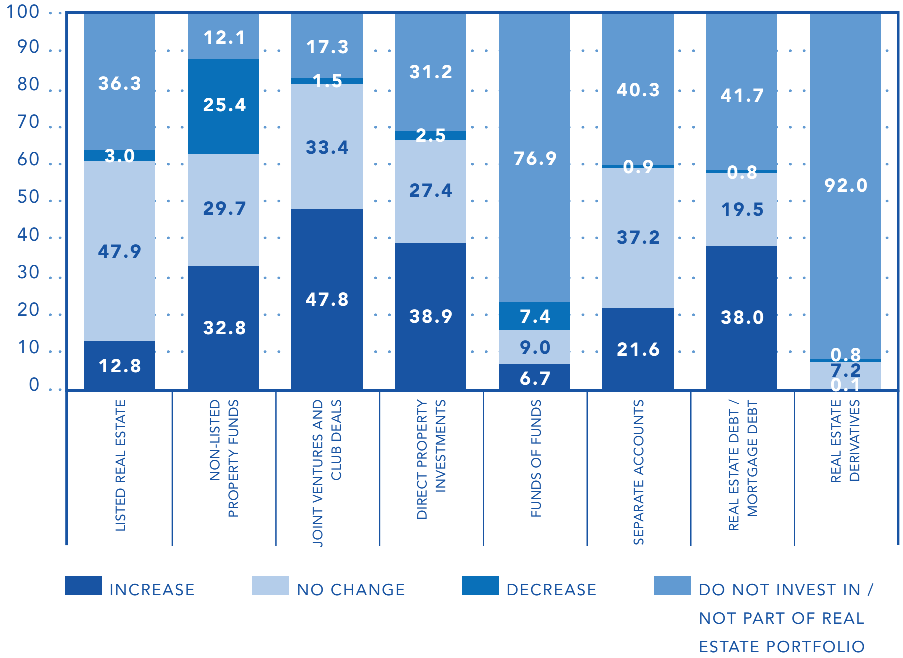


Debt will be another popular investment approach over the next two years. Overall, 25.2% of investors expect to increase their allocation to real estate debt and mortgage debt, as non-listed funds step in to fill the void left by traditional lenders. The weighted results reveal 38.0% expect to increase their allocation to such products. This indicates real estate debt is high on the agenda, and for large investors in particular.

There is a net decrease of 3.3 percentage points for funds of funds. But this is not that consequential given that mainly medium to large investors participate in this survey, rather than the smaller investors that typically tend to invest in funds of funds. This is confirmed in Figure 11, which display the weighted results. Here, it can be seen that 76.9% of respondents do not invest into funds of funds.

FIGURE 11: EXPECTED CHANGE IN INVESTORS' EUROPEAN ALLOCATIONS OVER THE NEXT TWO YEARS (WEIGHTED)

% OF RESPONDENTS

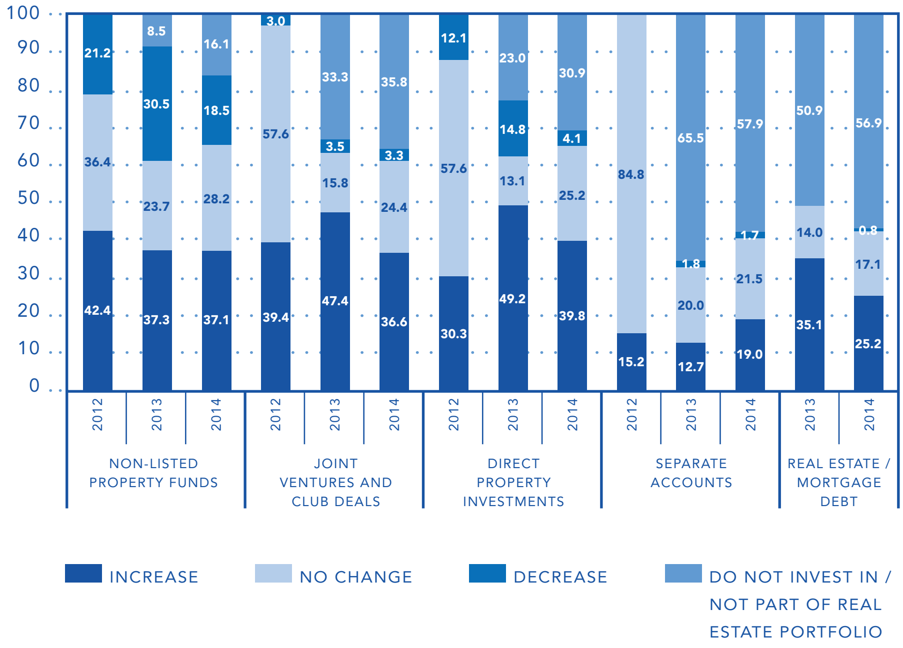


Separate accounts are mainly used by large investors, this is confirmed by the difference between weighted and equally weighted results. When looking at weighted results, 40.3% of investors do not invest in these products compared with 57.9% for equally weighted results.

Real estate derivatives are not part of a portfolio for the vast majority of investors.

FIGURE 12: EXPECTED CHANGE IN INVESTORS' EUROPEAN ALLOCATIONS 2012 – 2014

% OF RESPONDENTS



Comparing the results with those of the previous year (Figure 12) shows that the percentage of investors wishing to increase their allocations to non-listed property funds remained almost unchanged.

But the net balance has improved. Now, 18.5% of respondents expect to reduce their allocation to non-listed property funds in this survey, compared to 30.5% last year. This negative trend has been evidenced by this study since 2011, when investors expecting to lower their allocations to non-listed funds were a growing trend.

This year's results therefore represent good news for the non-listed real estate funds sector, indicating growing investor confidence in these products and a belief that the market has passed its lowest point.

While still a popular investment product, as shown by Figures 10 and 11, the popularity of joint ventures and club deals has fallen. Only 36.6% of investors are now seeking to increase their allocation via these routes, compared to 47.4% last year.

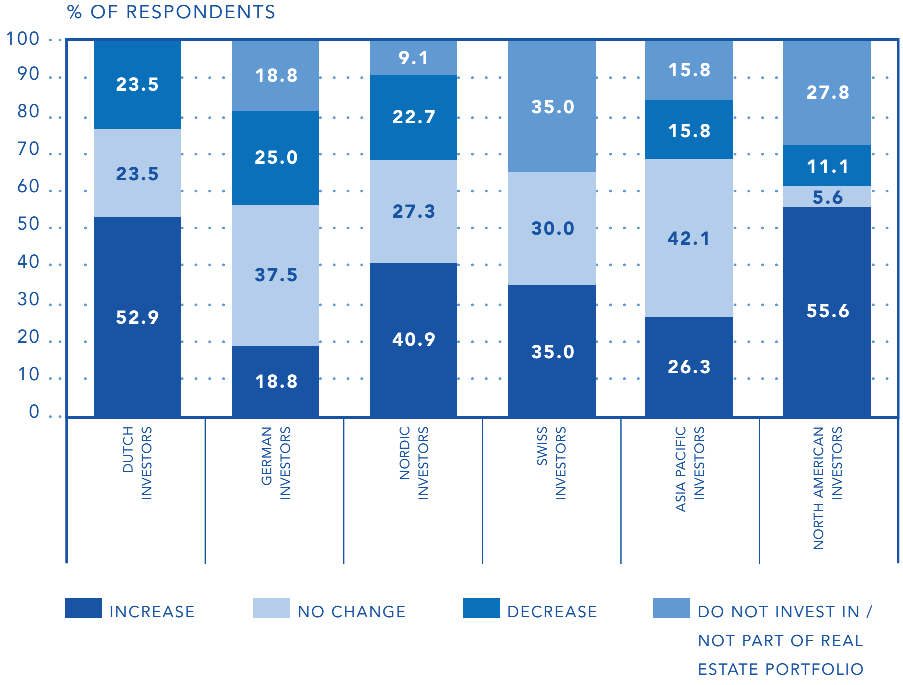
The same is the case for direct property, with 39.8% of investors expecting to increase their allocation compared to a peak of 49.2% in 2013.

Similarly, real estate/mortgage debt has decreased in popularity. Only 25.2% of investors expect to increase their allocation in 2014 compared to 35.1% in 2013.

Although the majority of investors do not invest via separate accounts, the popularity of these products has grown in this year's study, with 19% indicating they would allocate capital to this category, versus 12.7% last year.

In Figure 13 the expected non-listed real estate fund allocation changes of investors by domicile are explored.

FIGURE 13: EXPECTED CHANGE IN INVESTORS' NON-LISTED PROPERTY FUNDS ALLOCATIONS OVER THE NEXT TWO YEARS BY INVESTOR DOMICILE



In the first instance, the results for non-listed real estate funds only are analysed, where significant differences in expectations between investors can be seen.

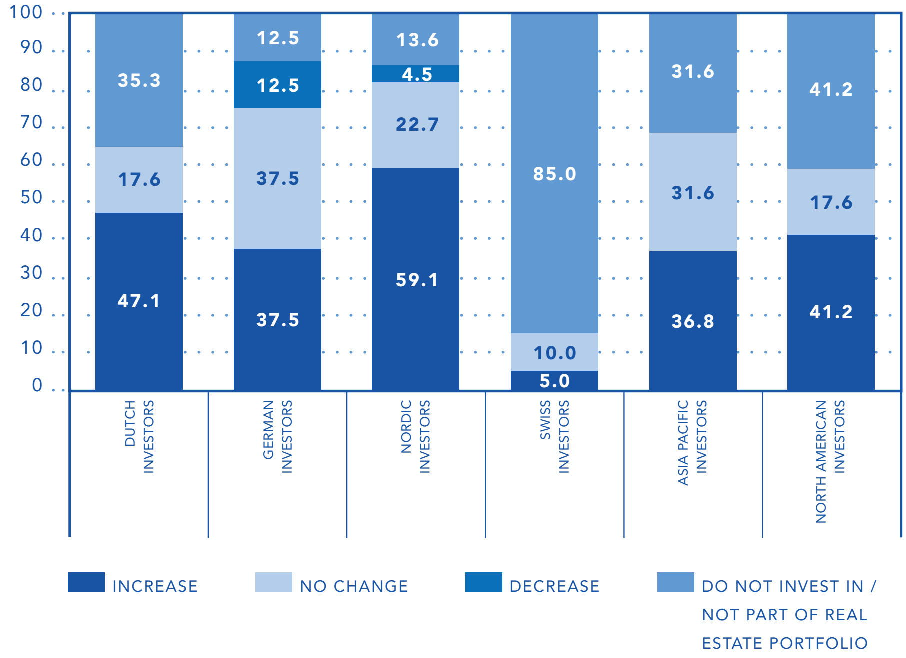
The majority of Dutch and North American investors – 52.9% and 55.6% respectively – expect to increase their allocation to European non-listed property funds. Nordic investors are similarly positive, with 40.9% forecasting an increase to non-listed real estate funds over the next two years.

