Investment Intentions Survey **2017**

Research

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 vehicles 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.

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Contents

Domicile of 2017 investor participants

REAL ESTATE AUM IN BILLION EUROS

Domicile of 2017 fund manager and fund of funds manager participants

REAL ESTATE AUM IN BILLION EUROS

INREV

Executive summary

- Over €50 billion targets real estate in 2017
- Target allocation to real estate of 11.5%, up from a current allocation of 10.0%
- Non-listed funds back on top as the preferred route to market
- Strong preference for regulated over non-regulated funds
- International diversification is the main reason why investors invest in funds

Top three investment destinations in Europe

UNITED KINGDOM

FRANCE

GERMANY

The diversification benefits of real estate continue to draw capital into the sector. In 2017 the real estate sector is expected to see an influx of capital with a minimum of €52.6 billion earmarked for investment into global real estate. On balance investors across the globe intend to further increase their portfolio weightings to the sector, with the average current allocation to real estate of 10.0% expected to move up to an average target allocation of 11.5%.

The UK, France and Germany continue to occupy the top three spots for the most preferred investment destinations within Europe. On a country / sector level German office, France office and Germany retail are ranked top three. On an even more granular, city / sector, level the office sector occupies all top three places with Berlin office ranked first, Paris office second and Frankfurt office in third. London office, previously ranked first, has dropped to fourth place.

> ‘Value added is preferred ahead of core for the second year running’

When it comes to investment style, the shift towards value added continues with value added now ahead of core for the second year running. In the eleven years of the Investment Intentions Survey there has only been one year where the preference for value added was greater, and that was in 2008. The increase in preference for value added comes at the expense of opportunity, rather than core.

In terms of access routes to real estate, non-listed real estate funds are back on top, followed by joint ventures and club deals in second place and separate accounts investing in real estate in third. Direct real estate investment, previously in third place, has dropped to fourth. A comparison between small and larger investors show that larger investors tend to favour joint ventures and club deals, separate accounts and direct investment.

Investors have a strong preference for regulated funds that are multi-country in strategy. Amongst other things they have a notable preference for discretionary funds and for funds with a seeded pool of investors. Fund of funds managers and fund managers have a very strong preference for regulated over non-regulated funds and for funds with a seeded pool of investors rather than a blind pool

International diversification is the main driver for investors to invest into non-listed real estate funds. The main benefit of investing in funds specifically is the access to expert management. In current market conditions, investors see fund managers faced with several difficulties, most prominent being the ability to achieve target returns, ranked in first place since 2014. This year availability of suitable product appears in the top three.

Despite the wave of regulatory changes (such as Solvency II and AIFMD) neither investors nor fund managers themselves consider regulatory issues to be one of the most challenging obstacles for fund managers. However, fund of funds managers do consider regulatory issues to be an obstacle.

Section 1

Introduction

Introduction

The Investment Intentions Survey 2017 explores the aspirations for investment into the real estate sector over the next two years with a focus on non-listed real estate funds. Since 2012 the survey has had a global outreach as a joint research project between ANREV, INREV and PREA.

The results are based on an online survey that was carried out from September to November 2016. Respondents include members of each of the industry associations as well as other market participants that are active in the real estate sector.

This year's survey attracted responses from 314 participants (2016: 345) collectively representing €2.1 trillion in real estate assets under management (2016: €2.0 trillion). This year's respondents comprise 119 investors (2016: 130), 184 fund managers (2016: 200) and 11 fund of funds managers (2016: 15), with 145 from Europe (2016: 160), 100 from Asia Pacific (2016: 110), 68 from North America (2016: 75) and 1 from the rest of the Americas.

'Survey attracted responses from 314 participants representing a total of €2.1 trillion in real estate AUM'

The report begins with Section 2 exploring global real estate allocations and providing insights into investment trends across Asia Pacific, Europe and North America. This is a common section that can also be found in the ANREV and PREA Investment Intentions 2017 reports. Responses from all participants are taken into consideration in this section.

From Section 3 onwards the report focuses on investment into the European real estate markets. Section 3 looks at preferred investment styles and Section 4 focuses on preferred investment destinations and sectors in Europe. In Section 5 the focus moves to expected investment trends to access Europe and in Section 6 the topic is preferred structures for non-listed real estate funds. The final section is Section 7 which covers the pros and cons of non-listed real estate funds.

The analysis for the sections on Europe is based on the responses of those who are already invested in, or intend to invest in Europe. The survey sample here comprises 239 respondents of whom 104 are investors, 11 are fund of funds managers and the remaining 124 are fund managers. In 2015 the corresponding figures were 131 investors, 15 fund of funds managers and 138 fund managers.

In the report North American investors refer to US and Canadian investors, Nordic investors include investors domiciled in Finland, Denmark, Sweden and Norway, and the Other category of investors comprises banks, charities, corporations, endowments, family offices, foundations, government institutions, high net worth individuals, investment consultants and non-profit organisations.

Where the sample size deviates from the overall sample size stated above a note explicitly stating the size of the sample can be found accompanying the figure. Note that the sample under analysis varies from year to year depending on the composition of respondents therefore, year on year comparisons should be treated with caution.

In general results are reported on an equally weighted basis where all responses are given the same weight. Where it is appropriate, results are weighted by the total value of assets under management or by the total value of real estate assets under management, which enables a comparison between larger and smaller investors. Therefore, all graphs and data are equally weighted unless specified otherwise.

The Appendix to the report includes a section on back-testing analysis carried out by Real Capital Analytics. This compares the 2016 INREV Investment Intentions Survey results with real estate investment transactions in 2016.

ANREV, INREV and PREA would like to thank all respondents for participating in the Investment Intentions Survey 2017.

Section 2

Expectations for global real estate allocation

Expectations for global real estate allocation

This year's survey was completed against a backdrop of unprecedented global economic and geopolitical uncertainty. To what extent has this backdrop impacted investors' intentions for real estate investment? Many questions are on the minds of investors. When might interest rates rise? Will Brexit influence investor behaviour in Europe or elsewhere? Although this survey was conducted prior to the US election, the potential impact of a Trump presidency on US real estate markets was yet another source of uncertainty. Given this uncertainty, the ANREV, INREV, PREA Investment Intentions 2017 survey provides a timely exploration of trends in the coming year.

'This year's survey was completed against a backdrop of unprecedented global economic and geopolitical uncertainty'

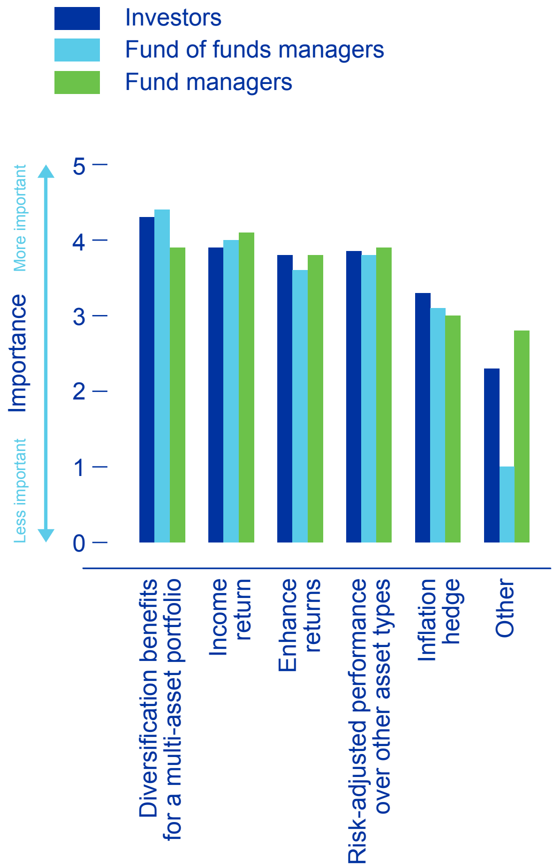
Reasons to invest in real estate

This section looks at the reasons why participants invest in real estate and at their expectations for real estate allocations over the next two years.

Figure 1 illustrates the different attitudes investors, fund of funds managers, and fund managers have toward real estate. Consistent with last year's survey results the main reason for investing in real estate is for the diversification benefits in a multi-asset portfolio. Diversification benefits rate highest among investors and fund of fund managers. These two respondent groups are aligned in their rankings of the reasons to invest in real estate although fund of funds managers place a greater emphasis on the importance of diversification and income return over the other characteristics of real estate.

Fund managers were also asked about the main reasons that investors invest in real estate. Their views are broadly aligned with investor responses, however they tend to believe that the income return and relative risk-adjusted performance are more important factors than they actually are for investors, and diversification less important than it is in actuality.

Figure 1: Reasons to invest in real estate by respondent type



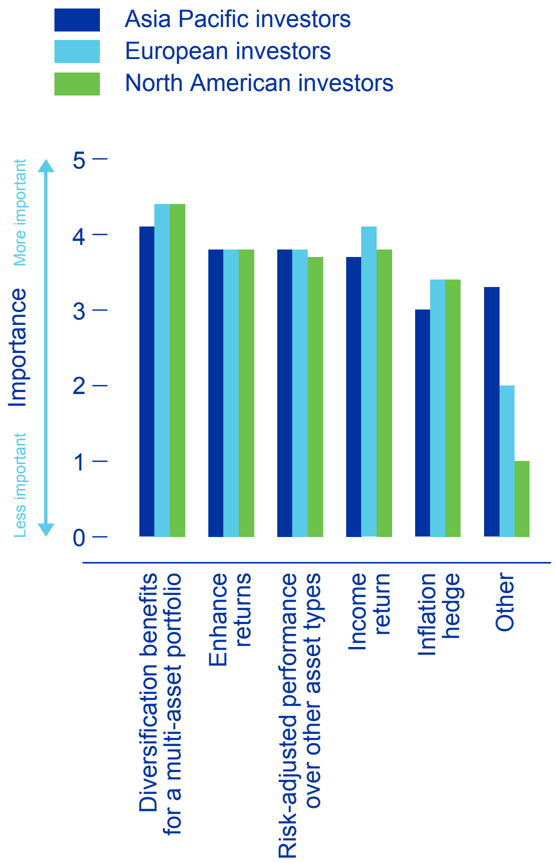
Note: based on a sample of 308: 117 investors, 11 fund of funds managers and 180 fund managers

When looking at the responses across investor domicile (Figure 2) the results show that investors share the view that diversification is the most important reason for a real estate allocation regardless of where they are based.

However, there are differences in emphasis that are worth noting. European and North American investors place greater emphasis on the diversification benefits of real estate than Asia Pacific investors do. It is interesting to note that "other" reasons, beyond the five main characteristics of real estate commonly cited, stand out as more important to Asia Pacific investors than to investors from other regions.

Enhanced returns stand out as equally important for all three investor regions. While the perceived risk adjusted benefits of investing in real estate are seen as more important for Asia Pacific and European investors than it is for North American investors.

Figure 2: Reasons to invest in real estate by investor domicile



Note: based on a sample of 108 investors

'Diversification is the main reason why investors invest in real estate regardless of where they are based'

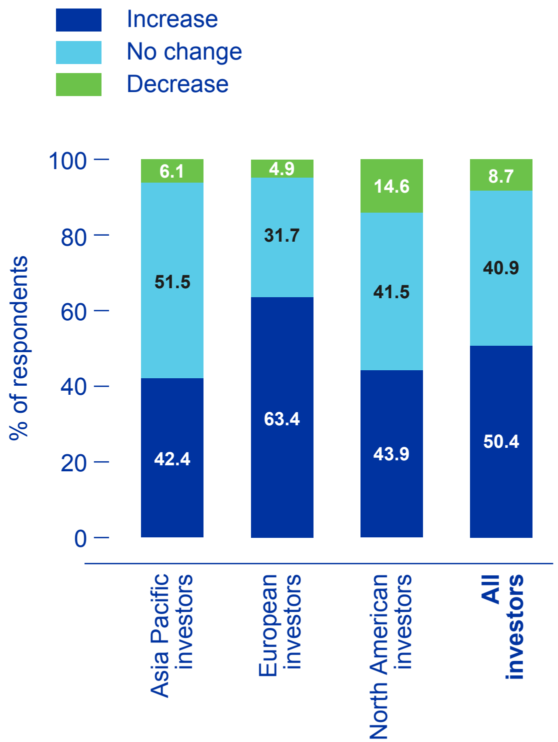
'Income return is regarded as more important for investors based in Europe than for those in other regions'

Development of global real estate portfolios

Overall, on an equally weighted basis, more than half of the investor participants plan to increase their global real estate allocations over the next two years, and only 8.7% plan to decrease (Figure 3). However, there are some disparities across investor domiciles: 63.4% of European investors are planning to increase their real estate allocation compared with 43.9% of North American investors and 42.4% of Asia Pacific investors. As well, fewer European investors expect to decrease their allocation (4.9%) than North American investors (14.6%).

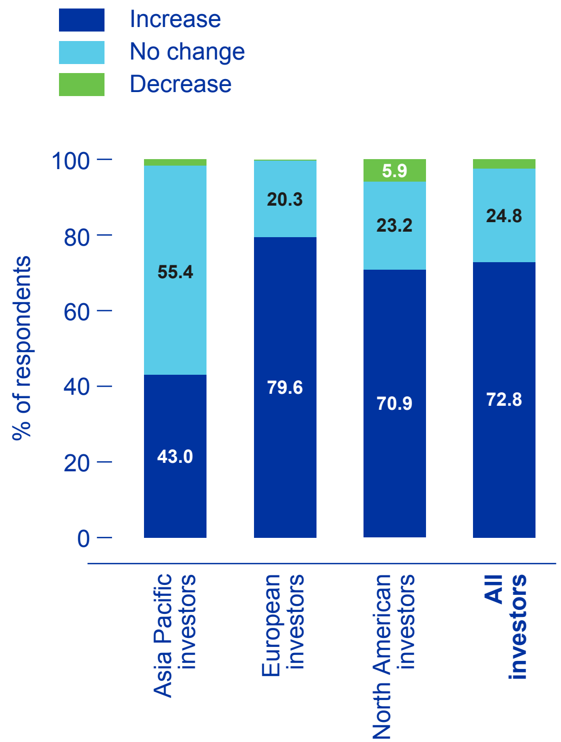
When looking at responses weighted by total assets under management (Figure 4). A much higher percentage of investors are expecting to increase their global real estate portfolio over the next two years, 72.8% compared with 50.4% on an equally weighted basis. This is especially the case for North American and European investors, indicating that the larger investors in these regions are the ones with the greatest intentions to increase their allocations to real estate.

Figure 3: Investors' views on development of global real estate portfolio



Note: based on a sample of 115 investors

Figure 4: Investors' views on development of global real estate portfolio (weighted)

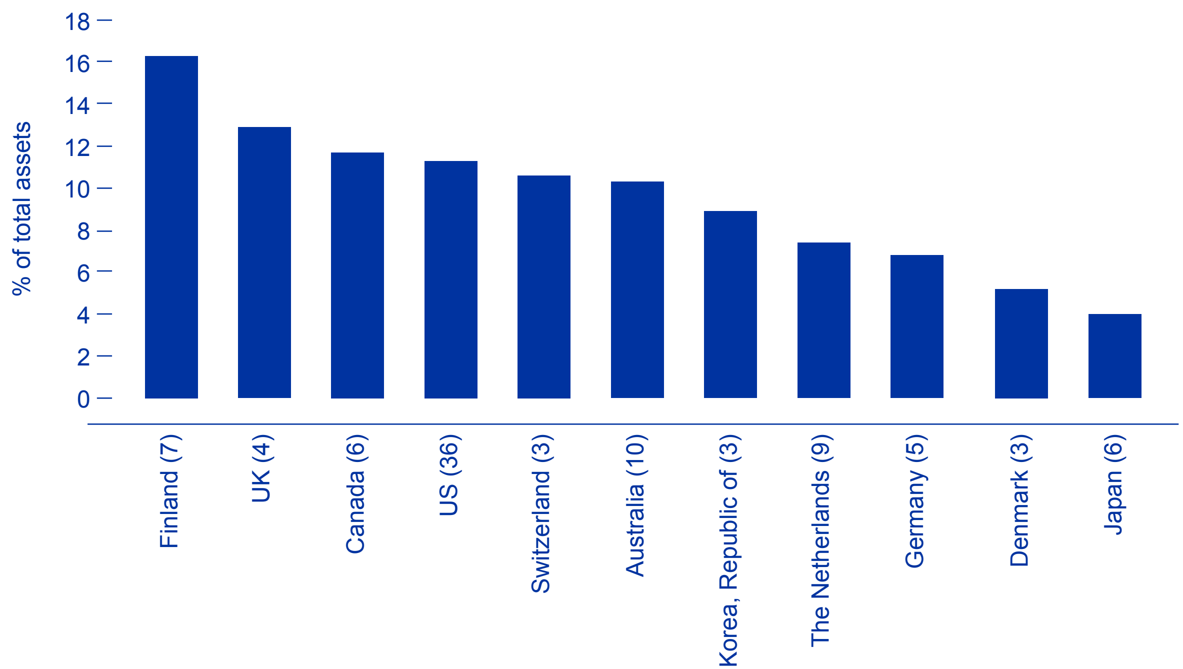


Note: based on a sample of 115 investors; weighted by total AUM

Current vs target allocations

Despite general agreement on the reasons to invest in real estate, there are substantial differences in allocations across the globe. Figure 5 highlights the diversity of real estate allocations by investor domicile: from 16.3% in Finland to 4% on average in Japan.

Figure 5: Investors' average real estate allocation by domicile



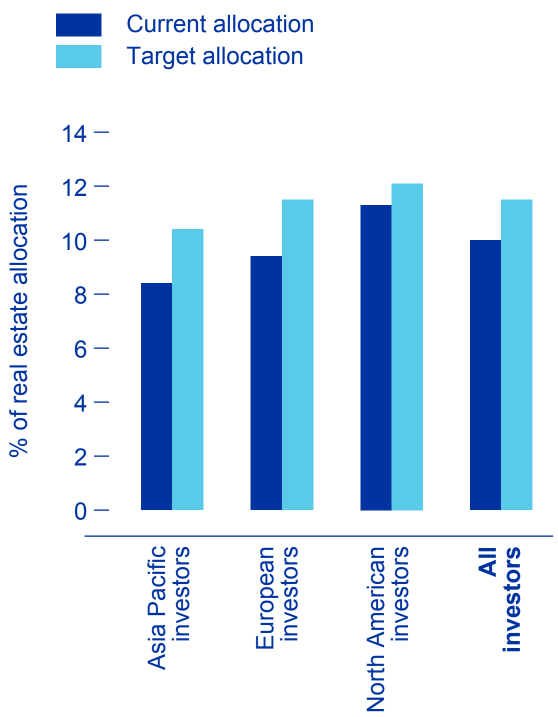
Note: investor numbers are indicated in parentheses; excludes investors with 100% real estate allocations

Over the next two years, average allocations to real estate are expected to rise from 10% currently to a target of 11.5% of the total portfolio (Figure 6). On average, North American investors have a higher current allocation to real estate (11.3%) compared with European (9.4%) or Asia Pacific investors (8.4%). and are closer to target. They expect to increase their allocation to real estate by 80 bps, compared with 200 bps and 210 bps for Asia Pacific investors and European investors, respectively.

Looking at the same chart but weighting the participant's real estate allocation by their total assets under management, there are some interesting patterns for larger investors that emerge.

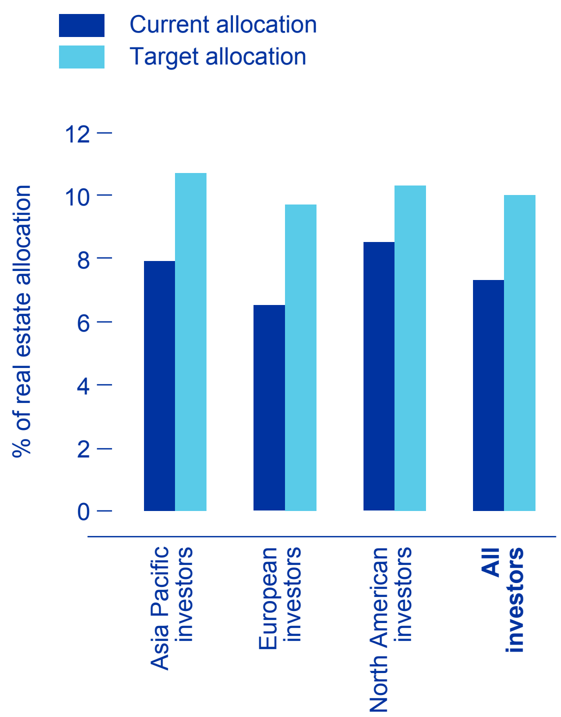
The weighted average allocations are all lower than for equally weighted allocations, indicating that large investors tend to have lower current allocations to real estate than smaller investors. This was also seen in previous surveys. However, the spread between current and target allocations is wider, indicating that large investors are farther below target, on average, than smaller investors. On a weighted basis investors expect to increase their allocation by 270 basis points. The gap between current and target allocations is widest for European investors (320 bps), followed by Asia Pacific (280 bps) and North American investors (180 bps).

