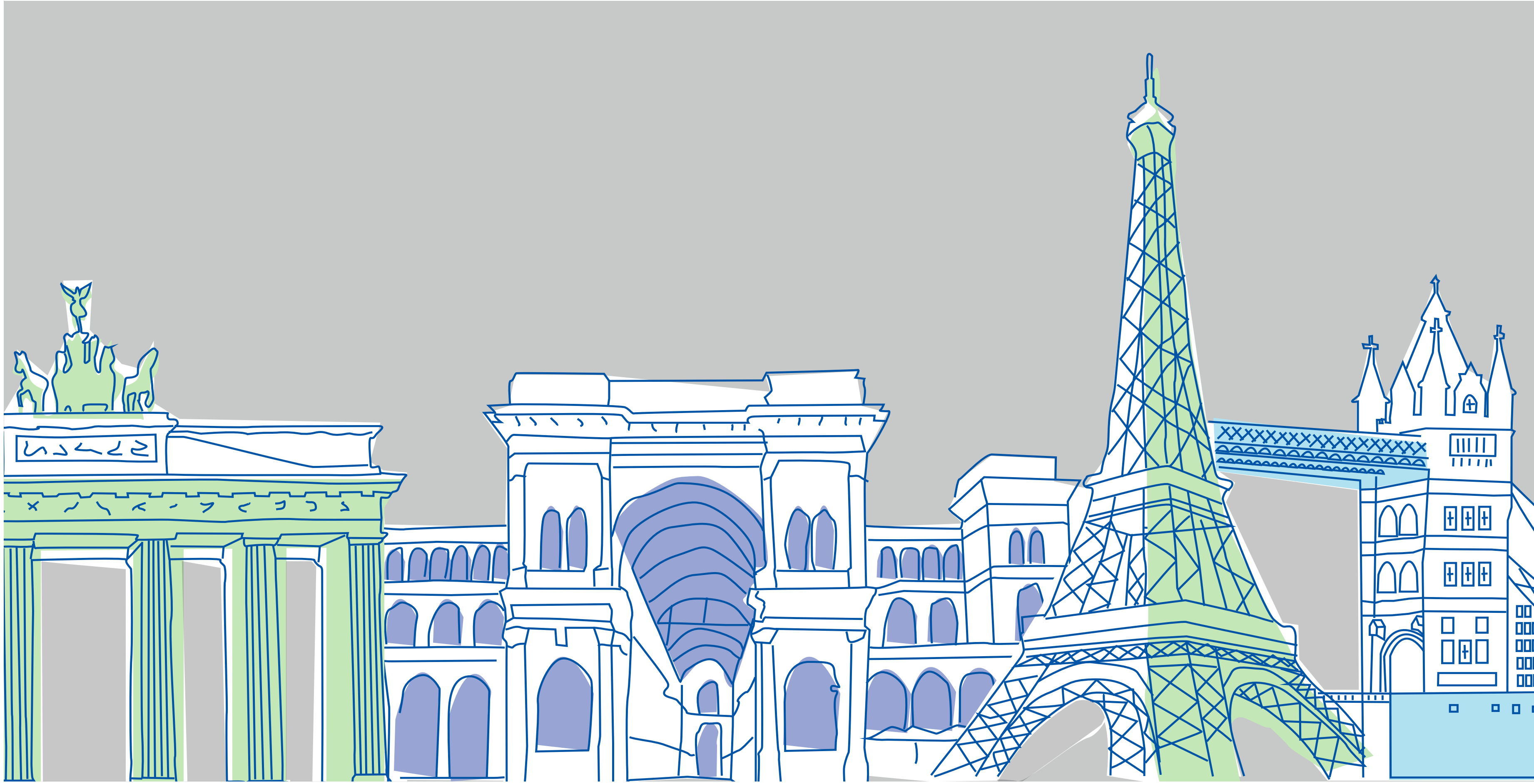

Investment Intentions Survey
2018

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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Domicile of 2018 investor participants

REAL ESTATE AUM IN BILLION EUROS

Executive summary

> Allocations to real estate set to rise from 8.9% to 10.2%
> Another EUR 50 billion heading into real estate in 2018
> Cross border investment expected to increase further

Next year promises to be another great year for the real estate sector globally

The amount of new capital raised for the global non-listed real estate industry totalled €121.8 billion in 2016, slightly down on the previous year's record value, according to the ANREV/INREV/NCREIF Capital Raising Survey 2017. There were signs of deployment challenges yet, investors globally intend to raise their real estate allocations further, and non-listed real estate remains in favour.

The real estate sector is expected to see an influx of €51.1 billion of capital in 2018. Investors across the globe are set to increase their real estate allocations from current levels of 8.9% to 10.2% with European investors being the furthest below target. A historical comparison further strengthens the continued positive sentiment toward the sector. The percentage of investors expecting an increase in real estate allocation has been increasing over the years. Meanwhile, the percentage expecting a decrease has declined since 2016.

The top three investment destinations in Europe are consistently the UK, France and Germany. However, this year the UK tops the list with two out of three investors (66.1%) seeing it as their target market. Next comes a tally between the Netherlands and Spain, with the latter seeing an ever-growing interest from investors over the past few years.

On a country / sector level France office, UK office and Germany office are ranked top three. On an even more granular, city / sector, level the office sector occupies all top three places with Paris office ranked first, London office second and Berlin office in third. London office which ranked fourth last year has regained its allure among investors.

Investment style wise, half of investors identified value add as their preferred investment style for Europe, owing to the increasing challenges of sourcing core product. There was also an increased appetite for opportunistic – up from 10.5% in 2017 to 18.8% this year; and a corresponding drop in preference for core. Investors seem to be shifting marginally up the risk curve in the hunt for assets that might deliver better returns.

The other major obstacle cited by investors was currency risk exposure, though this was predominantly the view of investors from North America rather than those in Europe or Asia Pacific who are intending to invest in Europe. For managers, the ability to achieve target returns, availability of suitable products and ability to invest capital at planned rate are being seen as the main culprits.

In terms of access routes to real estate, non-listed real estate funds are on top, followed by joint ventures and club deals in second place and directly held real estate in third. Separate accounts investing in real estate, previously in third place, has dropped to fourth. Size wise, larger investors show greater preference for joint ventures and club deals rather than funds.

Access to expert management, diversification of an existing multi asset portfolio as well as international diversification for an existing domestic real estate portfolio are cited as key reasons for investing in non-listed real estate funds.

Section 1

Introduction

Introduction

The Investment Intentions Survey 2018 explores aspirations for investment in 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 reach, as a joint research project between ANREV, INREV and PREA.

The results are based on an online survey carried out from October to November 2017. 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 320 participants (2017: 314). This year's respondents comprise 107 investors (2017: 119), 206 fund managers (2017: 184) and 7 fund of funds managers (2017: 11), with 46 investors from North America (2017: 42), 40 from Europe (2017: 44) and 21 from Asia Pacific (2017: 33).

The main part of the report begins with Section 2, which explores global real estate allocations and provides insights into investment trends across Asia Pacific, Europe and North America. This section can also be found in the ANREV and PREA Investment Intentions 2018 reports. Responses from all participants are taken into consideration in this section.

From Section 3 onwards, the report focuses on investment in 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 for accessing European real estate, while Section 6 looks at preferred structures for non-listed real estate funds. The final section, Section 7, 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 238 respondents of whom 101 are investors, 7 are fund of funds managers and the remaining 130 are fund managers. Last year, the corresponding figures were 104 investors, 11 fund of funds managers and 124 fund managers.

In the report, 'North American investors' refers to US and Canadian investors, 'Nordic investors' includes those 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 used in one of the Figures deviates from the overall sample size stated above, a note explicitly stating the size of the sample is shown. Note that the sample under analysis may vary 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. When appropriate, results are weighted by the total value of assets under management or by the total value of real estate assets under management, allowing for a comparison between larger and smaller investors. Therefore, all graphs and data are equally weighted unless specified otherwise.

The Appendices to the report include a section on back-testing analysis carried out by Real Capital Analytics. This compares the 2017 INREV Investment Intentions Survey results with real estate investment transactions in 2017.

ANREV, INREV and PREA would like to thank all respondents for participating in the Investment Intentions Survey 2018.

Section 2

Global real estate allocations and intentions

Global real estate allocations and intentions

> The average allocation to real estate globally is 8.9%, below the average target of 10.2%
> Approximately half of institutional investors expect their allocations to real estate to increase over the next two years
> Europe is the region with the largest allocation within real estate portfolios at 35.5%, followed by the US at 29.3% and Asia Pacific at 14.1%

The 2018 ANREV INREV PREA Investment Intentions Survey was conducted at a time when many investors around the world wondered about the stage of the real estate cycle. Returns to property in major cities across the globe have been strong for a number of years, driven, at least in part, by strong flows of capital into the asset class. Uncertainty has increased as investors wonder whether a turning point might come soon. Will the market turn (and, if so, when), slow down, or simply continue its expansion? As market participants wrestle with this question and what the answer might mean for investment strategies, it is a particularly opportune time to look at what our survey respondents say about the current configuration of their portfolios and their real estate investment intentions going forward.

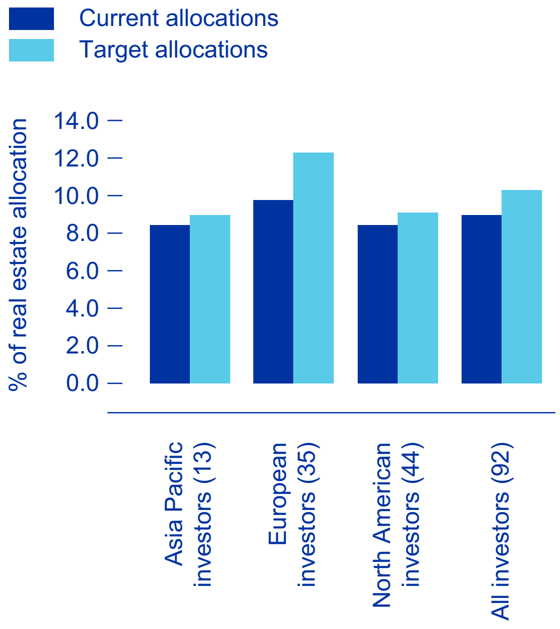
This section takes a global view, looking at the full sample of survey participants, and discusses their current and target allocations to real estate, including allocations by style, sector and geography within real estate, their intentions for deployment of capital in 2018, as well as their motivations for investing in real estate in the first place.

Allocations to real estate

The average allocation to real estate for institutional investors globally is 8.9% of total assets. There appears to be room for this to grow in the future as the average current allocation is 130 bps lower than the target of 10.2%. Looking across regions, the highest average allocations (both current and target) are found among European investors, who are also the group the furthest below target. Investors in North America and Asia Pacific are similar, with both having average allocations to real estate of 8.4%, and target allocations of about 9%.

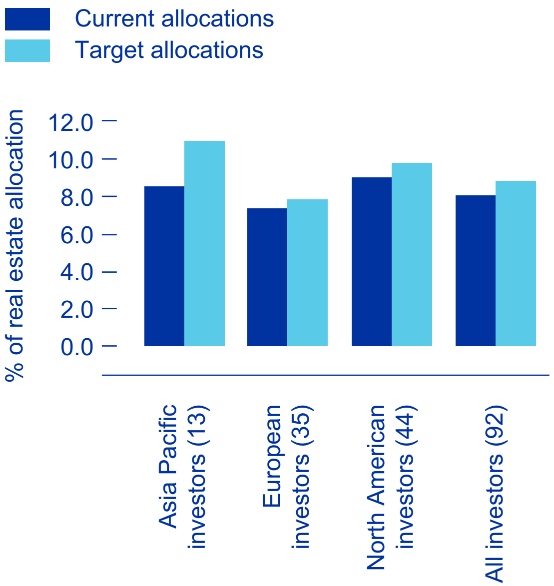
When allocations are weighted by total assets under management (AUM), substantially different results emerge. When weighted by total AUM, current and target allocations globally are 8.0% and 8.7%, respectively. For European investors allocations are much lower when weighted by AUM, indicating that smaller European investors tend to have larger percentage allocations to real estate than do larger European institutions. In fact, when weighted by AUM, Europe shows the lowest allocations across the three regions. Incorporating the amount of capital by weighting also shows that European investors as a whole are closer to target, being only 50 bps below their target allocation to real estate of 7.8%. Conversely, for North American investors, current (9.0%) and target (9.7%) allocations are higher when weighted by AUM. This indicates that larger North American investors tend to have higher allocations to real estate than do their smaller regional peers. Finally, weighting shows

Figure 1: Investors' current and target real estate allocations



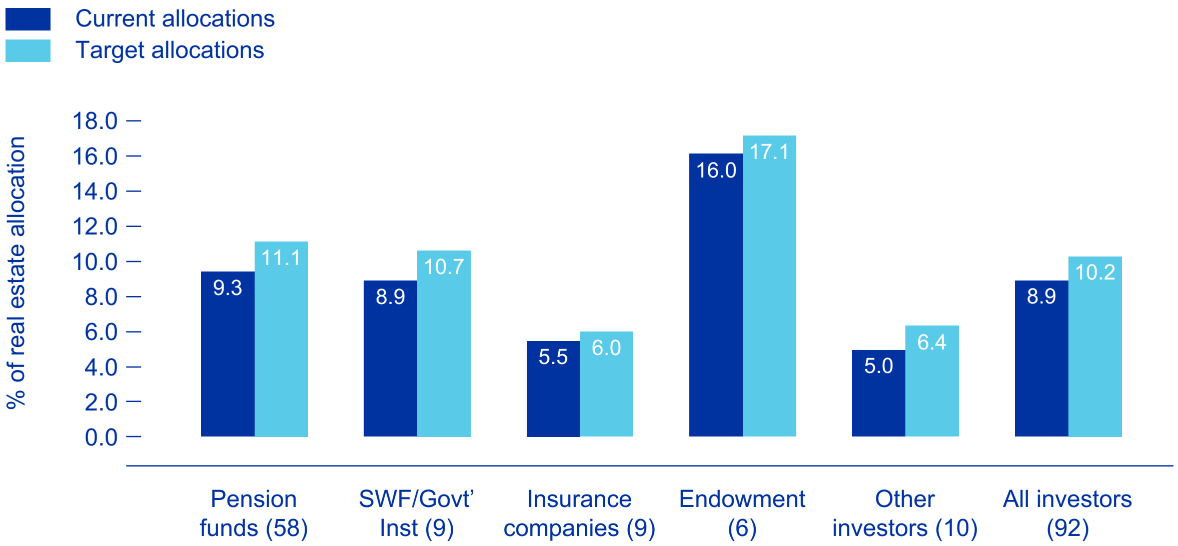
Note: based on a sample of 92 investors; Excludes specialised investors with greater than 75% allocation to real estate; numbers in brackets show the respective sample sizes.

Figure 2: Investors' current and target real estate allocations (weighted by total AUM)



Note: based on a sample of 92 investors; Excludes specialised investors with greater than 75% allocation to real estate; numbers in brackets show the respective sample sizes.

Figure 3: Average current and target allocations by type of investor



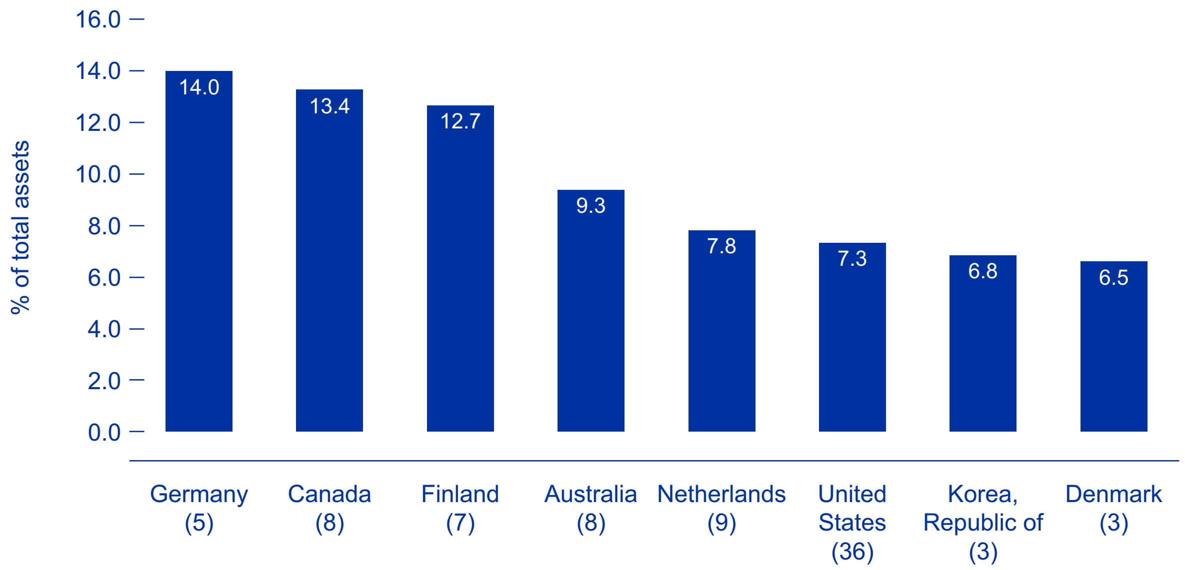
Note: based on a sample of 107 investors

that Asia Pacific based investors have the highest target allocation to real estate and are currently furthest below target; the target of 10.9% is 240 bps above current allocations, indicating significant room for Asia Pacific allocations to increase going forward.

As well as regional variation, average allocations also vary substantially by type of investor and specific home country. Endowments have by far the highest average allocations to real estate, followed by pension funds and sovereign wealth funds/government institutions. Investor domicile wise, the largest average institutional allocations to real estate are found in Germany, Canada and Finland.

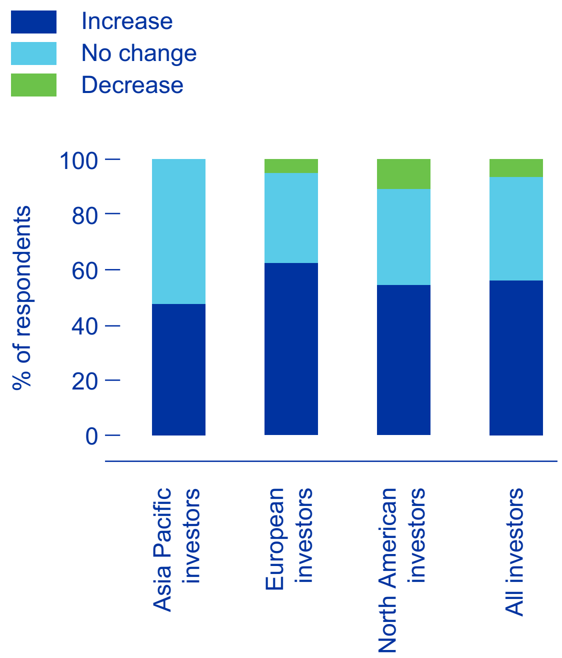
As well as their current and target allocations, we also asked investors for their expectations about whether their real estate allocations would increase, decrease or stay the same over the next two years. The results are presented both as the percentage of respondents in each category and with the responses weighted by total AUM, showing the percentage of capital in each category. About half of investors from Asia Pacific, both by number and by amount of capital, indicate that they expect allocations to increase, with the remainder expecting no change. No investors from the Asia Pacific region expect a decrease in real estate allocations. This provides further evidence that capital may

Figure 4: Investors' average real estate allocation by country



Note: based on a sample of 107 investors

Figure 5: Investors' views on changes in real estate allocation over next two years



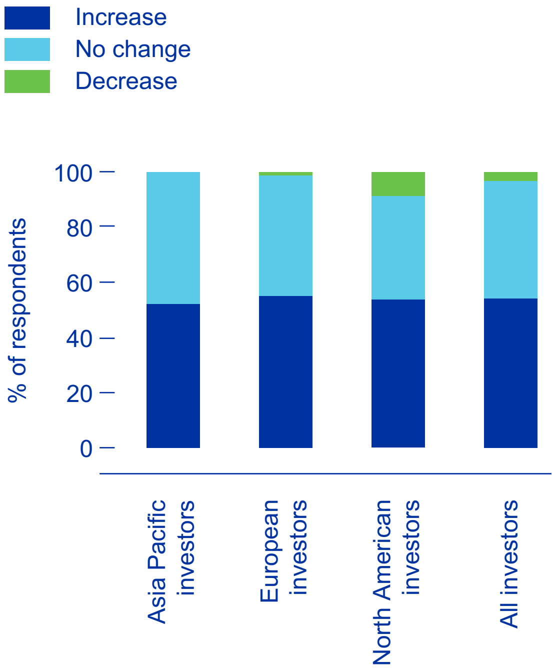
Note: based on a sample of 107 investors; weighted by total AUM

continue to flow to real estate from the Asia Pacific region. North American investors have the highest incidence of respondents expecting a decrease in allocations (10.9% by number of investors and 8.6% by amount of capital), although the proportion is small compared to those expecting an increase. Over half of North American investors (both by number and by amount of capital) expect allocations to increase over the next two years. While 62.5% of European investors expect to see their real estate allocations increase, this represents only 55.1% of European capital. Only 1.1% of European investors by weight of capital expect allocations to decrease, with 43.8% expecting allocations to remain the same.