By contrast, however, only 18.8% of German investors expect to increase their allocation to European non-listed property funds. These investors are the only group that has a negative net balance of 6.2%, meaning that their total allocation to non-listed property funds will be reduced, as an increasing number of German investors have been considering other investment structures.

Looking at investment intentions for joint ventures and club deals (Figure 14), shows that Nordic investors favour this investment route with 59.1% expecting to increase their allocations to these products

FIGURE 14: EXPECTED CHANGE IN INVESTORS' JOINT VENTURES AND CLUB DEAL ALLOCATIONS OVER THE NEXT TWO YEAR BY INVESTOR DOMICILE

% OF RESPONDENTS

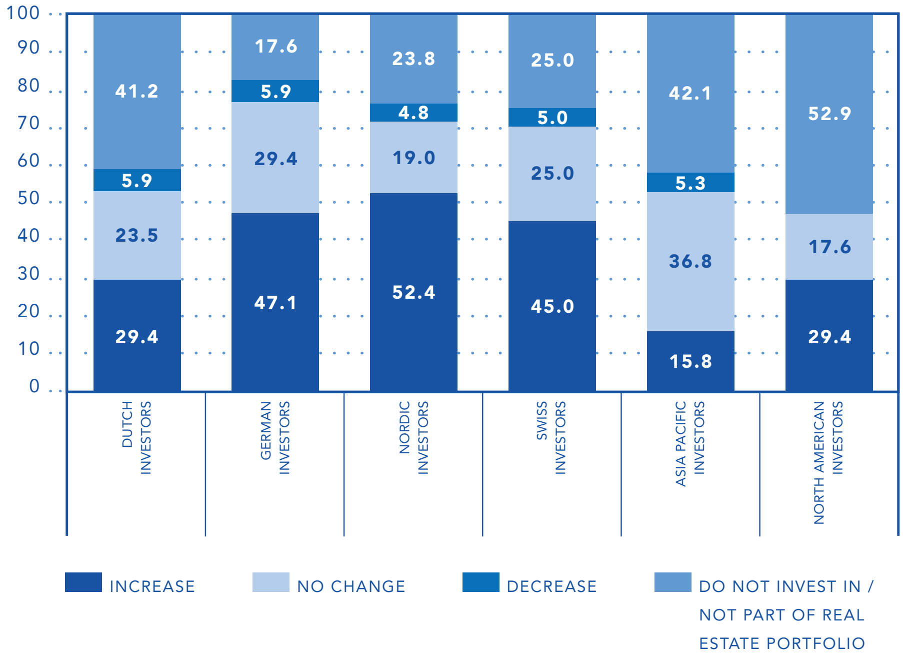


Looking solely at the Dutch investors, 47.1% expect to increase their allocations. This is explained by the fact that there are a number of large Dutch investors that are increasingly choosing to invest through joint ventures and club deals. But, as Dutch investors are also interested in non-listed property funds (see page 19), it can be concluded that these investors prefer a mixed portfolio of real estate products in the present market.

Except the Swiss investors, all investors have a relative high net increase for joint ventures and club deals.

FIGURE 15: EXPECTED CHANGE IN INVESTORS' DIRECT REAL ESTATE ALLOCATIONS OVER THE NEXT TWO YEARS BY INVESTOR DOMICILE

% OF RESPONDENTS



When it comes to direct real estate investment, there are some clear differences.

Only 15.8% of Asia Pacific and 29.4% of North American investors expect to increase their allocation to direct real estate in Europe. This is not surprising given investors' need for local market expertise to manage direct real estate portfolios. As a result, a large proportion of investors from these regions do not use the direct route when investing in Europe.

Naturally European investors show more enthusiasm for this investment route. Nordic investors display the most interest in direct real estate, with 52.4% expecting to increase their allocations in this way. Similarly, large proportions of German and Swiss investors responding to the survey – 47.1% and 45% respectively – intend to increase their allocation to the sector directly.

The survey also asked fund of funds managers about their expected changes in allocations to different real estate products (Figure 16, page 22).

Fund of funds managers appear to be changing their strategy in terms of products that they invest into – shifting from funds to joint ventures, club deals and separate accounts.

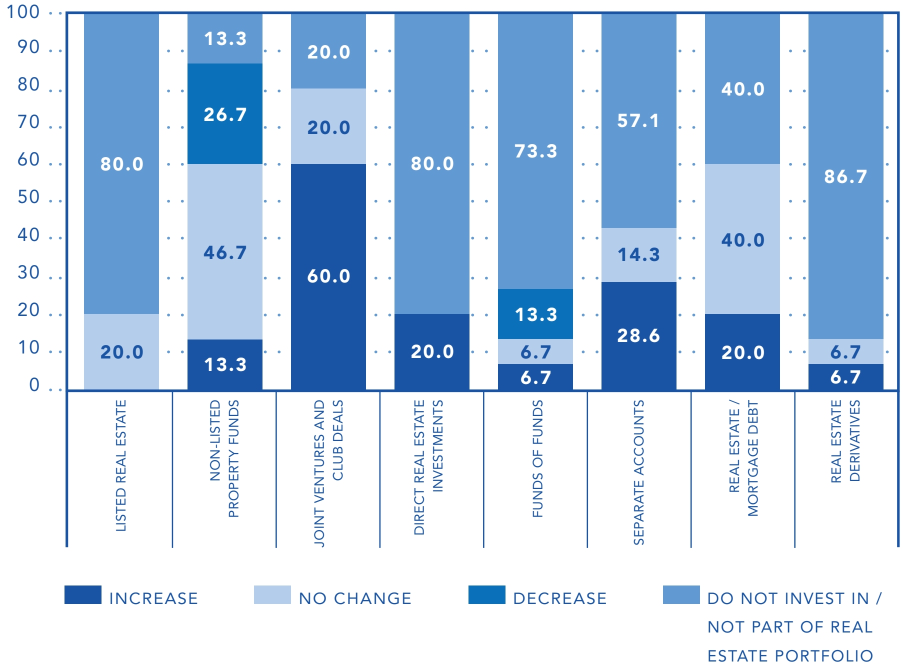
On a net balance they expect to reduce their allocation to non-listed property funds, which is their traditional investment product. Going forward, 60% of fund of funds managers will increase their allocations to joint ventures and club deals. In the same way that fund of funds managers have given smaller investors access to property funds, this aggregation is now being used to take part in joint venture and club deals.

Traditionally, funds of funds do not invest direct in real estate, other funds of funds and listed real estate. Real estate derivatives are not part of their portfolios either.

Of the fund of funds managers that include separate accounts in their services, 66.7% expect to increase this type of work. Sixty percent of fund of funds managers in this survey invest into real estate debt; 20% of fund of funds investors said they expected to increase their allocation to this product.

FIGURE 16: EXPECTED CHANGE IN FUND OF FUNDS MANAGERS' EUROPEAN REAL ESTATE ALLOCATIONS OVER THE NEXT TWO YEARS

% OF RESPONDENTS



Fund managers were asked about how they expect investors to change their allocations in the next two years (Figure 17).

Although fund managers' expectations are similar to those of the investors, they are much more optimistic about many real estate products.

FIGURE 17: EXPECTED CHANGE IN FUND MANAGERS' REAL ESTATE ALLOCATIONS IN THE NEXT TWO YEARS

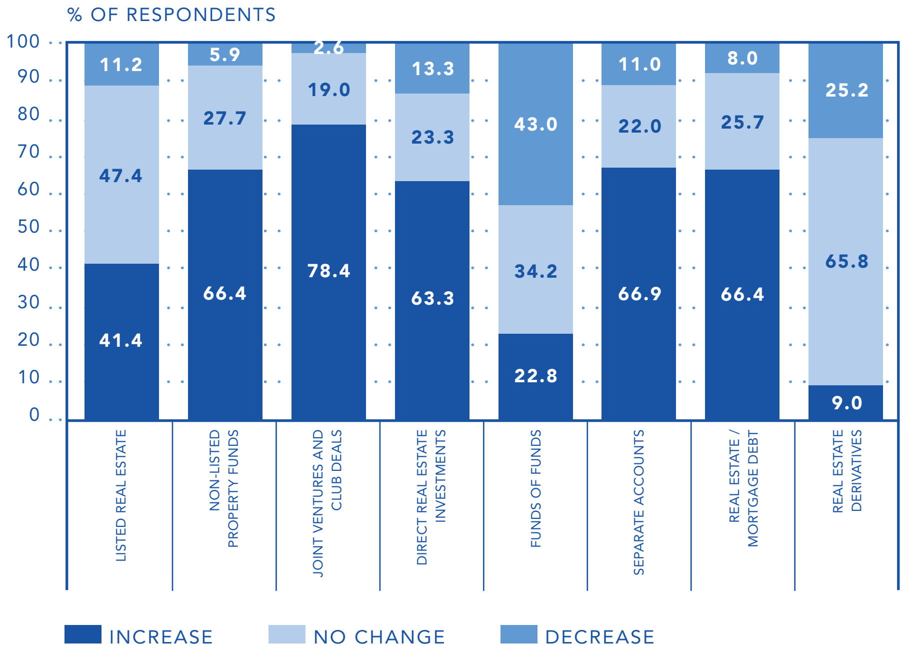


Figure 17 shows that fund manager views on the direction of allocations to non-listed products broadly align with investors' expectations. However, the percentage that expects an increase for these products is much higher compared with investors (Figure 10). Here, 66.4% of fund managers expect investors to increase investment in non-listed property funds compared with 37.1% of investors. Similarly, 66.9% of fund managers expect investors to increase investments in separate accounts compared with just 19% of investors.

There is also a discrepancy over expectations surrounding real estate/mortgage debt investments. At 25.2%, just over a quarter of investors expect to increase their allocations here, compared to 66.4% of fund managers.

This can be explained by the optimism of fund managers in the context of a change in market sentiment.

5 PREFERRED EUROPEAN COUNTRIES AND SECTORS

In this chapter, investors, fund managers and fund of funds managers were asked about the countries and sectors in which they expect to invest in 2014.

Over the coming months, the top three most popular investment destinations will be Germany, France and the UK – markets that have remained a priority for investors throughout the financial crisis.