Figure 6: Investors' current and target real estate allocations



Note: based on a sample of 108 investors; excludes investors with 100% real estate allocations

Figure 7: Investors' current and target real estate allocations (weighted)



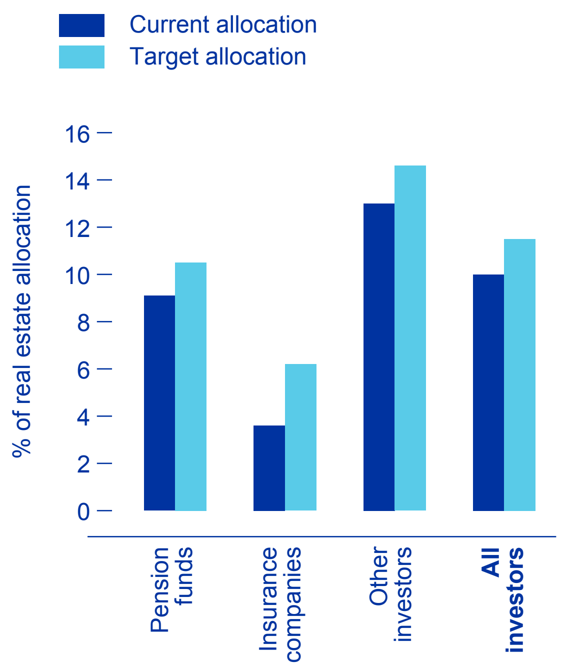
Note: based on a sample of 108 investors; excludes investors with 100% real estate allocations; weighted by total AUM

When looking by institutional investor type the survey results show that insurance companies have the lowest current and target allocations to real estate compared with other investor types, 3.6% and 6.2% respectively.

Real estate allocations for pension funds are much higher at 9.1% currently and with an average target of 10.5%. Other investors, which include banks, charities, corporations, endowments, family offices, foundations, government institutions, high net worth individuals, investment consultants and non-profit organisations, have an even higher current allocation to real estate, 13% on average.

The difference between current and target allocations is greatest for insurance companies, 260 bps compared with 140 bps for pension funds and 160 bps for other investor types.

Figure 8: Current and target allocations by investor type



Note: based on a sample of 108 investors; excludes investors with 100% real estate allocations

Amount expected to be invested into real estate in 2017

Investors responding to the survey expect to invest a minimum of €52.6 billion into real estate in 2017, a similar figure to that recorded in the 2016 survey. About half of expected investment capital (49.9%) comes from Europe, with 36.3% from North America and 13.8% from Asia Pacific investors.

Figure 10 indicates how investors plan to deploy capital across the globe. Interestingly there is no full correspondence between Figures 9 and 10, showing quite a different picture from last year's results. The US market will attract the greatest share of the capital in 2017 (40.9% or €21.5 billion), followed by Europe (36.4% or €19.1 billion). Interestingly, in 2017 a larger proportion of capital is expected to be allocated to Asia Pacific than will originate from the region.

Fund of funds managers differ slightly from other investors in their expectations for capital deployment (Figure 11). The US markets will attract the majority of capital from fund of funds managers (39.6%) but more than a third will be invested in Asia Pacific (33.4%) and only 26.0% into Europe.

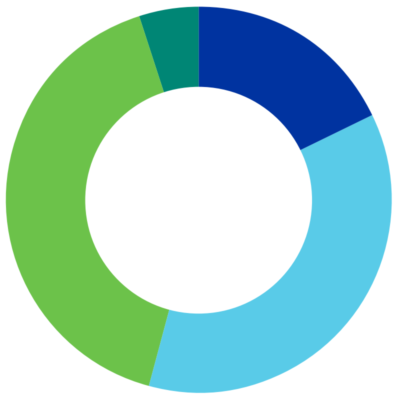
Figure 9: Amount expected to be invested in real estate in 2017 by investor domicile (total: €52.6 billion)

13.8% Asia Pacific investors
49.9% European investors
36.3% North American investors

Note: based on a sample of 103 investors

Figure 10: Investors' expected destination for real estate investments in 2017 (total: €52.6 billion)

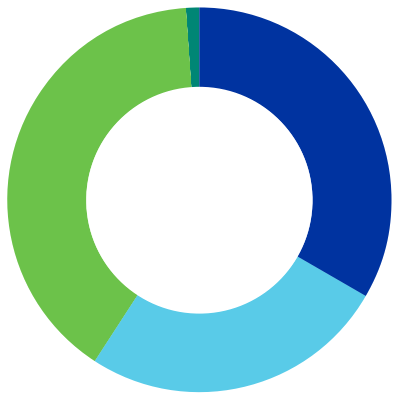
18.0% Asia Pacific
36.4% Europe
40.9% US
4.8% Americas ex US
0.0% Africa



Note: based on a sample of 104 investors

Figure 11: Fund of funds managers' expected destination for real estate investments in 2017 (total: €3.3 billion)

33.4% Asia Pacific
26.0% Europe
39.6% US
1.1% Americas ex US
0.0% Africa



Note: based on a sample of 10 fund of funds managers

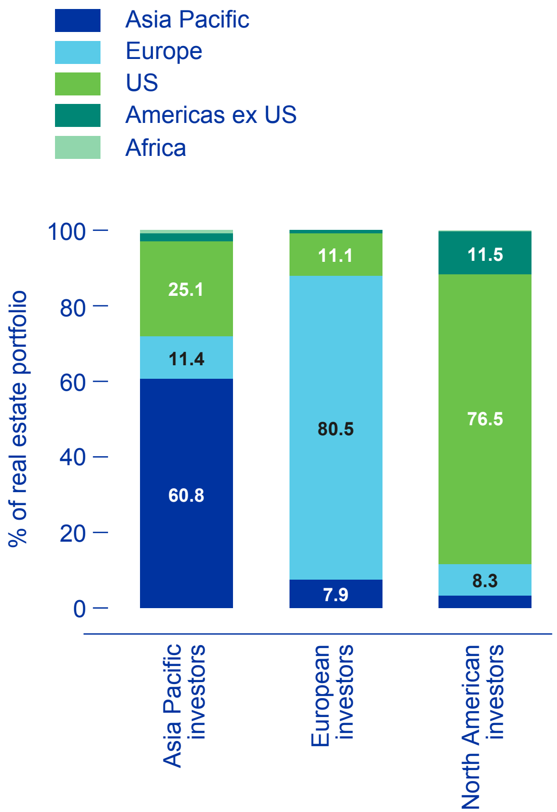
Regional allocations

Figures 12 and 13 show current and expected regional allocations respectively.

Figure 12 indicates that home bias prevails, and that investors tend to invest more in their own regions than outside. This is especially the case for European investors where 80.5% of capital is invested in Europe, whereas only 60.8% of Asia Pacific investors' capital is invested in their own region, with a quarter invested in the US and 11.4% in Europe. North American investors follow a similar pattern to European, with more than three quarters of real estate capital invested in the US and a significant 11.5% invested in Americas ex US (largely due to the Canadian investors in the sample and their own home bias).

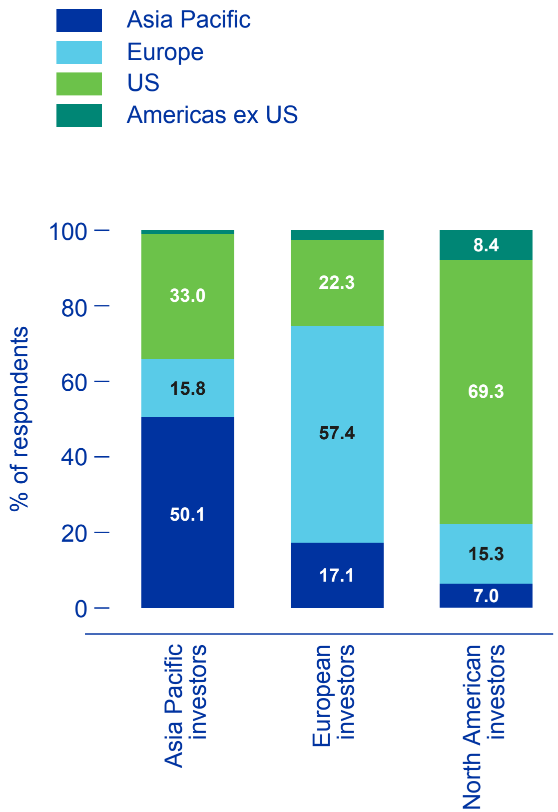
When looking at expected destinations for real estate investment in 2017 (Figure 13) European investors indicate that they intend to increase international diversification by reducing the home bias to 57.4% of capital to be newly deployed in 2017. This is also the case for Asia Pacific and US investors, although to a lesser extent, where investments into their own regions are expected to be a lower proportion than current investments.

Figure 12: Investors' current regional allocations by domicile



Note: based on a total sample of 115 investors

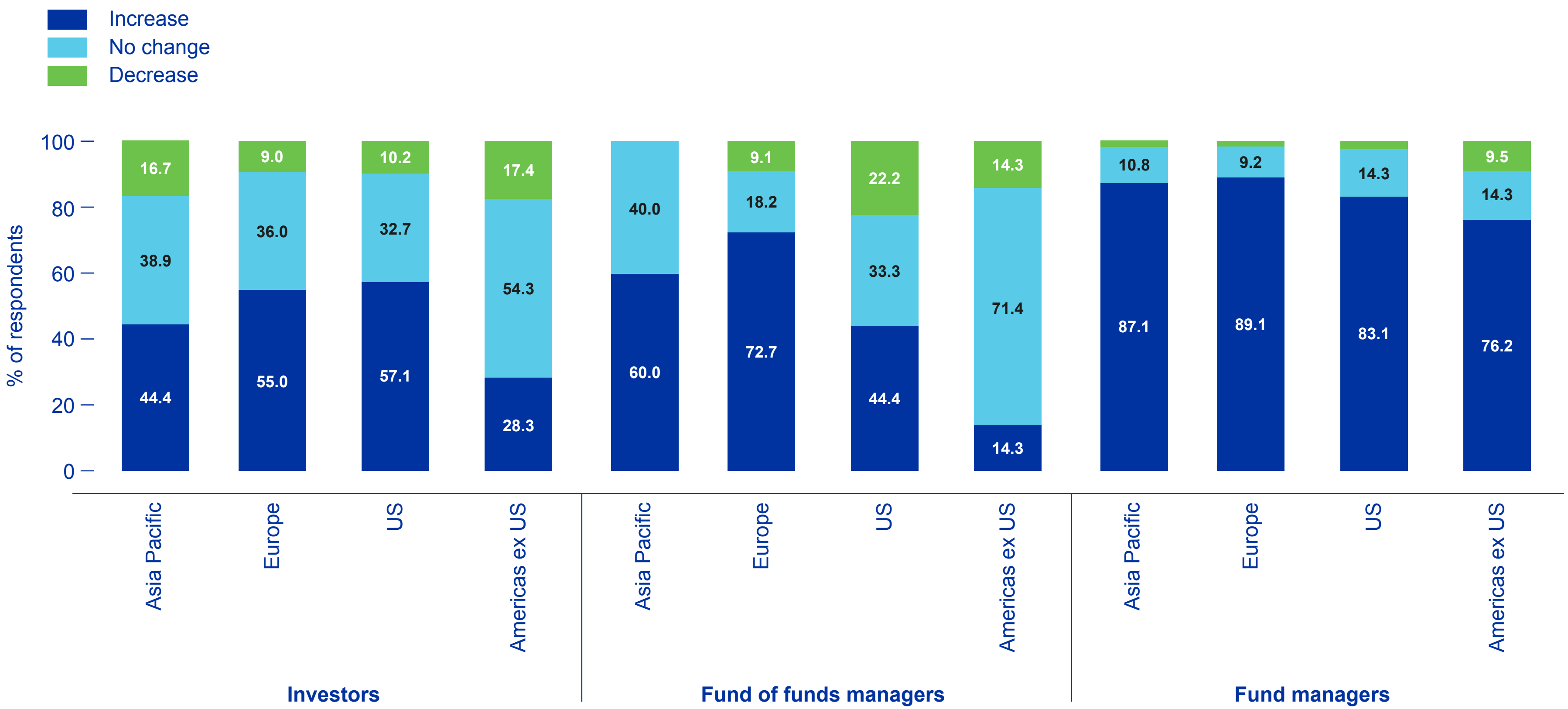
Figure 13: Investors' expected destination for real estate investment in 2017 by domicile



Note: based on a total sample of 104 investors

As seen in Figure 14, on average, more investors plan to increase their allocation to all markets than plan to decrease. The US and Europe are more favoured than Asia Pacific and the America ex US, which is consistent with what we have seen in previous survey results. The Asia Pacific market also sees more investors expecting to decrease their allocations compared to the other regions (16.7% compared with 9% for Europe and 10.2% in the US).

Figure 14: Expected changes to real estate allocations by region over the next two years



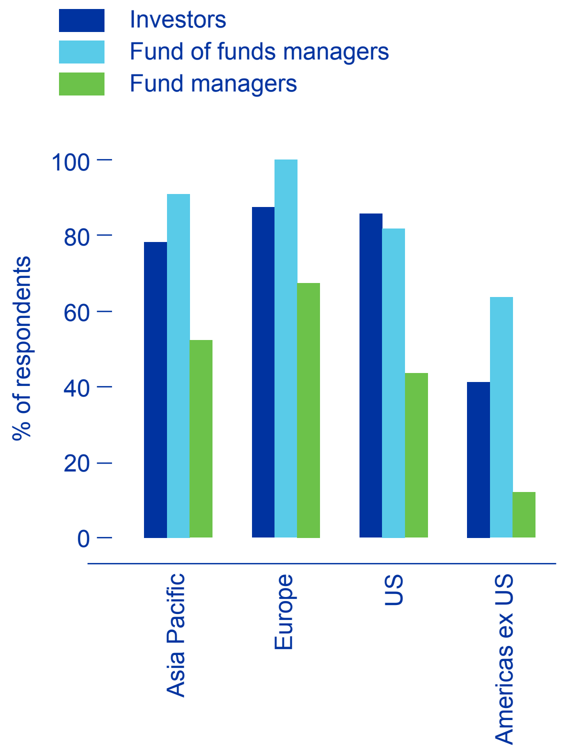
Note: based on a sample of 299: 115 investors, 11 fund of funds managers and 173 fund managers

The Americas ex US is an increasingly important market for investors (as seen in Figure 15, 41.2% of investors are either currently invested in that region or plan to invest there). Figure 14 shows 28.3% of investors are expecting to increase their allocations to this region in the next two years, with a smaller proportion (17.4%) expecting to decrease.

Fund of funds manager have a somewhat different approach to the markets and are more focused on the European and Asia Pacific markets, with more than half expecting to increase their allocations to these regions, 72.7% and 60.0% respectively. Meanwhile only 44.4% expect to increase their allocations to the US. The Americas ex US markets are the least preferred market for this respondent group.

As seen in the results of previous surveys, fund managers are more optimistic than investors on how they see their real estate investments developing over the next two years. A similar percentage expect increases in all markets, with Europe in first place at 89.1%, followed by Asia Pacific (87.1%), the US (83.1%), and then the Americas ex US (76.2%).

Figure 15: Participants invested in or intending to invest in each region



Note: based on a sample of 314: 119 investors, 11 fund of funds managers and 184 fund managers

‘The Americas ex US is being seen as an increasingly important market’

Section 3

Preferred investment styles

Preferred investment styles

From this section onwards the report focuses on investment into the European real estate markets only.

This section explores the investment style preferences of investors and fund of funds managers. To provide an additional perspective fund managers were asked to comment on the style preferences of their investors.

Respondents were asked for their views on the attractiveness, in risk and return terms, of the three main investing styles in the five main regions, and to indicate which styles they intended investing in, on a region by region basis. For example, Europe – value added is a regional and style pairing which respondents could select. Fund managers were asked to comment on behalf of their investors.

The wording of the first question was '*in terms of risk-adjusted performance prospects, which investment style do you find most attractive at the moment?*' The second question was '*in which investment style do you expect to invest in 2017?*' For fund managers, the equivalent question was slightly reworded to be: '*in which investment styles do you expect your investors to invest in 2017?*'

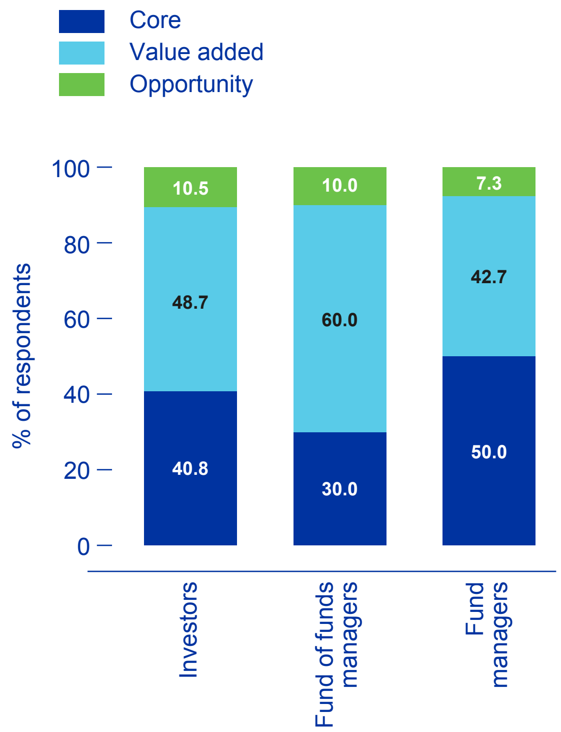
In 2017 investors' preferred investment style for investing in Europe is value added, with almost half (48.7%) indicating that they consider it most attractive in risk and return terms.

The shift towards value added is largely matched by a reduced preference for opportunity. In last year's survey 39.4% of investors preferred core, 46.8% preferred value added and 13.8% indicated that opportunity was their preferred investment style. In this year's survey the corresponding numbers are 40.8% for core, 48.7% for value added and 10.5% for opportunity. The increased preference for core and value added comes at the expense of opportunity.

The biggest shift in investment style preferences comes from fund of funds managers who have a much higher regard for value added (60.0%) this year compared to the previous year (35.7%). However, this does not necessarily indicate a move up the risk curve as a lower proportion indicated a preference for opportunity (10.0%) compared with the previous year (21.4%).

Fund managers' perception of their investors is that they view core (50.0%) higher up the rankings than investors actually do (40.8%).

Figure 16: Preferred investment styles



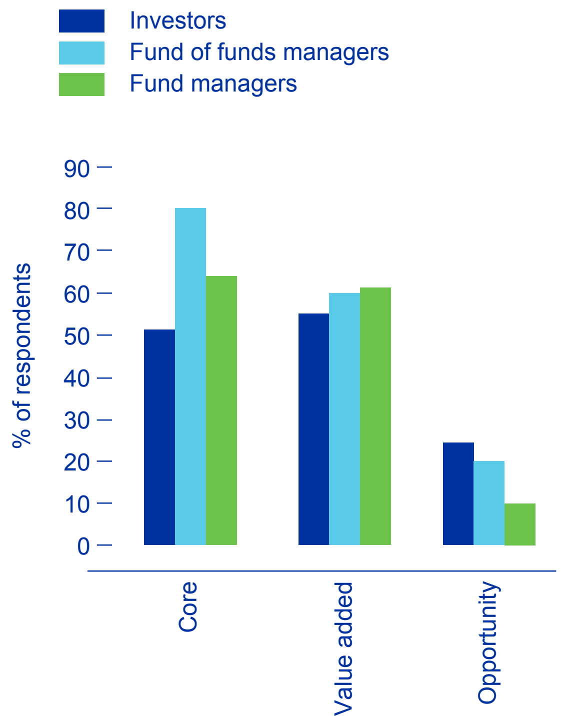
Note: based on a sample of 196:
76 investors, 10 fund of funds managers
and 110 fund managers

When comparing investment style preferences versus expected style investments some differences are worth highlighting. Here, respondents were able to make multiple selections and select more than one style. The majority of investors, 55.1%, expect to invest in value added. However, the difference between value added and core (51.3%) is smaller for expected investments than for style preferences.

Meanwhile a larger proportion of fund of funds managers, 80%, expect to invest in core than in any other investment style, which is a difference in rankings compared with their style preferences.