To get an idea of how fund managers view the trends in investor allocations, the survey asked them how they thought their investors' allocations would develop over the next two years. Perhaps not surprisingly, fund managers are more optimistic about investor allocations than are investors themselves. Globally, 64.3% of fund managers expect investors to increase their allocations, while 34.1% expect them to remain the same. Fund managers based in the Asia Pacific region are the most bullish on potential allocation increases, perhaps reflecting the large degree to which Asia Pacific capital is currently under target.

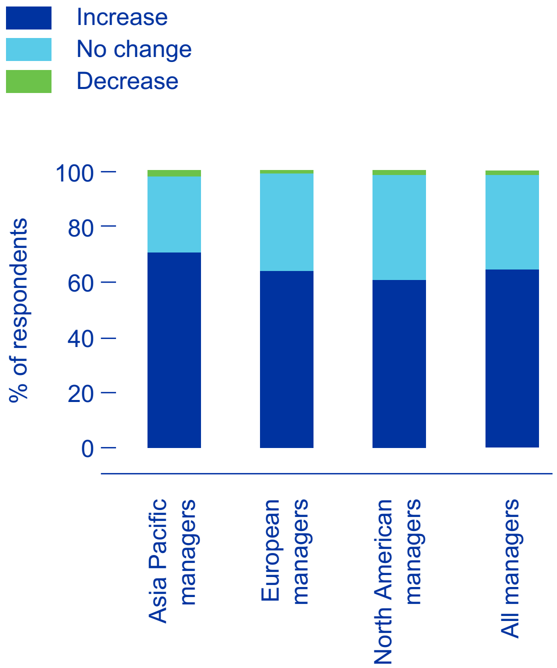
Because intentions can change, and because this is the fifth Global Investment Intentions Survey done jointly by INREV, ANREV, and PREA, it is interesting to see how responses have varied over the 2014 to 2018 period. Note that the percentage of investors

Figure 6: Investors' views on changes in real estate allocation (weighted by total AUM)



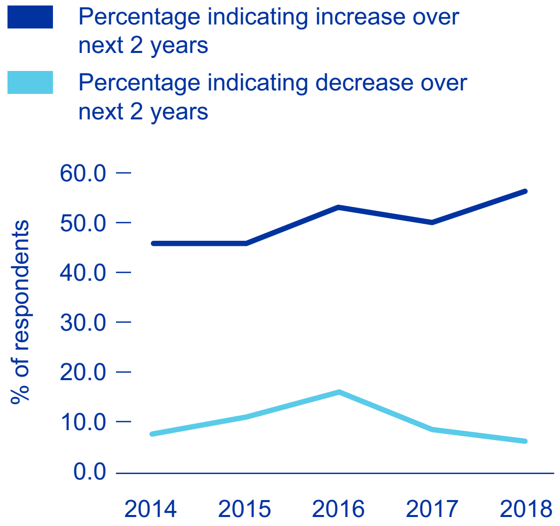
Note: based on a sample of 107 investors; weighted by total AUM

Figure 7: Fund managers' expectations of changes to investors' allocations over next two years



Note: based on a sample of 185 managers

Figure 8: How investor expectations of allocations have changed over time



Note: based on a sample of 107 investors

expecting an increase in real estate allocation has been gradually increasing over the years. Also, since 2016 the percentage of investors expecting their real estate allocation to decrease has gone down. While the changes are relatively small (and recall that the sample of respondents changes across surveys), this does suggest that, despite industry talk concerning the low yields currently available in real estate and a number of years of property appreciation, there is no sign of investors reducing their commitment to the asset class.

Overall, the preceding figures paint a picture in which allocations to real estate, currently at 8.0% globally, look set to increase in the future, and therefore new capital should continue to flow to the asset class. Investors from all three regions remain below target with respect to real estate and around half of investors expect to see allocations increase over the next two years. This does vary by region, with Asia Pacific based investors the furthest under target, and with large European investors looking closer to target and somewhat less likely to increase allocations in the near future.

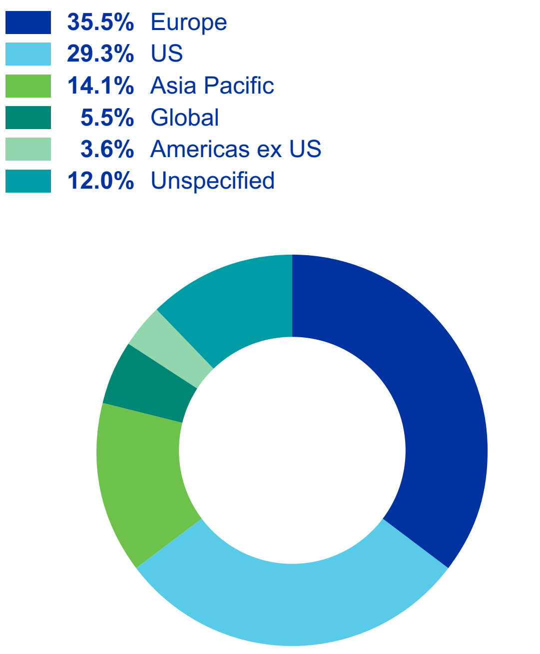
Allocations within institutional real estate portfolios

The survey also asked about the allocation of real estate capital across global regions. Europe has the largest share of current investments at just over 35.5%, followed by the US at 29.3%. Asia Pacific constitutes a smaller portion of institutional real estate investments at only 14.1% of global real estate. Note also that just over 5.5% of investments are in the form of global investments, which cannot be allocated to one specific region. The remaining 12.0% are unspecified.

There is substantial variation in regional allocation depending on the home of the investor. It is evident that investors from all regions continue to have significant home bias in their portfolios, with investors holding the majority of real estate assets in their home region. The US accounts for the largest allocations outside their home region for both European (20.5% of the portfolio) and Asia Pacific (14.6%) investors. For North American based investors, the Americas ex US accounts for the largest allocation outside the US, but this can be largely explained by the holdings of the large Canadian investors in their own market.

> 'Investors show a significant home bias in their current real estate portfolios.'

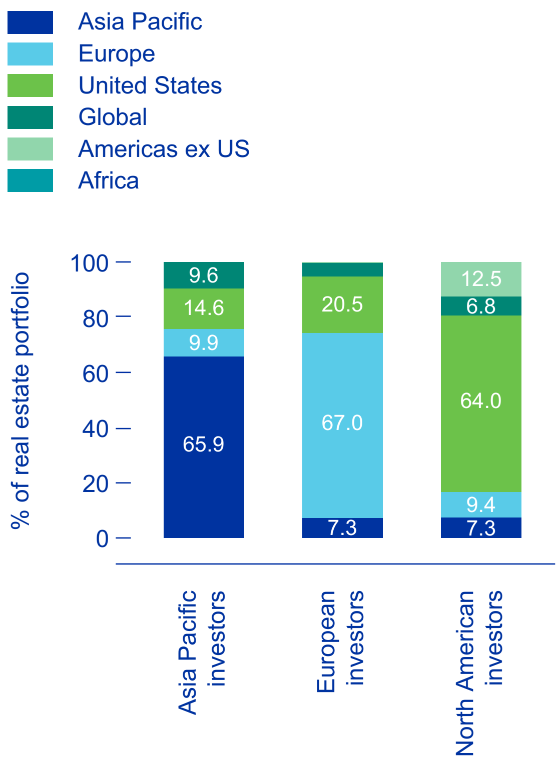
Figure 9: Current investor regional allocations



Note: based on a sample of 102 investors and a reported value of €427.0 billion; Global refers to investments in which less than 90% of GAV is held in one region.

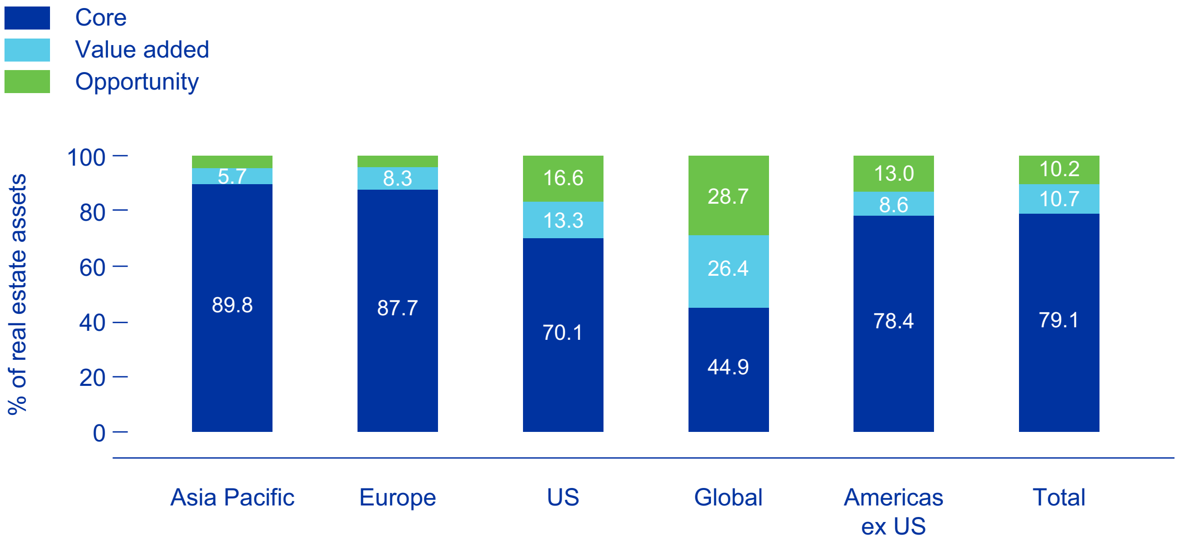
> 'With investments during 2018, investors from the Asia Pacific region are expected to diversify out of that region somewhat.'

Figure 10: Current investor regional allocations by investor domicile



Note: based on a sample of 96 investors and reported value of €375.6 billion

Figure 11: Current allocations by style and region

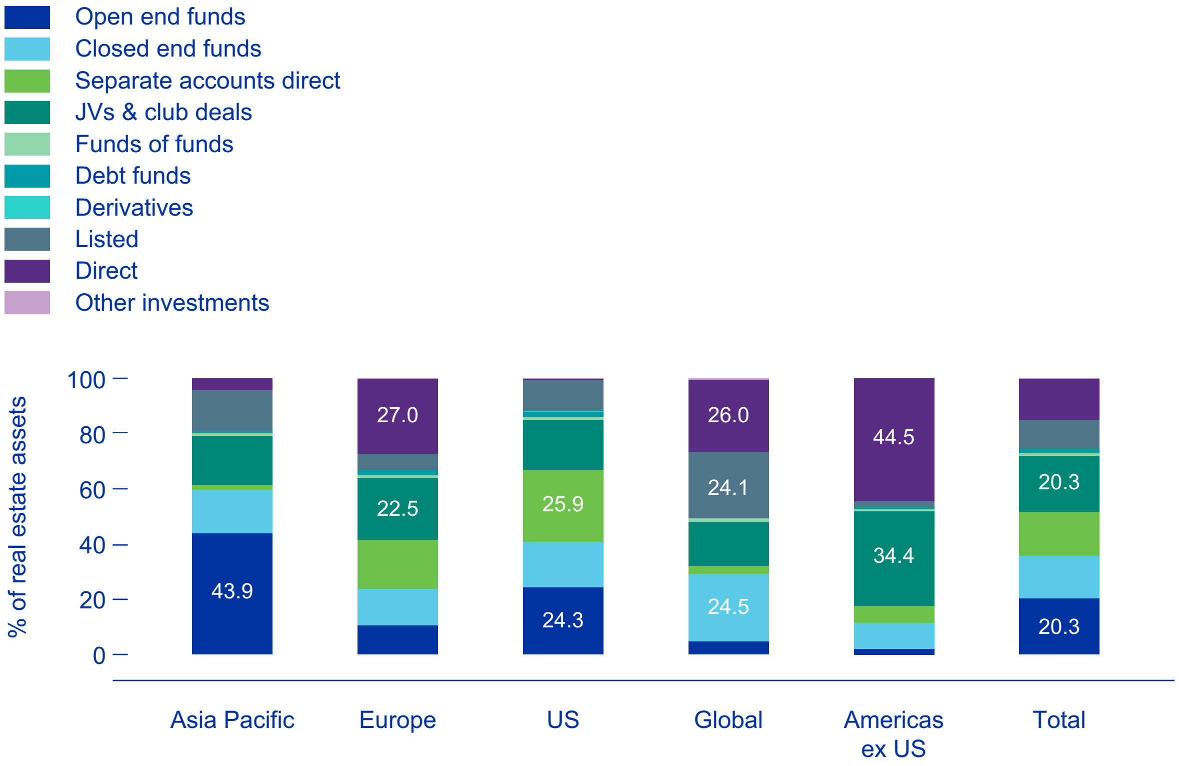


Note: based on a sample of 96 investors and reported value of €375.6 billion

Looking at current investments by style, core real estate continues to dominate the portfolios of institutional investors. Worldwide, across the entire sample, 79.1% of real estate assets are classified as core, with 10.7% being value added and 10.2% opportunity. The proportions do vary, however, depending on the region in which the investments reside (although core remains the most popular style in all cases). 70.1% of investments in the US are core, compared to close to 89.8% in both Asia Pacific and Europe. The least weighted towards core are the global strategies (those unable to be allocated to a single region). Global strategies are 28.7% opportunity and 26.4% value added. Even for global strategies, however, the largest category, at 44.8% of global strategy assets, is core, indicating the dominance of this style of investment among institutions.

‘Core is by far the most common style in institutional portfolios, accounting for 79% of real estate assets globally.’

Figure 12: Current allocations by type of vehicle and region

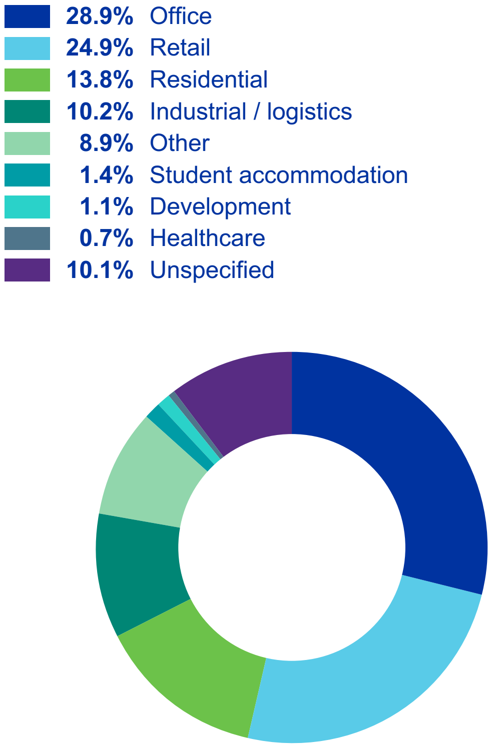


Note: based on a sample of 88 investors and reported value of €289.4 billion

> 'Separate accounts are the most common investment vehicle used for US, whereas direct investment is the most common in Europe and open end funds for Asia Pacific.'

The survey results also show that there are large differences in how investors actually access real estate investments in different regions. Looking at the types of vehicles used in current real estate portfolios, the most common vehicle in which to hold Asia Pacific real estate assets is the open end fund, comprising 43.9% of assets in Asia Pacific whose sample is this year dominated by Australian investors. By comparison, only 10.6% of European investments are held in open end funds. The most common vehicle for investments in Europe is direct investment (27.0% of assets), followed by JVs & club deals (22.5%) and separate accounts (17.7%). For US investments, separate accounts are the most common vehicle for real estate investing, at 25.9% of total assets, with open end funds second at 24.3%. In the Americas ex US, direct investment and JVs & club deals taken together account for the large majority of real estate assets held by our responding institutions. It is interesting to note that global real estate strategies tend to be accessed in different ways than region-specific strategies. The two most common investment vehicles for global strategies are closed end funds (24.5%) and the listed markets (24.1%).

Figure 13: Current allocations by property type



Note: based on a sample of 86 investors and reported value of €427.0 billion

The overall allocations by property type for institutional investors show that the largest allocation is to office, at 28.9% of the real estate portfolio. This is followed by retail (24.9%), residential (13.8%) and industrial (10.2%). These four traditional institutional property types continue to form the basis of most portfolios and constitute the great majority of assets held, although the 'other' category does now account for almost 8.9% of institutional real estate portfolios. One tenth (10.1%) was left unspecified.

New investments in 2018

We asked the institutional investor respondents to our survey about their investment plans for 2018. They indicated plans to invest a total of €51.1 billion during the year, with the majority of this (57.7%) coming from European investors.

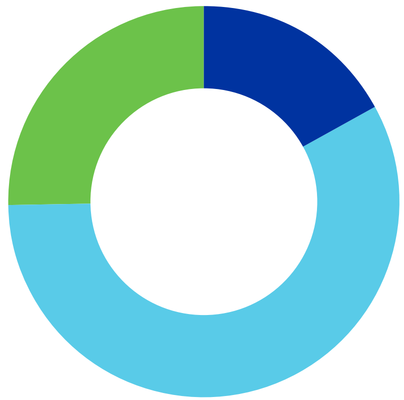
Differences can be seen when looking at sources of and planned destinations for capital this year. While over half of new capital deployment in 2018 is expected to come from European investors, only 41.2% of capital is expected to be invested in Europe. This implies a net outflow of capital from Europe to the other regions over the course of the next year. To be clear, this does not mean dis-investment from Europe – Europe is actually the most popular planned destination for capital. Rather, it simply means that planned European investments are not enough to soak up all of the capital from the region targeting real estate, and therefore some of the capital must go into other regions.

> ‘Of capital planned for investment into real estate in 2018, 57.7% comes from Europe.’

While North American investors account for one-quarter of planned capital deployments this year, the US and Americas ex US together account for 35.1% of planned investments. Unlike Europe, this implies the Americas should expect to see an overall inflow of external capital during the year. Asia Pacific accounts for just over 17.4% of both planned sources of capital and planned investments of capital in 2018.

Figure 14: Sources of capital: Amount expected to be invested in real estate in 2018 by investor domicile (total: €51.1 billion)

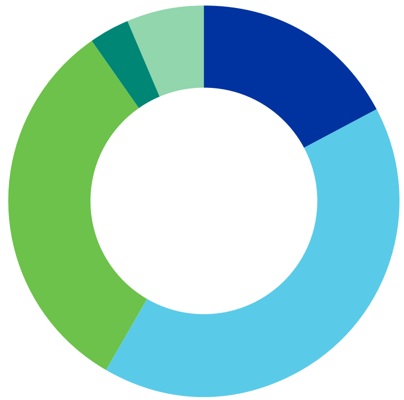
17.1% Asia Pacific investors
57.7% European investors
25.2% North American investors



Note: based on a sample of 93 investors

Figure 15: Destination of capital: Amount expected to be invested in real estate by region in 2018 (total: €51.1 billion)

17.4% Asia Pacific
41.2% Europe
31.7% United States
3.4% Americas ex US
6.3% Unspecified



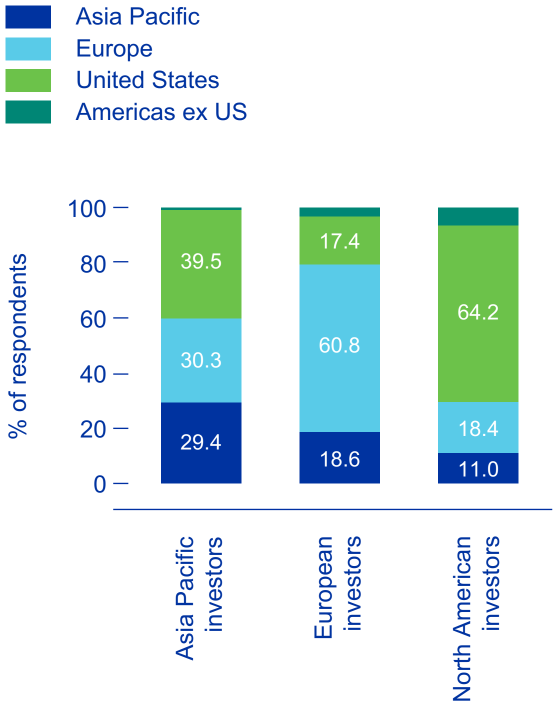
Note: based on a sample of 92 investors

> ‘One-quarter of planned capital deployment comes from North America, whereas the Americas is the destination for 35% of planned investment.’