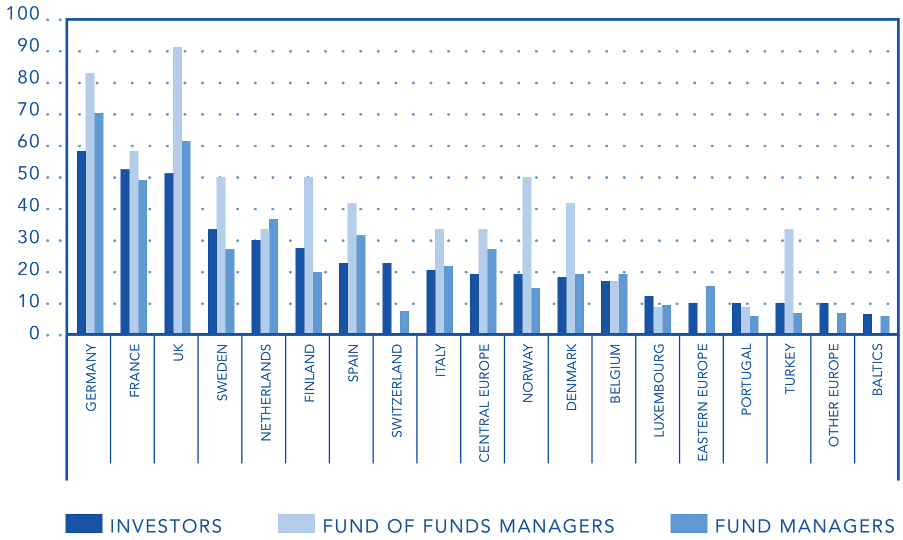
Germany has remained a resilient economy throughout the Eurozone crisis. And with the Bundesbank largely positive over its economic prospects for 2014, Germany is the top choice for both investors and fund managers – 58.3% of investors and 70.5% of fund managers expect to invest there in 2014. This is consistent with last year's survey, where Germany was the number one investment market.

France has returned to the top three ranking among investors, after being fifth place in 2013.

As tentative economic recovery gets underway in Spain, the peripheral European market has made a comeback in Investment Intentions; 41.7% of fund of funds managers, 31.3% of fund managers and 22.6% of investors are expecting to invest in Spain in 2014. Though Spain is clearly popular with fund of funds managers, the UK is top investment destination for these vehicles in 2014 (at 91.7%).

FIGURE 18: PREFERRED INVESTMENT LOCATIONS FOR 2014

% OF RESPONDENTS

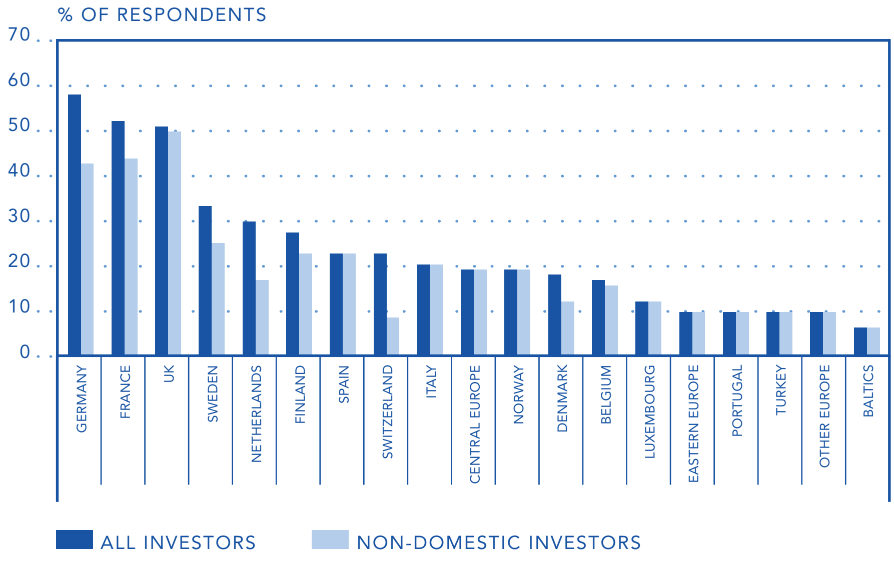


The Nordic region also registers a change in investor attitudes. Last year it was the second most preferred investment location, but has now fallen out of the top three. The Nordic region has been divided here into different countries, and this may be the reason why it has decreased in popularity. Nevertheless, we do see all the Nordic countries in the top 10.

To filter out the impact of domestic investors on the popularity of countries, the survey results compared preferences of all investors with those of non-domestic investors.

Although the top three ranking remains the same, the UK takes the number one spot among non-domestic investors. This is driven by a continued strong foreign interest for UK real estate and German investors' strong preference for German real estate. French real estate is also very popular for non-domestic investors, taking second place as the most interesting country for investment in 2014.

FIGURE 19: PREFERRED INVESTMENT LOCATIONS FOR 2014 BY NON-DOMESTIC VS. ALL INVESTORS



It should be noted that the UK survey sample is very small this year. This is why there is such a small difference between all investors and the non-domestic investor sample, when looking at the UK results specifically. The same applies to responses for Spain, Italy, Central Europe and Belgium.

For those countries with a big difference between all results and non-domestic results, it can be concluded that investors prefer their own market, such as in the Netherlands but especially in Switzerland. Non-domestic interest in Switzerland is mainly driven by German investors.

FIGURE 20: PREFERRED SECTORS FOR INVESTMENT IN 2014

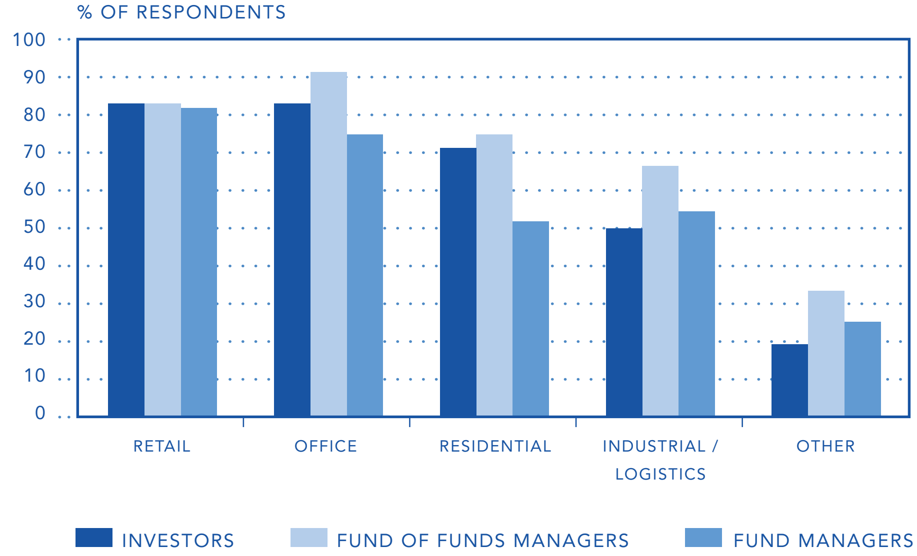


Figure 20 explores the preferences of investors, fund managers and fund of funds managers for different sectors.

For investors and fund managers, retail will be the most popular sector in 2014, selected by 83.3% of investors and 82.1% of fund managers. This is consistent with 2013's survey results. It reflects wider indications that improving confidence in the economy is boosting investment appetite for the sector, as well as good product availability, including larger lot sizes.

Fund of funds managers however have a stronger preference for offices, with 91.7% opting for this sector. Last year, 69.2% of fund of funds managers reported retail as their most preferred investment sector.

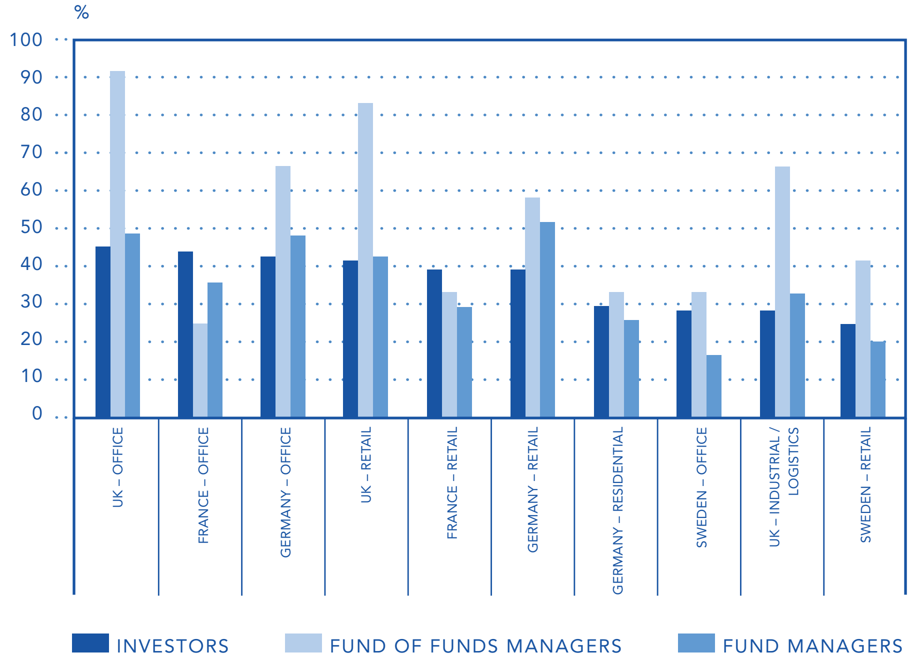
Investors also have a strong interest in offices with 83.3% choosing this sector, unsurprising given the sector constitutes a large proportion of investors' portfolios. Fund managers are slightly less interested in offices, with 75% choosing this sector in 2014.

The popularity of residential among investors and fund of funds managers is very interesting. At 71.4% and 75% respectively, both groups have increased their interest this year compared to 55% and 53.8% in 2013. This year's results provide yet more evidence that the sector is gaining importance with the potential to provide stable returns and a lower risk profile.

Fund managers are less interested in residential, with 51.8% choosing this sector. This might be a reflection of the sample; not all fund managers offer products in the residential sector.

Industrial and logistics is the least popular sector among investors and fund of funds managers. But for fund managers the sector is the third most preferred. This reflects the wider trend of major fund managers building portfolios in this sector in Europe, and the growing interest due to e-commerce. Among the alternatives sector – represented by the 'other' data set – hotel and parking were popular choices. Debt was also mentioned by a number of respondents in this category.

FIGURE 21: TOP 10 COUNTRY / SECTOR PREFERENCES IN 2014



As well as preferred investment locations, the survey also explores the preferred country and sector combinations for respondents in 2014.

While Germany is the most preferred location, the UK office sector is the most preferred country and sector combination for investors and fund of funds managers this year (Figure 21), with 45.2% and 91.7% respectively. Fund of funds are equally enthusiastic about the UK retail market, with 83.3% indicating a preference for this combination. Confidence in this market can be explained by the fact that improvements in the UK economy are filtering through to property performance, improving returns.