> ‘A larger proportion of fund of funds managers expect to invest in core’

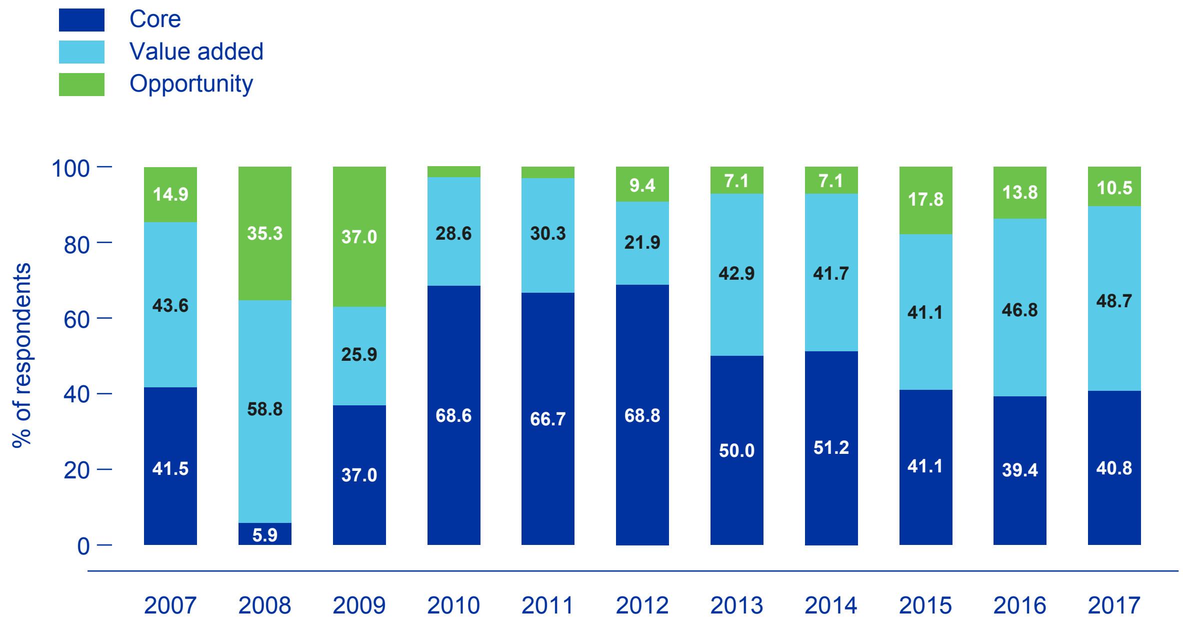
Figure 17: Investment style preferences for 2017



Note: based on a sample of 199: 78 investors, 10 fund of funds managers and 111 fund managers

Over the last ten years there has been a shift in investor style preferences reflecting their risk and return tolerances over the past decade. From 2009 there was an increased preference for core, which only started to recede in the last five years. By 2016 value added had over taken core as the preferred investment style, and this preference has strengthened further in 2017.

Figure 18: Investment style preferences



Note: based on a sample of 76 investors

'The increase in preference for value added is matched by a reduced preference for core and opportunity'

There are significant variations across investor domicile in terms of how they view the attractiveness of risk-adjusted performance. For example, there is a very strong preference for core among Dutch investors (77.8%) and a strong preference among Asia Pacific investors (56.3%). Value added investments are favoured most in the UK and Denmark, with 66.7% of investors indicating so in each country. Investors in Germany (57.1%) and Finland (60.0%) also favour value added, as do North American investors (60.9%).

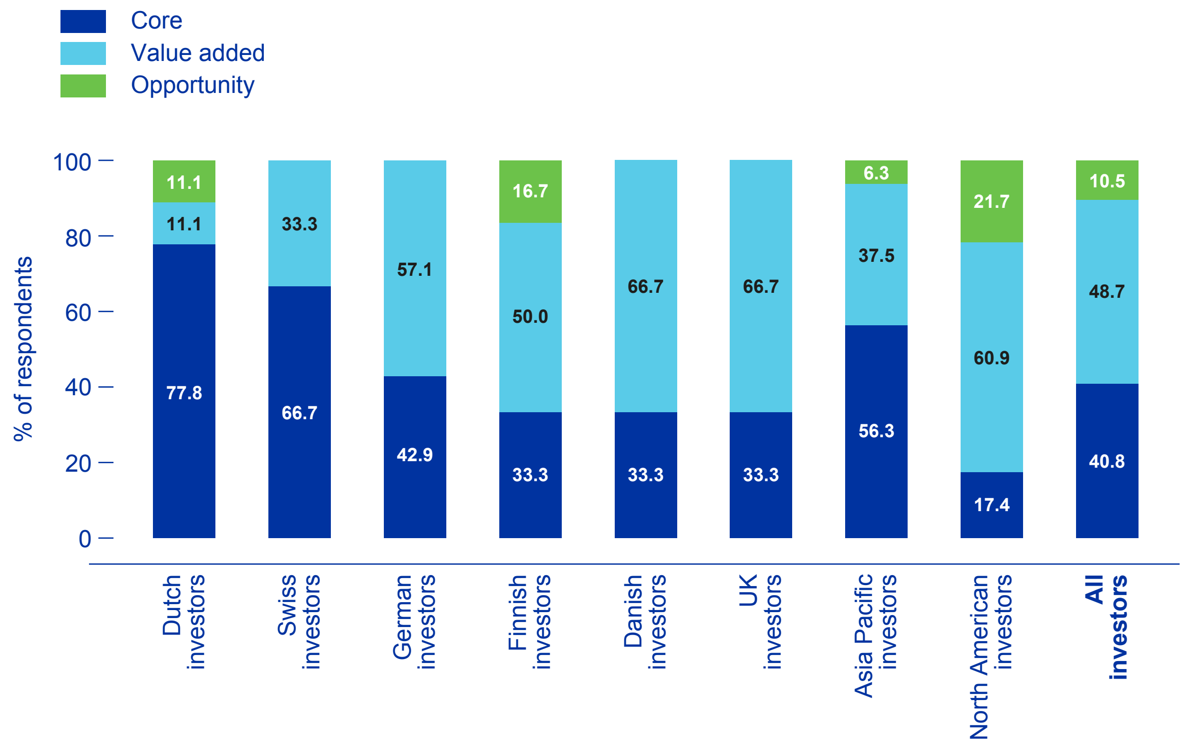
None of the investors based in Germany indicate a preference for opportunity strategies, which is in stark contrast to the previous year's survey, where almost half (42.9%) had indicated that opportunity was their preferred investment style. This is also the case for UK and Danish investors, where none have indicated opportunity as a preferred investment style for 2017.

The style preferences of UK investors are consistent with last years.

Opportunity is mentioned as the style with the best risk-adjusted prospects in only some countries, while core and value added is mentioned by investors from all domiciles. The limited popularity of opportunity and the widespread popularity of value added reinforce the trend away from opportunity and into value added.

'Widespread popularity of value added across investors of all regions'

Figure 19: Investors' views on risk-adjusted performance prospects by investor domicile in 2017

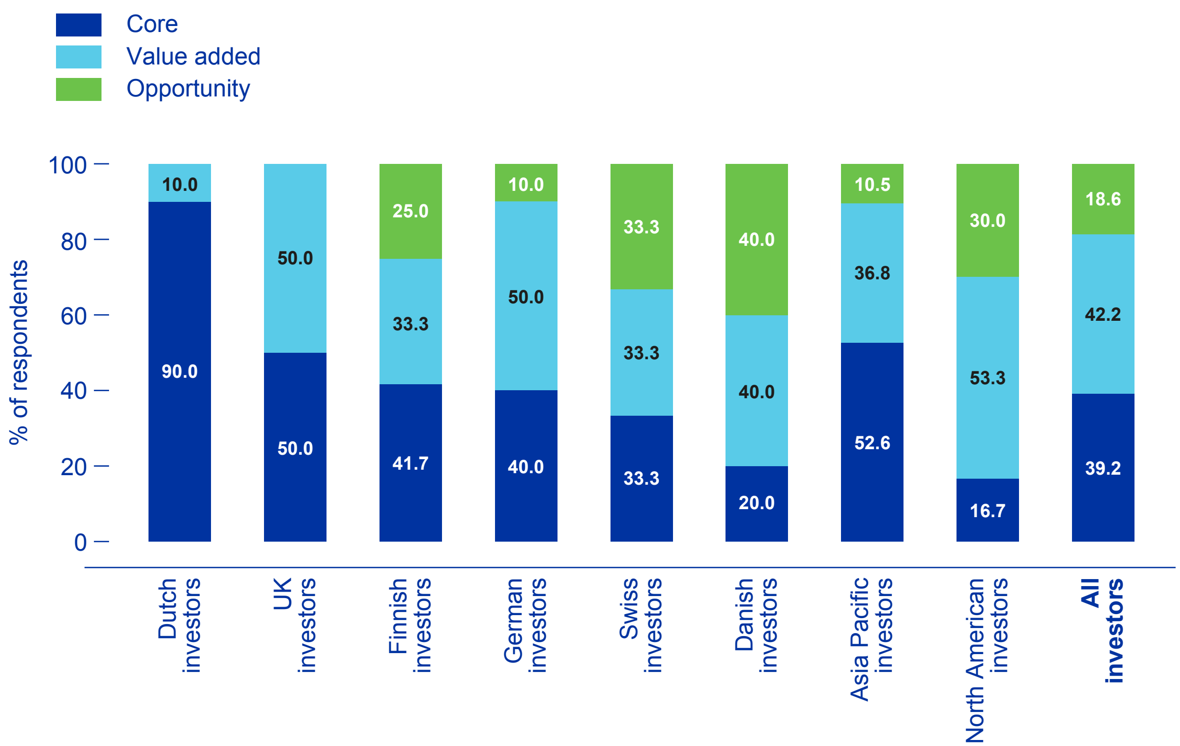


Note: based on a sample of 76 investors

When investors were asked about the styles that they expect to invest in in 2017 a slightly different picture emerges. Opportunity appears as an investment style for investors across all domiciles with the exception of those in the Netherlands or the UK. Taken as a group, 18.6% of investors are expecting to invest in opportunity, even though a lower proportion (10.5%) viewed opportunity as the most attractive for prospective risk-adjusted returns.

There are a couple of points worth noting. None of the investors domiciled in the Netherlands indicated that they will invest in opportunity in 2017 although 11.1% viewed it as most attractive in terms of risk and return prospects. The opposite is true for German investors where none viewed the risk and returns prospects of opportunity as attractive but 10.0% expect to invest in this investment style in 2017.

Figure 20: Investment styles that investors plan to invest in this year by investor domicile



Note: based on a sample of 78 investors

Section 4

Preferred investment destinations and sectors in Europe

Preferred investment destinations and sectors in Europe

This section focuses on the desired investment destinations for 2017.

> Respondents were asked to indicate their target countries and sectors, and they could select more than one choice. Respondents could select key cities within a country rather than the country overall.
> For example, respondents could select UK – London and UK – other cities, rather than just the UK.

The UK, France and Germany remain the top three investment destinations in Europe. This is highly reflective of the size, maturity and transparency of these markets which enable investors to access the markets more easily for the risk-adjusted returns they seek.

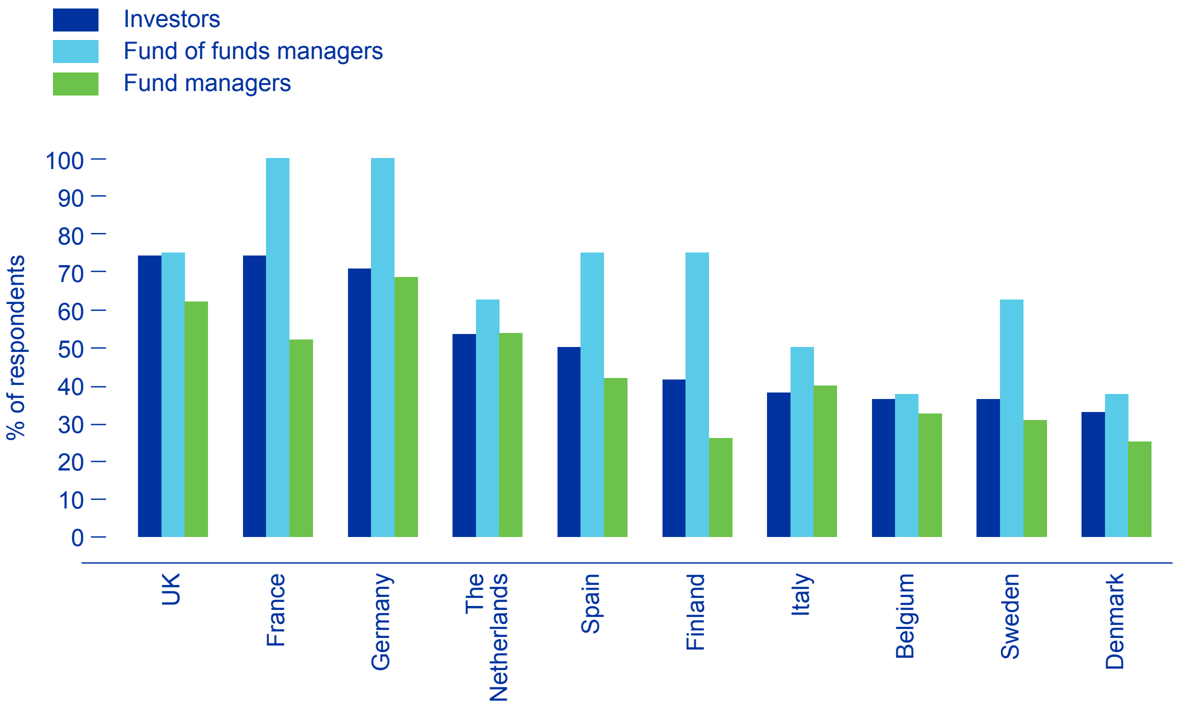
However, Germany is no longer seen as the most preferred destination for investors, with France and the UK both sharing the top spot, where 74.1% of investors have indicated that this is their preferred investment destination for 2017. This compares with 70.7% for Germany.

Two more countries were nominated as a preferred investment destination by more than 50% of investors, the Netherlands (53.4%) and Spain (50.0%). The Netherlands is ranked in fourth place, in the same position as last year. However, Spain has leaped from the ninth to fifth place.

Other countries that made it into the top ten are: Finland (41.4%) and Italy (37.9%) taking sixth and seventh places respectively and Belgium (36.2%) and Sweden (36.2%) in joint eighth place. Denmark (32.8%) concludes the top ten.

For fund of funds managers, the picture is quite different. France and Germany are clear winners attracting 100% of fund of funds managers. The UK, Spain and Finland are in joint second place, with 75.0% of fund of funds managers indicating an intention to invest there in 2017. The next most popular countries are the Netherlands, Sweden and Norway (62.5% each), followed by Italy which also attracts 50.0% of fund of funds managers.

Figure 21: Ten most preferred locations for 2017



Note: based on a sample of 174: 58 investors, 8 fund of funds managers and 108 fund managers

For fund managers the situation is different again. Germany is their first choice with 68.5% indicating an intention to invest there in 2017. Their second choice is the UK (62.0%). The Netherlands (53.7%) and France (51.9%) take third and fourth places respectively. No other country attracts more than 50% of fund managers.

At the other end of the scale, the list of less favoured locations for investors starts with Norway with 29.3% of investors indicating that they would invest there in 2017. Next are Austria (25.9%), Luxembourg (24.1%), Ireland (22.4%) and Portugal (20.7%). The remaining five destinations attract less than 20% of investor votes, and these include Eastern Europe[1] (19.0%), Switzerland (19.0%), Baltics[2] (15.5%), other Europe (10.3%) and Turkey (10.3%).

Compared to investors, fund of funds managers have a higher regard for Norway, Portugal and Eastern Europe, and no intention of investing in Luxembourg.

Fund managers' preferences are more aligned with the rankings of investors' preferences than with fund of funds managers' preferences.

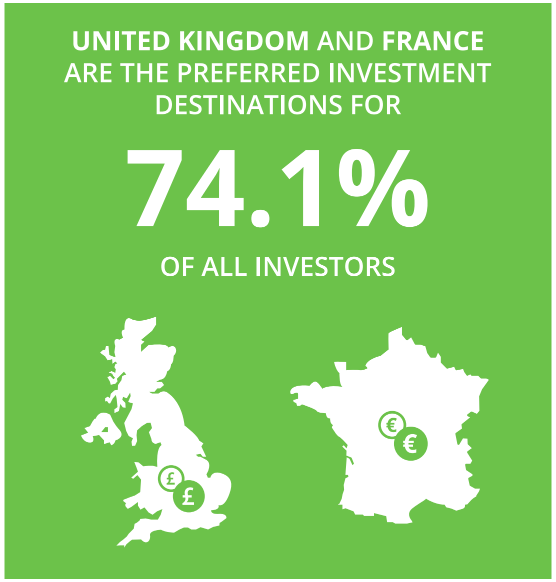
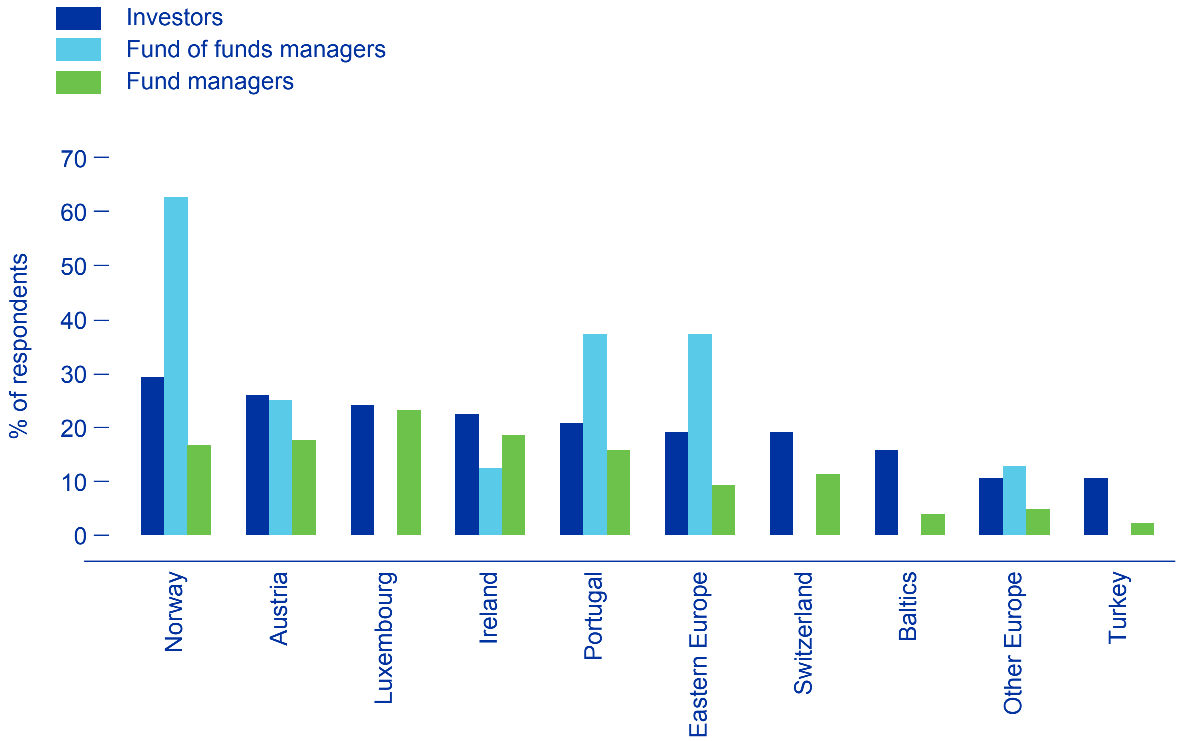


Figure 22: Ten least preferred locations for 2017



Note: based on a sample of 174: 58 investors, 8 fund of funds managers and 108 fund managers

[1] Eastern Europe comprises Romania, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Kosovo, Macedonia, Albania, Bulgaria, Russia and Ukraine

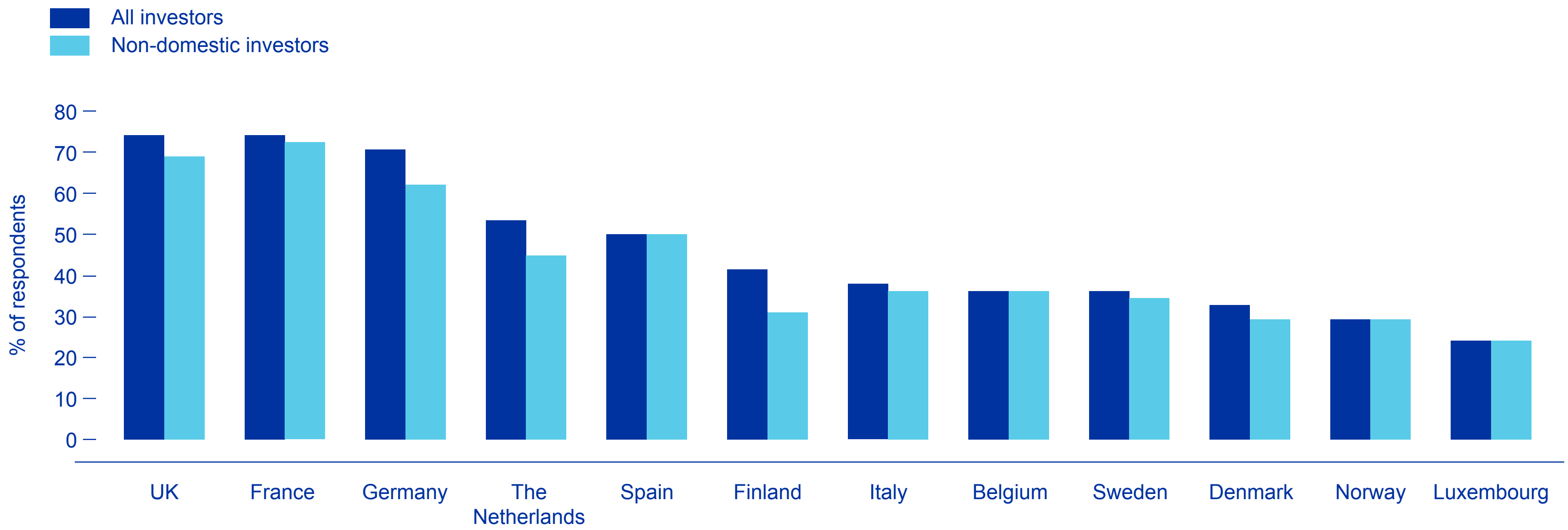
[2] Baltics comprises Latvia, Lithuania and Estonia

The majority of investors tend to invest in their domestic markets before other markets, so to remove the effect of home bias the study looks at the differences in preferences between non-domestic investors and all investors.