The planned target regions for investment vary by the domicile of the investor. Both European and North American investors retain a large home bias in their plans for new investment, with the majority of capital planned to be deployed in their home region. For European investors, Asia Pacific and the US are almost equally popular as planned destinations for investment this year, whereas for US-based investors Europe is somewhat more popular than Asia Pacific. For those investors based in the Asia Pacific region, however, there are plans to diversify away from their home region: Of capital coming from Asia Pacific in 2018, only 29.4% is planned to be invested in that region, less than the 39.5% and 30.3% planned for the US and Europe, respectively.

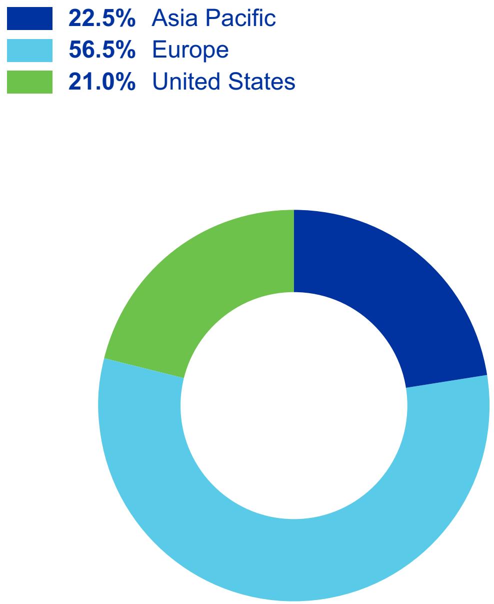
Institutional investors do not represent the only sources of capital in our survey, which also asked about the 2018 investment plans of fund of funds managers. As with investors, Europe is the most popular destination for investment by fund of funds managers going forward and accounts for 56.5% of total planned investments.

Figure 16: Amount expected to be invested in real estate by region in 2018 by investor domicile



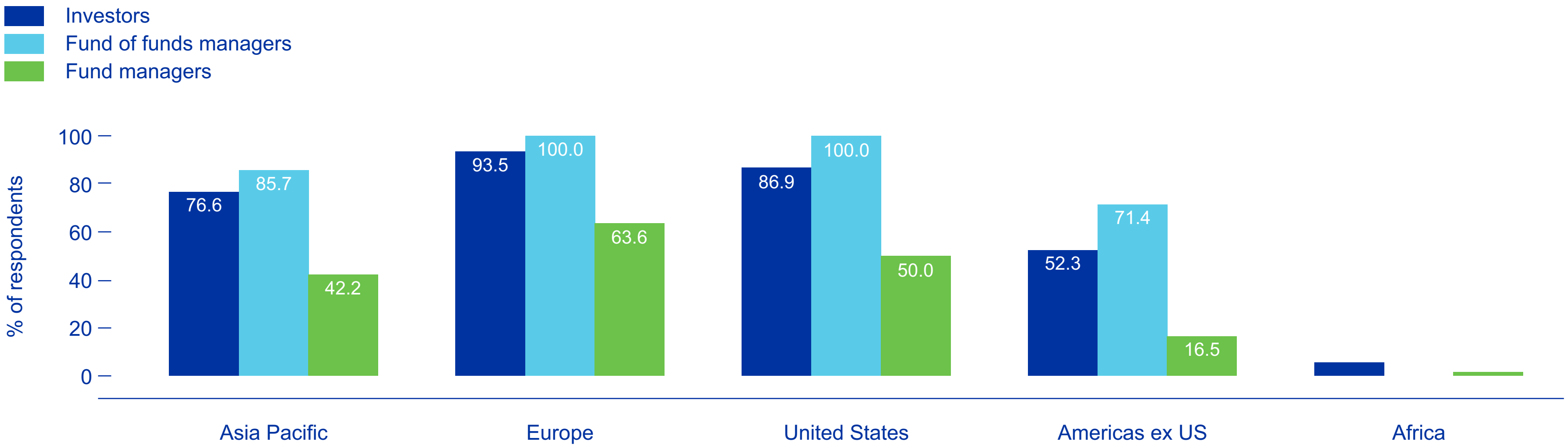
Note: based on a sample of 92 investors

Figure 17: Amount expected to be invested in real estate by fund of funds managers in 2018 by region (total: €4.2 billion)



Note: based on a sample of 5 fund of funds managers

Figure 18: Survey respondents invested in or intending to invest in each region

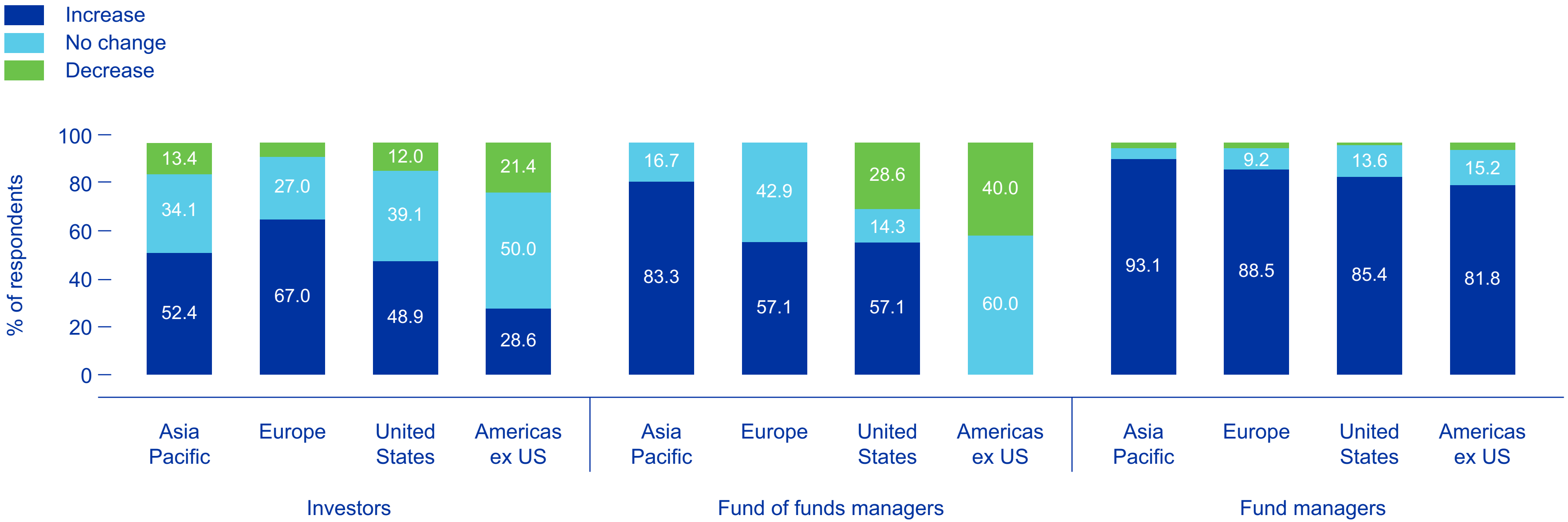


Note: based on a sample of 320: 107 investors, 7 fund of funds managers and 206 fund managers

One can get an idea of the extent to which investors and investment managers operate across regions by looking at the percentage of investors, fund managers, and fund of funds managers who are either currently invested in each region or plan to invest there in the next two years. In each of the three major regions, Asia Pacific, Europe and the US, the majority of investors either currently hold investments there or intend to invest, with percentages ranging from 76.6% for Asia Pacific to 93.5% for Europe. Given that each region shows the majority of investors either investing or intending to invest there, this indicates the extent to which investors have adopted a global outlook on real estate (although they do still have home biased holdings, as shown previously). However, only 52.3% of investors are invested in or intend to invest in the Americas outside the US, and only a small percentage (5.6%) have an interest in the frontier markets of Africa.

Fund managers as a whole, however, are more specialized in terms of region than are investors. 63.6% of fund managers invest (or plan to invest) in Europe, 50% in the US, and only 42.2% in Asia Pacific. This indicates that a significant number of our fund manager respondents are specialists in one or two regions, and do not have fully global platforms (although this is certainly not true of all managers).

Figure 19: Expected changes to real estate allocations by region over next two years



Note: based on a sample of 317: 107 investors, 7 fund of funds managers and 203 fund managers; Percentages based only on those invested or intending to invest in each region.

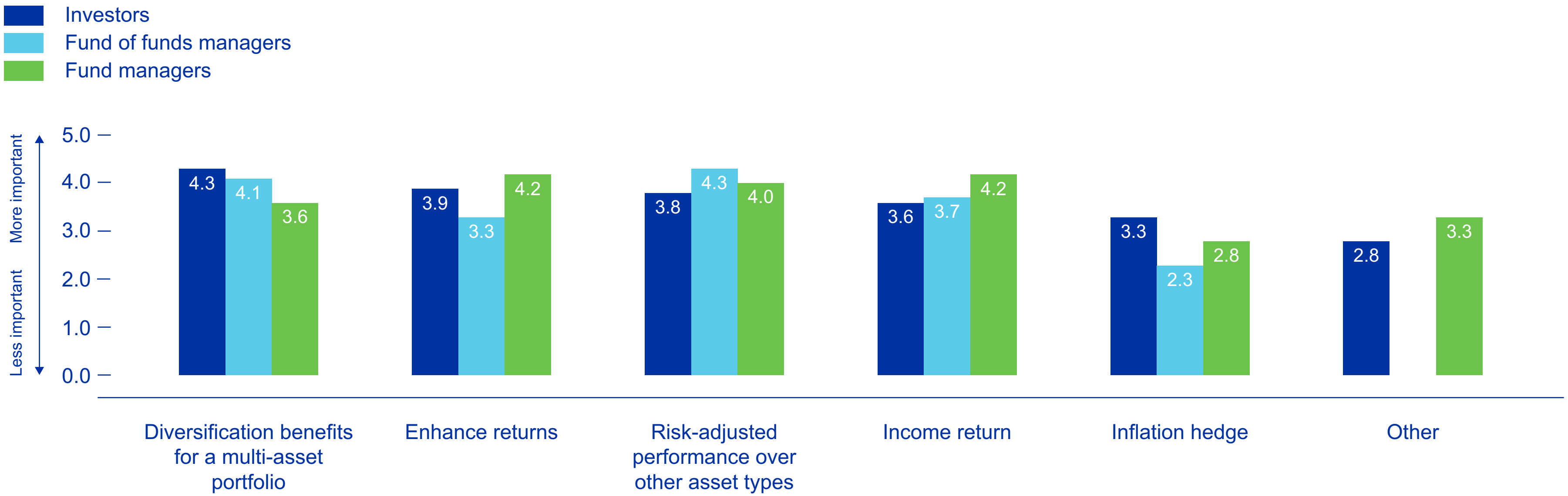
Looking at anticipated changes to regional allocations among institutional investors, the most bullish plans are for Europe, to which 67.0% of investors intend to increase their allocations and only 6.0% intend to decrease allocations. The least optimistic outlook is for the Americas ex US, for which only 28.6% of investors plan to increase their allocation while 21% expect to decrease it. Fund managers, once again, are generally a more optimistic group than investors, with the vast majority indicating they expect allocations to increase in all regions.

The appeal of real estate

As well as asking about allocations and investment intentions, we also asked investors about the underlying characteristics that make real estate an appealing asset class in the first place. For investors the ability of real estate to diversify the overall, multi-asset class portfolio is ranked as the most important characteristic, followed by its ability to enhance returns. These opinions vary somewhat from those of fund managers, who rank income return and the ability to enhance returns as equally most important.

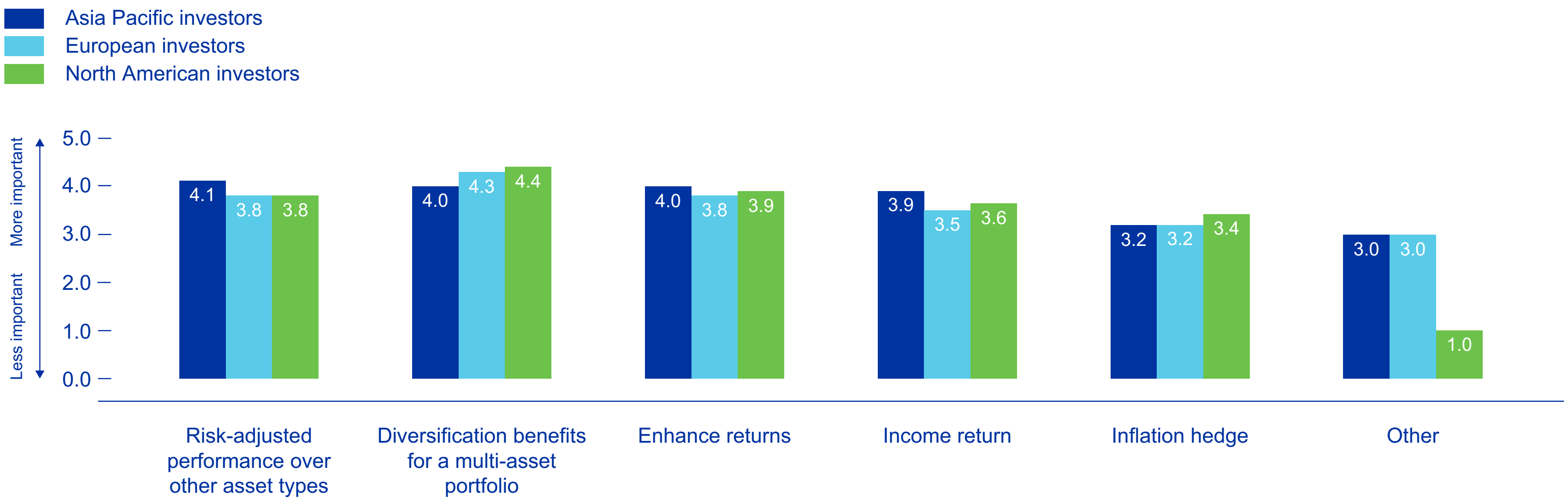
> ‘Diversification of the overall, multi-asset class portfolio is the most important attraction of real estate for institutional investors.’

Figure 20: Reasons to invest in real estate by respondent type



Note: based on a sample of 315: 105 investors, 7 fund of funds managers and 203 fund managers

Figure 21: Reasons to invest in real estate by investor domicile



Note: based on a sample of 102 investors

For investors from different regions, there is broad agreement about the most important characteristics of real estate as an asset class. The diversification benefit of real estate is ranked as the most important characteristic by investors from both Europe and North America, and a very close second (to risk-adjusted performance) by investors from Asia Pacific. One interesting difference across regions is the ranking of 'other' investment characteristics of real estate, beyond the five traditional reasons for investing explicitly asked about. Investors from Europe and Asia Pacific put much greater emphasis on 'other' than do North American investors – they appear to be attracted to real estate, to a certain extent at least, for reasons beyond the traditional arguments far more than are their North American peers.

Section 3

Preferred investment styles into Europe

Preferred investment styles into Europe

From this section onwards, the report focuses on investment in European real estate markets alone.

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 terms of risk and return, of the three main investing styles in the five main regions, and to indicate which styles they intended to invest 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 2018?' For fund managers, the equivalent question was slightly reworded to be: 'in which investment styles do you expect your investors to invest in 2018?'

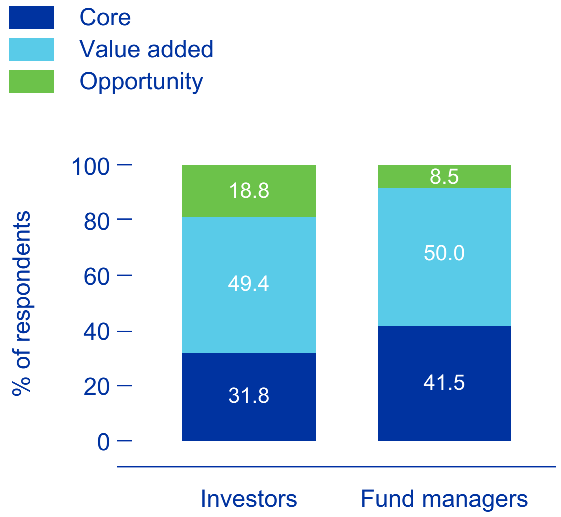
In 2018 investors' preferred investment style for investing in Europe is value added, half (49.4%) indicating that they consider it most attractive in risk and return terms.

In last year's survey, 40.7% of investors preferred core, 48.7% preferred value added and 10.5% indicated that opportunity was their preferred investment style. In this year's survey, the corresponding numbers are 31.8% for core, 49.4% for value added and 18.8% for opportunity.

Fund managers' perception of their investors matches the views described above, with the majority of both managers (50.0%) and investors (49.4%) considering value added as the preferred investment style. However, managers consider investors to be less adventurous, emphasising core (41.5%) more strongly.

Fund of funds managers[1] regard core and value added equally (50.0% for each style) as preferred investment styles. None opted for opportunity, while last year 10.0% indicated a preference for opportunistic ventures.

Figure 22: Preferred investment styles



Note: based on a sample of 203: 85 investors and 118 fund managers

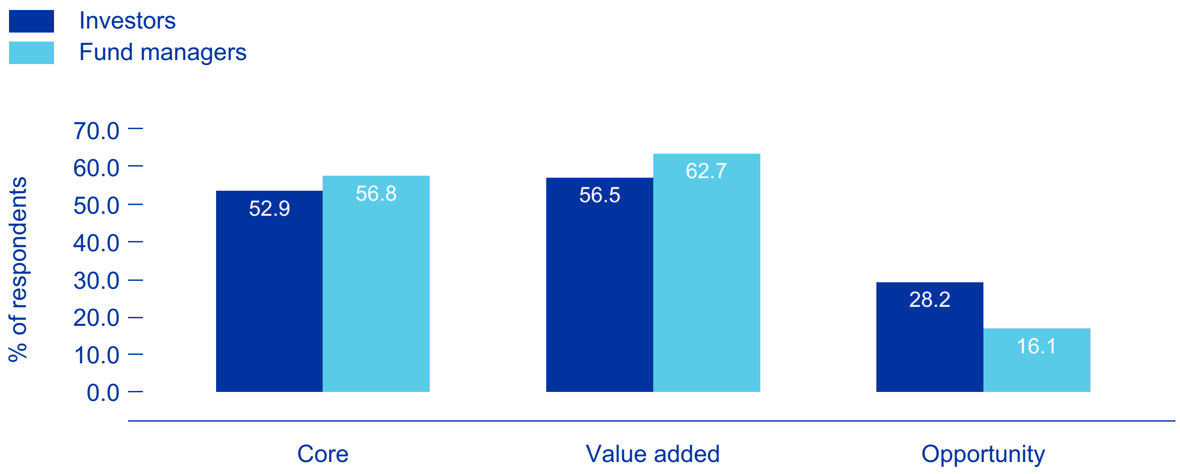
[1] Of the sample of 6

When comparing investment style preferences with 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, 56.5%, expect to invest in value added. However, the difference between value added and core (52.9%) is smaller for expected investments than for style preferences. Almost a third of investors (28.2%) expect to invest in opportunity.

An equal number of fund of funds[2] managers plan to invest in core and value added styles (66.7% for each style), in line with their style preferences.