When it comes to fund managers, however, the top combination is German retail at 51.8%.

French offices are the second most popular country and sector combination for investors at 44%. Fund of funds managers and fund managers are less confident, however, with these respondents ranking this combination at tenth and fifth respectively.

As Figure 21 and Table 01 clearly show, the top locations continue to be dominated by the UK, France, Germany and the Nordics.

TABLE 01: INVESTORS' TOP THREE PREFERRED SECTOR/LOCATION COMBINATIONS 2009 – 2014

	# 1	# 2	# 3
2014	UK – OFFICE	FRANCE – OFFICE	GERMANY – OFFICE
2013	NORDIC – RETAIL	GERMANY – RETAIL	GERMANY – RESIDENTIAL
2012	GERMANY – RETAIL	NORDIC – RETAIL	NORDIC – OFFICE
2011	GERMANY – RETAIL	FRANCE – OFFICE	GERMANY – OFFICE
2010	UK – OFFICE	FRANCE – OFFICE	UK – RETAIL
2009	UK – OFFICE	UK – RETAIL	UK – DIVERSIFIED

The office sector is included in all top three positions this year, as shown in Table 01. The top three also consists of the core western European countries: UK, France and Germany.

The Nordic region has lost preference in the rankings this year as the countries have not been included individually. However, when combining the Nordics into one region for comparison with previous years, the office and retail markets would still not rank in the top three country and sector combinations.

It is interesting to note that the top two preferences for 2014 are identical to 2010. UK and French offices represent one of the two largest and most liquid markets in the region.

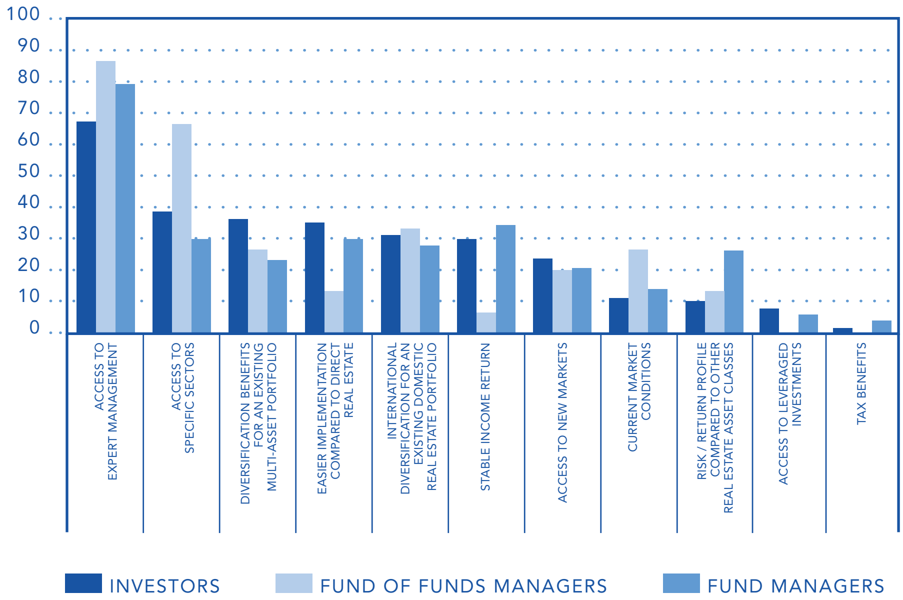
6 PROS AND CONS OF EUROPEAN NON-LISTED REAL ESTATE FUNDS

This chapter looks in more depth at non-listed real estate funds. It outlines the reasons behind investors' allocations to non-listed property funds, and which obstacles they and fund managers meet in the industry. All respondents were able to choose a maximum of three reasons in their answers.

Since non-listed property funds are outsourced investments, it comes as no surprise that access to expert management is the most important reason to invest in non-listed funds (Figure 22), and this has been the case since 2006.

FIGURE 22: REASONS FOR INVESTING IN NON-LISTED PROPERTY FUNDS

% OF RESPONDENTS



Access to expert management is the most important reason for all respondent groups at 67.5% of investors, 86.7% of fund of funds managers and 79.4% of fund managers.

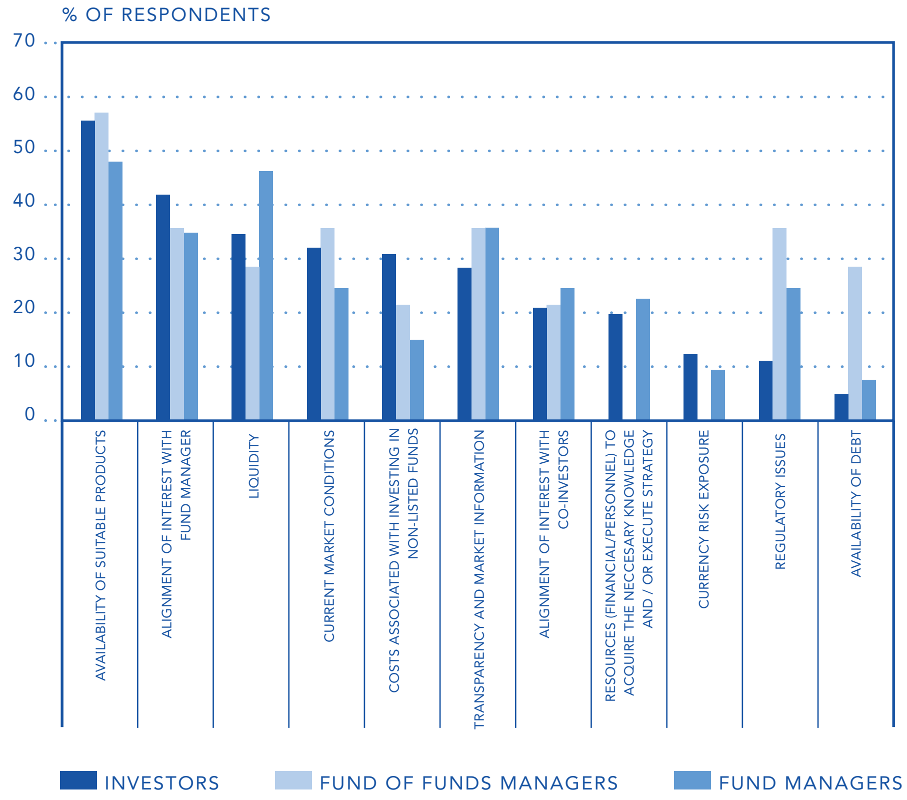
The percentages relating to fund managers show their views on what they think are the most important reasons for investors. This enables the results to show whether they are aligned with investors on the various subjects.

Access to specific sectors also remains important, especially for the fund of funds managers – where those opting for this reason has doubled since last year, from 33.3% to 66.7%. In line with the results in chapter 1, fund managers indicated that a stable income return is important for investors; it is ranked as the third most important reason to invest in non-listed property funds.

The opposite is true for fund of funds managers. But this comes as no surprise; a substantial number focus on value added and opportunistic investments. Linked to this are the current market conditions, which they view as an important reason to invest at the moment. This is reflected in the previous chapter (see page 24) where over 40% said they expect to invest in Spain in 2014.

For the first time since the launch of the INREV Investment Intentions Survey in 2007, the availability of suitable products is given as the main reason not to invest into European non-listed property funds by all three respondent groups (Figure 23).

FIGURE 23: MOST CHALLENGING OBSTACLES FOR INVESTORS WHEN INVESTING IN NON-LISTED PROPERTY FUNDS



Last year alignment of interest was the biggest obstacle to investment, and in 2012, market conditions were identified as the key concern.

This issue might be structural. In INREV's latest Fund Termination Study investors indicated that they were looking for products that were not purely closed end, preferring semi-open end products that offered the option to redeem instead.

But there are other possible explanations. It may be that investors are looking for large open end fund structures with market-tracking exposure, akin to the large open end fund industry in the US – products not yet available in Europe.

It could also be down to the assets in the funds themselves. It may well be the case that there are not, for example, enough funds offering good exposure to German retail – a popular investment product in 2013. With rapid change in sentiment in the market, it may also be that product has not kept up with that change in the eyes of investors.

It is good news for the non-listed property fund industry that alignment of interest with fund managers is less of an issue compared to previous years. While almost 60% of investors saw this as a key reason not to invest in funds in 2013, that percentage has dropped to 42% this year.

As INREV's latest Fund Termination Study demonstrated, many funds are currently restructuring, and building in better alignment between fund managers and investors for the remainder of the fund's lifetime.

Liquidity is seen as an obstacle to investing in non-listed property funds, and this was identified in last year's study as a growing issue for the industry. Fund managers especially identify with this and for them, it is the second most important reason for investors not to invest into funds. From an historical perspective it is interesting to see that liquidity is in the top three reasons not to invest for the first time (Table 02).

Cost remains an important topic for investors. Close to 30% of investors see this as one of their three reasons not to invest into funds. But fund managers see the issue differently, with only 15% outlining this as an obstacle.

Interestingly, there are differences in opinion over regulatory issues. Despite the forthcoming Solvency II and the implementation of the AIFMD, only 11.1% of investors see regulation as a obstacle. However it is perceived to be a much bigger barrier for fund of funds managers (at 35.7%) and fund managers (at 24.5%). This may be because the onus for most of the upcoming regulation is on managers to implement.

TABLE 02: MOST IMPORTANT REASONS FOR INVESTORS NOT TO INVEST IN NON-LISTED REAL ESTATE FUNDS 2007 – 2014

	# 1	# 2	# 3
2014	AVAILABILITY OF SUITABLE PRODUCTS	ALIGNMENT OF INTEREST WITH FUND MANAGER	LIQUIDITY
2013	ALIGNMENT OF INTEREST WITH FUND MANAGER	AVAILABILITY OF SUITABLE PRODUCTS	COST ASSOCIATED WITH INVESTING IN FUNDS
2012	MARKET CONDITIONS	AVAILABILITY OF SUITABLE PRODUCTS	ALIGNMENT OF INTEREST WITH FUND MANAGER
2011	ALIGNMENT OF INTEREST WITH FUND MANAGER	AVAILABILITY OF SUITABLE PRODUCTS	TRANSPARENCY AND MARKET INFORMATION OF NON-LISTED FUNDS
2010	ALIGNMENT OF INTEREST WITH FUND MANAGER	AVAILABILITY OF SUITABLE PRODUCTS	TRANSPARENCY AND MARKET INFORMATION OF NON-LISTED FUNDS
2009	MARKET CONDITIONS	ALIGNMENT OF INTEREST WITH FUND MANAGER	TRANSPARENCY AND MARKET INFORMATION OF NON-LISTED FUNDS
2008	TRANSPARENCY AND MARKET INFORMATION OF NON-LISTED FUNDS	AVAILABILITY OF SUITABLE PRODUCTS	ALIGNMENT OF INTEREST WITH FUND MANAGER
2007	TRANSPARENCY AND MARKET INFORMATION OF NON-LISTED FUNDS	AVAILABILITY OF SUITABLE PRODUCTS	COST ASSOCIATED WITH INVESTING IN FUNDS

For the first time, liquidity is in the top three reasons not to invest. This is related to the fact that a large number of funds are due to liquidate in this period, and over the coming years. Many closed end funds were launched before the crisis, and a substantial amount of them are due to liquidate – creating some liquidity issues. As a result, it is therefore viewed as a barrier for investors in 2014.