The big three national markets of the UK, France and Germany are popular with both domestic and non-domestic investors. Although there is a stronger indication of domestic bias in Germany than there is in the UK and in France.

There is also indication of domestic bias in the Netherlands and Finland, based on the evidence that non-domestic investors are noticeably less keen on those markets than investors as a whole. Spain, Belgium, Norway and Luxembourg are equally preferred by all investors and non-domestic investors.

Figure 23: Preferred investment locations for 2017 – comparison of non-domestic and all investors



Note: based on a sample of 58 investors

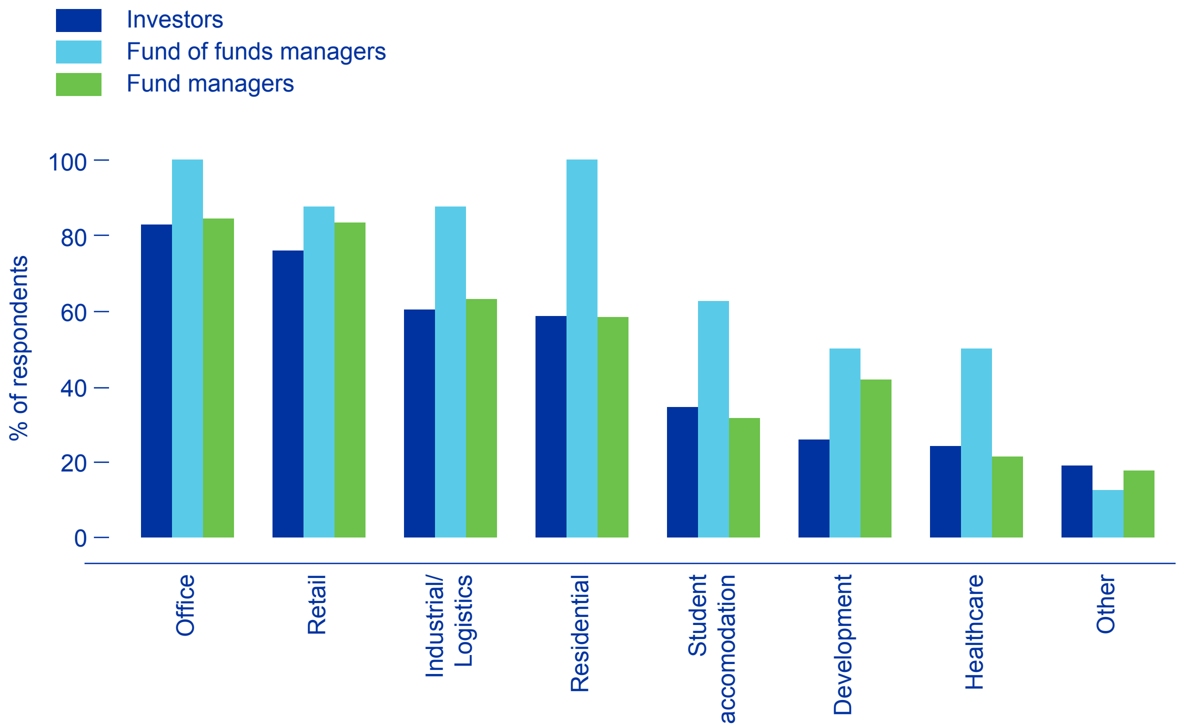
In terms of sectors, the office sector is most preferred by investors, with 82.8% expecting to invest there in 2017. Retail is next (75.9%), followed by industrial / logistics (60.3%) and residential (58.6%). Student accommodation is ranked in fifth place with 34.5% of investors expecting to invest in the sector.

Development, healthcare and other are further down the line with 25.9%, 24.1% and 19.0% of investors choosing these sectors for their investments in 2017 respectively.

For fund of funds managers, the top two sectors are office and residential, which are ranked equally in first place (100% each). Retail and industrial / logistics are ranked second, both with 87.5% of fund of funds managers expecting to invest in them. Student accommodation is next with 62.5%, while development and healthcare are next in line with 50.0% planning investments in these sectors. Only 12.5% of fund of funds managers expect to invest in other sectors.

Fund managers and investors are generally aligned in their sector preferences, except that fund managers are more enthusiastic about development than student accommodation, with 41.7% expecting to invest in development and 31.5% in student accommodation.

Figure 24: Preferred sectors in 2017 for all respondents



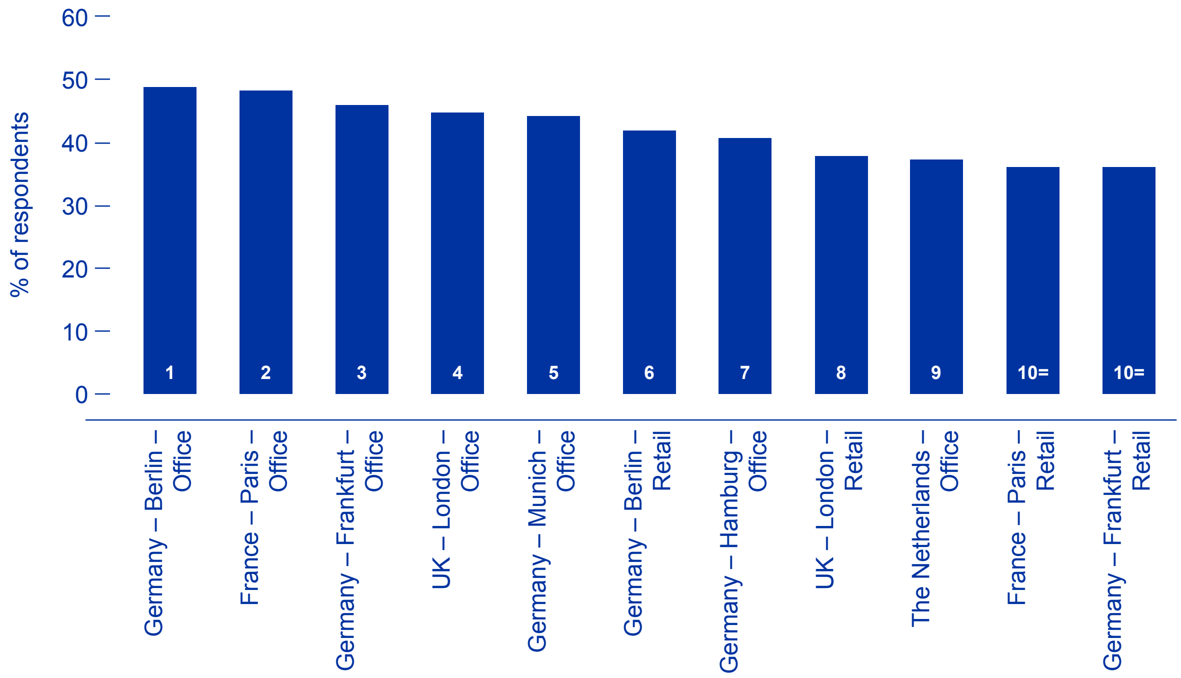
Note: based on a sample of 174: 58 investors, 8 fund of funds managers and 108 fund managers

Survey respondents were asked to distinguish between London and other cities within the UK, and between Paris and other cities within France. For Germany respondents were asked to distinguish between the Big Six cities (Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, and Munich) and other German cities. In each case the "other cities" category is less highly regarded, but the gap between Paris and other French cities is bigger than the comparable gap in the UK or Germany.

While large German cities as well as Paris and London dominate rankings, there is considerable year on year change among the other destinations. For example, the Netherlands was eighth in 2015, fourth in 2016 and is ninth in 2017.

The top twenty destinations in Europe are almost completely dominated by the main sectors in Germany, the UK and France. In fact, German, UK and French office, retail, industrial / logistics and residential sectors account for almost all top slots. However, Dutch office, retail and industrial / logistics make it to position 9, 12 and 17. Spain and Italy retail are in positions 14 and 16 and Spain – office is in position 18.

Figure 25: Preferred city and sector combinations in 2017 for all respondents



Note: based on a sample of 174: 58 investors, 8 fund of funds managers and 108 fund managers

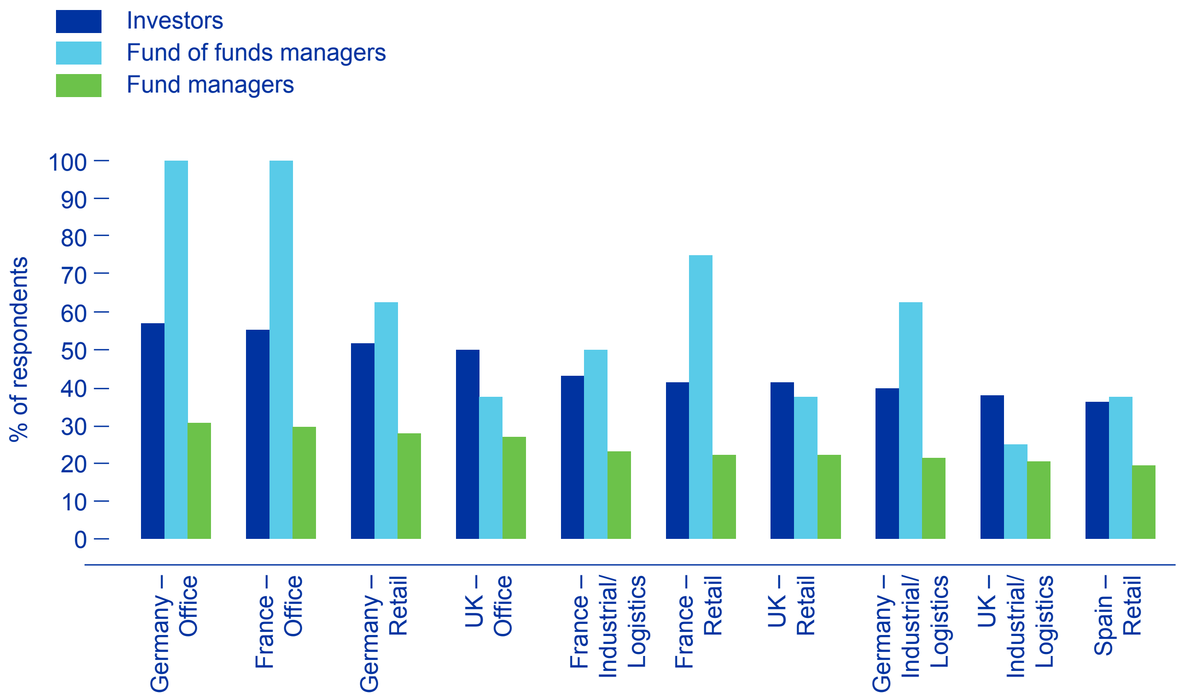
By type of respondent, 56.9% of investors prefer Germany – office, followed by France – office with 55.2% and 51.7% prefer German – retail as their chosen country / sector combination. In 2016 the top three were German – office, French – office and UK – office.

For investors UK office is in fourth place, followed by French industrial / logistics in fifth place. UK retail together with France retail share the sixth place (41.4%). Germany and UK industrial / logistics (39.7% and 37.9% respectively) take the following two positions and finally in ninth place, with 36.2% of investor preferences, is retail in Spain.

For fund of funds manager's offices are also the favourite: Germany – office and France – office get the highest score, at 100% each. French retail at 75.0% is in second place, followed by retail and industrial / logistics in Germany (62.5% each) jointly ranked as third. Next is French industrial / logistics with 50.0%.

Fund managers' preferences are similar to the other respondent groups this year. Germany office is ranked first and France office is ranked second, with 30.6% and 29.6% of fund managers expecting to invest there in 2017. Germany retail is third, with 27.8%, followed by UK office at 26.9%. France industrial / logistics with 23.1% is in fifth position. Both France retail and UK retail are next with 22.2%.

Figure 26: Country and sector preferences for 2017 by respondent type



Note: based on a sample of 174: 58 investors, 8 fund of funds managers and 108 fund managers

'Retail in Germany makes it into the top three investment destinations for 2017'

Between 2009 and 2017 France, Germany and the UK have generally dominated investor investment strategies, consistently ranking in the top three most preferred investment markets, the exceptions being in 2012 and 2013 when Nordic retail and offices appeared in the top three targeted markets.

Although German, French and UK offices were the top three destinations for 2016, retail has reappeared with German retail taking the third spot in 2017. Office and retail remain the two dominant sectors, with industrial / logistics and residential usually being in third and fourth places respectively.

Table 1: Investors' top three preferred sector/location combinations 2009 to 2017

	First	Second	Third
2017	Germany Office	France Office	Germany Retail
2016	Germany Office	France Office	UK Office
2015	Germany Retail	Germany Office	UK Office
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

'Office and retail are consistently ranked as the most attractive sectors for real estate investment'

Section 5

Expected investment trends to access Europe

Expected investment trends to access Europe

This section explores the preferred route for investors and fund of fund managers to access European markets in 2017.

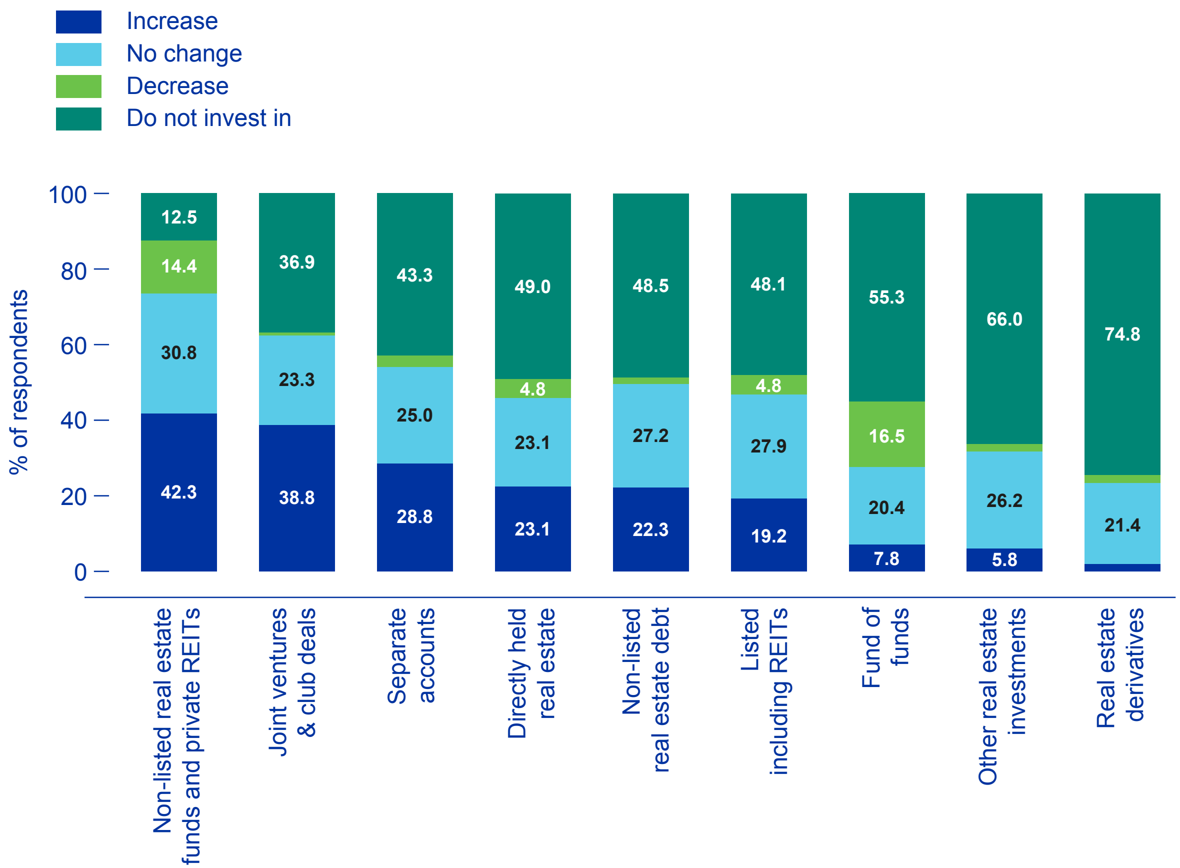
Investors were asked: '*for each region, how do you expect your real estate allocation to develop over the next two years by type of vehicle?*'

Fund managers were asked for their perception of the same issue, with this question: '*for each region, how do you expect your investors' real estate allocation to develop over the next two years by type of vehicle?*'

Over the next two years a further influx of capital is expected into European real estate. The most popular route into the European markets is via non-listed real estate funds, where 42.3% expect allocation to increase, 14.4% expect allocation to decrease and 30.8% expect it to remain the same. The remaining 12.5% are not invested in non-listed real estate funds.

Last year, joint ventures and club deals were the preferred route of entry for capital allocation to real estate. For 2017 they are the second preferred route to market, with 38.8% indicating that they expect to increase allocation to this vehicle type, while 1% expect a decrease and 23.3% expect no change (36.9% do not invest in joint ventures and club deals).

Figure 27: Expected changes in investors' European real estate allocations over the next two years



Note: based on a sample of 104 investors

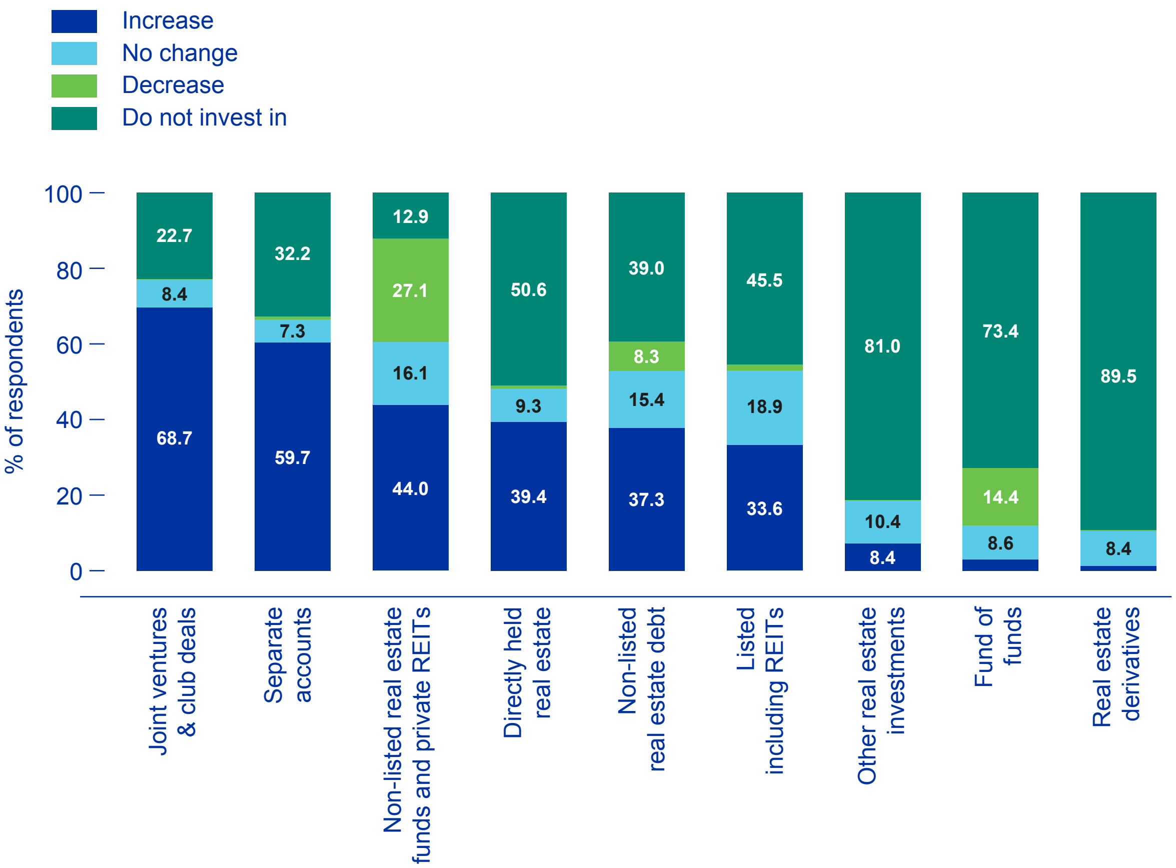
When the same analysis is performed on a value-weighted basis the equivalent percentages for non-listed real estate funds is as follows: 44.0% expect the allocation to funds to increase, 27.1% expect a decrease, 16.1% expect to maintain the current allocation and 12.9% do not currently invest in non-listed real estate funds. This indicates that larger investors are those intending to decrease allocation to non-listed funds.