> 'The majority of investors expect to invest in value added in 2018'

Figure 23: Expected investment styles in 2018



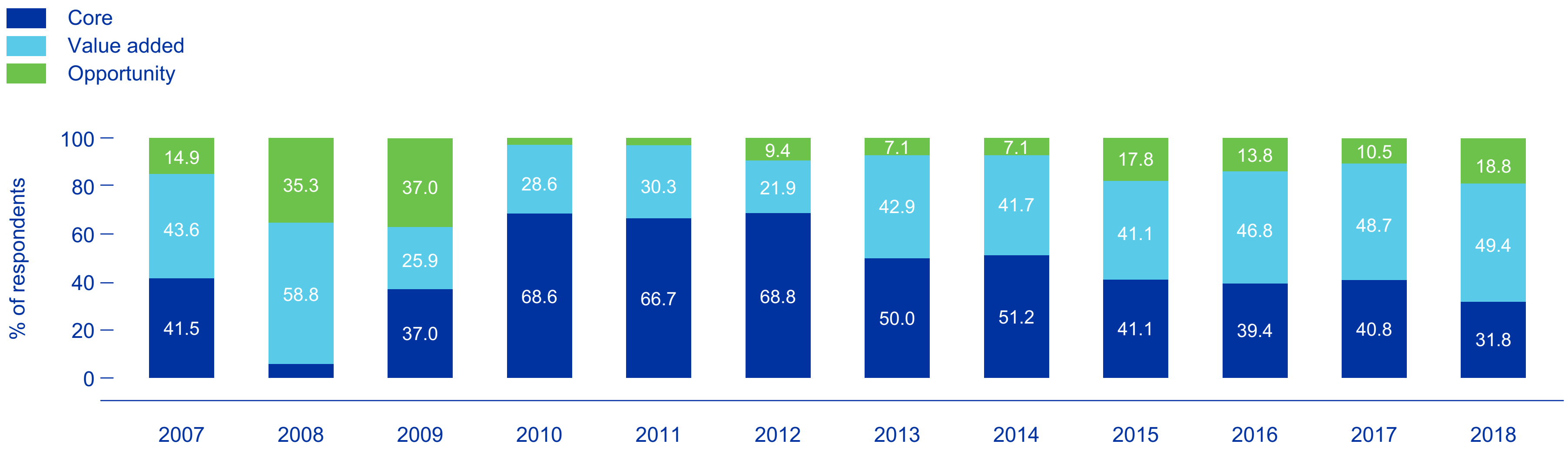
Note: based on a sample of 203: 85 investors and 118 fund managers

[2] Of the sample of 6

Over the last decade, there has been a shift in investors' style preferences, reflecting their risk and return tolerances. 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 and 2018.

Figure 24: Investment style preferences from 2007 to 2018



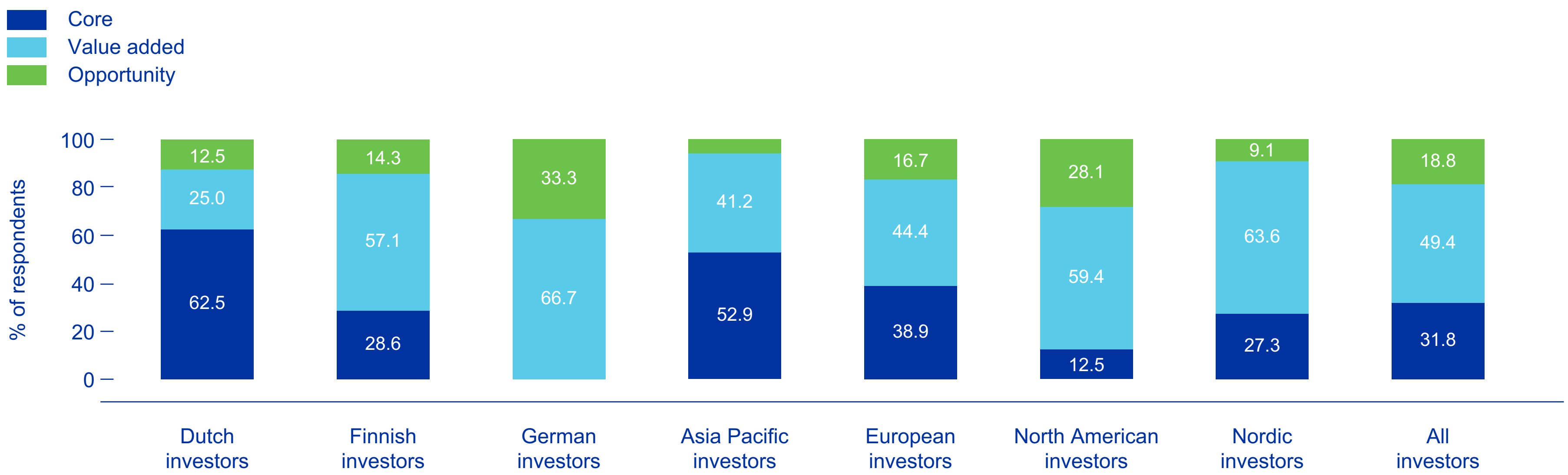
Note: based on a sample of 85 investors

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 (62.5%) and a strong preference among Asia Pacific investors (52.9%). Value added investments are favoured most by German (66.7%), Finnish (57.1%) and North American (59.4%) investors.

Interestingly, none of the investors based in Germany indicate a preference for core strategies, in stark contrast to the previous year's survey, where almost half (42.9%) had indicated that core was their preferred investment style. However, the numbers are reminiscent of the 2016 survey, where 57.1% of German investors preferred value added, with the remaining 42.9% indicating an interest in opportunity.

The style preferences of European and North American investors are consistent with last year.

Figure 25: Investors' views on risk-adjusted performance prospects by investor domicile in 2018

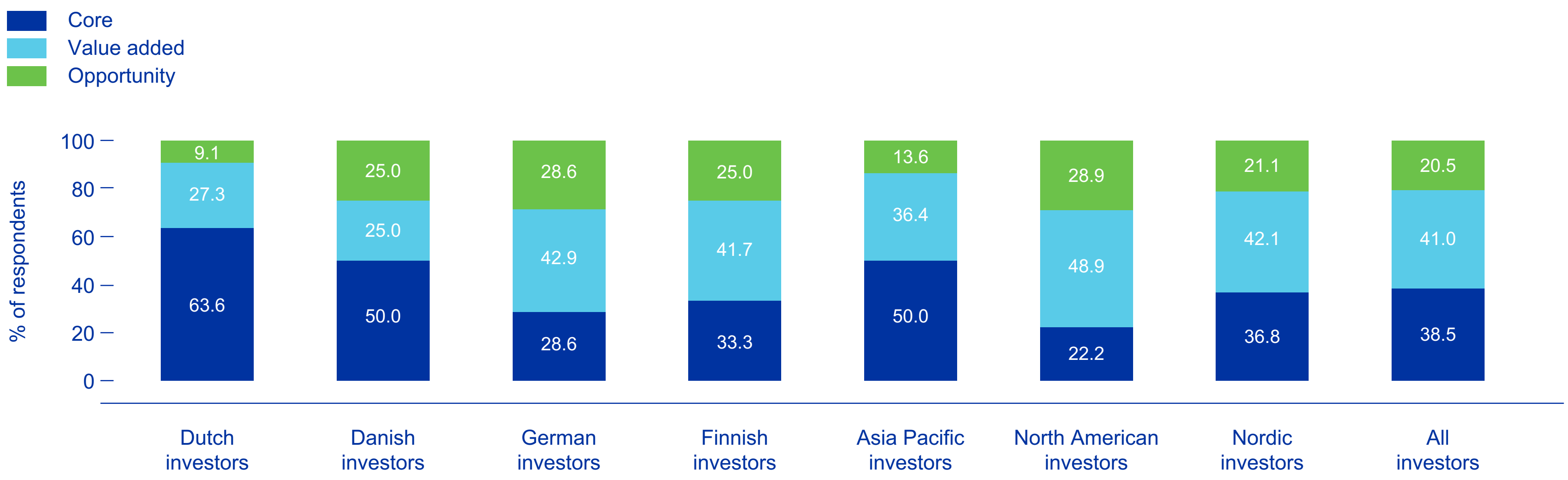


Note: based on a sample of 85 investors

When investors were asked about the styles that they expect to invest in during 2018, a slightly different picture emerges. Taken as a group, 41.0% of investors are expecting to invest in value added, even though a greater proportion (49.4%) viewed value added as the most attractive for prospective risk-adjusted returns.

A couple of points are worth noting. None of the investors domiciled in Germany indicated a preference for core in 2018. Although, taken as a group, almost one-in-three investors (28.6%) intend to invest in core in 2018.

Figure 26: Investment styles that investors plan to invest in 2018 by domicile



Note: based on a sample of 85 investors

Section 4

Preferred investment destinations and sectors in Europe

Preferred investment destinations and sectors in Europe

This section focuses on desired investment destinations for 2018.

Respondents were asked to indicate their target countries and sectors, with the possibility of making more than one choice. Respondents could also 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.

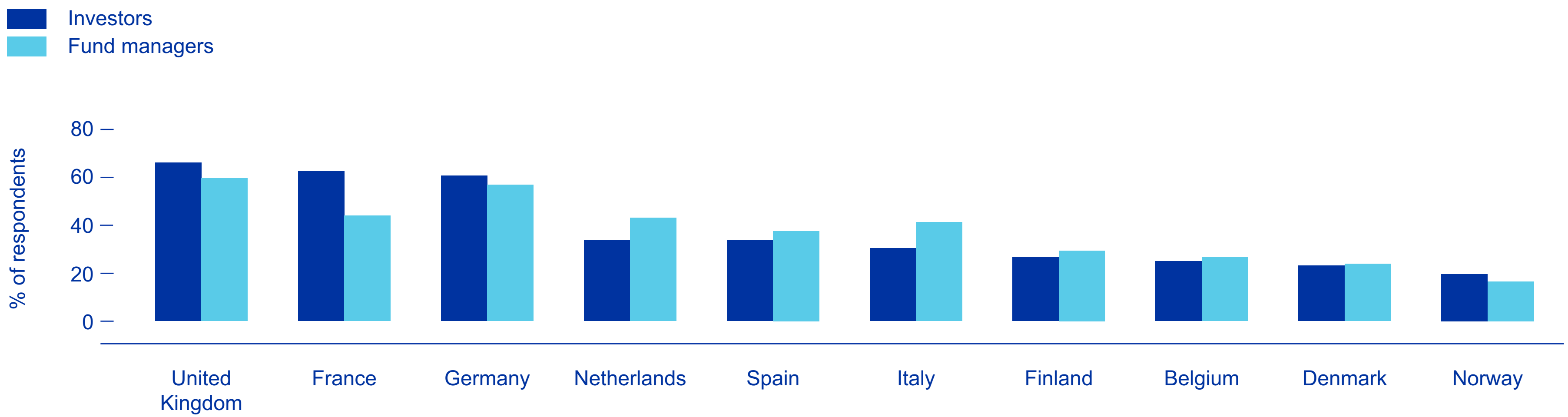
The UK, France and Germany remain the top three investment destinations in Europe, a clear reflection of the size, maturity and transparency of these markets.

However, this year UK tops the list, followed by France and Germany. Last year there was a tie between UK and France for the top spot. For 2018, UK is seen as the key target European country by two out of three investors (66.1%). This compares with 62.5% and 60.7% for France and Germany, respectively.

Following the well-established trio of UK, France and Germany, next comes a tie between the Netherlands and Spain, with 33.9% of investors opting for each country. The Netherlands has been the most favoured investment destination outside the top three for a while. Spain, however, has seen growing interest from investors over the last few years, jumping from ninth place to fifth last year, and now occupying joint fourth position with the Netherlands.

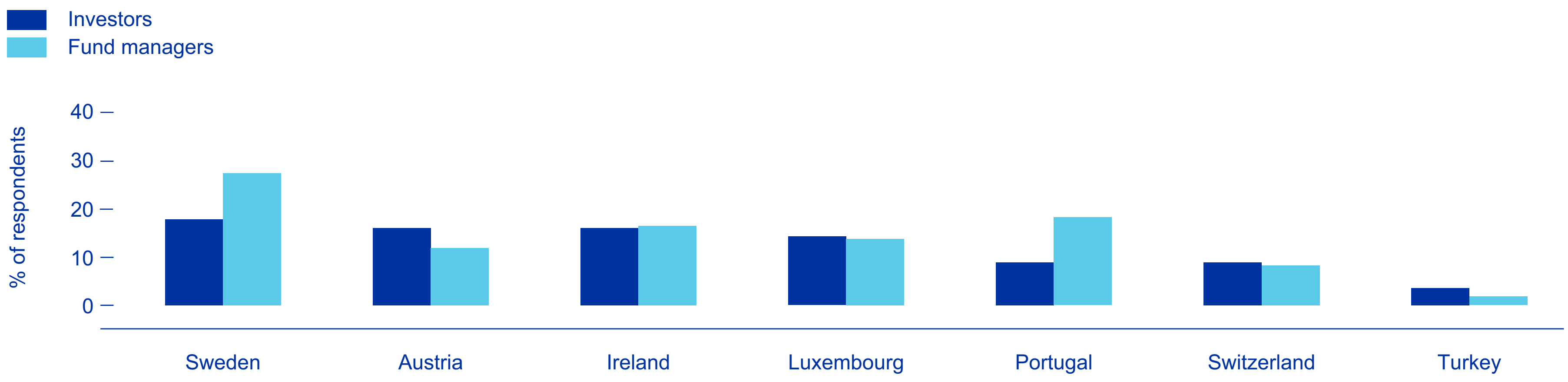
The other countries included in the top 10 are: Italy (30.4%), Finland (26.8%), Belgium (25.0%), Denmark (23.2%) and Norway (19.6%).

Figure 27: Ten most preferred locations for 2018



Note: based on a sample of 165: 56 investors and 109 fund managers

Figure 28: Least preferred locations for 2018



Note: based on a sample of 165: 56 investors and 109 fund managers

For the fund of funds managers[3], France, Germany and Denmark are clear winners, attracting 100% of fund of funds managers. The Netherlands, Spain, Italy, Finland and Norway are in joint second place, with 66.7% of fund of funds managers indicating an intention to invest there in 2018.

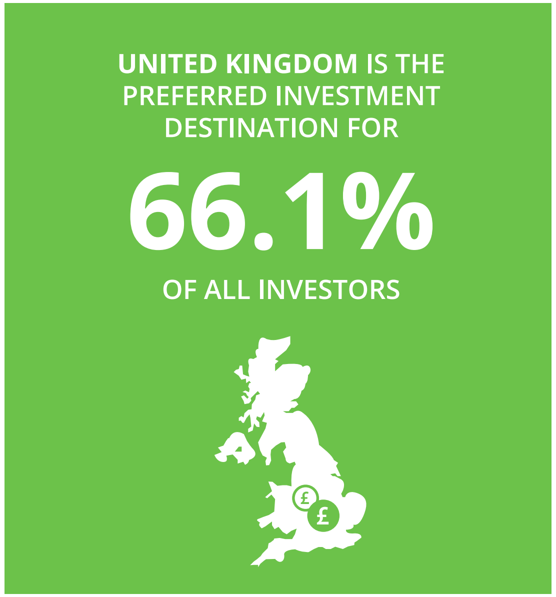
For fund managers the UK is their first choice, with 59.6% indicating an intention to invest there in 2018. Their second choice is Germany (56.9%), with France (44.0%) taking third position. The Netherlands (43.1%) and Spain (37.6%) take fourth and fifth places.

[3] Of the sample of 3

At the other end of the scale, the list of less favoured locations for investors starts with Sweden, with 17.9% of investors indicating that they would invest there in 2018. Next come Austria and Ireland (both 16.1%), Luxembourg (14.3%), Portugal (8.9%), Switzerland (8.9%) and Turkey (3.5%).

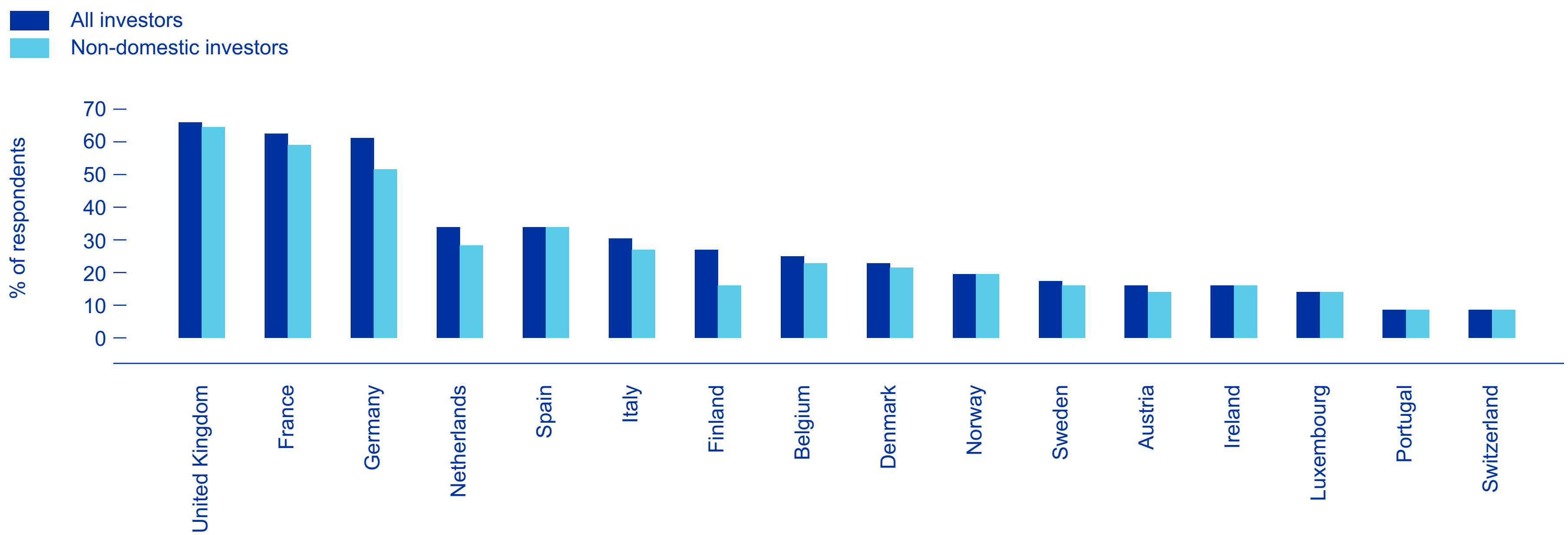
Fund managers' preferences are well aligned with those of investors than with fund of funds managers.

The Fund of funds managers have a high regard for Sweden, Austria, Luxembourg and Switzerland, and no intention of investing in Turkey.



The majority of investors tend to invest in their domestic markets before other markets. Therefore, in order to remove the effect of home bias, the study looks at 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. However, there is a stronger suggestion of domestic bias in Germany than in the UK and France. There is also a suggestion 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.

Figure 29: Preferred investment locations for 2018 - comparison of non-domestic and all investors



Note: based on a sample of 56 investors

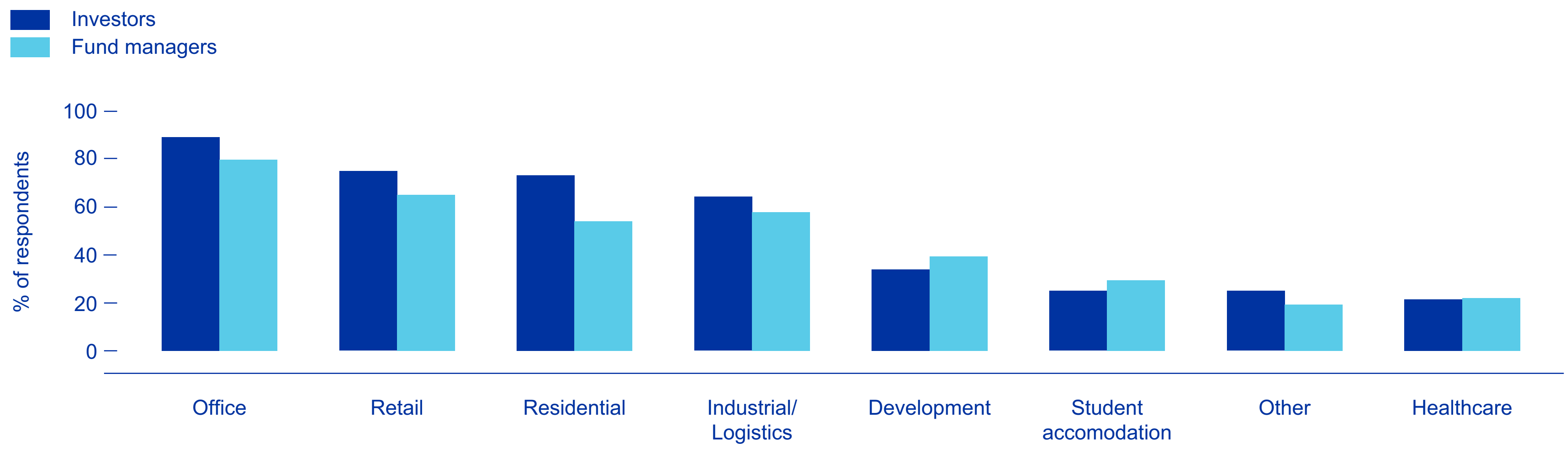
In terms of sectors, the office sector is most preferred by investors, with 89.3% expecting to invest there in 2018. Retail comes next (75.0%), followed by residential (73.2%) and industrial / logistics (64.3%). Development is ranked in fifth place with 33.9% of investors expecting to invest in the sector. The student accommodation and other sectors are further down the list, with 25.0% of investors preferring to invest in these sectors in 2018.