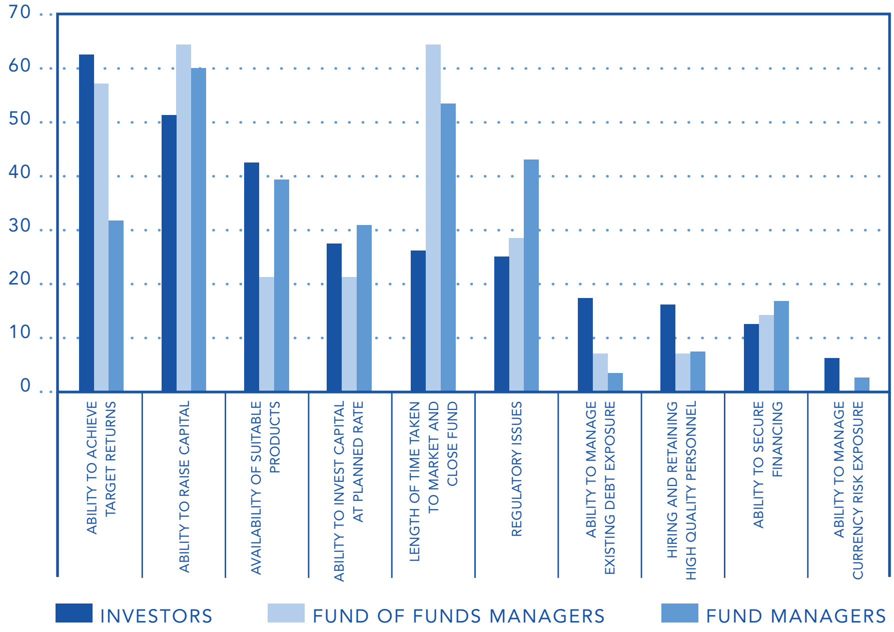
Transparency has fallen from the top three concerns listed by participants to this survey, having featured as the biggest obstacle to investment in 2007 and 2008, and third biggest obstacle between 2009 – 2011.

Once again this shows the progress the industry has made, partly through the work of INREV and its members.

In Figure 24, investors and fund of funds managers were invited to express their views on the biggest obstacles for fund managers, while fund managers were asked about the biggest obstacles for them in the current market environment.

FIGURE 24: MOST CHALLENGING OBSTACLES FOR FUND MANAGERS IN THE NON-LISTED REAL ESTATE FUNDS MARKET

% OF RESPONDENTS



For the first time, investors and fund of funds managers identified the ability to achieve target returns as the most challenging obstacle for fund managers in the year ahead.

Fund managers clearly think differently, however; only 31.8% consider this an obstacle. This indicates that fund managers are much more confident about their abilities to achieve their promised returns. For this group, the ability to raise capital and length of time taken to market and close a fund were bigger barriers – as they were in 2013.

Similarly fund of funds managers said length of time taken to market and close a fund, together with ability to raise capital, were the most challenging obstacles in the current market environment for fund managers – both obstacles chosen by 64.3% of fund of funds.

The availability of suitable products as one of the top three most challenging obstacles is another change, with 42.5% of investors outlining this as a concern. Fund managers are equally anxious, and 39.3% designated this as a problem area. This not only indicates that the right products are missing for investors (as shown in the previous analysis), but that the right properties are not available for fund managers either.

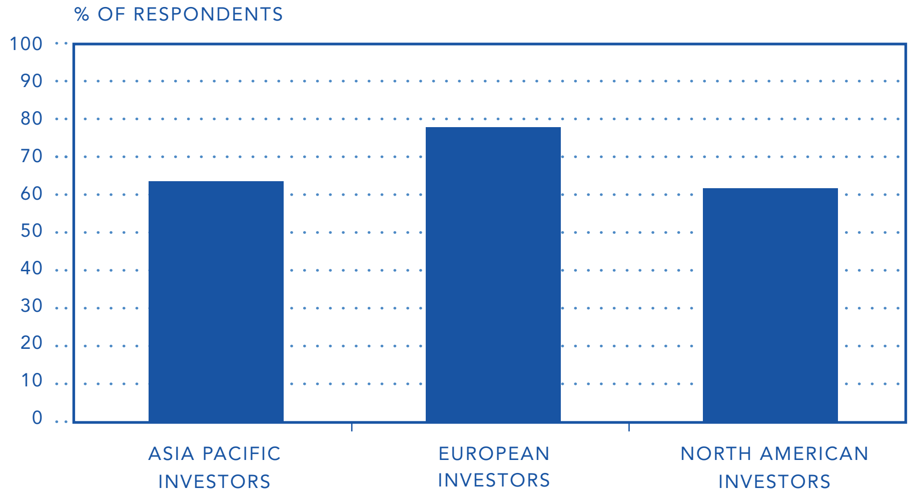
Regulatory issues were already top obstacles last year, but this year regulation has become even more important – 43% of fund managers identified this as an issue. With the implementation of AIFMD underway since July 2013, this change is unsurprising.

7 PREFERRED EUROPEAN NON-LISTED REAL ESTATE STYLES AND STRUCTURES

This chapter looks at the preferred fund styles and structures of European non-listed real estate funds.

When looking at the domicile of investors, at 77% most European investors are invested in European non-listed real estate funds. While 63.2% of investors from Asia Pacific and 61.1% of North American investors are invested in European non-listed funds (Figure 25).

FIGURE 25: PERCENTAGE OF RESPONDENTS INVESTING IN EUROPEAN NON-LISTED PROPERTY FUNDS



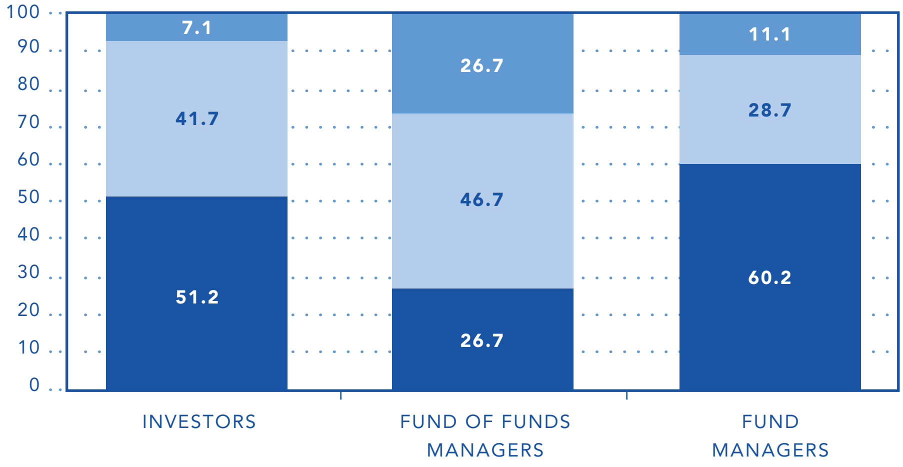
Investors and fund of funds managers were asked about the most attractive fund style in terms of risk adjusted performance. While fund managers were asked to indentify what they thought was the most interesting style for investors today.

Figure 26 (page 34) shows that core is the most preferred style for 51.2% of investors, but only 26.7% of fund of funds managers.

Fund managers rightly identified core as the most preferential fund style for investors.

FIGURE 26: INVESTORS' PREFERRED FUND STYLE AND FUND MANAGERS' PERCEPTION OF INVESTORS' PREFFERED FUND STYLE

% OF RESPONDENTS



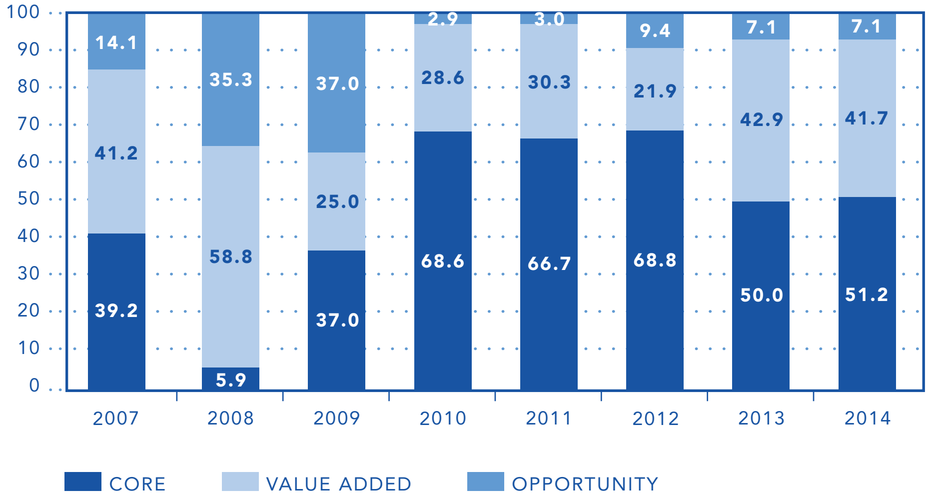
Value added was ranked as the second most preferred style for investors, and as the most preferred style for fund of funds managers. This is not surprising due to the fact that most fund of funds managers manage value added and opportunity funds. This is confirmed by the relatively high preference for opportunity funds, with 26.7% of fund of funds managers preferring this style.

But it also reflects a growing appetite for risk in European real estate markets, driven by the desire for increased yields in an oversubscribed core market – particularly in major locations such as the UK, Germany and France.

In Figure 27 investors' historic style preferences are shown.