The second most popular route is joint ventures and club deals investing in real estate. On a weighted basis 68.7% expect to increase allocation to this vehicle type, 0.2% expect a decrease, 8.4% expect to maintain their current allocation and 22.7% do not currently invest in joint ventures and club deals. This indicates that it is the larger investors that intend to increase their allocation to this vehicle type significantly more so than smaller investors.

The third most popular route is separate accounts investing in real estate, where 28.8% expect allocation to increase, 2.9% expect a decrease, 25.0% expect to maintain the current allocation and 43.3% do not currently invest in separate accounts.

Weighted equivalent percentages are as follows: 59.7% expect allocation to separate accounts to increase, 0.8% expect a decrease and 7.3% expect to maintain the current allocation while the remaining 32.2% do not currently invest in separate accounts. These figures indicate that larger investors are more in favour of increasing their allocations to separate accounts than smaller investors. Similarly, this would indicate that it is mostly smaller investors that expect to decrease their investments in separate accounts.

Figure 28: Expected changes in investors' European real estate allocations over the next two years (weighted)



Note: based on a sample of 104 investors; weighted by total AUM

The fourth most popular route is directly held real estate, where 23.1% expect allocation to increase, 4.8% expect a decrease, 23.1% expect to maintain the current allocation with the remaining 49.0% not investing directly. Weighted equivalent percentages are as follows: 39.4% expect allocation to direct real estate to increase, 0.7% expect decrease and 9.3% expect to maintain the current allocation while 50.6% do not currently invest in direct real estate. These figures indicate that larger investors are more favourable to increasing allocation to direct investment in real estate than smaller investors. Even more so, smaller investors are more likely to decrease their investment in directly held real estate than larger investors.

‘Larger investors intend to decrease their allocations to funds in favour of JVs & club deals, separate accounts and direct investment’

The picture that emerges from the comparison is as follows: larger investors intend to decrease their allocations to non-listed real estate funds in favour of joint ventures and club deals, separate accounts and direct investment.

Non-listed real estate debt is the fifth most popular route, where 22.3% expect allocation to real estate debt to increase, 1.9% expect a decrease and 27.2% expect to maintain the current allocation while 48.5% do not currently invest in non-listed real estate debt. The equivalent percentages on a weighted basis are as follows: 37.3% expect allocation to non-listed real estate debt to increase, 8.3% expect decrease, 15.4% expect to maintain the current allocation and 39.0% do not currently invest in real estate debt.

Next is listed including REITs, with 19.2% expecting allocation to increase, 4.8% are expecting a decrease, 27.9% expect to maintain the current allocation and 48.1% do not currently invest in this vehicle type. The equivalent weighted percentages are as follows: 33.6% expect allocation to listed including REITs to increase, 2.0% expect a decrease, 18.9% expect to maintain the current allocation levels and 45.5% do not currently invest in listed including REITs. So large investors are more inclined to increase their allocations in this vehicle too.

Funds of funds follow next, where 7.8% expect allocation to increase, 16.5% expect a decrease, 20.4% expect to maintain the current allocation and 55.3% do not currently invest in funds of real estate funds. The equivalent weighted percentages are as follows: 3.6% expect the allocation to increase, 14.4% expect a decrease, 8.6% expect to maintain the current allocation and 73.4% do not currently invest in funds of real estate funds.

‘The popularity of certain routes to investment can ebb and flow with market cycles’

Other real estate vehicles are also considered, where 5.8% of investors expect allocations to increase, 1.9% expect a decrease, 26.2% expect to maintain the current allocation levels and the remaining 66.0% do not currently invest in other real estate vehicles. On a weighted basis the equivalent percentages are as follows: 8.4% expect allocation to other real estate vehicles to increase, 0.2% expect a decrease, 10.4% expect to maintain the current allocation and 81% do not currently invest in other real estate vehicles suggesting that smaller investors are more likely to see an increase in allocations to other real estate vehicles.

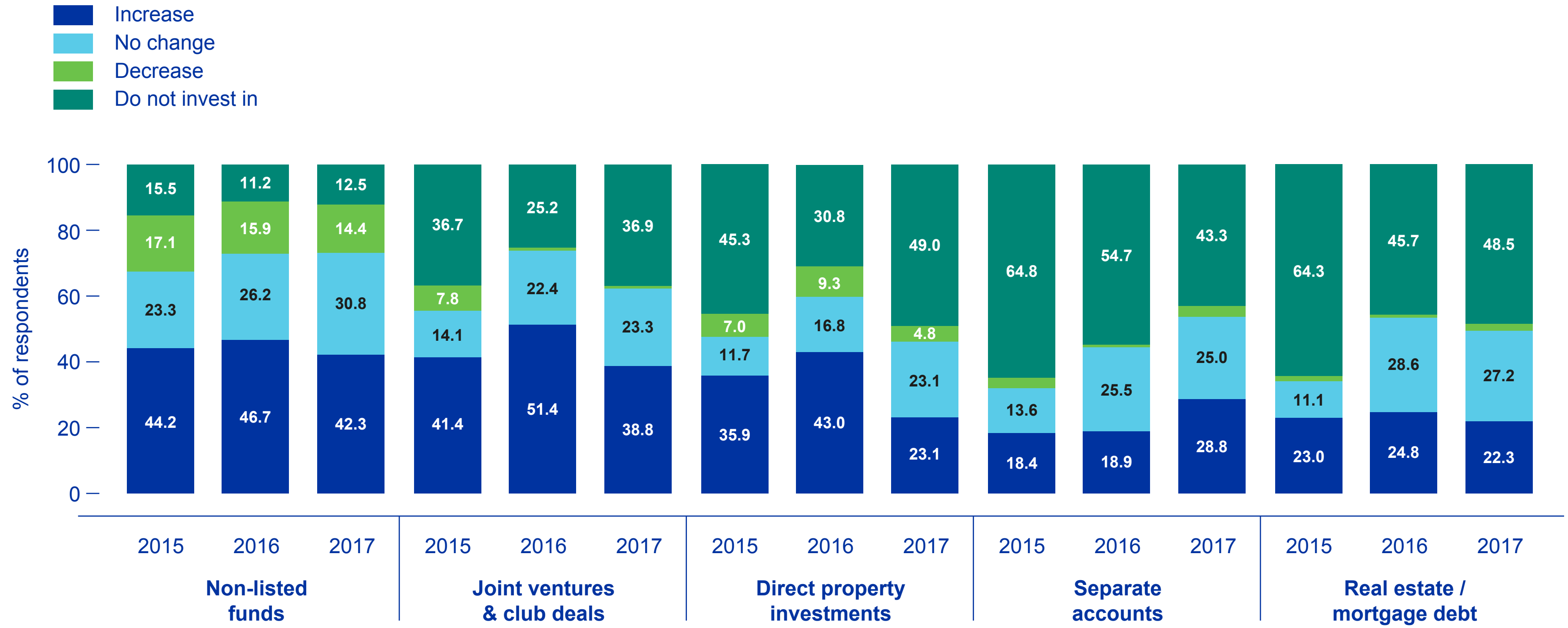
Finally, derivatives are the least popular route with only 1.9% of investors expecting to increase their allocation to real estate derivatives, 1.9% expect to decrease, 21.4% expect to maintain the current allocation and 74.8% do not currently invest in real estate derivatives. On a value-weighted basis the equivalent percentages are as follows: 1.9% expect allocation to real estate derivatives to increase, 0.2% expect to decrease, 8.4% expect to maintain the current allocation and 89.5% do not currently invest in real estate derivatives.

The proportion of investors using non-listed funds continues to increase and has risen in the period 2015 to 2017 from 84.5% to 87.5%. However, a lower proportion, 42.3%, expect to increase allocation, compared with 46.7% in 2016, though this is in favour of no change in allocation rather than a decrease in allocation.

More than half of the investors investing in joint ventures and club deals, 51.4% expected an increase in allocation in 2016 but in 2017 only 38.8% of them have the same expectation. There is an increase in the proportion of investors expecting no change in their allocation to this vehicle type. Only 1.0% expect a decrease.

Direct property investments have seen similar patterns of expectations. In total 43.0% of investors expected to increase allocations in 2016 but only 23.1% expect to do so in 2017. The proportion of investors expecting to maintain their levels of allocation has increased from 16.8% last year to 23.1% this year.

Figure 29: Expected changes in investors' European real estate allocations 2015 to 2017

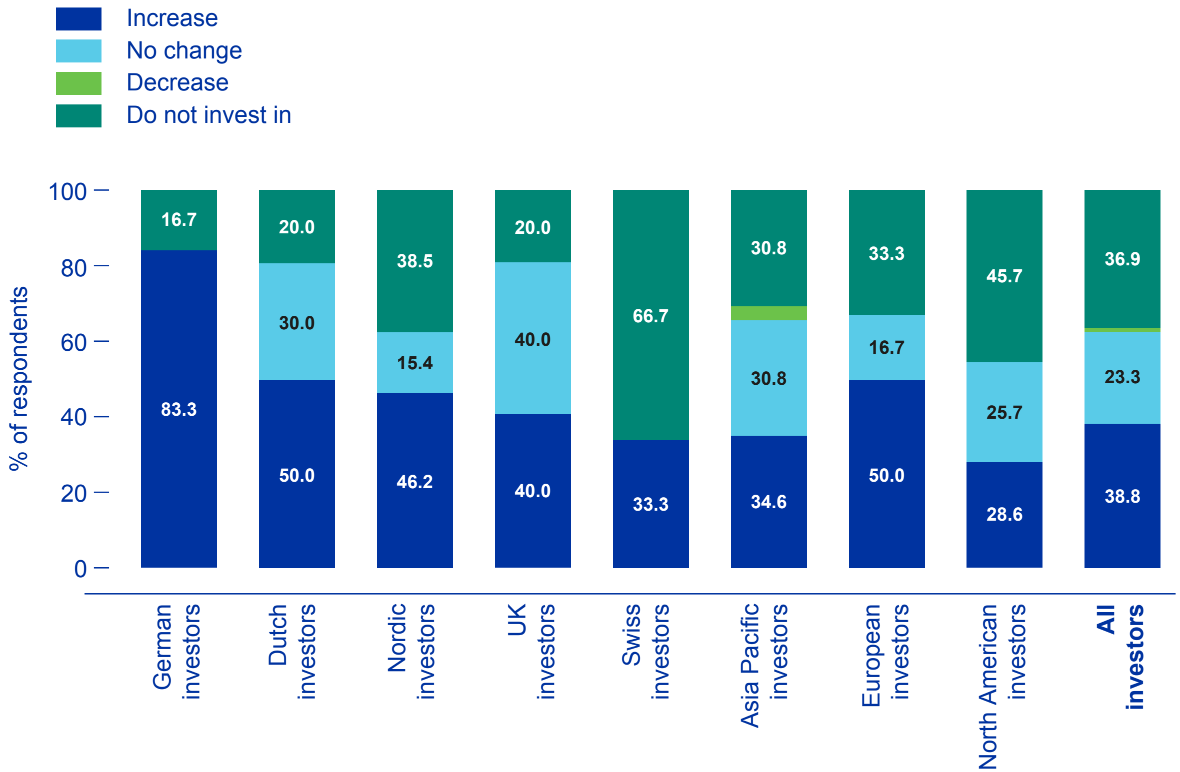


Note: based on a sample of 104 investors

German, Dutch, and Nordic investors have the highest conviction that their allocation to joint ventures and club deals will increase in 2017. In general, 50.0% of European investors expect to increase their allocations to this vehicle type. On the other hand, it is only Asia Pacific investors that expect a decrease in allocation to joint ventures and club deals.

> ‘German investors have the highest conviction that their allocation to JVs and clubs will increase’

Figure 30: Expected changes in investors’ joint ventures and club deals allocations over the next two years by investor domicile

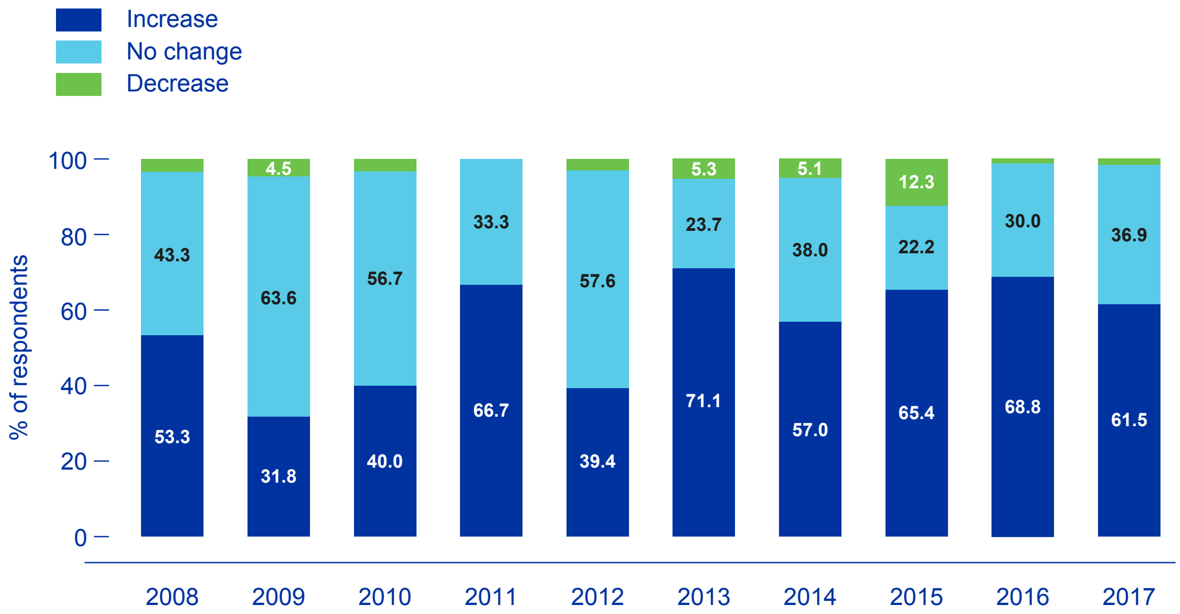


Note: based on a sample of 103 investors

Over the period 2008 to 2017 there has been considerable movement in investors' expectations for joint ventures and club deals. Of those that invest in these structures, the percentage expecting a decrease has breached the 10% figure on only one occasion (2015). The percentage expecting an increase has varied from a low of 31.8% in 2009 to a high of 71.1% in 2013. The percentage expecting no change has moved in a wide range, from a low of 22.2% in 2015 to a high of 63.6% in 2009. This year's results are very close to those observed in 2016.

Approximately 7.3% fewer respondents expect to increase their allocation to joint ventures and club deals in 2017, a decline from 68.8% in 2016 to 61.5% in 2017 and a few more expect to decrease their allocation (1.3% in 2016 compared with 1.5% in 2017). A higher proportion expect no change in the size of their allocations to this vehicle type (30.0% in 2016 versus 36.9% in 2017).

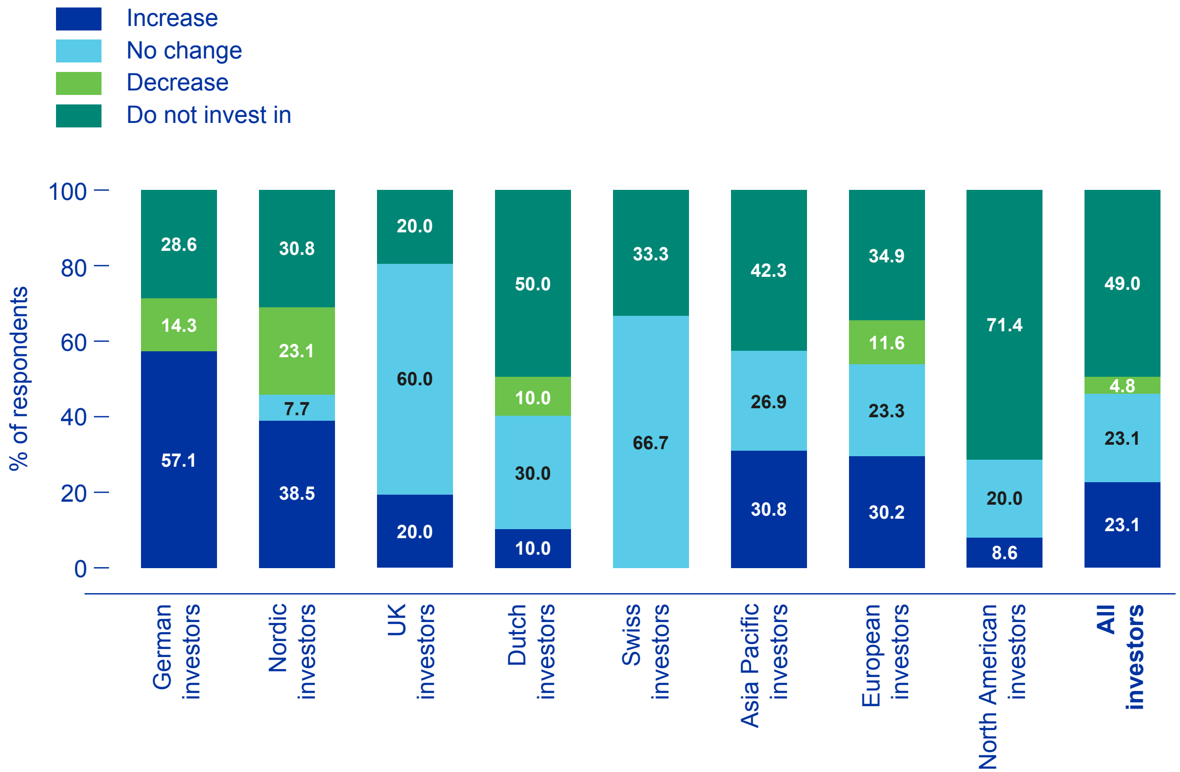
Figure 31: Expected changes in investors' joint ventures and club deals allocations 2008 to 2017



Note: based on a sample of 103 investors

With regards to direct investments, German investors have the highest conviction that their allocations to direct real estate will increase with 57.1% of them expecting this change. The UK and Swiss investors mostly expect no change to their direct real estate allocations with a 60.0% and 66.7% response rate respectively.

Figure 32: Expected changes in investors' direct real estate allocations over the next two years by investor domicile

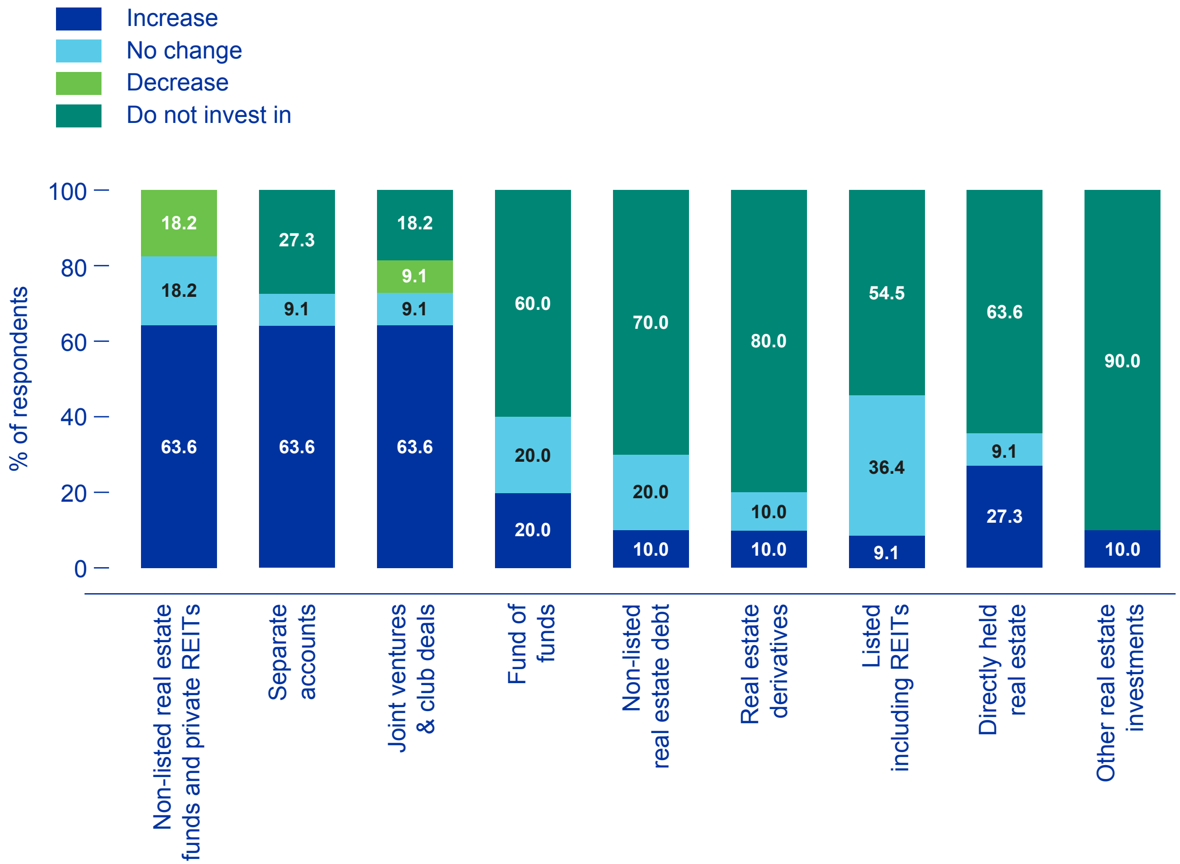


Note: based on a sample of 104 investors

'German investors plan to increase allocation to direct real estate, while UK and Swiss investors plan to maintain current allocations'

Traditionally, fund of funds managers have accessed the European market via non-listed real estate funds; however, since 2015 there has been a shift towards other routes, notably joint ventures and club deals and separate accounts. This year 63.6% of fund of funds managers equally expect an increase in their allocations in all three of these entry routes in the coming two years. None expect to decrease their allocations to separate accounts, while 9.1% expect to do so in their joint venture and club deals investing in real estate and 18.2% to non-listed real estate funds.