Healthcare completes the ranking, with one in five investors (21.4%) opting for this sector.

Fund managers and investors are generally aligned in their sector preferences, except that fund managers are more enthusiastic about industrial / logistics than residential, with 57.8% expecting to invest in the former and 54.1% in the latter sector.

For the fund of funds managers[4], the top three sectors are office, retail and industrial / logistics, which are ranked equally in first place (100% each). Residential is ranked second, with 66.7% of fund of funds managers expecting to invest in the sector. The remaining four sector groups, including development, student accommodation, other and healthcare, are likely to see investments from one in three fund of funds managers in 2018.

Figure 30: Preferred sectors in 2017 for all respondents



Note: based on a sample of 165: 56 investors and 109 fund managers

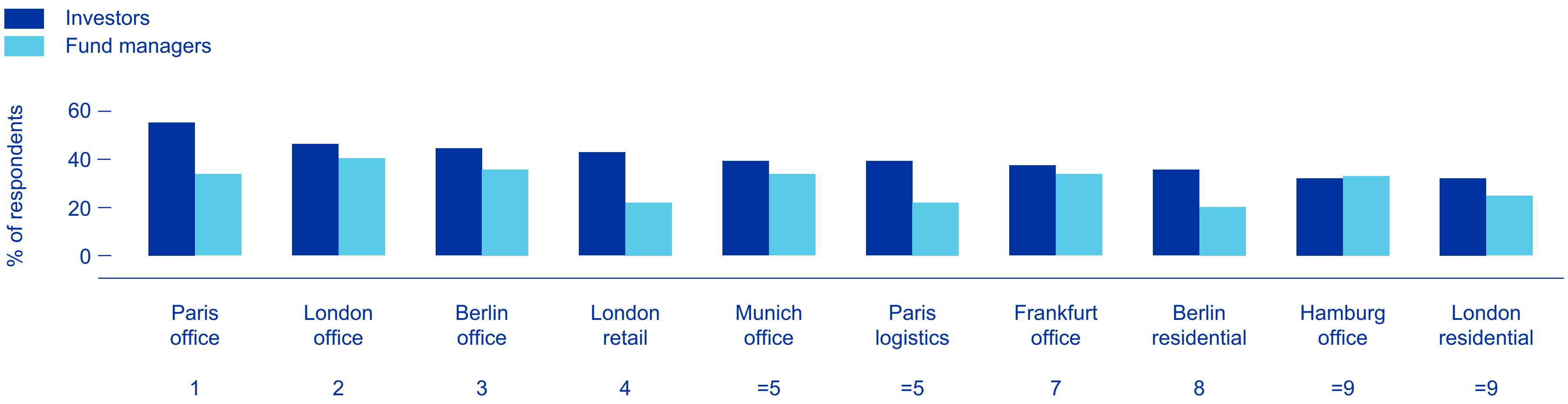
[4] Of the sample of 3

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 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 for the UK or Germany.

The top 10 sector destinations in Europe, as last year, are 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 all the top positions. No other city / country sector options feature in the rankings.

However, there have been some changes since last year. Berlin office has moved down two positions from its top spot in 2017, while London office has regained its appeal and moved back into the top three.

Figure 31: Preferred city and sector combinations in 2018 by respondent type



Note: based on a sample of 165: 56 investors and 109 fund managers

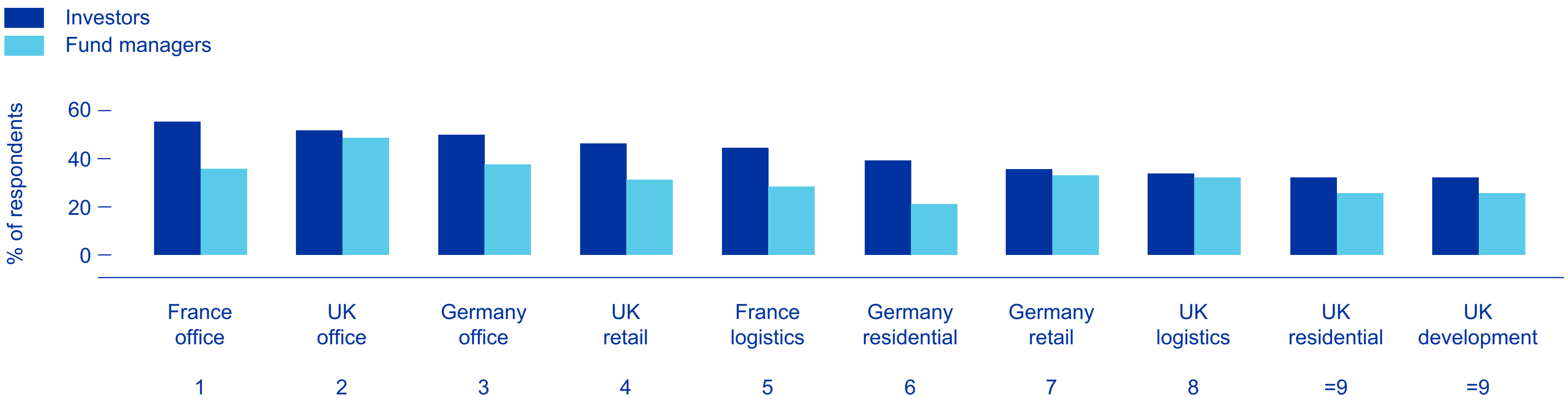
By type of respondent, 55.4% of investors prefer France office as their optimal country / sector combination, followed by UK office with 51.8% and Germany office with 50.0%. In 2017 the top three were Germany office, France office and Germany retail.

For investors, UK retail is in fourth place, followed by France industrial / logistics in fifth place and Germany residential in sixth. Germany is in seventh place followed by UK industrial / logistics. France retail and UK residential (both 32.1%) take the remaining two positions on the list.

Fund managers' preferences are broadly similar to the other respondent groups this year. UK office is ranked first and Germany office second, with 48.6% and 37.6% of fund managers respectively expecting to invest there in 2018. France office is third, with 35.8%, followed by Germany retail with 33.0%. UK industrial / logistics is in fifth position for fund managers, with 32.1%.

For fund of funds managers[5], offices are also the favourite: Germany office gets the highest score, at 100%. France office and France logistics are in second place on 66.7%, followed by other country / sector combinations.

Figure 32: Country and sector preferences for 2018 by respondent type



Note: based on a sample of 165: 56 investors and 109 fund managers

[5] Of the sample of 3

Between 2009 and 2018, France, Germany and the UK have generally dominated investor strategies, consistently ranking in the top three most preferred investment markets, the exception being 2012 and 2013, when Nordic retail and office appeared in the top three targeted markets.

Although German retail ranked third in 2017, France, UK and Germany office were again the top three destinations for 2018. Office and retail remain the two dominant sectors, with industrial / logistics and residential usually being in third and fourth places respectively.

> ‘France, UK and Germany offices were again the top three destinations for 2018’

Table 1. Investors’ top three preferred sector/location combinations 2009 to 2018

	First	Second	Third
2018	France Office	UK Office	Germany Office
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

Section 5

Expected investment trends for accessing European markets

Expected investment trends for accessing European markets

This section explores the preferred route for investors and fund of funds managers for accessing European markets in 2018.

> 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. For investors, the most popular route into the European markets remains non-listed real estate funds, for which 50.0% expect the allocation to increase, 10.4% expect it to decrease and 26.0% expect it to remain the same. The remaining 13.5% are not invested in non-listed real estate funds.

Last year, funds were also the preferred route of entry for capital allocation to real estate, with 42.3% of investors planning to increase their fund allocation.

Joint ventures and club deals are the second most preferred route to market, with 40.0% of investors indicating that they expect to increase allocation to this vehicle type, while 1.1% expect a decrease and 17.8% expect no change (41.1% do not invest in joint ventures and club deals).

When the same analysis is performed on a value-weighted basis, the rankings change marginally, with joint ventures and club deals being the preferred route to market. The equivalent percentages for JVs and club deals are as follows: 55.8% expect the allocation to increase, 0.6% expect a decrease, 17.5% expect to maintain the current allocation, and 26.1% do not currently invest in these vehicles.

The second most popular route is funds. On a weighted basis, 48.8% expect to increase the allocation to this vehicle type, 24.4% expect a decrease and 19.3% expect to maintain their current allocation, while 7.5% do not currently invest in non-listed funds.

This indicates that those larger investors intending to increase their real estate allocations on balance plan to raise their allocations to JVs and club deals at the expense of non-listed funds.

The third most popular route is direct real estate investment, where 28.7% expect the allocation to increase, 2.3% expect a decrease and 14.9% expect to maintain the current allocation, while 54.0% do not currently invest in direct real estate. The equivalent weighted percentages are as follows: 36.5% expect the allocation to increase, 0.6% expect a decrease and 9.4% expect to maintain the current allocation, while the remaining 50.5% do not currently invest in direct real estate. These figures indicate that larger investors are more in favour of increasing their allocation to direct investment than smaller investors. Meanwhile, smaller investors are even more likely to decrease their investment in directly held real estate than larger investors.

The fourth most popular route is separate accounts, where 23.6% expect the allocation to increase, 3.4% expect a decrease and 16.9% expect to maintain the current allocation, while the remaining 56.2% do not invest through this route. The equivalent weighted percentages are as follows: 39.6% expect the allocation to direct real estate to increase, 9.8% expect a decrease and 11.6% expect to maintain the current allocation, while 39.0% do not currently allocate to separate accounts. These figures indicate that larger investors are more in favour of increasing their allocations to separate accounts than smaller investors.

> 'Smaller investors are likely to allocate more to funds in coming year'

At the same time, it indicates that it is mainly smaller investors that expect to decrease their investments in separate accounts.

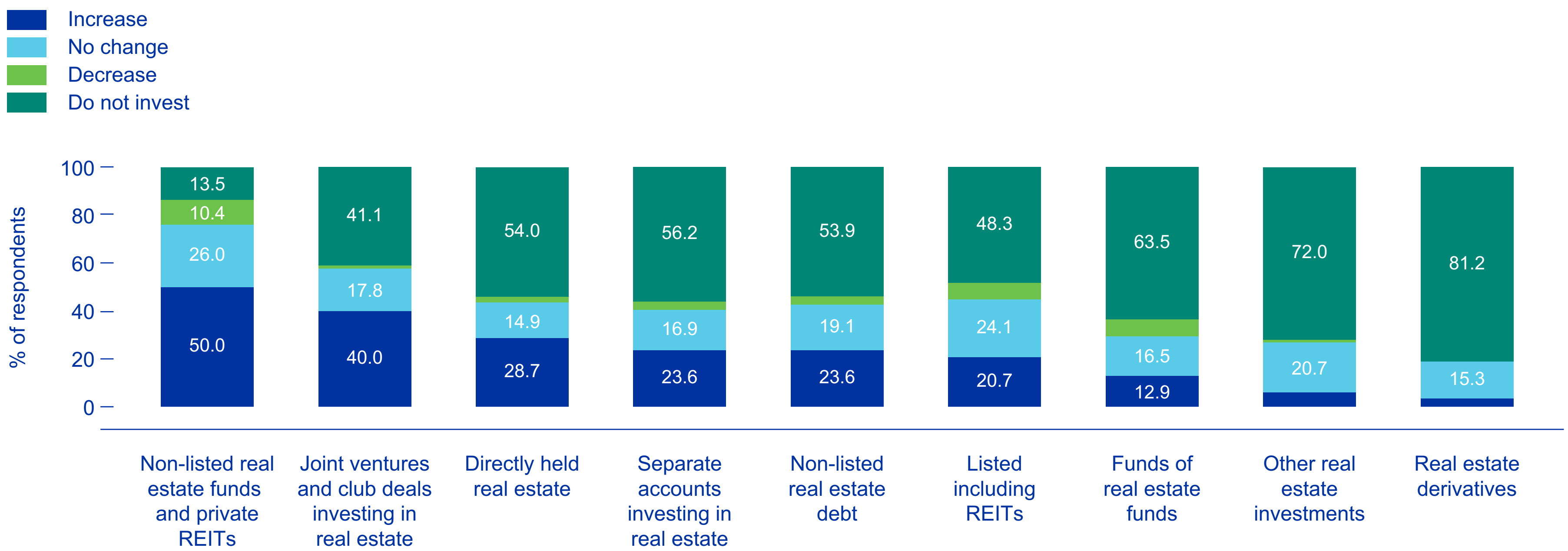
The overall picture that emerges is that larger investors intend to decrease their allocations to non-listed real estate funds in favour of joint ventures and club deals, separate accounts and direct investment, while their smaller peers are likely to allocate more to funds in the coming year.

Non-listed real estate debt is the fifth most popular route into European real estate, with 23.6% expecting the allocation to increase, 3.4% expecting a decrease and 19.1% expecting to maintain the current allocation, while 53.9% do not currently invest in non-listed real estate debt. The equivalent percentages on a weighted basis are as follows: 29.0% expect the allocation to increase, 9.6% expect a decrease and 23.7% expect to maintain the current allocation, while 37.7% do not currently invest in real estate debt.

Next most popular is listed real estate including REITs, with 20.7% expecting the allocation to increase, 6.9% expecting a decrease, 24.1% expecting to maintain the current allocation and 48.3% not currently investing in this vehicle type.

The equivalent weighted percentages are as follows: 31.0% expect the allocation to increase, 1.2% expect a decrease and 28.1% expect to maintain the current allocation, while 39.7% do not currently invest in this vehicle. Hence, it appears that large investors show somewhat greater preference to listed real estate including REITs compared to real estate debt vehicles.

Figure 33: Expected changes in investors' European real estate allocations over the next two years



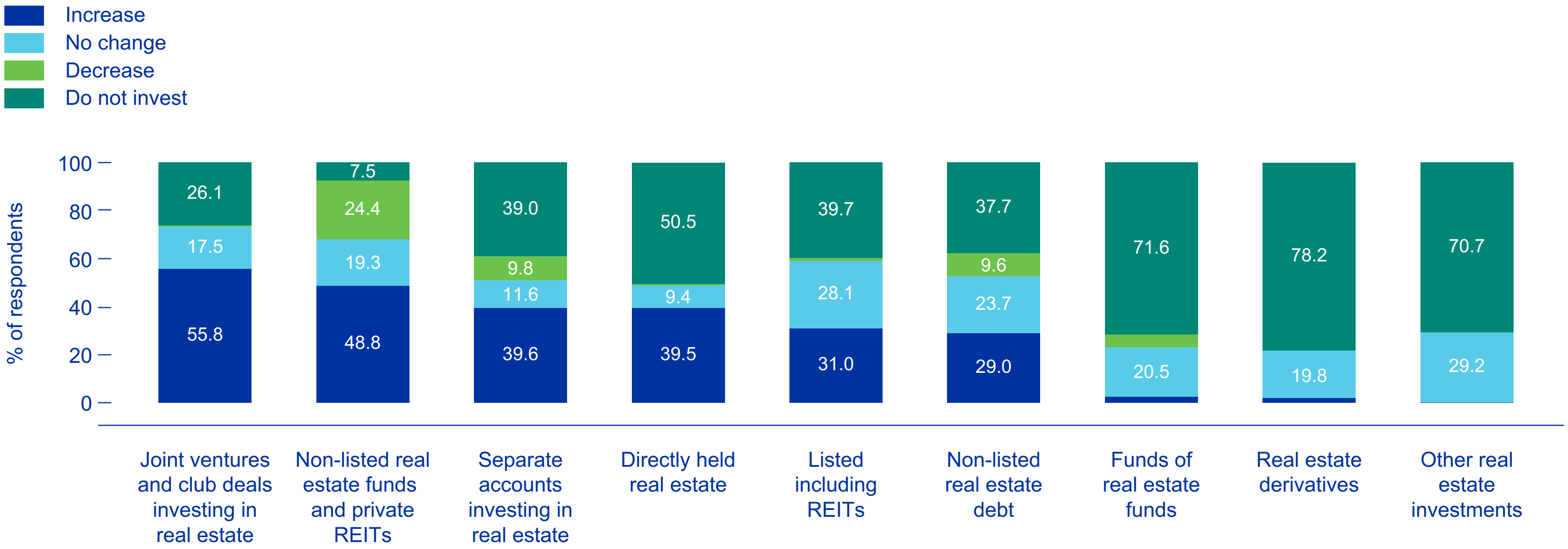
Note: based on a sample of 97 investors

Funds of funds come next in the listed of preferences, with 12.9% expecting the allocation to increase, 7.1% expecting a decrease and 16.5% expecting to maintain the current allocation, while 63.5% do not currently invest in funds of funds. The equivalent weighted percentages are as follows: 2.6% expect the allocation to increase, 5.3% expect a decrease, 20.5% expect to maintain the current allocation and 71.6% do not currently invest in funds of funds.

Other real estate vehicles are also considered. For these, 6.1% of investors expect allocations to increase, 1.2% expect a decrease and 20.7% expect to maintain the current allocation, while the remaining 72.0% do not currently invest in these vehicles. The equivalent weighted percentages are as follows: only 0.1% expect the allocation to other real estate vehicles to increase, none expect a decrease, 29.2% expect to maintain the current allocation and 70.1% do not currently invest in other real estate funds. This suggests that smaller investors are more likely to see an increase in allocations to other real estate vehicles.

Finally, real estate derivatives are the least popular access route, with 3.5% of investors expecting to increase their allocation to real estate derivatives, none expecting a decrease and 15.3% expecting to maintain the current allocation, while 81.2% do not currently invest in these instruments. The equivalent weighted percentages are as follows: 2.0% expect the allocation to increase, none expect a decrease and 19.8% expect to maintain the current allocation, while 78.2% do not currently invest in real estate derivatives.

Figure 34: Expected changes in investors' European real estate allocations over the next two years (weighted)



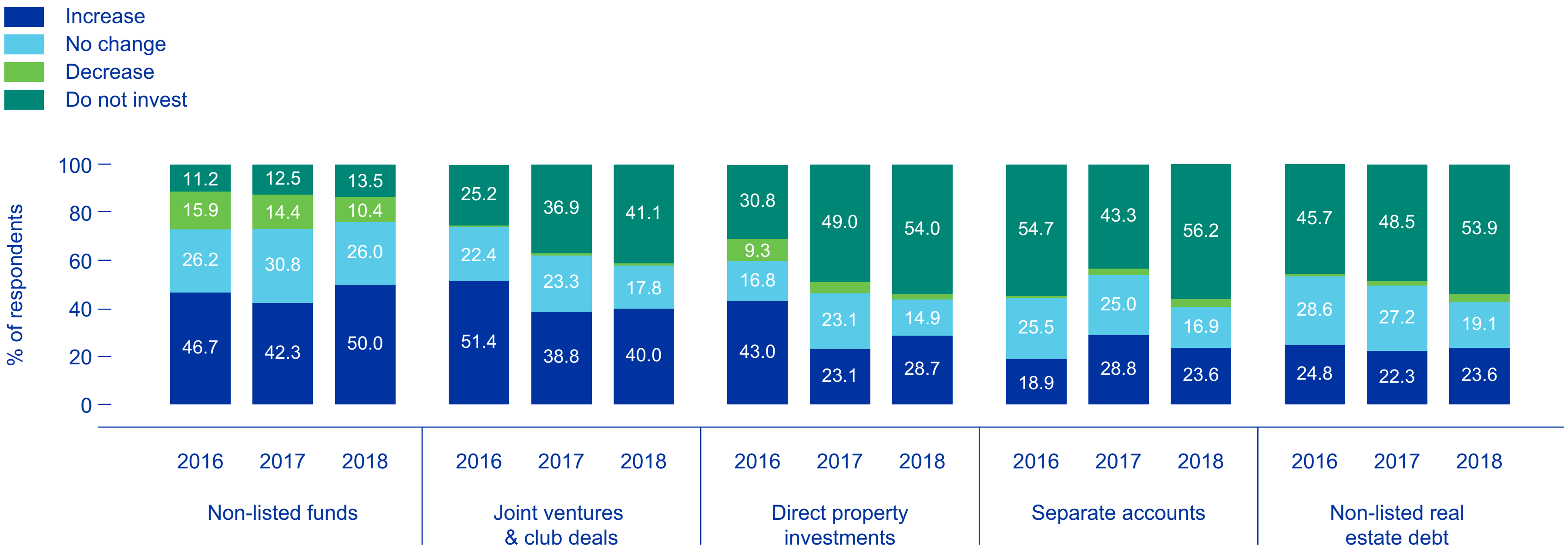
Note: based on a sample of 97 investors; weighted by total AUM

The proportion of investors expecting to increase their use of non-listed funds continues to rise, growing from 46.7% to 50.0% in the period 2016 to 2018. At the same time, a smaller percentage of investors plan to decrease their real estate funds allocations, with only one in ten (10.4%) planning to do so. Two years ago, 15.9% of investors were planning to reduce their funds allocations.