FIGURE 27 / INVESTORS' PREFERRED FUND STYLE 2007 – 2014

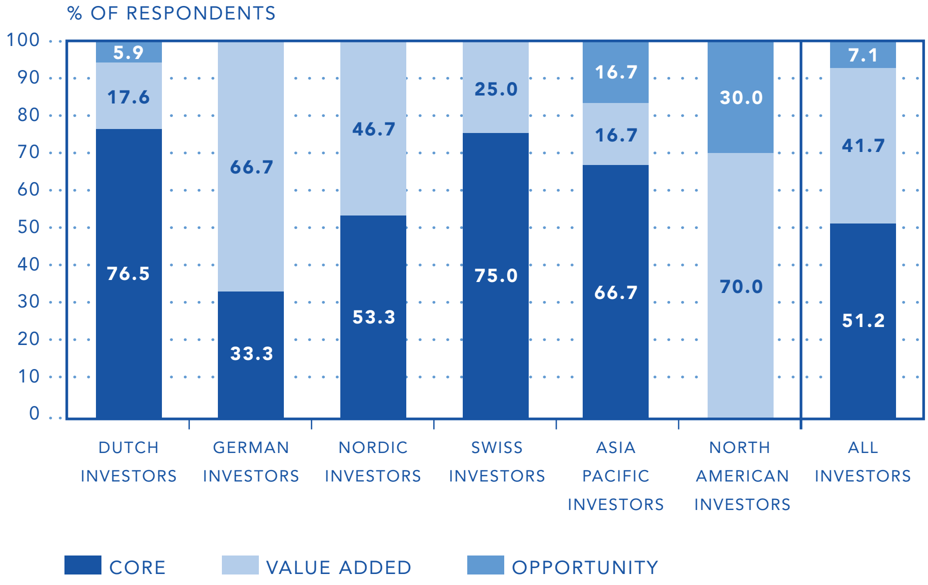
% OF RESPONDENTS



Here, the results clearly show that investor preferences have stabilised, as there is no change over 2013. Back in 2008, before the global financial crisis, there was clear preference for higher risk products such as value added and opportunity funds. In that year, only 5.9% preferred core funds versus 58.8% for value added funds, and 35.3% for opportunity funds.

By 2011 the situation had reversed – with only 3% of investors preferring opportunity funds, and 66.7% opting for the relative safety of core products. The popularity of core funds looks here to stay for the moment.

FIGURE 28: INVESTORS' PREFERRED FUND STYLE BY INVESTORS DOMICILE (EQUALLY WEIGHTED)



In Figure 28, the results of investors' style preferences are shown based on domicile.

Asia Pacific, Dutch and Swiss investors clearly prefer core fund products in Europe – opting for this style 76.5% and 75.0% respectively.

It is interesting to see that German investors prefer value added non-listed property funds. This could be explained by the fact that a large number of German investors invest directly into real estate, and they do this mainly through core properties. Therefore, the value added non-listed property funds market is more useful to them when they require higher risk investments.

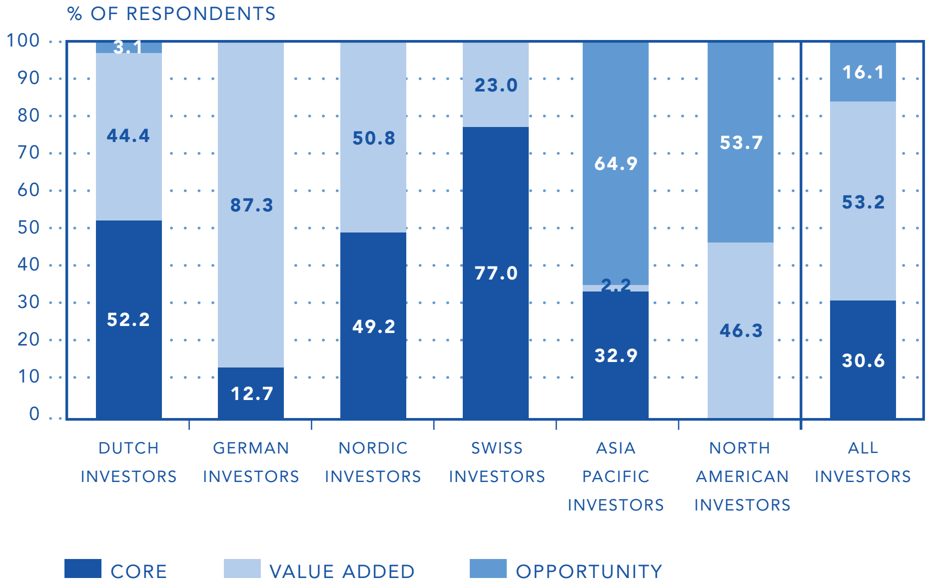
None of the North American investors in our sample invest into core funds in Europe, with the majority (at 70%) targeting value added products and opportunity funds (at 30%). There is a large core market available in the US, which might explain their disinterest in core funds in Europe.

It appears that US investors only want to invest in Europe if there is added value in comparison to their home investments, and this is more likely to be achieved via the value added and opportunistic investment routes.

Figure 28 also shows that the interest in European opportunity product is largely accounted for by large Asia Pacific and North American investors.

The following results (Figure 29) are weighted by the size of the real estate portfolio of the investors.

FIGURE 29: INVESTORS' PREFERRED FUND STYLE BY INVESTORS DOMICILE (WEIGHTED)



When weighted, the preference for difference styles changes dramatically; 53.2% of all investors chose value added funds, and only 30.6% choose core. This result is mainly driven by a number of large investors from North America, Asia Pacific, Germany, and the Netherlands in the sample that have a strong preference for value added and opportunity products.

The equally weighted results for the Dutch investors show that their preference for core is driven in the main by small investors; when weighted, the preference of Dutch investors for core drops to 52.5%. Almost 45% of Dutch investors prefer value added funds.

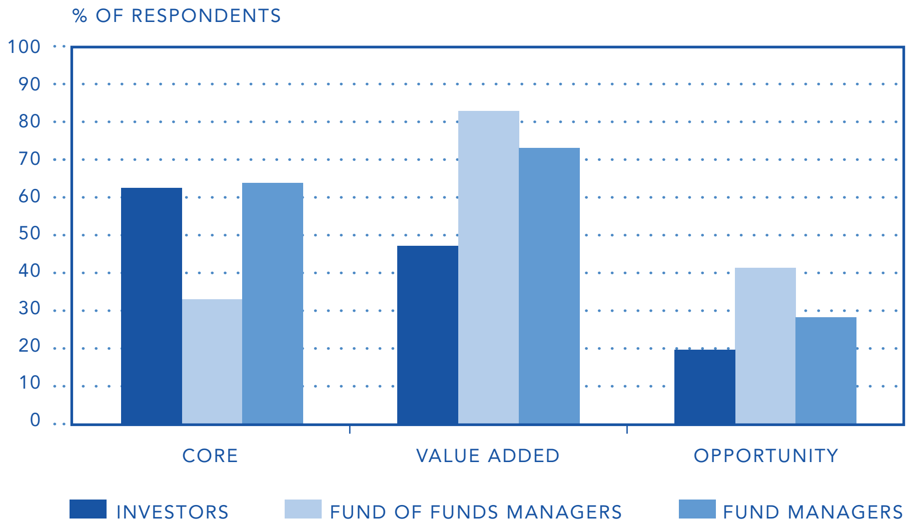
When weighted, the preference of German investors for value added funds is even larger, while at 53.7% North American investors have a strong preference for opportunity funds.

These results show that the larger investors see value added as the most interesting style currently. In general, these larger investors have substantial amounts invested into core properties but due to the size of their portfolios, they also have the ability to diversify the portfolio with value added and opportunistic investments.

It could also reflect the fact that Europe's core markets, particularly in the major Western markets, have been difficult to access in recent months. Fragile but improving economic forecasts for the region may also be having an impact on investors' willingness to assume more risk. Such products have also performed well in relation to other styles of similar vintages – perhaps further contributing to confidence.

In Figure 30 respondents were asked to indicate which styles they expect to invest in over 2014. While fund managers were asked to indicate which styles they expected investors to opt for in 2014. It should be noted that since respondents could chose more than one option, the total response for each style can be more than 100%.

FIGURE 30: EXPECTATIONS FOR 2014 STYLE INVESTMENTS

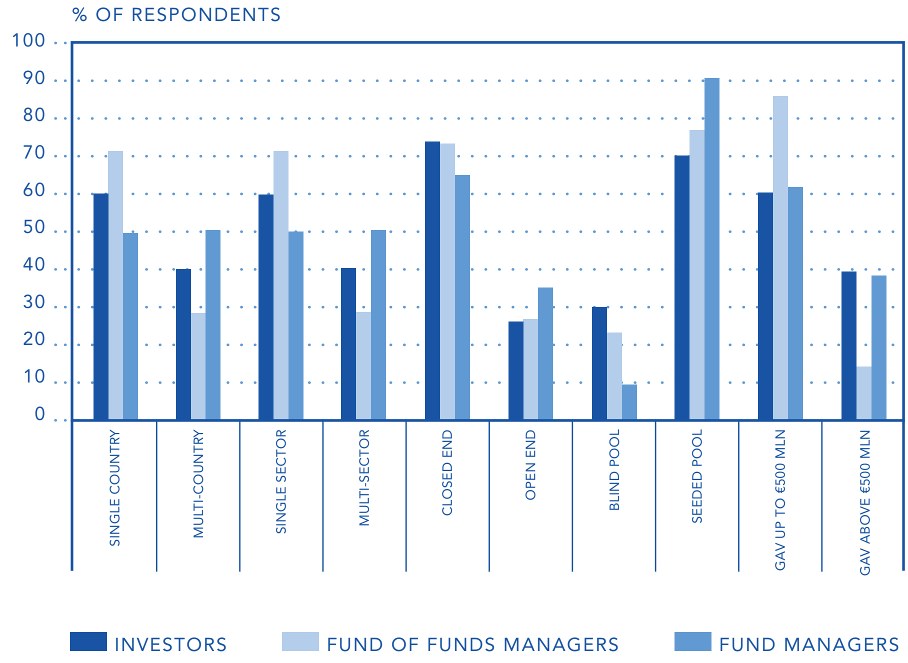


It is interesting to see that investors intend to invest in line with their general style preferences. However, fund managers recognise the attractiveness of the value added market at the moment; 73.1% of them expect investors to take this route in 2014.

Likewise, the majority of fund of funds managers (83.3%) expect to invest in value added products in 2014. Opportunity products are also more popular with fund of fund managers, with 41.7% expecting to invest in opportunity funds compared to 33.3% in core funds.

Looking at the preferred fund structure it becomes clear that at around 60%, the majority of investors are looking for single country, single sector funds. Fund managers are more evenly split between multi-country and sector strategies. The single country and sector strategy is a trend even more apparent in fund of funds manager responses.