Figure 33: Expected changes in fund of funds managers' European real estate allocations over the next two years



Note: based on a sample of 11 fund of funds managers

> 'Fund of funds managers plan to increase allocations to non-listed funds, separate accounts and JVs and club deals'

The fund managers' views on their investors' preferred routes to European real estate have some mismatches with investors' views.

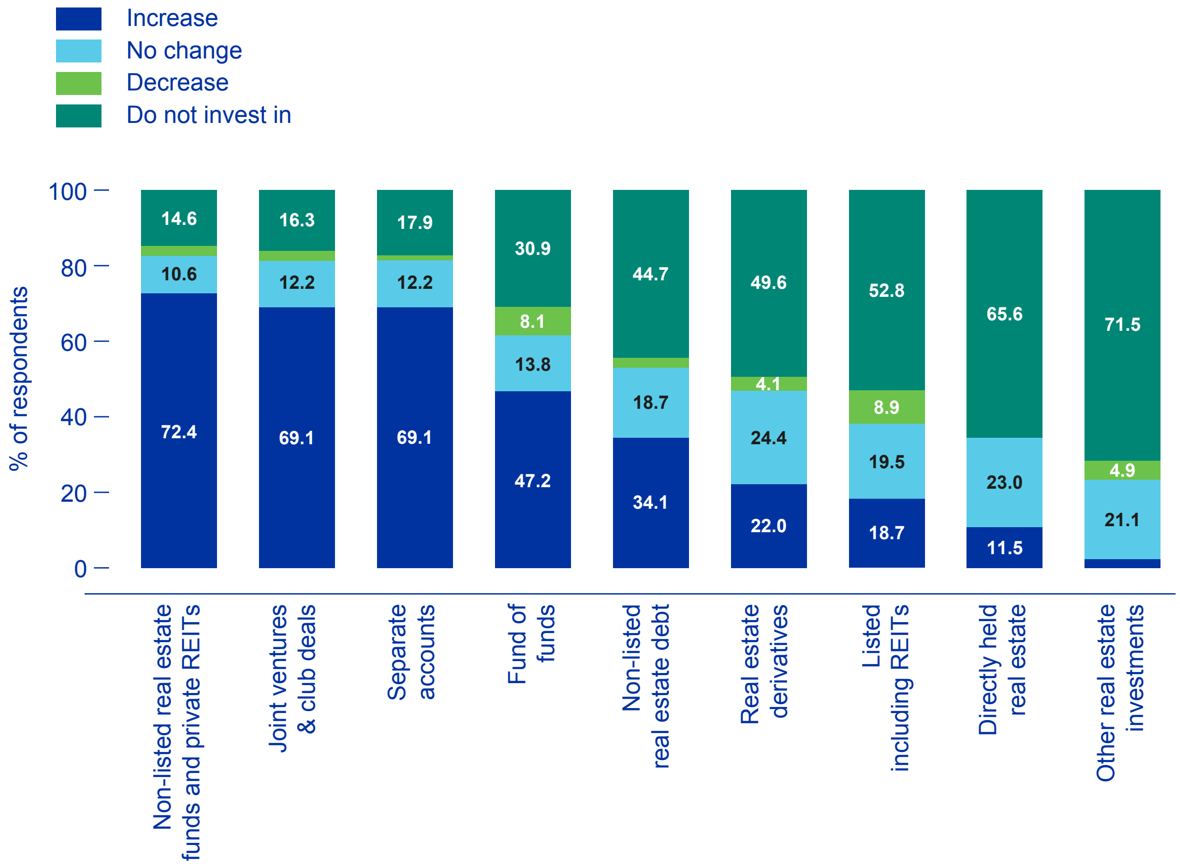
Fund managers expect investors to increase their allocations firstly to non-listed real estate funds and private REITs with 72.4% indicating so, and then to separate accounts investing in real estate and joint ventures and club deals (69.1% each). Although these vehicles are also expected to benefit from an increased allocation from investors, they are ranked in a different order and in different magnitudes. For example, 72.4% of fund managers expect investors to increase their allocations to non-listed real estate funds and private REITs while only 42.3 % of investors expect to do so.

A large proportion, 69.1%, of fund managers expect investors to increase allocations in separate accounts, and the same amount expect an increase in allocation to joint ventures and club deals. More investors expect to increase their allocation to joint ventures and club deals (38.8%) than to separate accounts (28.8%).

Few fund managers expect decreases in allocation across the different vehicle types. Around 2.4% of fund managers expect a decrease in allocation to non-listed real estate funds and the same for separate accounts and non-listed real estate debt. Contrary to this expectation 14.4% of investors expect to decrease their allocation to non-listed real estate funds. Less fund managers, 0.8% expect a decrease in allocation for joint ventures and club deals.

In general fund managers tend to overestimate increases in allocations to all vehicle types. However, in almost all cases they tend to underestimate the decrease of allocation to all vehicle types.

Figure 34: Expected changes in fund managers' perception of their investors' European real estate allocations over the next two years



Note: based on a sample of 123 fund managers

Section 6

Preferred structures for non-listed real estate funds

Preferred structures for non-listed real estate funds

This section explores the preferences of investors and fund of funds managers regarding the structure of their investments in non-listed real estate funds. The section also explores fund managers' perceptions of the preferences of investors and fund of fund managers.

Respondents were asked to specify whether they are not invested in, invested in, or intending to invest in non-listed real estate funds, for each of the major five regions. (Fund managers are asked a slightly different question – they are asked whether they are not managing, currently managing or intending to manage assets in those same regions). They were then asked: '*for each region, what do you prefer for the majority of your non-listed real estate fund investments?*'

Respondents were also asked to identify where the bulk of their non-listed real estate fund investments would be held, using these categories:

- Single country or multi-country
- Single sector or multi-sector
- Closed end or open end
- Blind pool or seeded pool
- Discretionary or non-discretionary
- Regulated or non-regulated
- Small pool of investors (<7) or large pool of investors (≥7)
- Small GAV (<500m) or large GAV (≥500m)
- Investors similar or dissimilar in terms of domicile
- Investors similar or dissimilar by company type

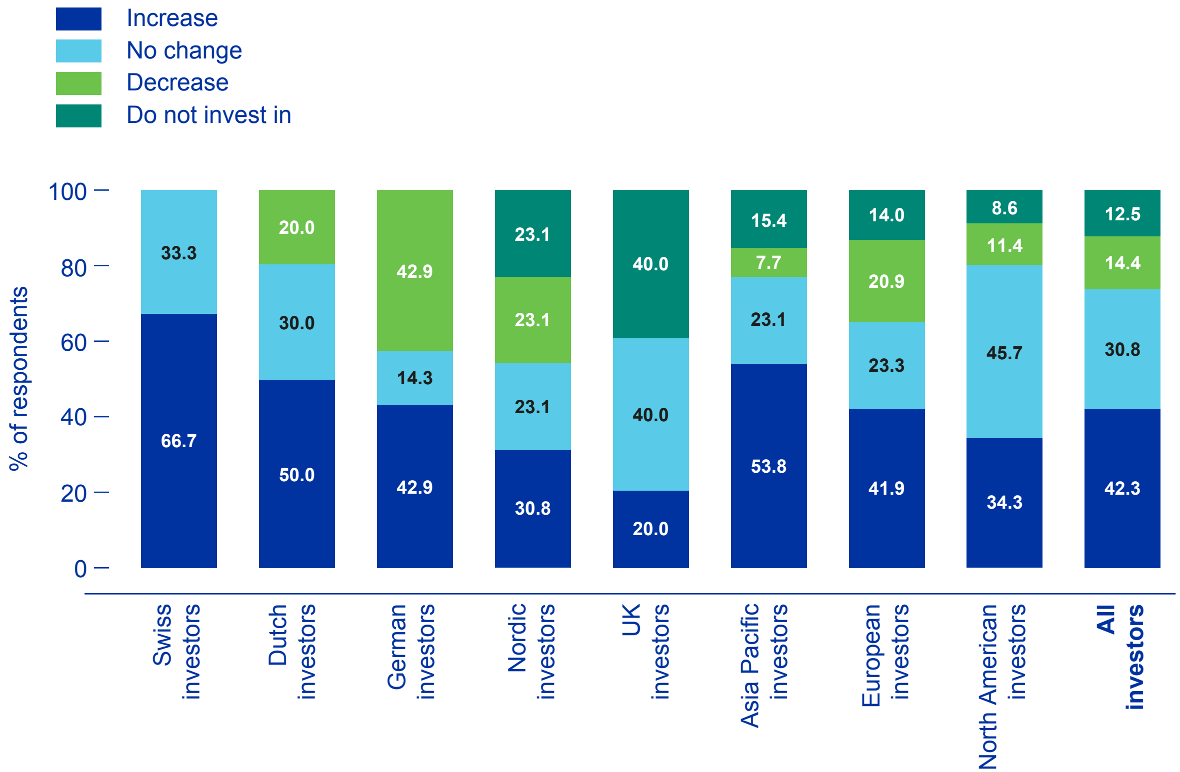
Respondents had to indicate one or the other – there was no neutral option available.

'Non-listed real estate funds back on top as the preferred route to market'

Focusing on the expected changes in investors' allocations to non-listed real estate funds in the next two years by investor domicile, Swiss investors are the most enthusiastic to increase their allocations, with 66.7% expecting to do so. Asia Pacific investors follow suit with 53.8% of them expecting larger allocations to non-listed real estate funds in 2017. Dutch and German investors are in third and fourth positions in terms of their expectations to increase allocations to non-listed real estate funds with 50% and 42.9% planning to do so respectively. Approximately one-third (34.3%) of North American investors also expect to increase their allocation to funds, 30.8% of Nordic investors and 20% of UK investors, expect to do the same.

However, 42.9% of German investors are expecting to decrease investment in non-listed real estate funds. Nordic investors follow next with 23.1% and Dutch investors with 20.0% of them expecting to decrease allocations to non-listed real estate funds. Approximately 11.4% of North American investors expect to decrease their allocations to funds and 7.7% of Asian Pacific investors expect to do the same.

Figure 35: Expected changes in investors' non-listed real estate funds allocations over the next two years by investor domicile



Note: based on a sample of 104 investors

Before examining preferences among those using non-listed real estate funds it is worth looking at how expected allocations to this vehicle type have changed over time.

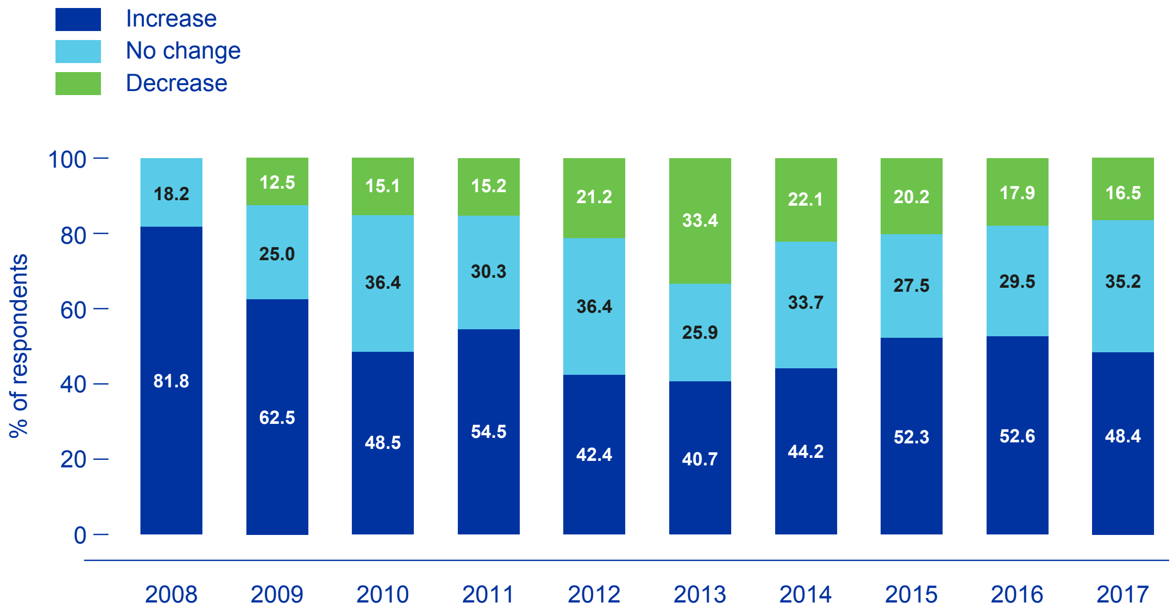
Over the period 2008 to 2017 there has been considerable movement in the investors' expected allocations to non-listed funds.

The percentage expecting a decrease has varied between a high of 33.4% in 2013 to a low of 0.0% in 2008.

The percentage expecting an increase has varied from a low of 40.7% in 2013 to a high of 81.8% in 2008.

The percentage expecting no change has moved in a range between 18.2% in 2008 to twin peaks of 36.4% in both 2010 and 2012.

Figure 36: Expected change in investors' allocations to non-listed real estate funds 2008 to 2017



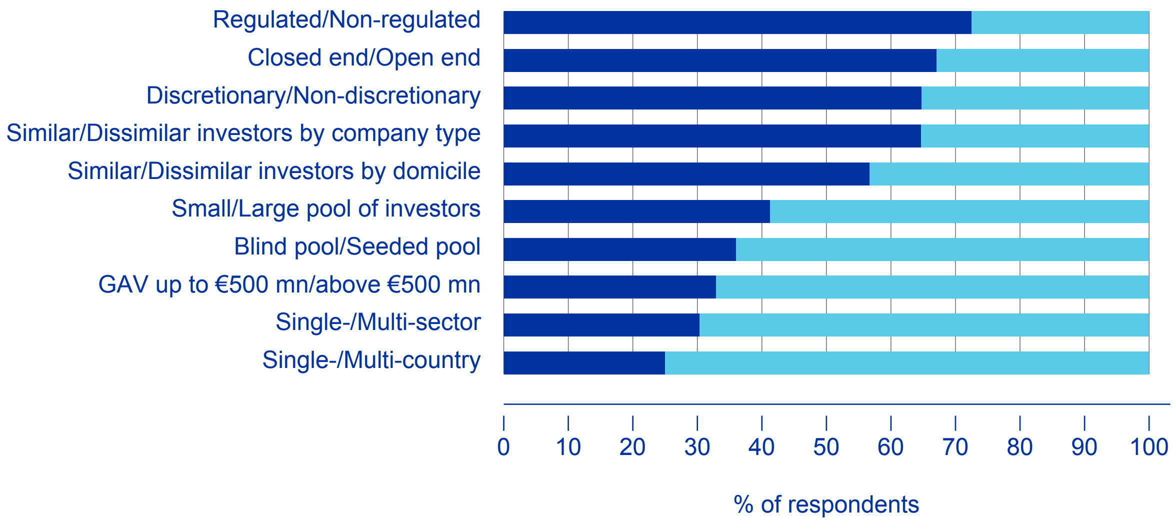
Note: based on a sample of 104 investors

In the rest of section 6 of this survey a distinction is drawn between various degrees of preference.

- A very strong preference is indicated by weightings of over 80%
- A strong preference is indicated by weightings of 70% to 79%
- A notable preference is indicated by weightings of 60% to 69%
- A mild preference is indicated by weightings of 50% to 59%

Regarding the preferences of different groups, investors have a strong preference for regulated over non-regulated funds and for multi-country rather than single country. They have a notable preference for closed end funds instead of open end funds, discretionary over non-discretionary, for similar investors by company type, multi sector rather than single sector, with GAV above €500 million and a seeded pool of investors rather than a blind pool. They have a mild preference for similar investors by domicile and large rather than a small pool of investors.

Figure 37: Investors' preferred features of non-listed real estate funds



Note: based on a sample of 82 investors

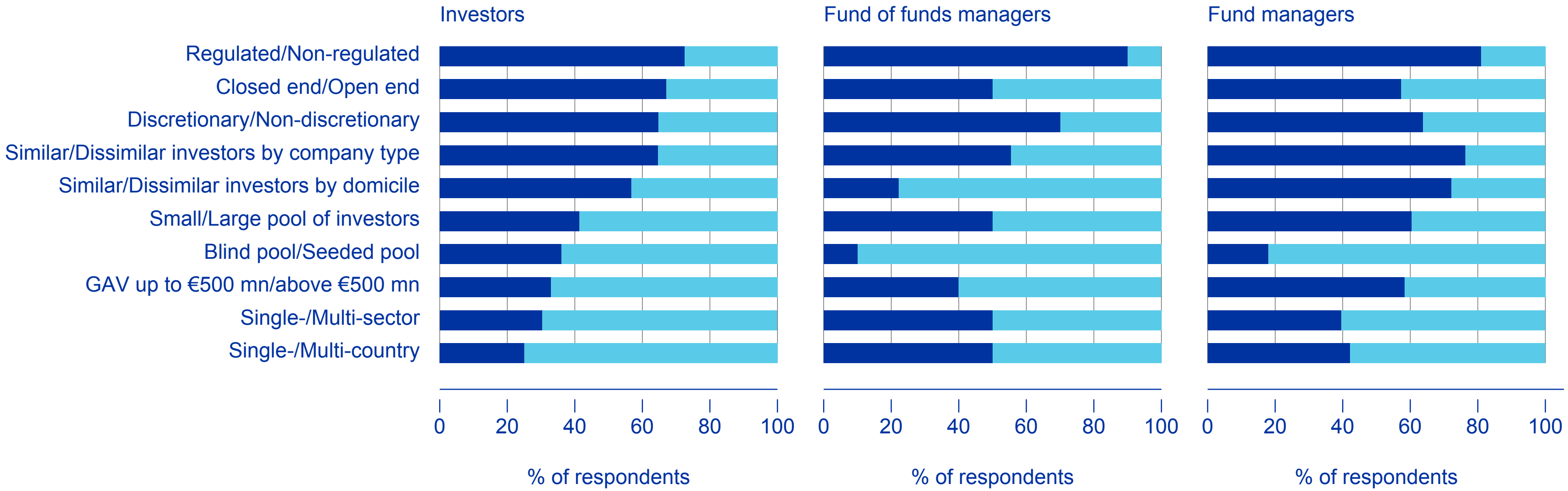
Fund of funds managers have a very strong preference for regulated over non-regulated funds and seeded pool of investors rather than a blind pool. They have a strong preference for discretionary over non-discretionary and dissimilar investors by domicile. Fund of funds managers have a notable preference for GAV above €500 million and a mild preference for similar investors by company type.

Fund of funds managers are divided in terms of country preference, sector preference strategy as well as structure and size of pool of investors preference.

Fund managers believe investors have a very strong preference for regulated over non-regulated funds and for a seeded pool over a blind pool of investors. Similarly, they believe that institutional investors have a very strong preference for similar over dissimilar investors by company type and by domicile, and notable preferences for discretionary over non-discretionary and for a small rather than large pool of investors.

Fund managers believe that institutional investors have mild preferences in four areas: for multi-sector strategy over single sector, for multi-country over single country, for smaller funds with GAV up to €500 million and for closed end over open end funds.

Figure 38: All respondents' preferred features of non-listed real estate funds



Note: based on a sample of 195: 82 investors, 9 fund of funds managers and 104 fund managers

The fund managers as a group have a generally good sense of where investors' preferences lie, but they believe investors prefer a small pool of investors and smaller funds with GAV below €500 million, when in reality investors prefer a large pool of investors and funds with GAV above €500 million.