Joint ventures and club deals are also proving increasingly attractive to investors, although the number expecting to raise their allocation tapered slightly compared to 2016 results: 40.0% in 2018 versus 38.8% in 2017 and 51.4% in 2016.

In total 28.7% of investors expected to increase their allocations to direct real estate in 2018, compared with 43.0% that expected to do so in 2016. However, the proportion of investors expecting to decrease their levels of allocation has declined significantly from 9.3% in 2016 to 2.3% this year.

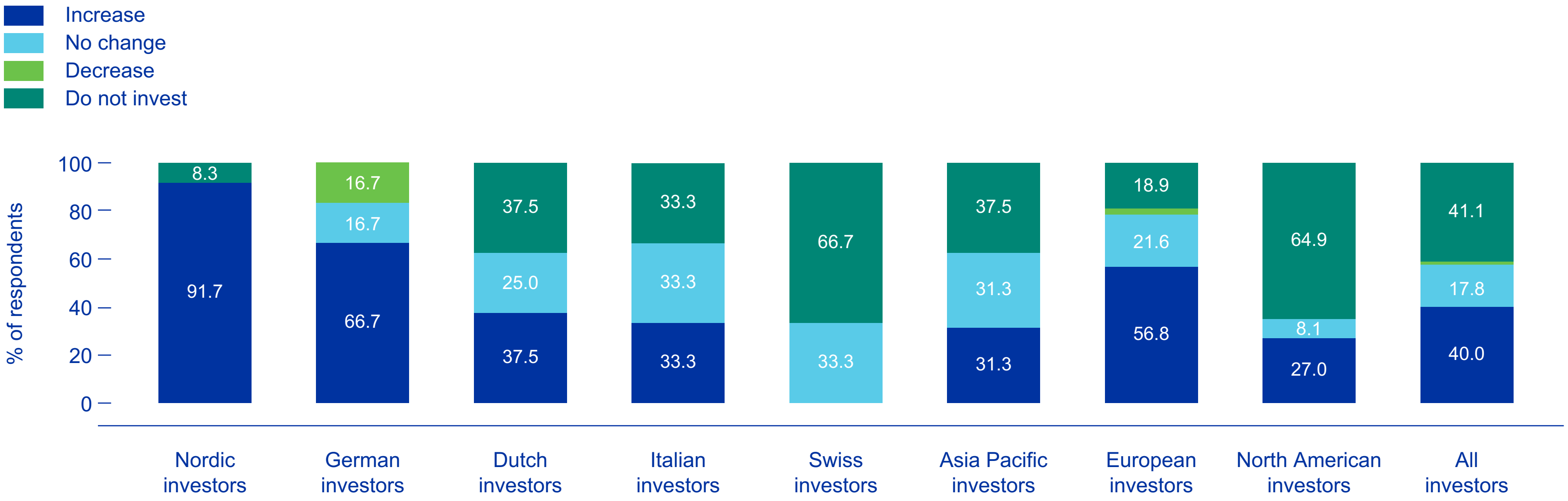
Figure 35: Expected changes in investors' European real estate allocations 2015 to 2018



Note: based on a sample of 97 investors

Nordic and German investors have the highest conviction that their allocation to joint ventures and club deals will increase in 2018. Overall, 56.8% of European investors expect to increase their allocations to this vehicle type, which compares to 40.0% of all investors that are planning to increase their JV allocations. Likewise, none but a few German investors plan to decrease their allocations to JVs and club deals over the next two years.

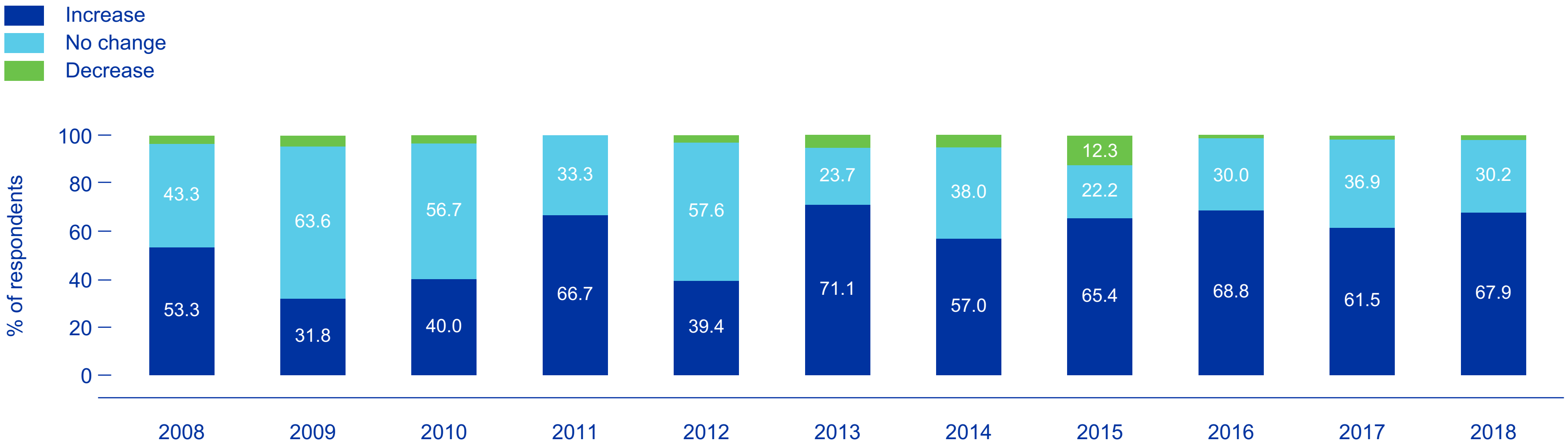
Figure 36: Expected changes in investors' joint ventures and club deals allocations over the next two years by investor domicile



Note: based on a sample of 90 investors

Over the period 2008 to 2018, there has been considerable change in investors' expected shifts in allocation to joint ventures and club deals. Of those that invest in these structures, the percentage expecting a decrease stands at just 1.9% in 2018, a comparable figure to 2017 and 2016. The only time it has breached the 10% threshold was in 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 2018 figure is third highest in the series. 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 and 2017. Approximately one in three (30.2%) of investors expect to maintain their current allocations to joint ventures and club deals in 2018.

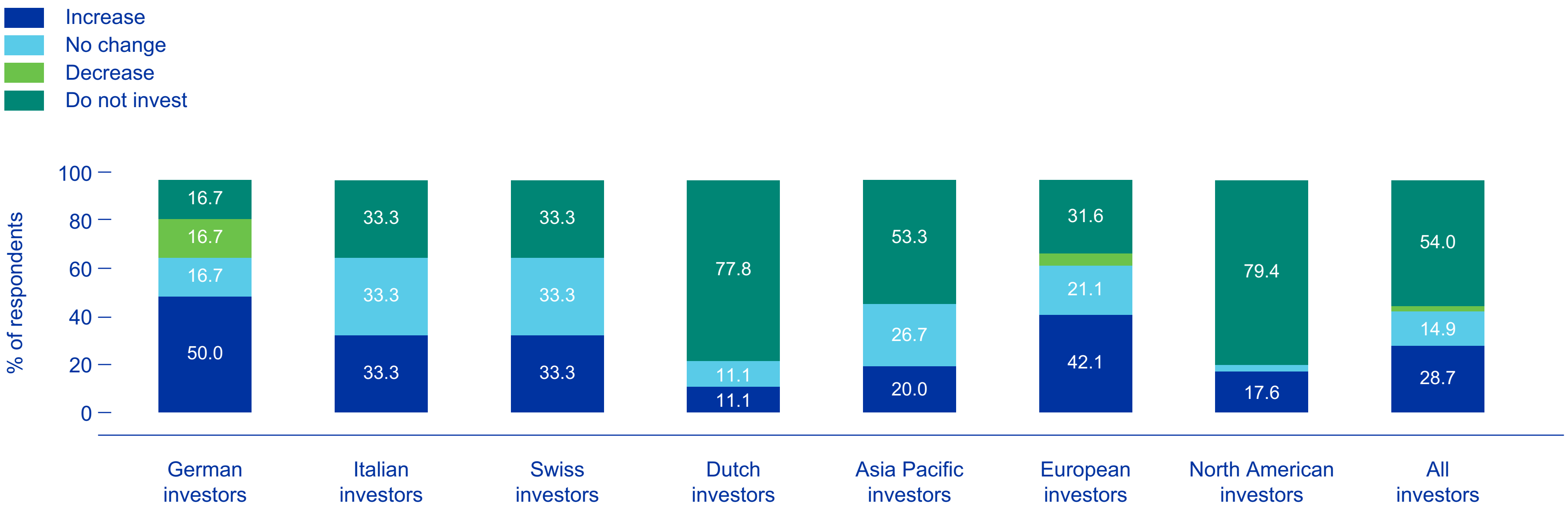
Figure 37: Expected changes in investors' joint ventures and club deals allocations 2008 to 2018



Note: based on a sample of 90 investors

With regards to direct real estate investments, German investors have the highest conviction that their allocations will increase, with one in two expecting this change. Italian and Swiss investors generally expect no change to their direct real estate allocations. Taken as a group, 42.1% of European investors plan to increase their direct real estate allocations, 21.1% expect no change and 5.3% plan a decrease, while the remaining 31.6% do not invest directly.

Figure 38: Expected changes in investors' direct real estate allocations over the next two years by investor domicile



Note: based on a sample of 87 investors

The fund managers' views on their investors' preferred routes into European real estate broadly match the investors' views. Fund managers firstly expect investors to increase their allocations to joint ventures and club deals, with 65.3% indicating this, and then to non-listed real estate funds and private REITs, with 63.2% each. In comparison 50.0% of investors expect to increase their allocations to non-listed real estate funds and private REITs, while 40.0% expect a rising allocation to joint ventures and club deals. A large proportion of fund managers (59.7%) expect investors to increase allocations to separate accounts, while a similar number (59.2%) expect an increase in allocations to direct real estate.

Fewer fund managers expect decreases in allocations across the different vehicle types. Around 1.6% of fund managers expect a decrease in allocation to non-listed real estate funds, joint ventures and club deals, as well as to separate accounts.

While fund manager views and investor plans are broadly in line, fund managers tend to overestimate increases in allocations to all vehicle types, a recurring theme from last year's results.

Figure 39: Expected changes in fund managers' perception of their investors' European real estate allocations over the next two years

Note: based on a sample of 129 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 funds 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 were asked a slightly different question – whether they are not managing, currently managing or intending to manage assets in those same regions). They were then asked: 'for each region, which characteristics do you prefer for the majority of your non-listed real estate fund investments?'

Respondents were asked how the bulk of their non-listed real estate fund investments would be held, choosing one response from each of the binary options below:

- 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

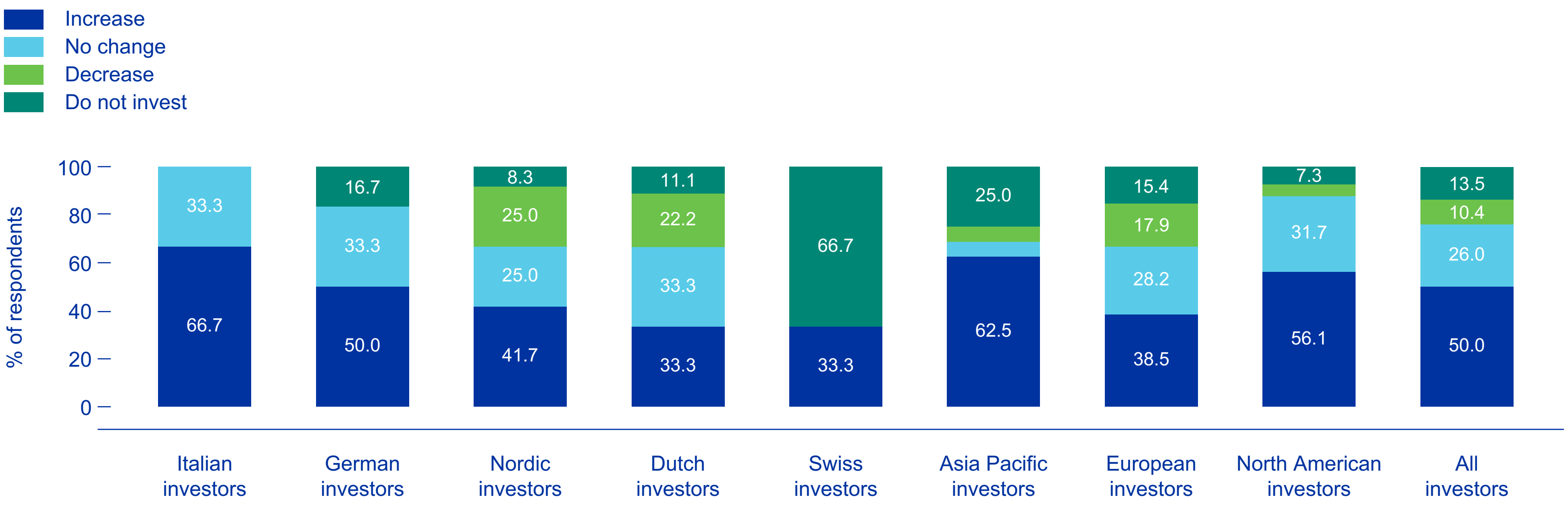
Respondents had to indicate one or the other – there was no neutral option available.

Focusing on the expected changes in allocations to non-listed real estate funds in the next two years by investor domicile, Italian and German investors are the most enthusiastic about increasing their allocations, with 66.7% and 50.0% respectively expecting to do so.

Asia Pacific (62.5%) and North American (56.1%) investors are also expecting to make larger allocations to non-listed real estate funds in 2018. One third of European investors (38.5%) plan to increase their funds allocation in the coming year. Taken as a group, half (50.0%) of investors plan to expand their real estate funds allocations.

However, a quarter (25.0%) of Nordic investors are expecting to decrease their investment in non-listed real estate funds. Dutch investors follow, with 22.2% expecting to decrease their allocations. On a regional basis, 6.3% of Asia Pacific, 17.9% of European and 4.9% of North American investors expect to decrease their allocations to funds next year.

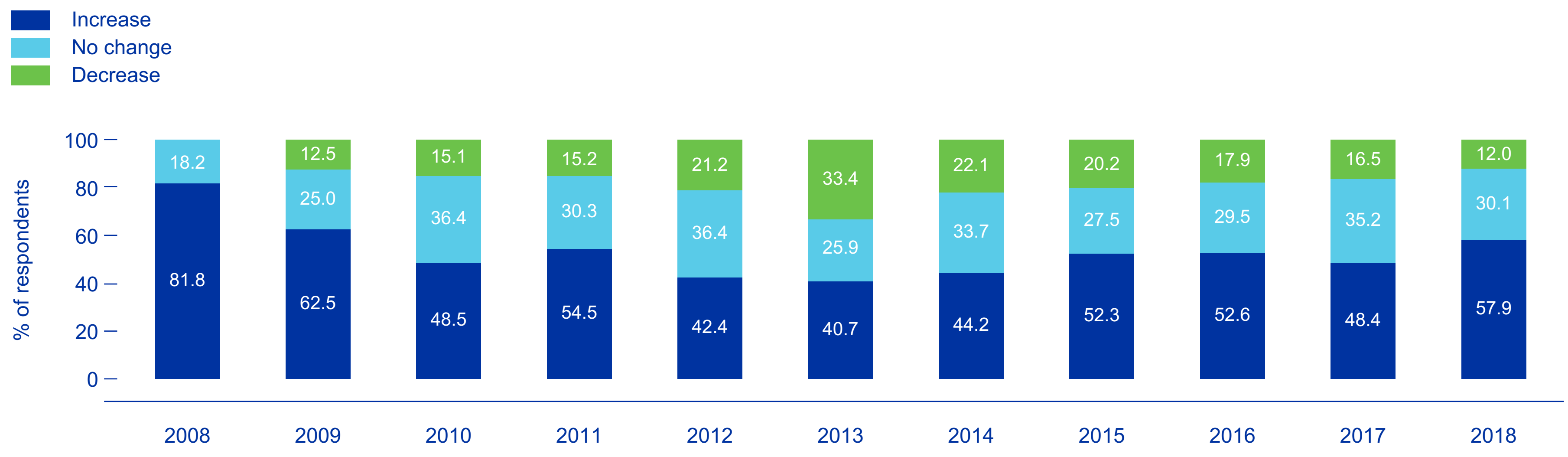
Figure 40: Expected changes in investors' non-listed real estate funds allocations over the next two years by investor domicile



Note: based on a sample of 96 investors

Before examining the preferences of 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 11-year period from 2008 to 2018, there has been considerable change in investors' expected allocations to non-listed funds. 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 a decrease has ranged from a low of 0.0% in 2008 to a high of 33.4% in 2013. With regards to 2018 expectations, the coming year extends the broad trend of incremental growth in allocations to real estate funds.

Figure 41: Expected change in investors' allocations to non-listed real estate funds 2008 to 2018



Note: based on a sample of 96 investors

In the rest of Section 7, 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 multi-country over single country funds, seeded pool over blind pool funds and multi-sector over single sector funds. They have a notable preference for regulated over non-regulated funds, closed end over open end funds, discretionary over non-discretionary funds and funds with similar investors by company type, GAV above €500 million and a large pool of investors. They have a mild preference for similar investors by domicile.

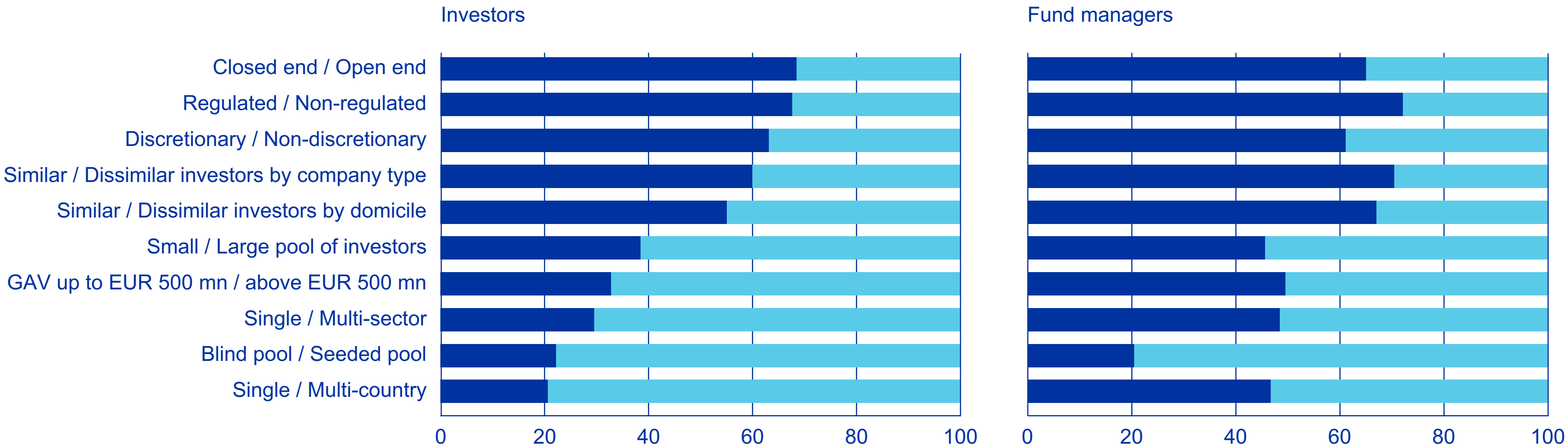
Fund managers believe that institutional investors have a very strong preference for seeded pool funds, regulated funds and funds with similar investors by company type.