FIGURE 31: INVESTORS' PREFERRED FUND STRUCTURE AND FUND MANAGERS' PERCEPTION OF INVESTORS' PREFERRED FUND STRATEGY

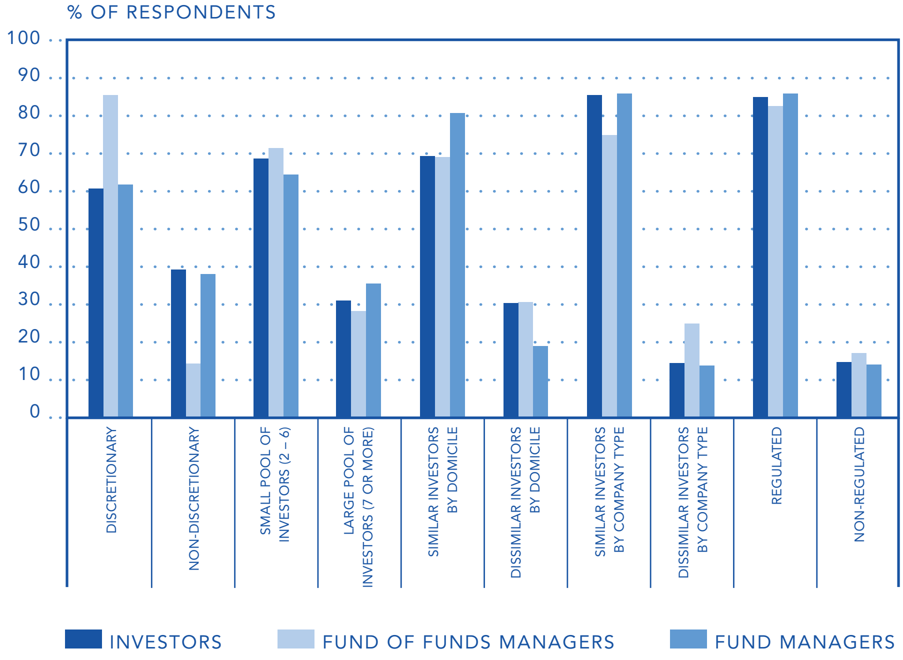


A large percentage of investors (at 73.8%) prefer a closed end structure. The latest INREV Fund Termination Study showed that not all investors were happy with the current liquidity mechanism in closed end funds. Therefore, these results indicate that while investors are still looking for closed end structures, some adjustments may be needed to better reflect liquidity needs.

There is also a very strong preference for a seeded pool of investments over blind pools. Investors clearly want to know in advance which properties will be included in portfolios, a trend established in the wake of the global financial crisis. Fund managers acknowledge this too, with a large percentage (at 90.7%) indicating that a seeded portfolio is preferred.

By size, funds with a gross asset value (GAV) of up to €500 million are preferred above funds with a GAV higher than this. This is especially the case for fund of funds managers (at 85.7%).

FIGURE 32: INVESTORS' PREFERRED FUND STRUCTURE AND FUND MANAGERS' PERCEPTION OF INVESTORS' PREFERRED FUND STRUCTURES



Furthermore, investors are looking for a small pool of between two to six investors, which are similar in domicile and company type. This reinforces the preference for joint ventures and club deals indicated in chapter 4.

Finally, a large percentage is looking for discretionary and regulated funds.

8 THE UK MARKET – CONSULTANT PERSPECTIVES

Interviews with four major investment consultants were undertaken to provide further information on the real estate allocations and strategies of UK institutional investors. Their insights on small institutional investors were particularly helpful, due to the low number of UK investors participating in this study.

UK market: investor intentions

The UK market has bounced back from the financial crisis, with strong investor interest across all asset classes, including secondary assets.

During the recovery, a new level of sophistication emerged. Today real estate is being analysed more closely – and more precisely – than it was prior to the crash, boosting investor confidence.

Here, we look at the key drivers in the UK market, and at how allocations to real estate are shifting as investors look further afield for new opportunities.

Reasons for investing in real estate

While investors have many reasons for allocating capital to real estate, the desire to diversify remains the key driver, according to advisors to institutional investors in the UK.

In particular, large pension funds and insurers are seeking to invest across a broad spectrum, including real estate, fixed income and equities, in order to acquire economic and geographical diversification. In addition, many investors continue to invest in real estate as an 'income play'.

Real estate has also become an even more attractive asset class in the wake of the low cost of capital, and increased competition between traditional and alternative lenders. For some investors, in the wake of the financial crisis, there has also been a renewed interest in 'real, tangible' assets, such as real estate, and a move away from more volatile alternatives, such as equities.

Another part of the rationale for investing in real estate is it's considered a 'real' asset class, which is expected to produce 'real' returns. Also, unlike bonds and equities, real estate has a distinctive cycle that appeals to some investors.

Allocations: how they are shifting

Historically many UK investors have invested heavily in their home market – as much as 80% of their portfolio – but that has changed in recent years as many of them seek out investment opportunities in continental Europe, North America and in the Asia Pacific region.

Clearly, different clients have diverse approaches with regard to how far up the risk curve they are prepared to go. But advisors typically recommend building up a core real estate portfolio, with a supplementary satellite portfolio, should that be required. In addition, issues such as sustainability are becoming increasingly important, with a growing number of investors looking to build up a diverse yet sustainable portfolio.

Today, real estate assets can comprise anything between 10% and 90% of the 'alternative' component of a given portfolio. And many advisory firms suggest allocating at least 5% of a portfolio to real estate.

The broad range highlights the very different investment remits concerning real estate as an asset class. For some investors, real estate will be the only alternative asset class that they invest in; for others, real estate assets will sit alongside other alternative investment options in their portfolio, such as hedge funds and private equity.

There has also been strong interest in real estate debt over the past two years with a huge pick-up in interest this year, including senior, 'stretched' senior and mezzanine debt. It is easy to see the attraction from a returns perspective, with mezzanine debt potentially offering an annual income of up to 12%.

Still, it is a tactical allocation, depending on the level of stress in the capital structure. While banks have traditionally dominated the lending space, the climate has changed considerably in the past year. Although many banks have re-entered the lending fray this year, the emergence of alternative lenders such as debt funds suggests that there is now a secular – as opposed to cyclical – change in the market. This is expected to persist for some time.

Interestingly, overall allocations to real estate as a percent of an investor's overall portfolio have actually fallen in recent years to between 4% and 10% in the UK today. This is largely due to the plethora of alternative asset classes investors have to choose from, with real estate in competition for that capital, including hedge funds and private equity.

Nonetheless, allocations are slowly starting to creep up again, with advisors predicting an increase in commitments to real estate next year. Some analysts have suggested that an ideal portfolio allocation scenario in the UK would be around 40% in equities, 40% in gilts and 20% in real estate, suggesting that real estate allocations could potentially grow considerably.

UK bonds, a former firm favourite of many institutional investors, have also lost their allure as yields have fallen sharply in recent years, with yields hitting a record low of just 1.4% last year, down from 16.1% in 1981. This year, yields are hovering around 2.75% – substantially below what investors can hope to achieve in UK real estate if they are prepared to take on some investment risk. Given the current meagre returns offered by fixed-income investments, one thing is clear: real estate is looking like a very attractive play. Real estate also sits well against higher inflation, which makes it a good bet for many investors.

Residential property is starting to emerge as a viable asset class in the UK, although the market is far behind the US and Germany, where multi-family has long been a sought-after asset class for institutional investors. Equally, there has been strong interest in infrastructure as an asset class this year.

UK investors are also increasingly turning to Asia, albeit hesitantly, in some cases. Investors are drawn to lucrative returns of as much as 20% in the region if they are prepared to take on development risk, although currency risk remains a key concern for some investors.

And despite increased interest in new opportunities, investors remain very committed to 'traditional' real estate, notably offices, retail and logistics, which have a strong track record.

The secure income stream provided by 'core' assets remains attractive, especially to pension funds because they remain a good match for their liabilities. Such investors are drawn to real estate because they offer decent returns, and because they can't afford the risk of a pure equity portfolio.

Single sector vs. pan-regional funds

Typically, investors are targeting country-specific or sector-specific funds, although the investment landscape is starting to shift. While funds focusing on core European markets such as the UK, Germany and France remain popular, there has also been a rise in niche funds in the past two years, including dedicated student housing funds.

Such funds are gaining favour with investors as part of a broader diversification strategy, driven also by a need to place significant chunks of capital in one go, against a backdrop of heightened competition.

Funds with a value added focus have become popular this year, investing in properties that need refurbishment and/or have been underinvested, as investors show themselves to be willing to go higher up the risk curve.

However, some investors remain extremely opposed to single sector funds, deeming them too narrow in their investment remit, thereby putting them at risk if interest in a given sector wanes, rendering them vulnerable.

Ultimately, the question is not whether an investor goes into a given sector, but how they enter the market and whether the risk-return profile is accurate. Given sizeable differences in diverse geographical markets, target returns also vary widely. A typical benchmark can be as high as inflation +400 bps, or around 7% annual yield for some assets.

Pan-regional funds are generally less popular than single asset or single country funds, partly because of concerns that they may be spreading themselves too thin. But this is also because historically, they haven't performed better than single sector funds, thereby offering little upside.

The attraction of non-listed funds

Investors are attracted to non-listed real estate funds because they are typically less volatile than listed funds.

As a result, investors often use non-listed funds to give them access to markets such as Asia Pacific, which can be challenging to invest in directly. Most investors are focusing on core markets in the region, including Japan, Australia and Hong Kong, as well as carefully selected 'pockets' in China, such as Beijing.

Listed funds, due to their volatility, are more often used as a tactical play by investors looking to diversify still further. That said, investors who have a liquid growth portfolio are more likely to invest in listed funds. This is due to their liquid nature and the fact that they offer a complementary diversification. Such investors also typically target global REITs so that they are not tied by geography.

9 BACK-TESTING THE INREV INVESTMENT INTENTIONS SURVEY 2013

Real Capital Analytics (RCA) back-tested the INREV Investment Intentions Survey 2013. The results were analysed using RCA's global transaction database, which captures investment activity by managers, allowing comparison between manager intentions and reality.

RCA has previously analysed the historical results (2009 – 2012) of the INREV Investment Intentions Surveys to see how closely they matched reality. A full analysis of this research was published in the June 2013 edition of INREV's membership magazine, IQ.

Summary of historical analysis

It would appears that the survey is slightly better at predicting activity during the year after the 'survey of intentions' year. For instance the 2011 survey, conducted in 2010, was a better reflection of what investors did in 2012.

In the full analysis we suggested three reasons for this:

It has taken longer for managers to raise capital in the years since the financial crisis. Investors have wanted to access the limited stock of European prime real estate. And it has taken longer for managers to begin investing.

Secondly, it depends who is completing the survey. Within any investment management firm there are likely to be different perspectives on the same question depending on the role the individual plays. A capital raiser or researcher is likely to have a longer-term perspective, while a fund manager or transaction professional may be thinking more short term about the immediate deals and markets they are focused on.