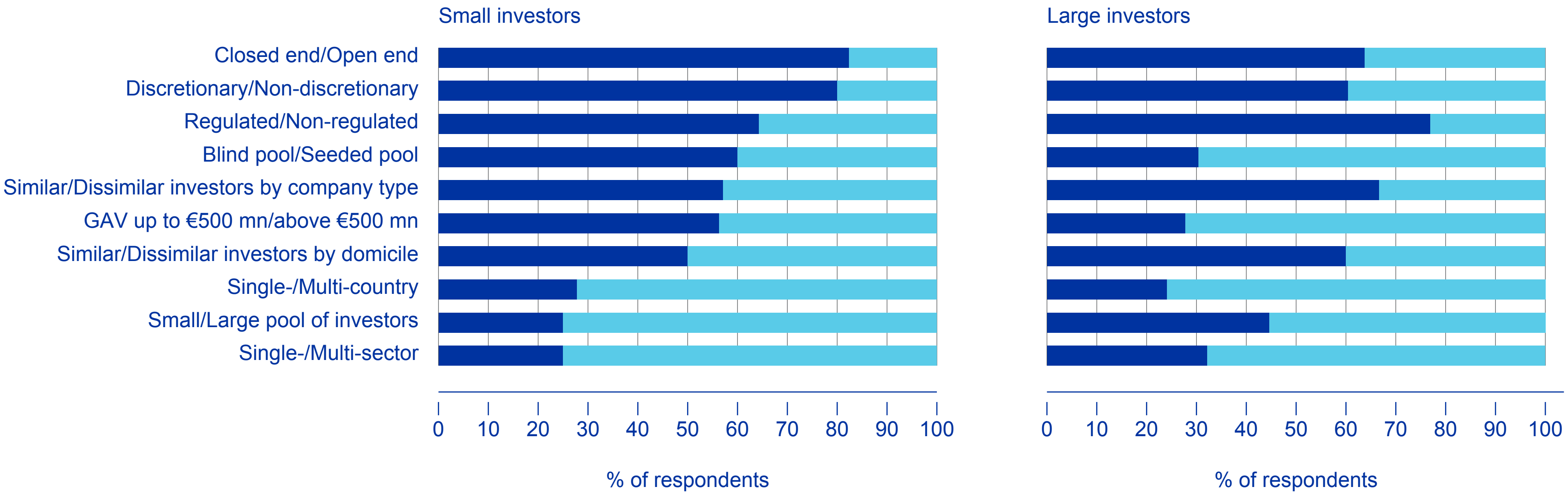
There are three differences in preferences between smaller investors and larger investors.

Smaller investors have a very strong preference for closed end funds over open end funds and larger investors share the preference but only notably. The same is the case for the preference for discretionary over non-discretionary investment management, where smaller investors have a very strong preference and larger investors have a notable preference. Smaller investors have a strong preference for a large pool of investors while larger investors have a mild preference for such a pool of investors.

Also, smaller investors have a mild preference for a blind pool of investors over a seeded pool while larger investors have a notable preference for a seeded pool of investors. Larger investors have a notable preference to invest alongside investors from the same domicile whereas smaller investors have no preference in domicile. Smaller investors have a mild preference for smaller funds with GAV up to €500 million, while larger investors have a strong preference for larger funds with GAV above €500 million.

Currently smaller investors and larger investors have a strong preference for multi-country strategy funds and smaller investors also have a strong preference for multi-sector strategy funds, while larger investors have a notable preference for them.

Figure 39: Investors' preferred features of non-listed real estate funds: smaller vs larger investors



Note: based on a sample of 82 investors; small investors with real estate AUM < €500 million; large investors with real estate AUM > €500 million

Section 7

Pros and cons of non-listed real estate funds

Pros and cons of non-listed real estate funds

This section explores the main reasons for and against investing in non-listed real estate funds, and takes a closer look at the challenges facing fund managers. Respondents were expected to answer questions from their own perspective and also from the perspective of others.

For this section investors and fund of fund managers who invest in or who intend on investing in non-listed real estate funds were asked why they invested in non-listed real estate funds, by ticking up to three responses from 11 potential responses.

Investors and fund of fund managers were also asked to identify their most challenging obstacles, again by ticking up to three responses from 11 potential answers. Finally, investors and fund of fund managers were asked to identify the most challenging obstacles for fund managers, by ticking up to three responses from 10 potential answers.

Fund managers were asked to identify the most important factors driving institutional investors when investing in non-listed real estate funds, by ticking up to three responses from the 11 potential responses.

Fund managers were also asked to identify the most challenging obstacles facing institutional investors, again by ticking up to three from the 11 potential responses. Finally, fund managers were asked to identify the most challenging obstacles for themselves as fund managers, by ticking up to three responses from 10 potential responses.

Main reasons to invest

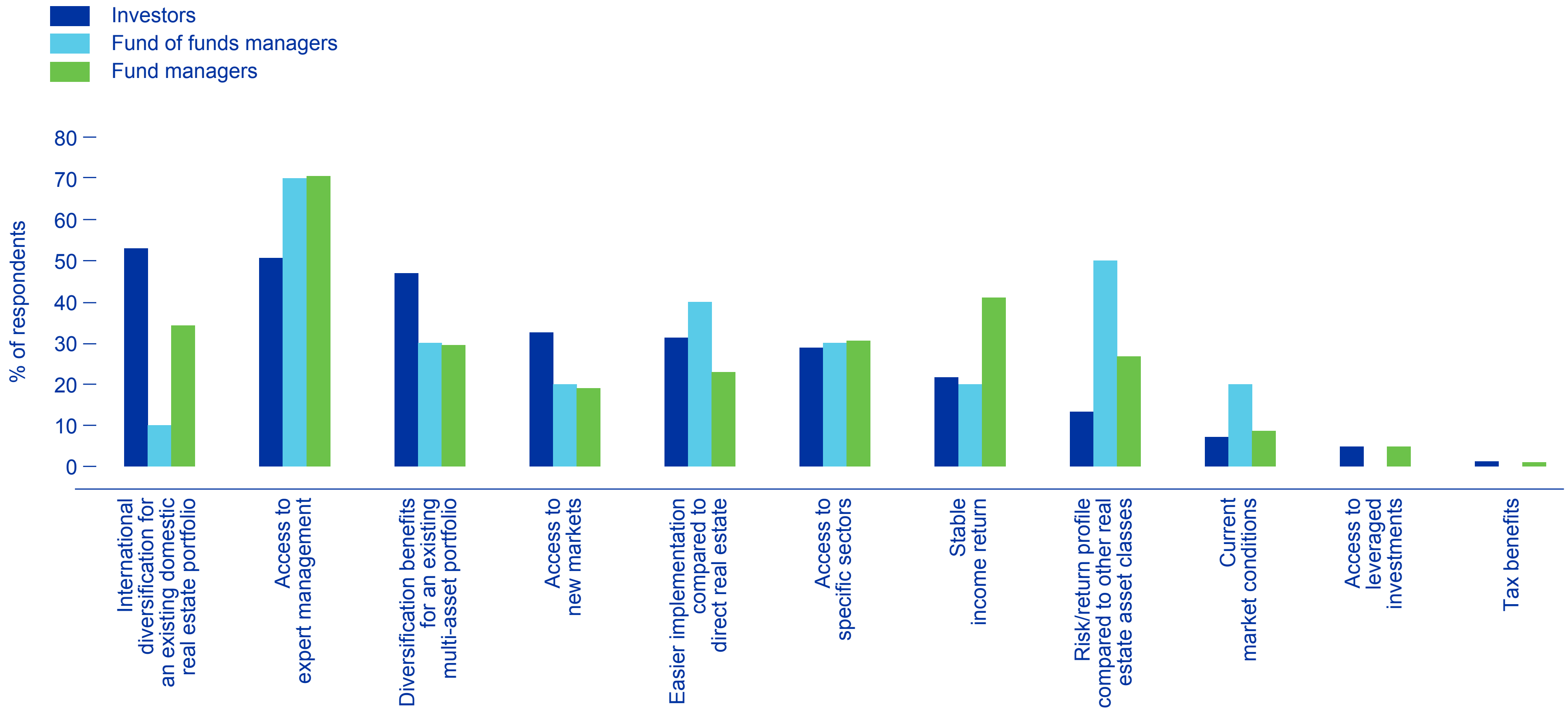
1. INTERNATIONAL DIVERSIFICATION
2. EXPERT MANAGEMENT
3. DIVERSIFICATION BENEFITS

International diversification for an existing domestic real estate portfolio is the most important reason to invest in non-listed real estate funds for 53.0% of investors. However, 70.0% of fund of funds managers and 70.5% of fund managers consider the access to expert management to be the most attractive characteristic of non-listed real estate funds.

Just over half of investors, 50.6%, also see this characteristic as one of the most attractive, ranking it in second place. Fund of funds mangers rank the risk and return profile of real estate compared to other asset classes in second place (50.0%), while fund managers rank stable income return (41.0%) in second place.

For investors diversification of a multi-asset portfolio is ranked number three (47.0%), while for fund of funds managers the third most important slot is easier implementation compared to direct real estate (40.0%) and for fund managers the third factor is international diversification for an existing domestic real estate portfolio (34.3%).

Figure 40: Reasons to invest in non-listed real estate funds



Note: based on a sample of 198: 83 investors, 10 fund of funds managers and 105 fund managers

Investors do not agree with fund managers or fund of funds managers on the ranking of factors and they only agree on the second position. However, all have within the top three most important factors to invest in non-listed real estate funds, the access to expert management and for all, except for fund of funds managers, also highly value international diversification for an existing domestic real estate portfolio.

On the opposite end of the importance scale, investors believe that the three least important factors are current market conditions (7.2%), access to leveraged investments (4.8%), and tax benefits (1.2%). Fund of funds managers agree that tax benefits and access to leveraged investments are unimportant. In the third least important slot they rank international diversification for an existing domestic real estate portfolio.

Fund managers agree with investors on the relative unimportance of current market conditions, access to leveraged investments and tax breaks, which somewhat reflects the long-term view that institutional investors take when investing into real estate.

Overall, it seems that fund managers have a very good understanding of the factors that drive institutional investors when investing in non-listed real estate funds.

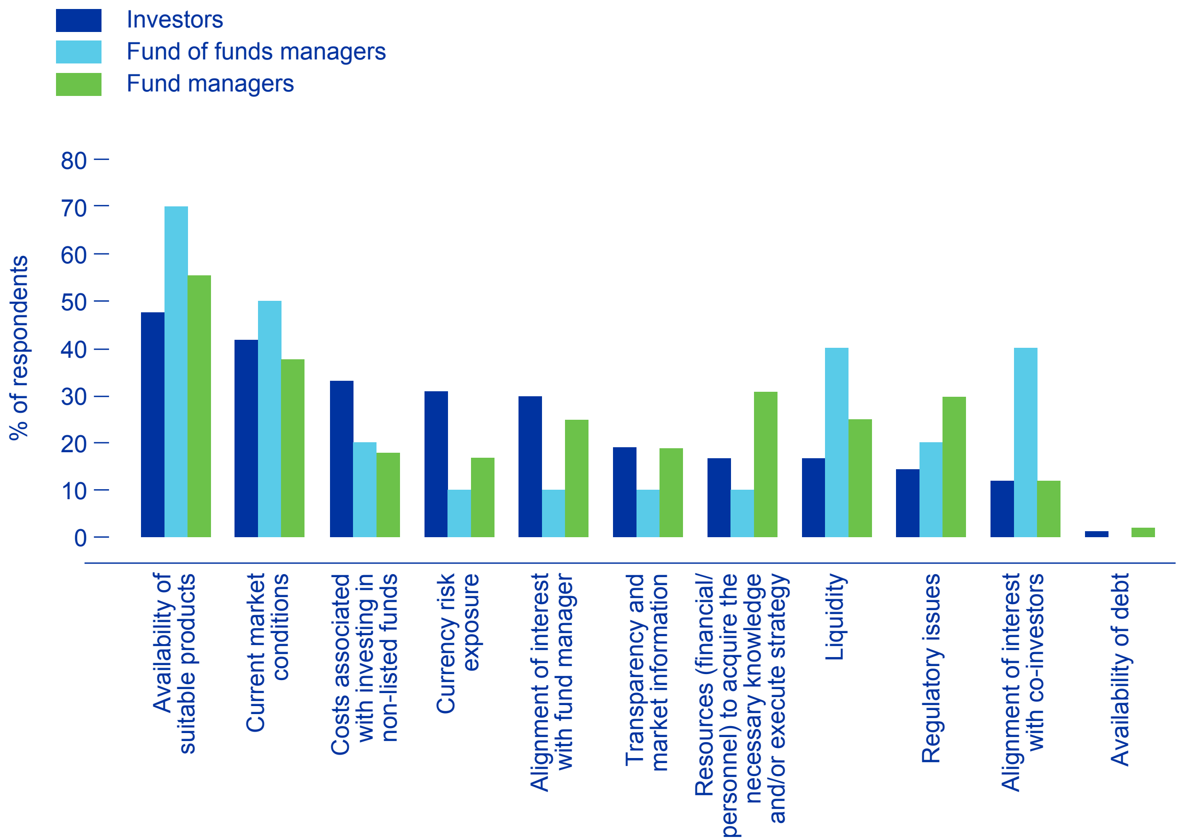
Turning to obstacles, in 2017 the main obstacles facing investors when investing in non-listed real estate funds are availability of suitable products (47.6%) current market conditions (41.7%) and costs associated with investing in non-listed real estate (33.3%).

Fund of fund managers agree with investors that availability of suitable vehicles (70.0%) and market conditions (50.0%) are the top two obstacles to investing in non-listed real estate funds but in third place they have liquidity and alignment of interest with fund manager (both scoring 40.0% each).

Fund managers agree with the top two obstacles facing investors investing in non-listed real estate funds, with 55.4% and 37.6% respectively. However, for fund managers the third biggest obstacle for institutional investors is resources (financial / personnel) to acquire the necessary knowledge and / or to execute strategy (30.7%).

At the other end of the scale, only 1.2% of investors and 2% of fund managers think that availability of debt is an obstacle. Alignment of interest with managers was the number one obstacle in 2016 but it barely makes it to fifth place for investors and does not appear among the top five obstacles noted by fund and fund of funds managers this year.

Figure 41: Most challenging obstacles facing investors in non-listed real estate funds



Note: based on a sample of 195: 84 investors, 10 fund of funds managers and 101 fund managers

Looking back over the last ten years at the obstacles facing investors, certain patterns can be observed. Alignment of interest with fund manager is an enduring favourite, appearing every year except in 2017.

Availability of suitable vehicles regularly takes the second slot in the general overview although it is at the top of the list in 2017. In fact, in eight out of the eleven surveys it has appeared there. Transparency was mentioned five times in this period as was costs.

Despite difficulties that lack of liquidity can cause investors in individual cases, liquidity is listed only twice over the last eleven years and never as the number one obstacle.

Table 2: Obstacles facing investors in non-listed real estate funds 2007 to 2017

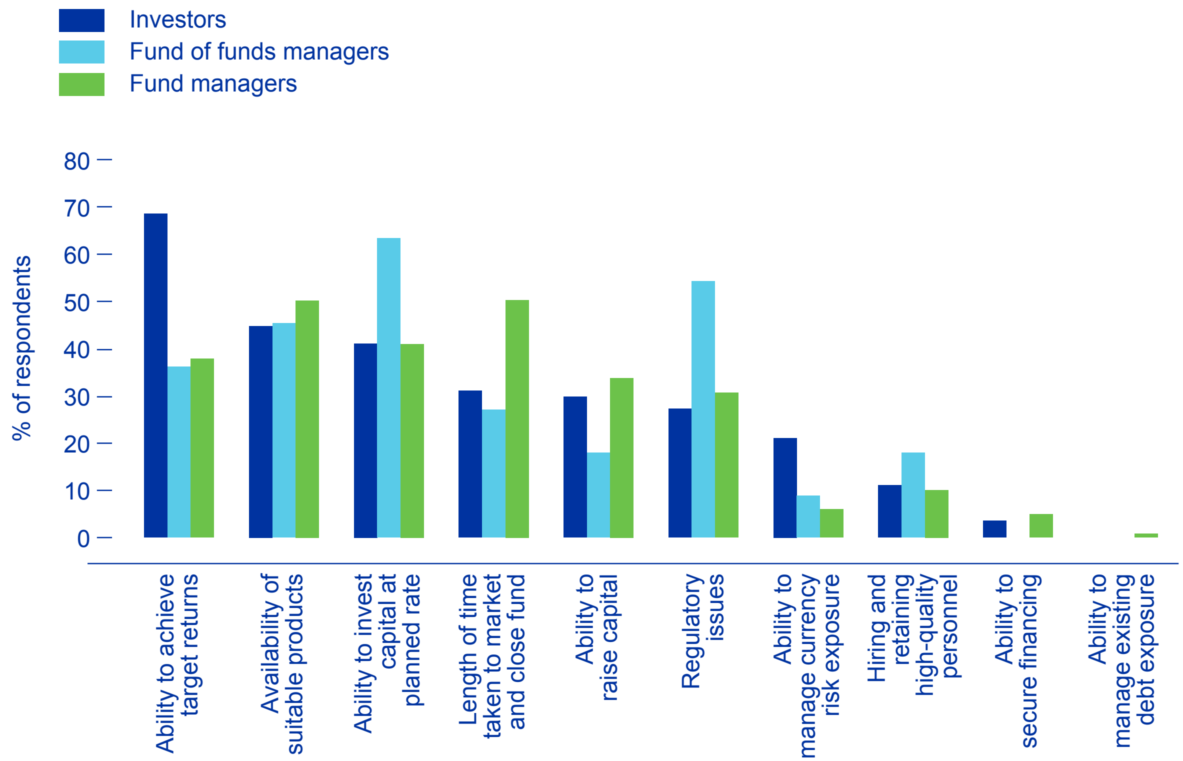
	Reasons not to invest		
	Number 1	**Number 2**	**Number 3**
2017	Availability of suitable products	Market conditions	Cost associated with investing in funds
2016	Alignment of interest with fund manager	Availability of suitable products	Cost associated with investing in non-listed real estate funds
2015	Alignment of interest with fund manager	Liquidity	Cost associated with investing in non-listed real estate funds
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

Turning to the obstacles facing fund managers, 68.8% of investors consider that the most challenging obstacles for fund managers are the ability to achieve target returns, 45.0% think they need to improve the availability of suitable products and in third place the ability to invest capital at the planned rate, 41.3%.

Fund of funds managers consider that the most challenging is the ability to invest capital at planned rate, 63.6%.

Just over half, 50.5% of fund managers themselves indicate that availability of suitable products and length of time taken to market are the most challenging obstacles to invest in non-listed real estate funds. Approximately, 41.2% of the fund managers rank ability to invest capital at planned rate as the second most challenging obstacle.

Figure 42: Most challenging obstacles for fund managers



Note: based on a sample of 188: 80 investors, 11 fund of funds managers and 97 fund managers

Looking back at the most challenging obstacles for fund managers over the period 2010 to 2017 the following patterns can be seen: ability to raise capital has been ranked within the top three on five occasions and the ability to achieve target returns four times. Availability of suitable vehicles four times, including 2017. Ability to invest capital at planned rate, got three mentions. The other two obstacles, ability to secure financing, and ability to manage debt exposure get two mentions each.

Two factors, ability to achieve target returns and the ability to raise capital, are dominant in two ways: they are mentioned more frequently than anything else and they have taken the number 1 position since 2010, to the exclusion of all other obstacles.

Table 3: Most challenging obstacles for fund managers 2010 to 2017

	Most challenging obstacles		
	Number 1	**Number 2**	**Number 3**
2017	Ability to achieve target returns	Availability of suitable products	Ability to invest capital at planned rate
2016	Ability to achieve target returns	Ability to invest capital at planned rate	Availability of suitable products
2015	Ability to achieve target returns	Ability to invest capital at planned rate	Availability of suitable products
2014	Ability to achieve target returns	Ability to raise capital	Availability of suitable products
2013	Ability to raise capital	Ability to achieve target returns	Length of time taken to market and close fund
2012	Ability to raise capital	Ability the secure financing	Length of time taken to market and close fund
2011	Ability to raise capital	Length of time taken to market and close fund	Ability to manage existing debt exposure
2010	Ability to raise capital	Ability to secure financing	Ability to manage existing debt exposure

Appendix 1

Intentions vs reality: RCA back-testing analysis of the INREV Investment Intentions Survey 2016

Intentions vs reality:
RCA back-testing analysis of the INREV Investment Intentions Survey 2016

Hitting allocations remained difficult in 2016

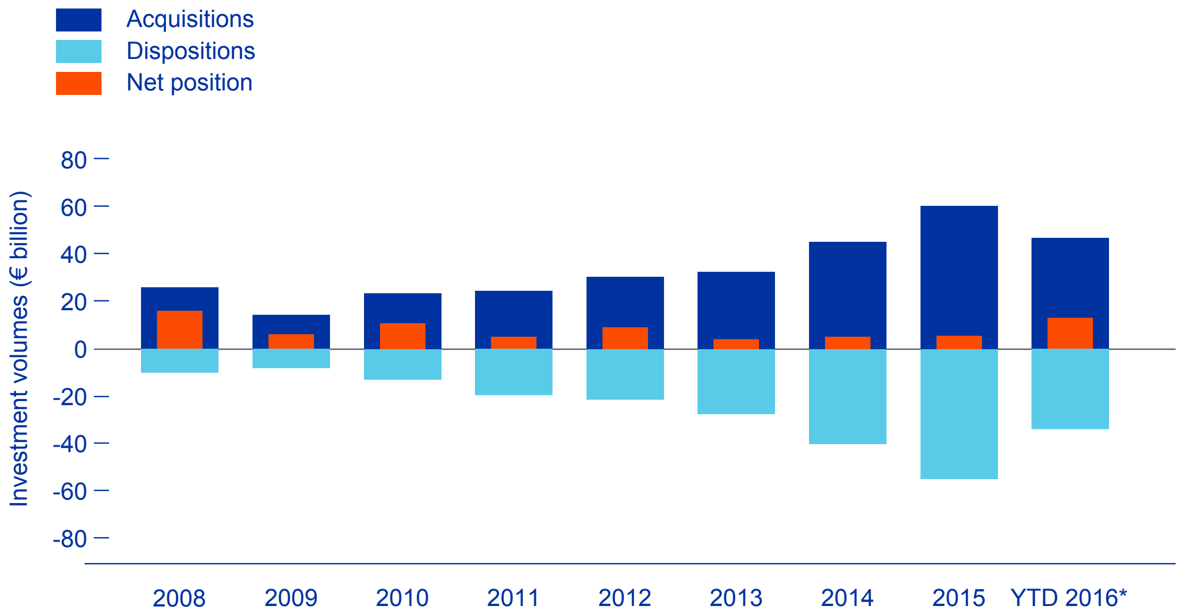
For the fourth year Real Capital Analytics (RCA) has back-tested the results of INREV Investment Intention Survey. The latest analysis compares the 2016 INREV report (respondents surveyed in October 2015 about their investment intentions for the year 2016) with transaction activity recorded by RCA for the same set of responding fund managers during 2016. As with previous back-testing analysis RCA has only been able to examine the activity of fund managers as it is difficult to track the placement of capital by investors in funds.