Fund managers also believe investors have notable preferences in three areas: closed end over open end funds, discretionary over non-discretionary, and with similar investors by domicile. As a group, fund managers generally have a good sense of where investors' preferences lie.

Fund of funds managers[6] have a very strong preference for regulated over non-regulated funds, seeded pools of investors rather than blind pools, and similar rather than dissimilar investors by company type. They have a notable preference for funds with the following characteristics: multi-country over single country, multi-sector over single sector, discretionary over non-discretionary,

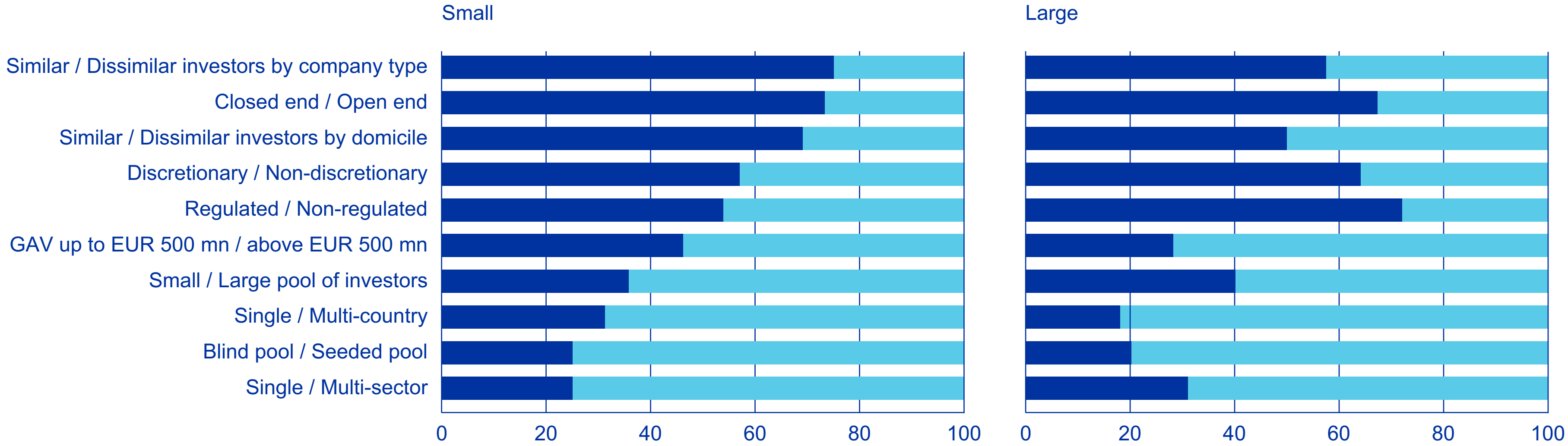
[6] Of the sample of 6

Figure 42: All respondents' preferred features of non-listed real estate funds



Note: based on a sample of 187: 82 investors and 105 fund managers

Figure 43: Investors' preferred features of non-listed real estate funds: smaller versus 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

closed end over open end; with GAV less than €500 million, smaller pools of investors, and investors that are similar by domicile.

When investors' preferences are compared by their size, some interesting differences emerge.

Smaller investors have a strong preference for funds with similar investors by company type and domicile, closed end funds over open end funds, seeded pool over blind pool and multi-sector over single sector funds. For larger investors, the strong preferences lie with multi-country, seeded pool and regulated vehicles.

Also, smaller investors have a notable preference for multi-country funds and funds with a large pool of investors. Larger investors have a notable preference for discretionary over non-discretionary funds and closed end over open end funds.

Currently, smaller investors have mild preferences for funds above €500 million, vehicles that are regulated and discretionary over non-discretionary. For their larger peers, mild preferences are seen for funds with similar investors by domicile and company type.

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.

Main reasons to invest

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

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

Investors and fund of funds managers were also asked to identify their most challenging obstacles, again by choosing up to three from eleven potential answers. Finally, investors and fund of funds managers were asked to identify the most challenging obstacles for fund managers, by choosing up to three from ten potential answers.

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

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

Access to expert management is the most important reason for investing in non-listed real estate funds for 59.8% of investors. Fund managers agree with investors here, with 81.1% of managers indicating the latter to be the key reason for investing in funds. However, 66.7% of fund of funds managers[7] consider stable income return to be the most attractive characteristic of non-listed real estate funds.

Just over half of investors, 51.2%, see diversification benefits for an existing multi asset portfolio as one of the most attractive features of investing in funds, ranking it in second place. Fund of funds managers see access to expert management as the second most important advantage. Fund managers believe that stable income return drives institutional investors when investing in non-listed real estate funds.

For investors, the third most important consideration (37.8%) is international diversification for an existing domestic real estate portfolio, while for fund of funds managers (33.3%) the third most important characteristic is diversification benefits for an existing multi-asset portfolio. Fund managers (30.2%) see international diversification for an existing domestic real estate portfolio as being the third most important characteristics for investing in funds.

[7] Of the sample of 6

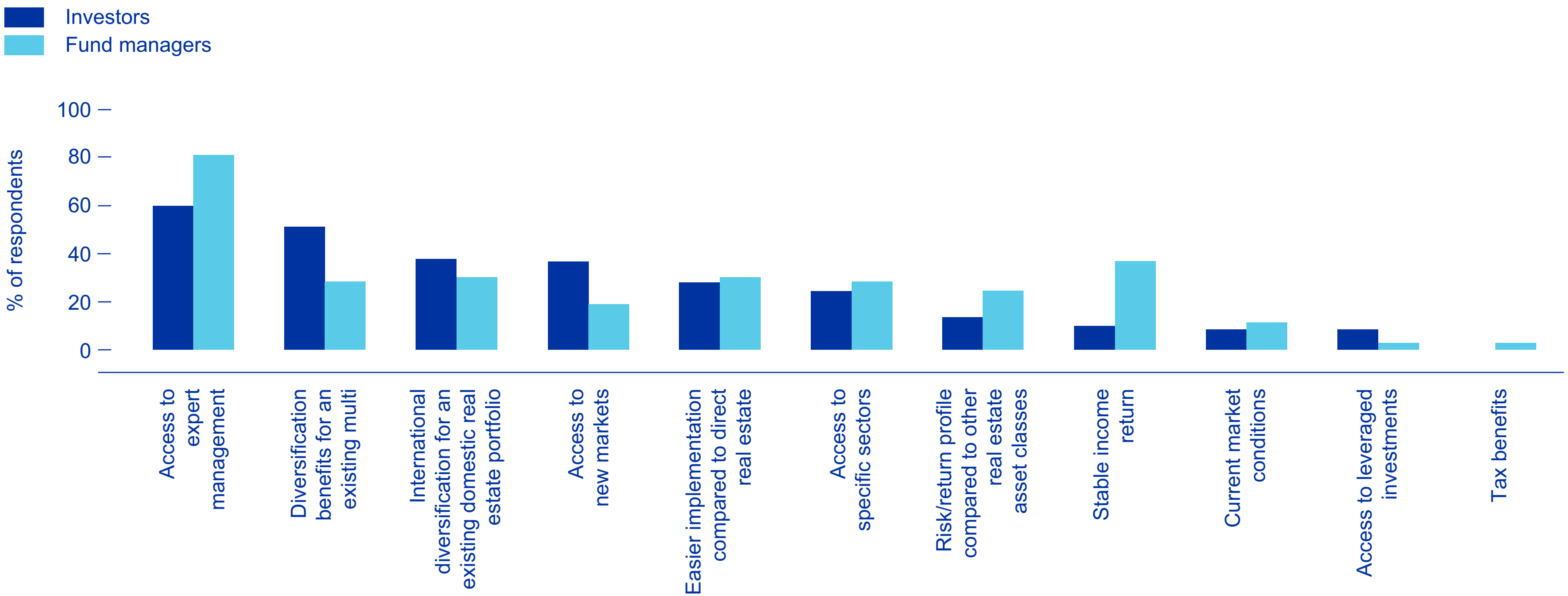
Next for investors come access to new markets (36.6%), ease of implementation compared to direct real estate (28.0%), access to specific sectors (24.4%), risk/return profile compared to other real estate asset classes (13.4%), stable income return (9.8%), current market conditions (8.5%) and access to leveraged investments (8.5%). None of the investors consider tax benefits of investing in funds as an important feature of this structure.

Fund managers agree with investors on the key reasons for investing in funds. Overall, it seems that they have a very good understanding of the factors that drive institutional investors when investing in non-listed real estate.

Fund of funds managers consider stable income return to be the most attractive characteristic of non-listed real estate funds, access to expert management as the second most important advantage with diversification benefits for an existing multi-asset portfolio the third most important characteristic.

> ‘Access to expert management is the most important reason for investing in non-listed real estate funds’

Figure 44: Reasons to invest in non-listed real estate funds



Note: based on a sample of 188: 82 investors and 106 fund managers

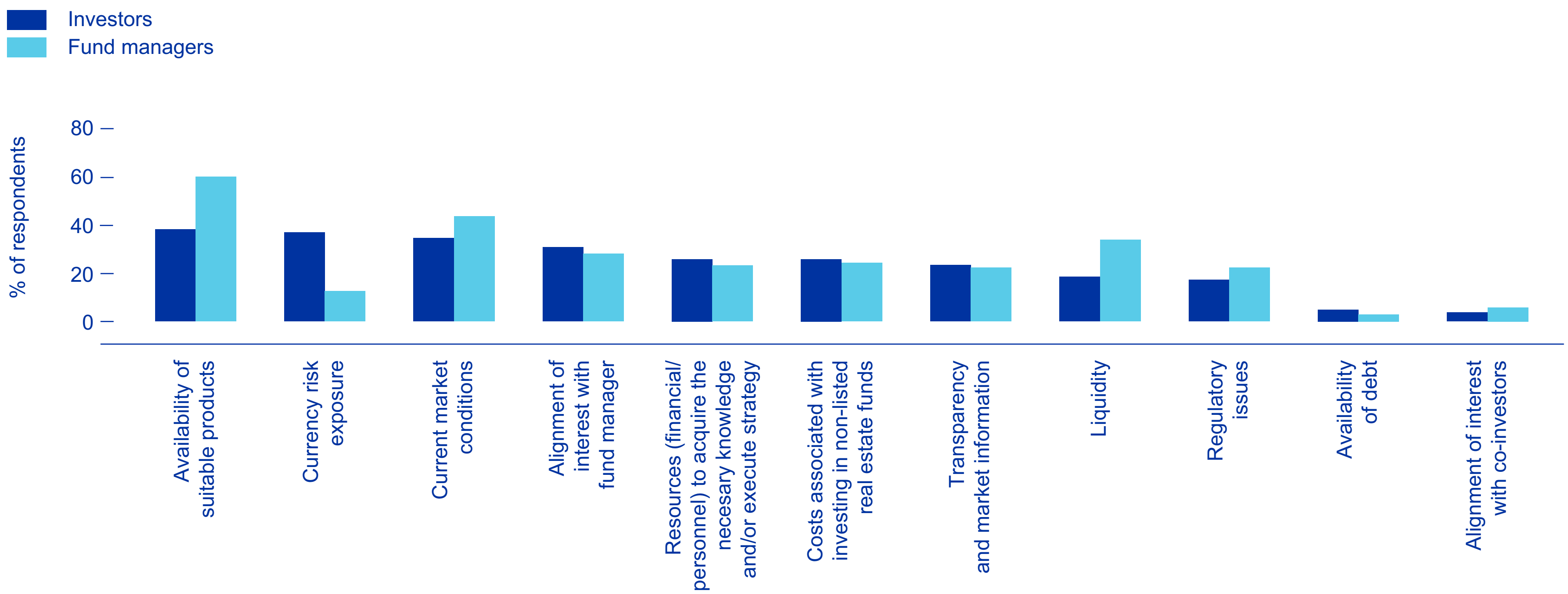
Turning to obstacles, in 2018 the main obstacles facing investors when investing in non-listed real estate funds are the availability of suitable products (38.3%), currency risk exposure (37.0%) and current market conditions (34.6%).

Fund managers' opinions align with those of investors. Managers identify availability of suitable products (60.2%) and current market conditions (43.7%) as the top two challenges when investing in real estate funds. In third place, managers identify liquidity as a significant obstacle (34.0%).

For fund of funds managers[8], availability of suitable vehicles and market conditions (equally ranked at 50.0%) are the top two obstacles to investing in non-listed real estate. In third place they choose regulatory issues and alignment of interest with co-investors (both scoring 33.3% each).

[8] Of the sample of 6

Figure 45: Most challenging obstacles facing investors in non-listed real estate funds



Note: based on a sample of 184: 81 investors and 103 fund managers

Looking back over the last 11 years at the obstacles facing investors, certain patterns can be observed. Availability of suitable vehicles has been highlighted as the key deterrent to making investments into non-listed real estate funds over the last few years. In 2016 alignment of interest with the fund manager moved to the top of investors' agenda.

Interestingly, this year investors indicated currency risk exposure as the second most important reason deterring them from investing in non-listed real estate funds; this factor had not previously featured in the rankings.

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

Reasons not to invest	Number 1	Number 2	Number 3
2018	Availability of suitable products	Currency risk exposure	Market conditions
2017	Availability of suitable products	Market conditions	Costs associated with investing funds
2016	Alignment of interest with fund manager	Availability of suitable products	Costs associated with investing funds
2015	Alignment of interest with fund manager	Liquidity	Cost associated with investing in funds
2014	Availability of suitable products	Alignment of interest with fund manager	Liquidity
2013	Alignment of interest with fund manager	Availability of suitable products	Costs associated with investing 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	Costs associated with investing funds

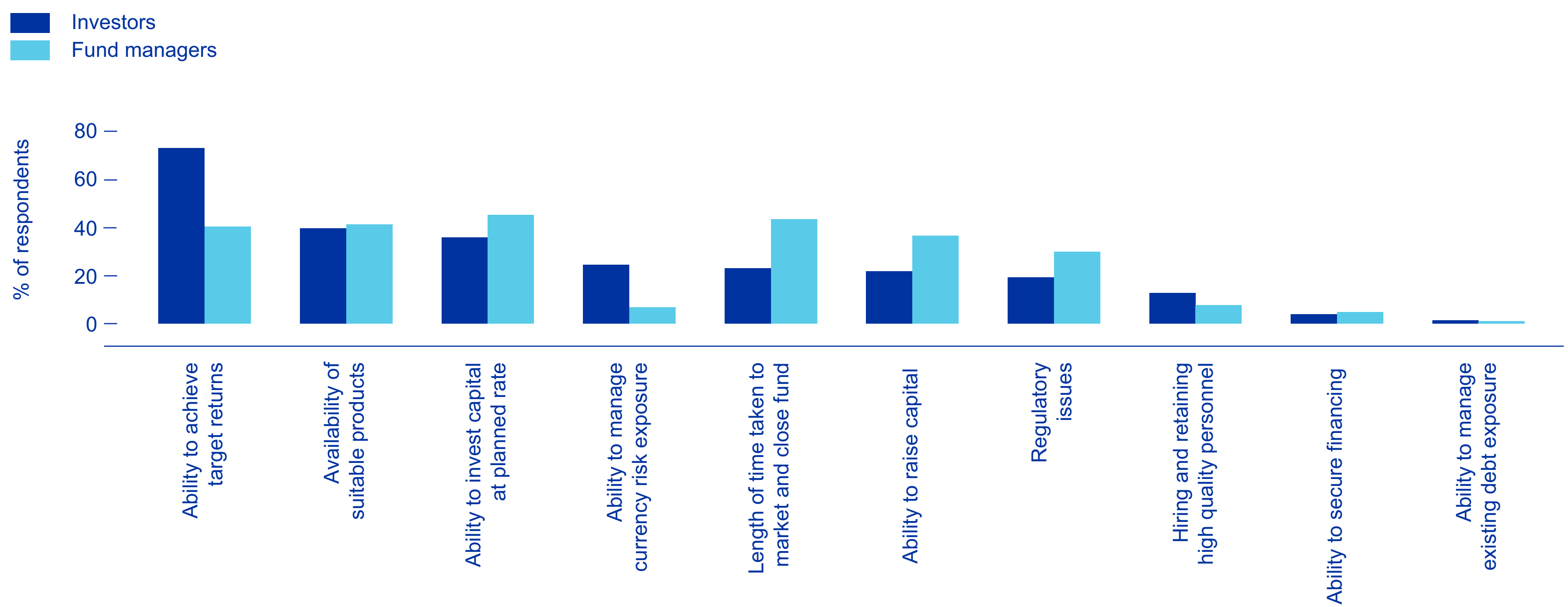
Turning to the obstacles facing fund managers, 73.1% of investors consider that the most challenging obstacle for fund managers is the ability to achieve target returns, while 39.7% believe that they need to improve the availability of suitable products, and 35.9% are concerned about their ability to invest capital at the planned rate. This ranking is identical to last year's result.

Fund managers (45.2%) identify that the ability to invest capital at the planned rate is the most challenging obstacle when running a fund, while investors rank this third. Approximately 43.3% of managers rank the length of time taken to market and close a fund as the second most challenging obstacle.

Fund of funds managers[9] consider ability to achieve target returns, availability of suitable products and ability to invest capital at planned rate as the main difficulties managers face in the non-listed real estate fund space.

[9] Of the sample of 7

Figure 46: Most challenging obstacles for fund managers



Note: based on a sample of 182: 78 investors and 104 fund managers

Looking back at the most challenging obstacles for fund managers over the period 2010 to 2018, two distinct periods emerge. From 2010 to 2013 the key challenge for managers was the ability to raise capital. However since 2014 the ability to achieve target returns became a significant difficulty, while the availability of suitable vehicles and the ability to invest capital at the planned rate were also notable obstacles.

> ‘since 2014, ability to achieve target returns became a difficulty’

Table 3: Most challenging obstacles for fund managers 2010 to 2018

Most challenging obstacles	Number 1	Number 2	Number 3
2018	Ability to achieve target returns	Availability of suitable products	Ability to invest capital at planned rate
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 to 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 te secure financing	Ability to manage existing debt exposure

Note: based on a sample of 189: 78 investors, 7 fund of funds managers and 104 fund managers

Appendix 1

Intentions versus reality: RCA back-testing analysis of the INREV Investment Intentions Survey 2017

Intentions versus reality: RCA back-testing analysis of the INREV Investment Intentions Survey 2017

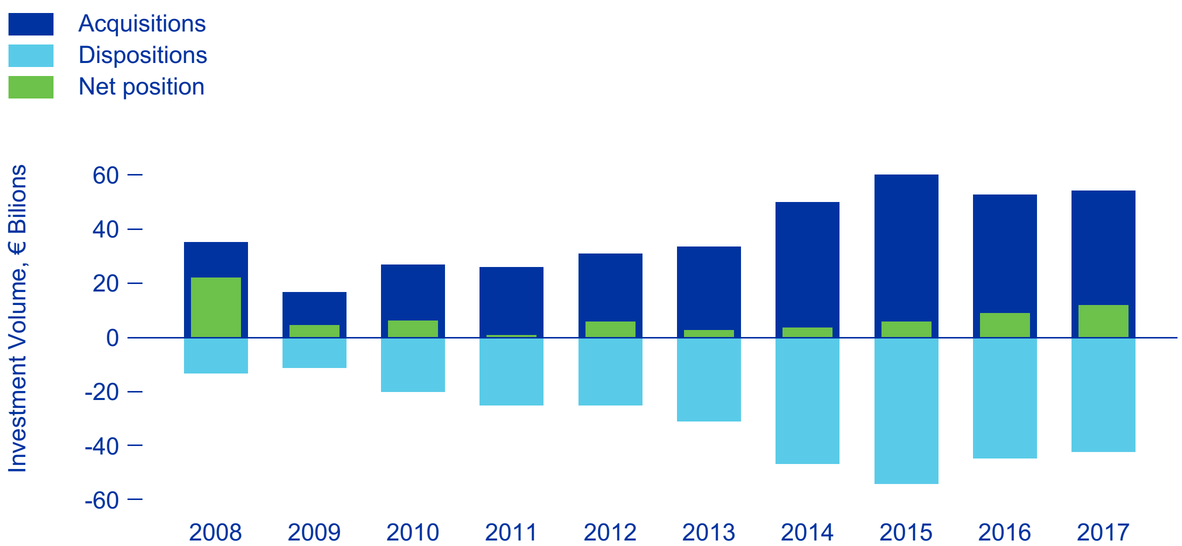
Investors continue to find it hard to meet allocation targets in 2017

For the fifth year, Real Capital Analytics (RCA) has back-tested the results of the INREV Investment Intentions Survey. The latest analysis compares the 2017 INREV report (where respondents were surveyed in October 2016 about their investment intentions for the year 2017) with transaction activity recorded by RCA for the same set of responding fund managers during 2017. As with previous back-testing analyses, 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.