Another explanation is that markets are not normal. Surveys of this type are not accurate during market volatility, and predicting how successful a capital deployment plan will be is at its most difficult.

Excluding the 2009 survey – which was undertaken during the turmoil of 2008 – it was found that the survey can offer insight into capital deployment. But there are often significant differences between the expected allocations and deployments.

Given there are sometimes significant differences between manager intention and capital deployed, it might be easy to question the usefulness of intention surveys. However, market pricing is a product of many factors, one of which is the weight of capital attempting to access it.

Despite the varying level of manager success in deploying capital, the intention to deploy does have an impact on pricing - a point which RCA demonstrated in the IQ article. Managers' intentions to deploy, coupled with the investment activities of non-INREV members – most notably American, Asia Pacific and Middle-Eastern investors – has had a significant impact on pricing, and cannot be ignored.

Summary of 2013 results

As 2013 transaction activity is now complete, the survey results for that year can be reviewed to see how effective at predicting activity they were.

The report being analysed is the INREV survey focused on 2013 and conducted at the end of the previous year.

In the latest analysis 61% of intention predictions made in 2012 about 2013 had differences to final results of +/- 3%, with 75% coming in between +/- 5%.

This is a strong performance compared to previous surveys. It could be a reflection of the markets becoming more 'normal': as liquidity is returning it is allowing capital to be raised and deployed within the time period predicted.

A fuller analysis of these results will be made in due course.

Below is a summary of the key findings, followed by the table of results.

THE KEY FINDINGS INCLUDE:

- Based on RCA deal level analysis the INREV survey respondents invested €21.3 billion during 2013.

- A larger percentage of respondents have deployed capital in the UK retail and industrial sectors than identified in the report – a capital flow trend that was evident in the market throughout 2013. The resurgence of the UK retail sector surprised many last year.

- By contrast, the hugely positive sentiment towards the German retail and industrial sectors was not matched by investment activity. These markets remain very difficult to access.

- Sentiment towards UK and German office markets was closely matched with percentage of managers that deployed capital. These are liquid markets that allow capital to be invested more quickly and easily.

- Positive sentiment towards retail in the Nordics was not matched with deployed capital. These markets are dominated by domestic investors and INREV's membership is skewed towards non-domestic Nordic investors.

- The percentage of managers that deployed capital in French logistics, Central European offices and Spanish retail was greater than identified sentiment. The Spanish markets came back strongly in the second half of 2013, a trend that was unlikely to have been identified at the time the survey was conducted.

TABLE 03: RESULTS OF INREV INVESTMENT INTENTIONS SURVEY 2013 AND ACTUAL INVESTMENT ACTIVITY BY COUNTRY / SECTOR

COUNTRY / SECTOR	INREV 2013 [1]	RCA 2013 [2]	+ / –
UK RETAIL	14.7%	20.5%	5.8%
UK OFFICE	29.4%	26.0%	-3.4%
UK INDUSTRIAL / LOGISTICS	10.3%	15.1%	4.8%
UK RESIDENTIAL	7.4%	2.7%	-4.6%
GERMANY RETAIL	31.0%	16.4%	-14.6%
GERMANY OFFICE	18.0%	19.2%	1.2%
GERMANY INDUSTRIAL / LOGISTICS	17.6%	11.0%	-6.7%
GERMANY RESIDENTIAL	12.0%	5.5%	-6.5%
FRANCE RETAIL	10.3%	8.2%	-2.1%
FRANCE OFFICE	17.6%	12.3%	-5.3%
FRANCE INDUSTRIAL / LOGISTICS	0.0%	5.5%	5.5%
FRANCE RESIDENTIAL	1.5%	0.0%	-1.5%
NORDICS RETAIL	19.1%	5.5%	-13.6%
NORDICS OFFICE	10.3%	4.1%	-6.2%
NORDICS INDUSTRIAL / LOGISTICS	1.5%	1.4%	-0.1%
NORDICS RESIDENTIAL	4.4%	1.4%	-3.0%
CENTRAL EUROPE RETAIL	8.8%	6.8%	-2.0%
CENTRAL EUROPE OFFICE	1.5%	8.2%	6.7%
CENTRAL EUROPE INDUSTRIAL / LOGISTICS	1.5%	2.7%	1.3%
CENTRAL EUROPE RESIDENTIAL	1.5%	0.0%	-1.5%
ITALY RETAIL	2.9%	1.4%	-1.6%
ITALY OFFICE	2.9%	4.1%	1.2%
ITALY INDUSTRIAL / LOGISTICS	0.0%	1.4%	1.4%
ITALY RESIDENTIAL	0.0%	1.4%	1.4%
SPAIN RETAIL	4.4%	6.8%	2.4%
SPAIN OFFICE	2.9%	1.4%	-1.6%
SPAIN INDUSTRIAL / LOGISTICS	0.0%	0.0%	0.0%
SPAIN RESIDENTIAL	0.0%	0.0%	0.0%
MAXIMUM DIFFERENCE	—	—	**-15%**
GINI SCORE [3]	—	—	**0.26%**
# WITHIN +/- 5%	—	—	**21**

Source: Real Capital Analytics, INREV

[1] The INREV 2013 number presents the percentage of managers expecting to invest in the respective country/sector combination in 2013.

[2] The RCA 2013 number shows the percentage of managers that actually deployed capital in the country/sector combination in 2013.

[3] The GINI score measures the inequality among values. A score of zero indicates a perfect match. The further away from zero, the weaker the match.

APPENDIX: LIST OF RESPONDENTS

On the next two pages is a list of investors, fund of funds managers and fund managers who took part in the survey and gave permission for their company names to be published.

Aberdeen Asset Management
Ackah Real Estate Partners LLC
Adimmo AG
AEW Europe
AFA Fastigheter
AG REAL ESTATE
Ahold Pension Fund
AIP-Japan
Aktia Life Insurance Ltd
Alaska Electrical Pension Fund
Albin Kistler AG
Allianz Real Estate
Altan Capital
Altera Vastgoed NV
American Realty Advisors
AMF Fastigheter AB
AMP Capital
Amundi Real Estate
Amvest
AP3
AP4
APAC Capital Partners
APG Asset Management
Archstone Management Germany
Areim AB
Arminius Funds Management Sarl
Ascendas
ASR Real Estate Investment Management
ATP Real Estate
Aviva Investors
AXA
Bayerische Versorgungskammer
BEOS AG
Blue Sky Group
Bluehouse Capital
BNP Paribas Real Estate Investment Management GmbH
BNP Paribas REIM Italy
Boston Foundation
Bouwfonds Investment Management
Bouwinvest REIM
BPT Asset Management
Brookfield Asset Management
CAERUS Debt Investments AG
CalPERS
CapRidge Partners
Carson Advisors
Catella Real Estate AG KAG
CBRE Global Investors
CenterSquare Investment Management
Centuria Capital
Century Bridge Capital
Challenger
Charter Hall Group
Chrysler Group LLC
CITIC Capital
Composition Capital Partners
Cordea Savills
Corestate
Cornerstone Real Estate Advisers
Credit Suisse
Deka Immobilien Investment GmbH
Deutsche Asset & Wealth Management
DEXUS
DNB REIM/Life
DTZ investment Management
Equity Estate BV
Equity Global Management
Eurindustrial N.V.
F&C REIT Asset Management
Fabrica Immobiliare Sgr
Fidelity
First Swedish National Pension Fund AP1
Five Mile Capital Partners
Franklin Templeton Investments
FREO Group
Frogmore
Generali Immobiliare Italia SGR
Genesta Property Nordic
GLP
Gothaer Asset Management AG
Green Courte
GreenOak Real Estate
Greystone Managed Investments Inc.
Grontmij Capital Consultants B.V.
Grosvenor Fund Management
GTIS Partners
Hana Daol AMC
Harbert Management Corporation (Europe) LLC
Hart Realty Advisers
Helaba Invest
Henderson Global Investors
Hermes Real Estate
Hines
HREI
Hunter Property Fund Management
Hyundai AMC

IDeA FIMIT
IDERA Capital Managment
IGIS Asset Management Company Limited
Ilmarinen
ImmoFinRE
ING Insurance Benelux
Inland Institutional Capital Partners
Internos Global Investors
Invesco Real Estate
IPUT
ISPT
IVG Immobilien AG
Jamestown
Jensen Group
JGS Property
JPMorgan Asset Management
KaiLong
KanAm Grund Spezialfondsgesellschaft mbH
Kempen & Co N.V.
KGAL Investment Management GmbH & Co. KG
Kristensen Properties
KTB Asset Management
La Française REM
LACERA
Lasalle Investment Management
Lend Lease
LIG Insurance
Lincoln Advisory Group, Ltd.
Lothbury Investment Management
Lotte Insurance
M&G
MACIF
MACSF
Manulife Financial
Mapletree
Maryland State Retirement and Pension System
Mass PRIM
Mazuda Kigyou Nenkinkikin
Mesirow Financial
Meyer Bergman
Mirvac Limited
Mizuho Bank
MN
National Real Estate Advisors
Nationale Suisse
Nedlloyd Pensioenfonds
Neinver
Nordic Real Estate Partners
NORFIN
Northam Realty Advisors Limited
OFI REIM
Ontario Pension Board
Orchard Street Investment Management
Orion Partners
PAMFLEET
PATRIZIA AG
Pensioen Fonds Zorg en Welzijn
Pension Fennia
Pensionskasse des Bundes PUBLICA
Pradera
Prelios SGR SpA
Pritzker Realty Group
Prologis
Provinzial NordWest Asset Management GmbH
Quadrant REA
Quantum Immobilien KAG
Ramius/RCG Longview
Realkapital Partners
Redevco
Rice Management Company
Rynda Property Investors LLP
Schroders
SEB Asset Management
Sonae Sierra
Sparinvest
SPF Beheer
Stam Europe
Standard Life Investments
Starwood Capital Group
State of Oregon
State Universities Retirement System of Illinois
Stichting Pensioenfonds Unilever Nederland "Progress"
SWIP
Syntrus Achmea Real Estate & Finance
Teacher Retirement System of Texas
The GPT Group
The Higo Bank
The IBUS Company
TIAA-CREF
Timeos
Tishman Speyer
UBS Global Asset Management
Unilever UK Pension Fund
Union Investment Institutional Property GmbH
UNION MUTUALISTE RETRAITE
UNITE
Valad Europe
Valtion Eläkerahasto
Varma Mutual Pension Insurance Company
VBI Real Estate
Vesteda
Viridian Partners Pte Ltd
Wafra Investment Advisory Group
Warburg - Henderson Kapitalanlagegesellschaft für Immobilien mbH
WHI Real Estate Partners
White Peak Group Ltd
Woori Asset Management

INREV