The fund managers responding to the 2016 INREV survey transacted €81 billion in European real estate year-to-date 2016[3] based on transactions recorded by RCA. This reflects 30% decline in activity compared to the same period in 2015. The group acquired €47.1 billion and disposed of €33.9 billion.

While overall investment activity was down compared to 2015, for this group of responding fund managers, their net investment was the highest recorded since before the financial crisis – they acquired €13.2 billion more than they sold (figure 1).

Despite this cycle record level of net investment, as the following analysis highlights, the competitive landscape made it particularly difficult to match the allocations expected when surveyed at the end of 2015.

Figure 1: Historical activity of 2016 respondent group



*Real Capital Analytics as at 21.12.2016

[3] Real Capital Analytics analysis is run as at 09.01.2017 so may exclude some deals closed at the end of the year and as yet unreported

Sector analysis highlights

- Some managers were able to take advantage of some of the demand for real estate and sold assets, presumably making returns for their investors. However, across all sectors this group of managers were net investors (figure 2).
- Investors found investing into the retail the hardest to match their original intention, falling 33% short of expectations. The closest match came in the residential sector.
- The residential sector saw the largest net investment and the closest match to expectations. This fits with the market narrative with expansion of PRS in the UK, Spain, Netherlands and Sweden for instance.

Figure 2: Transaction volumes

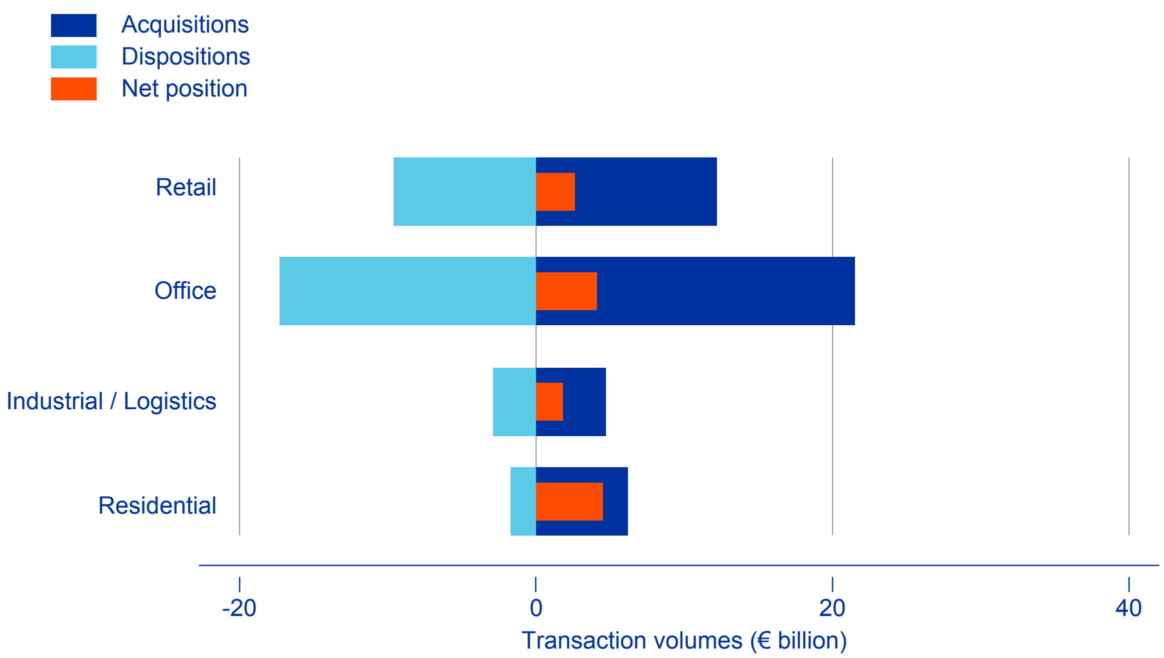
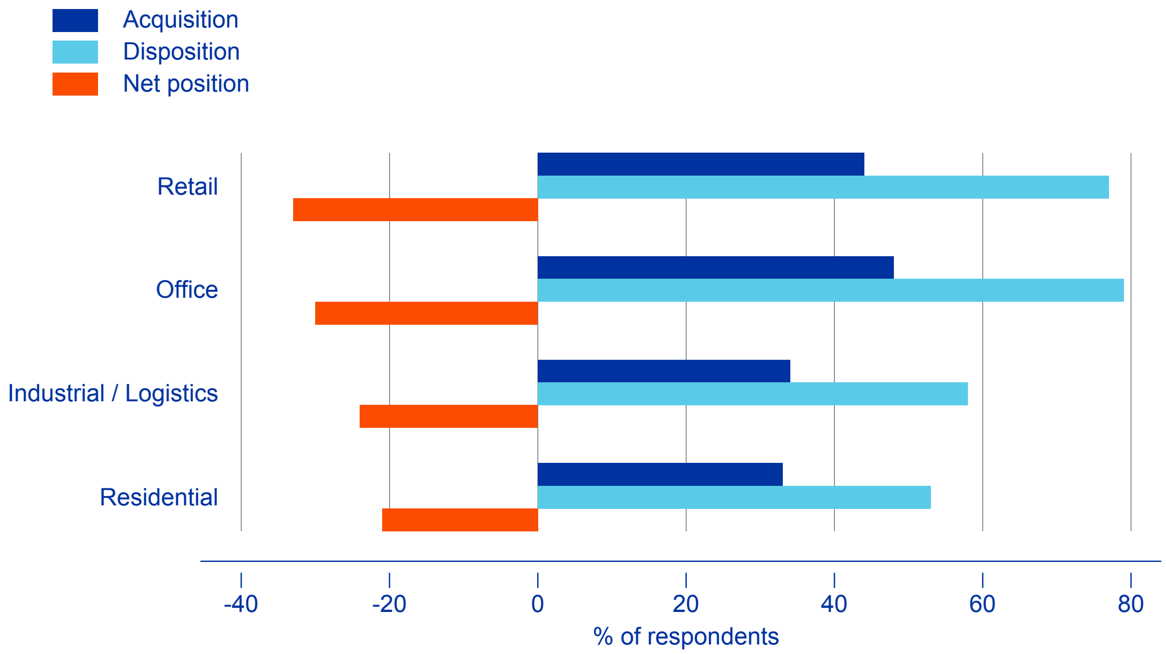


Figure 3: Intention vs. actual, sectors 2016



Country analysis highlights

- The biggest gap between intentions vs. actual is in UK, perhaps a sign that investors changed their minds in run-up to and post Brexit referendum result?
- UK is also the only 'big' European market where the cohort of respondents were marginally net-sellers. The same cohort also bought more in Germany than in the UK.
- A particularly large gap between intentions and reality in Spain is likely due to the scarcity of investment product and the large Spanish REITs dominant market position.
- A similar story for Italy. It has been touted as a good market to target, but investment grade stock there is even more limited than in Spain. The flood of bank owned real estate has yet to reach the market to meet capital demand.

Figure 4: Net investment

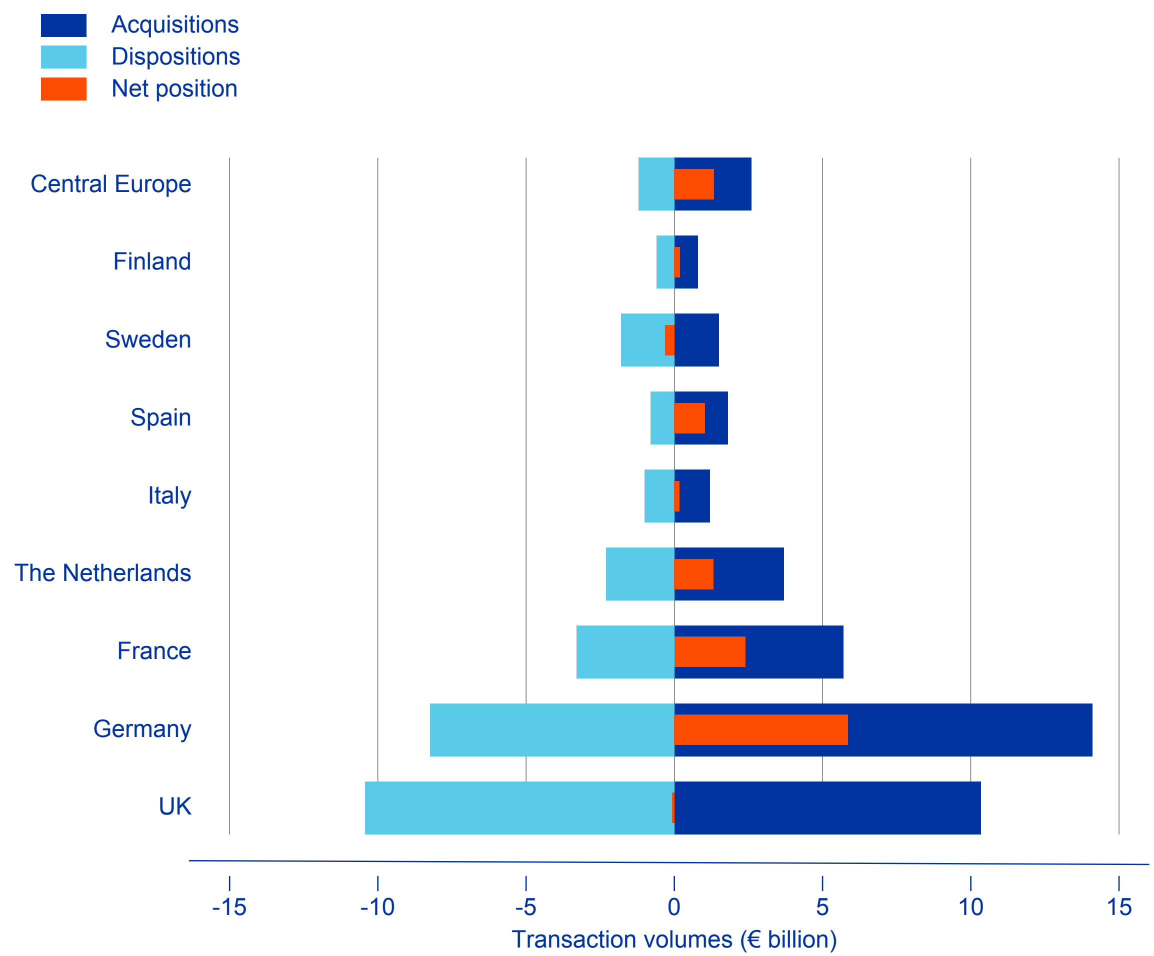
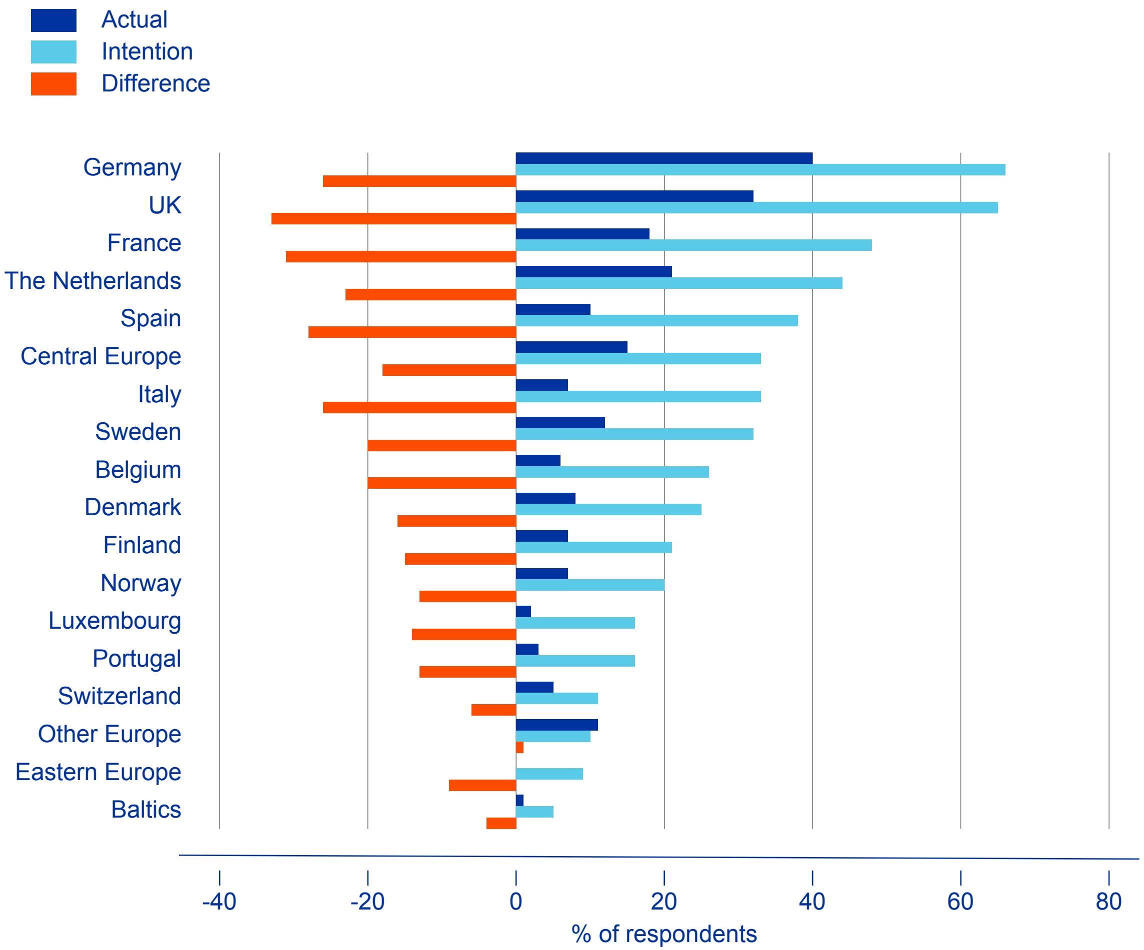


Figure 5: Intention vs. actual, countries 2016



Appendix 2

List of respondents

List of respondents

The following is a list of investors, fund of funds managers and fund managers that have participated in this year's survey and gave permission for their company names to be published:

a.s.r. real estate investment management
Aberdeen Asset Managment
Adimmo AG
AEP iM
AEW
AISIN Employees` Pension Fund
Alaska Electrical Pension Fund
Alberta Investment Managment Corp.
Alma Property Partners
Altan Capital
Altera Vastgoed
Altis Property Partners Pty Ltd
American Realty Advisors
AMP Capital
Amvest
Angelo, Gordon & Co.
Aozora Bank
AP1
AP3
APG Asset Management
ARA Asset Management
Arbutus Capital Partners Ltd.
Ardstone Capital
Ascendas-Singbridge
Asset Management One
ATP Real Estate
Aviva Investors
Aviva Investors Real Estate Multi Manager
AXA Investment Managers - Real Assets
BEI CAPITAL
Bentall Kennedy
BlackRock
Blue Sky Group Holding
BMO Real Estate Partners
BNP Paribas Investment Partners
BNP Paribas REIM
Bouwfonds Investment Management
Bouwinvest Real Estate Investment Management (REIM)
Boyd Watterson Asset Management
Button Capital
CAERUS Debt Investments AG
CalPERS
Canada Life Investments
Canada Post
CapitaLand
Catalyst Capital Llp
CATELLA
CBRE GI
Challenger
Charter hall
Chelsfield Asia
CITIC Capital Holdings Limited
City Square REI
Clearbell Capital LLP
Colorado PERA
Cording Real Estate Group
Corpus Sireo
CorVal
COS Capital
Credit Suisse
Cromwell
CrossHarbor Capital Partners
Deutsche Asset Management
DEXUS
Diamond Realty Management Inc.
DNB
DTZ Investors
Dynasty Investments
E.ON SE
EG Funds Management
Elo Mutual Pension Insurance Company
Equity Estate BV

Fabrica Immobiliare SGR
FASC
Fidelity International
Folkestone
Fosun
Franklin Templeton Investments
FREO Group
Frogmore
Fukuoka Realty Co., Ltd.
Garbe Industrial Real Estate GmbH
Gaw Capital Partners
GEG German Estate Group AG
GenCap Partners, Inc.
Global Logistic Properties
Gothaer Asset Management AG
Grosvenor Europe
GTIS Partners
Hamburg Trust REIM
Heitman LLC
Helaba Invest
HIH Real Estate
Hostplus
Hunter Real Estate Investment Managers
ICG
IDS Real Estate Group
IEF Capital
InfraRed
Inland Institutional Capital, LLC
Invesco
Investa
IPUT plc
ISPT
JGS Property
KaiLong Investments
Kenedix, Inc.
Keva
Knight Frank Investment Management
Kristensen Properties
La Française
Lagrange Financial Advisory GmbH
LaSalle Investment Management
Legal & General
Lendlease
Loma Linda University Health
LRI Invest
M&G Real Estate
M7 Real Estate Limited
MacArthur Foundation
Macquarie
MainePERS
Manulife / John Hancock Real Estate
Meritz Real Estate AMC
Minnesota State Board of Investment
Mitsubishi Corporation
Mizuho Bank
MMBB
MN
Morgan Stanley
Morningstar Properties
MPC Capital
Newport Capital Partners
Niam AB
NN Group
Nomura Real Estate Asset Management
North Carolina Department of State Treasurer
Northern Horizon
Office of New York City Comptroller
OP Property Management
Orchard Street Investment Management
OREIMA
Orion Partners
PAG Real Estate
Pamfleet
Paramount Group, Inc.
PATRIZIA Institutional Clients & Advisory
PCCP, LLC

Pennybacker Capital
Pensimo AG
PFA Pension
PGGM
Phoenix Realty Group
PIA Pontis Institutional Advisors GmbH
PNWAM
Poste Vita
Pradera
Prelios
Prima Capital Advisors
Prologis
Proprium
Quantum AG
RBWM
Redevco
Redwood Group Asia Pte Ltd
Régime de rentes du Mouvement Desjardins
Rockspring
Rynda Property Investors LLP
SamCERA
Savills Investment Management
SC Capital Partners
School Employees Retirement System of Ohio
Schroder Real Estate Investment Management Ltd
Seven Seas Advisors Co., LTD.
Sohgoh Real Estate Investment Management
Sonae Sierra
Sparinvest Property Investors
STAM EUROPE
Standard Life
Standard Life Investment
Stapi pension fund
State Board of Administration of Florida
State of Oregon
State of Wisconsin Investment Board
Stiftelsen för Åbo Akademi
Storebrand Fastigheter AB
Sumitomo Mitsui Banking Corp.
Sungdam Co., Ltd.
Sunsuper
Sweco Capital Consultants
Syntrus Achmea Real Estate & Finance
Teacher Retirement System of Texas
Texas ERS
Texas Permanent School Fund
TFI PZU
TH Real Estate
Evangelical Lutheran Church of Finland
The Church Pension Fund
The Crown Estate
The GPT Group
Threestones Capital
Timeos - PGB
TKP Investments
Tokyo Tatemono Investment Advisors
Tokyu Land Capital Management
Touchstone Capital Management
Tristan Capital Partners
TRIUVA Kapitalverwaltungsgesellschaft mbH
UBS
UBS Asset Management
Union Investment Institutional Property GmbH
UniSuper
Univest Company (Unilever)
UPS
Utah Retirement Systems
Valtion Eläkerahasto
Varma Mutual Pension Insurance Company
Virginia Retirement System
Wespath Investment Management
Western National Group
WHI Real Estate Partners L.P.
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