Overall investment activity

The fund managers responding to the 2017 INREV survey transacted €96.7 billion in European real estate in the year-to-date 2017[1], based on transactions recorded by RCA. This reflects a 1% decline in activity by this group of respondents compared to the same period in 2016. The group acquired €54.3 billion of assets and disposed of €42.3 billion. The net investment of this group of respondents, at €12 billion, was the highest recorded since 2008 (Figure 1).

Figure 1: Historical Activity of 2017 Respondent Group



Reflecting medium-term uncertainties in the United Kingdom, the respondent group was a slight net seller of property in the country, selling €13.2 billion while buying €12.8 billion. The respondent group was also a net seller in Central Europe and the Netherlands. Of the assets sold by the respondent group in the Netherlands, 77% were acquired by non-Dutch buyers and 60% were sold by Dutch respondents. This may reflect Dutch investors taking advantage of a resurgence of interest in the Netherlands by global investors.

RCA's tracking of the overall market (including players outside the INREV respondent group) has highlighted a strong interest in Finland during 2017. This wider market trend also holds true for the INREV respondents, with Finland recording net investment very close to the level of acquisitions, indicating very little was sold by the respondents here. It also

[1] Real Capital Analytics analysis is run as at 08.12.2017, so may exclude some deals closed at the end of the year and as yet unreported.

suggests that the survey does not capture the sellers of Finnish real estate. This is also true for Germany, where investors continued to show demand and acquired €4.9 billion more than they sold.

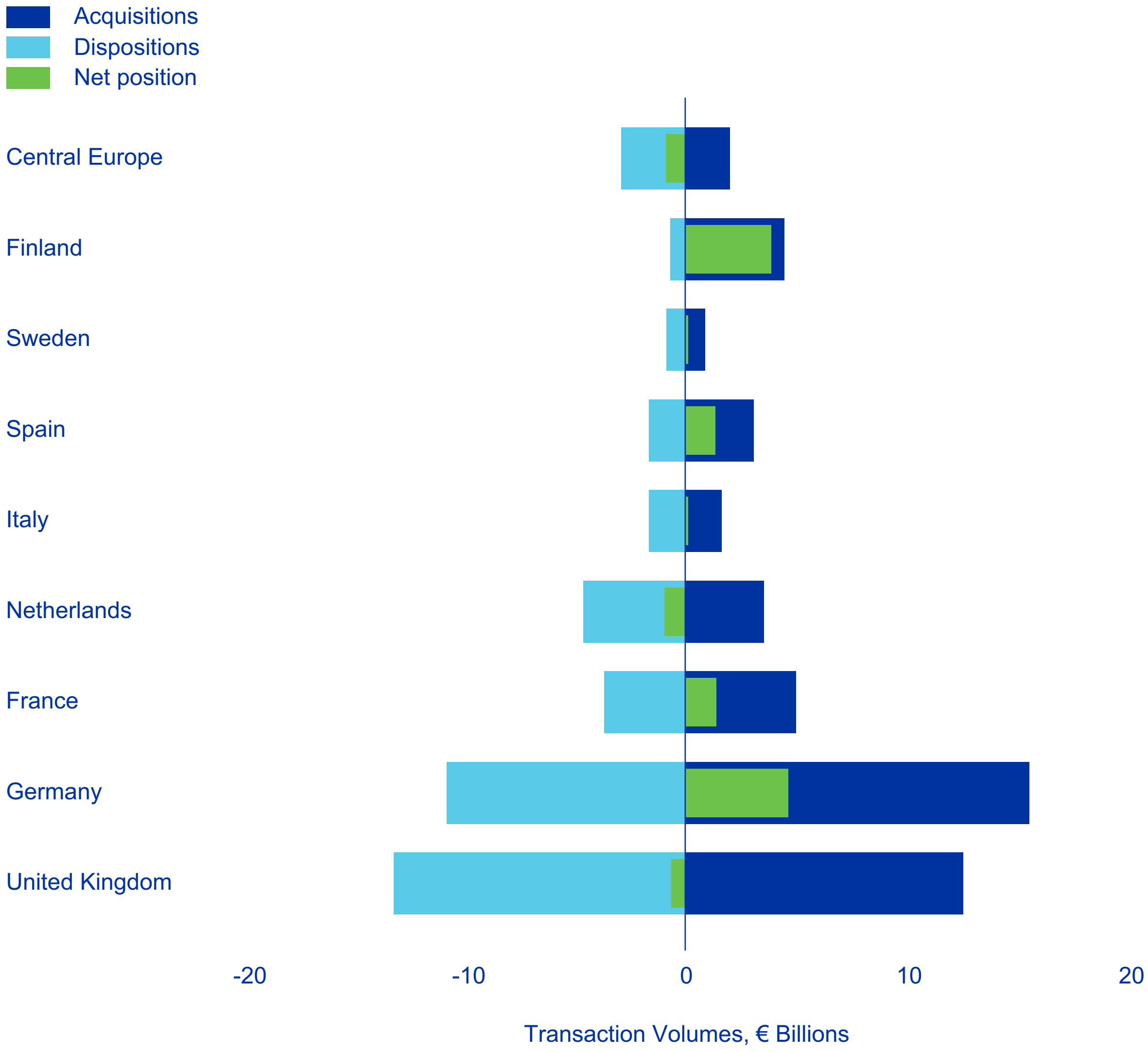
The RCA analysis indicates that, despite strong investment volumes among the respondent group in 2017, a weak overall market context meant that they struggled to deploy capital to the extent they had predicted when surveyed at the end of 2016.

Deployment analysis highlights

RCA has compared the respondent group's original intentions to their actual deployment of capital during 2017.

- Buyers were furthest from matching their original intentions in the retail sector. This has been a common theme of this back-testing in recent years. They have been focused on securing high quality high street or shopping centre assets, which are in short-supply and keenly priced.
- The intentions were realised most closely in the office and industrial sectors, falling short by 23% and 22% respectively. Wider RCA analysis indicates that buyers are willing to move into secondary markets to secure office assets in order to close in on their original targets.
- In the last back-testing analysis, the residential sector came closest to its allocation targets, but this year saw a 29% shortfall. This could reflect growing interest

Figure 2: Historical Country Activity of 2017 Respondent Group



in the sector across Europe, leading to increased competition for assets. Those targeting residential in the intentions survey rose from 53% in 2016 to 58% in 2017 (albeit for a different set of respondents).

- France recorded the largest difference between intentions and actual deployment: 52% of respondents had suggested they would invest in France during 2017, but only 18% placed capital. In early 2017 there was significant uncertainty in the French market due to the presidential elections, reflected both in the back-testing results wider RCA analysis showing weak investment volumes here.

- As in last year's back-testing, there was also a significant gap between intentions and actual deployment in the UK. Together with net disinvestment from the UK market (Figure 1), this suggests the respondent group has been nervous about investing here.

- Germany is the big surprise. The market has seen significant interest from domestic, continental and global investors during 2017. Yet, despite a high level of demand, the respondents' deployment almost matched their intentions during 2017: 69% of respondents indicated an interest in Germany, and 66% were able to invest here during the year.

Figure 3: Intention v. Actual, Sectors 2017

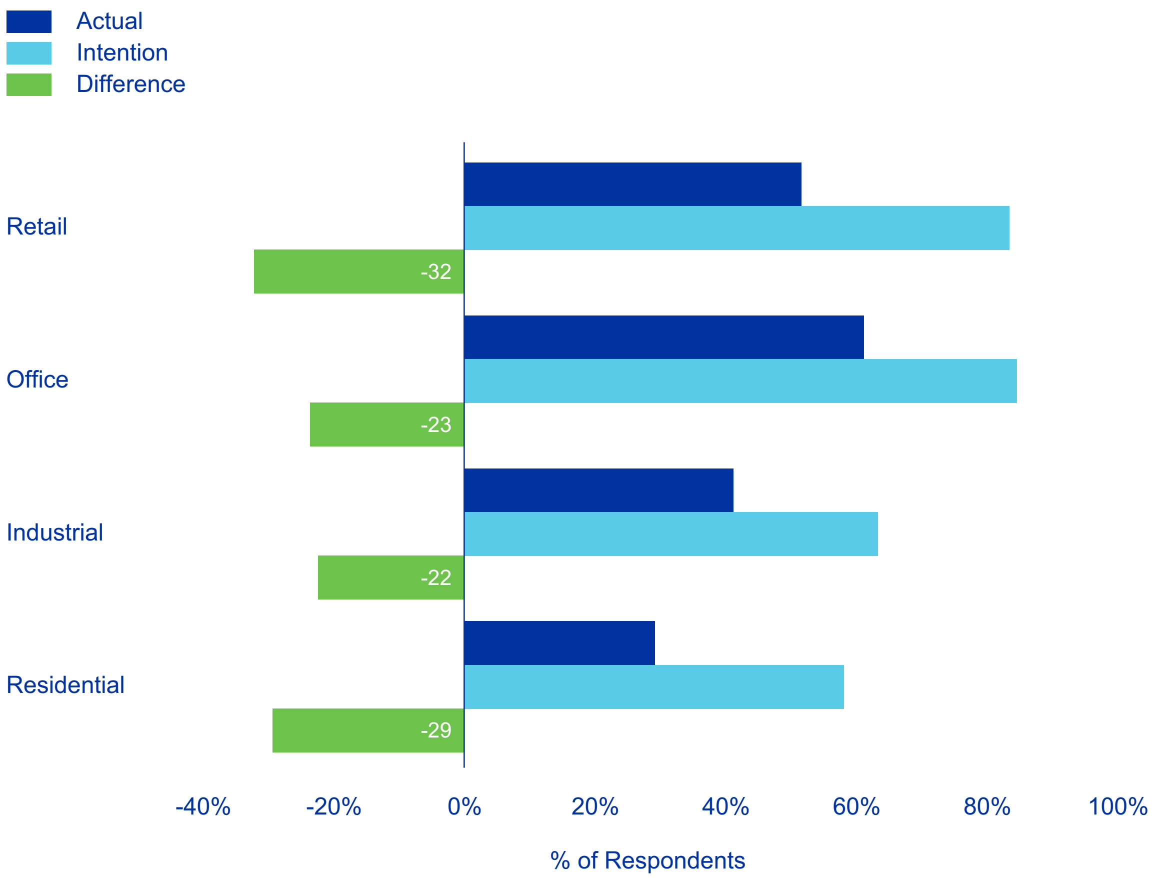
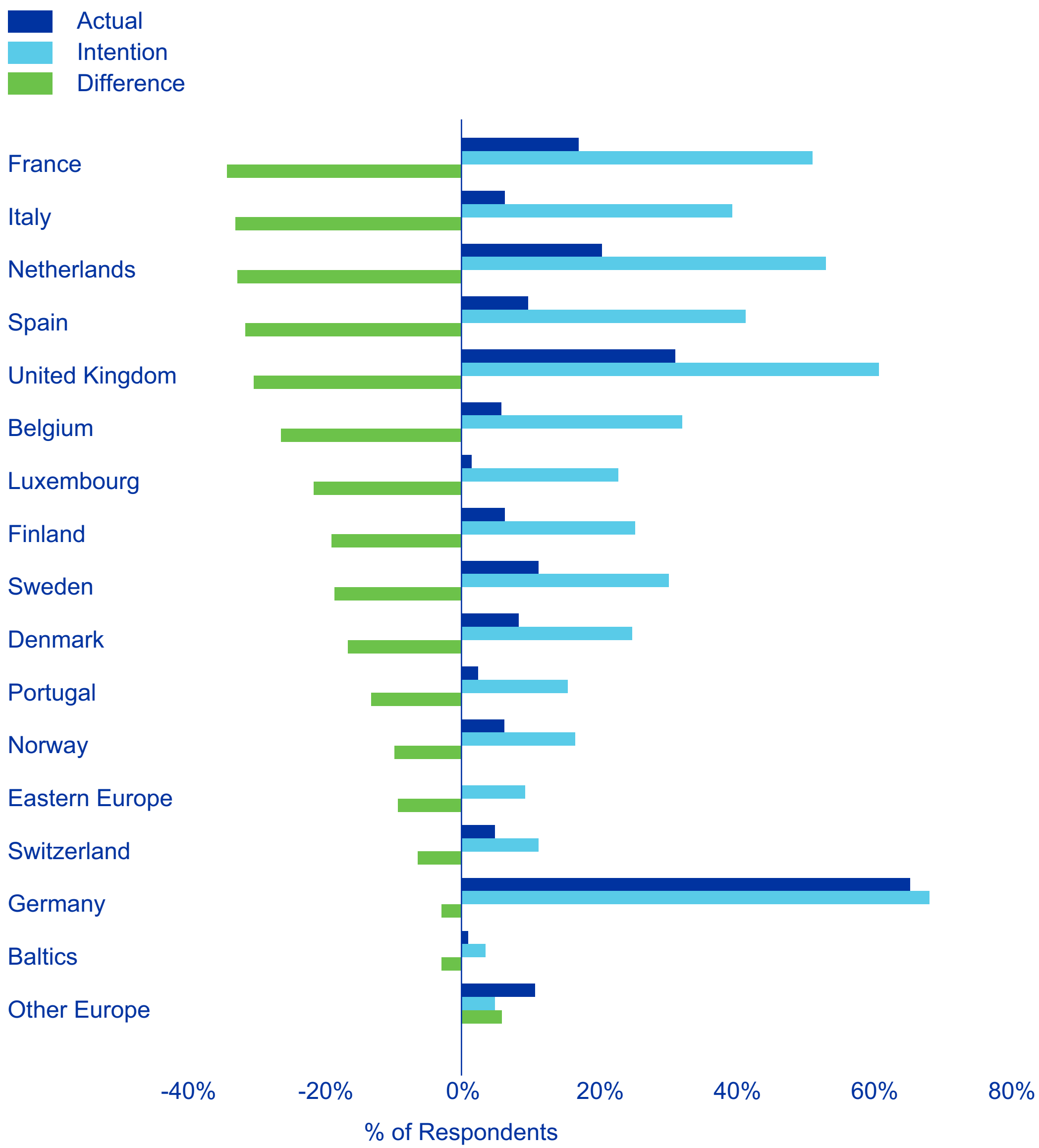


Figure 4: Intention v. Actual, Countries 2017



Appendix 2

List of respondents

List of respondents

The following list of investors, fund of funds managers and fund managers participated in the Investment Intentions Survey 2018 and gave permission for their company names to be published:

AEW
a.s.r. real estate investment management
ActivumSG
ADIA
AFIAA Real Estate Investment AG
AIMCo
AINA Hospitality
Alaska Retirement Management Board
Alecta
Allianz Real Estate
Almanac realty investors
Altamar Real Estate
Altera Vastgoed NV
ALTO Real Estate Funds
American Realty Advisors
AMP Capital
Amundi Real Estate
Amvest
Antirion Sgr Spa
AP1
APG Asset Management
Aquila Capital
ARA Asset Management
Areim
ATP Real Estate
Aviva Investors
AXA IM - Real Assets
Barings
Bayerische Versorgungskammer
Bentall Kennedy
Berkshire Group
Black Creek Group - Diversified Property Fund
blackrock
Blue Moon Capital Partners
Blue Sky Group Holding
BMO Real Estate Partners
BNP Paribas Asset Management
BNP Paribas REIM
Bouwfonds Investment Management
Bouwinvest
Bouwinvest Investment Management
Boyd Watterson Asset Management
Caisson Investment Management
Canada Life Investments
CapMan Real Estate
CapRidge Partners
Carson Companies
Catella
CBRE GIP
Century Bridge Capital
Challenger
Charter Hall
Chelsfield Asia
C-III Capital Partners
City Square REI
Clay Cove Capital LLC
Clearbell Capital LLP
COIMA SGR
Colony NorthStar
Commonfund
Commonwealth of Pennsylvania Public School Employees` Retirement System
Credit Suisse
Davy
Dea CAPITAL REAL estate sgr
Deka Immobilien Investment GmbH
Delancey
Deustche Asset Management
Dexus
Diamond Realty Management Co., Ltd.
DNB
E.ON SE
Eastdil Secured
ECE Real Estate Partners S.à r.l.
EG Funds Management
EGW ASSET MANAGEMENT
Elo Mutual Pension Insurance Company
Equity Estate Group BV
ERAFP
ESR Singapore Pte. Ltd.
EZLand
Fabrica SGR
FCA US LLC
Fidelity International
Foncière Atland
fondaco sgr
Fonds de compensation AVS/AI/APG
Fortius Funds Management
FREO Group
Frogmore
Frontier Advisors
Fukuoka Realty Co., Ltd.
Future Fund
Gaw Capital Partners
GEG German Estate Group AG
Generali Real Estate
Genesta Property Nordic
GIC Real Estate Pte Ltd
GLL Real Estate Partners GmbH
GLP
Goodman Australia Industrial Partnership
GreenOak
Grosvenor Europe
Gruppo Brioschi Sviluppo Immobiliare
GTIS Partners
Guggenheim Real Estate

Hahn Group
Hampshire Companies
Hannover Leasing
Helaba Invest
HESTA
HIG Realty
High Street Realty Company, LLC
Hostplus
Hunter REIM
ICECAPITAL REAM Oy
ICG-Longbow
IDS Real Estate Group
Illinois Municipal Retirement Fund
ImmoFinRE
Invesco
Investa
Investire Sgr
Investment Management Corporation of Ontario
IPUT plc
ISPT
Jamestown
Jasper Ridge Partners
Kailong Investment
Kempen & Co
Kenedx, Inc.
Keva
KKR
Kristensen Properties
Kryalos SGR S.p.A.
L&B Realty Advisors LLC
LACERA
LaSalle Investment Management
LBO France
Lendlease
LGIM Real Assets
Long Wharf Capital LLC
M&G Real Estate
M7 Real Estate
Macquarie
mandatum life
Mapletree
Maryland State Retirement Agency
Meritz REAM
Meyer Bergman
Mitiska REIM
Mizuho Bank, Ltd.
MN
MOMENI Investment Management GmbH
Morgan Stanley
New Jersey Division of Investment
New Mexico State Investment Council
Newport Capital Partners
Niam
NN Group
Northern Horizon Capital
Northwood
NTUC Income
Ontario Power Generation
OP REAM
OPTrust
Orchard Street IM
Oregon State Treasury
oreima
Orion Partners
Oxford Properties
Pacifica Capital K.K.
PAG Real Estate
Paladin Realty
Pamfleet
PATRIZIA AG
PCCP, LLC
Pensionfund PGB
Penwood RE Inv Mgmt
PFA Pension
PGGM
Pradera
Praedium Group
Prelios SGR
prima capital advisors
Prologis
Propertylink Group
Proprium
Provinzial NordWest Asset Management GmbH
Prudential
REAM SGR S.P.A.
Regents of the University of California
Rockspring PIM
Rockstreet Partners
SC Capital Partners
Seven Seas Advisors Co., LTD.
SFPI
SilkRoad Property Partners
Sirius Capital Partners
Smithsonian Institution
sonae sierra
Sorgente SGR S.p.A
Sparinvest Property Investors
STAM Europe
Standard Life Investments
Starlight Investments
Stichting Pensioenfonds ING
Stockland
Sungdam
Swiss Federal Pension Fund PUBLICA
Swiss Life Asset Managers
Syntrus Achmea Real Estate & Finance
Teachers` Retirement Allowances Fund
Temasek International Pte Ltd
Texas Christian University
TH Real Estate
The Board of Pensions of the Presbyterian Church (USA)

The Chuch Pension Fund
The Crown Estate
The GPT Group
The Roseview Group
The State Pension Fund (Valtion Eläkerahasto)
Tishman Speyer
TKP Investments
TMRS
Tokyo Tatemono Investment Advisors Co., Ltd.
Tokyu Land US Corporation
Trevian Asset Management
TRIUVA Kapitalverwaltungsgesellschaft mbH
TruAmerica Multifamily
TTSTC
UBS Asset Management
Unite UK Student Accommodation Fund
UPS
USAA Real Estate Company
Valyrian Capital
Varma Mutual Pension Insurance Company
Velocis
Ventura County Employees` Retirement Association
VFMC
Virginia Retirement System
Warburg-HIH Invest Real Estate GmbH
Western National Group
Westport Capital Partners UK
White Peak Real Estate Investment
Wiener Städtische Versicherung AG Vienna Insurance Group
WPV

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