Real estate remains a very attractive proposition for global investors

> A minimum of €51.1 billion is earmarked for investment into global real estate in 2018
> The average current real estate allocation is 130 bps lower than the target of 10.2%
> Value added is the preferred style for investing in Europe

This year promises to be yet another excellent year for real estate globally. In a continuing low rate, low growth environment, it is still seen as a great way to generate decent returns. Investors around the world are optimistic about the prospects for real estate drawn to the diversification benefits of the sector and its ability to enhance returns.

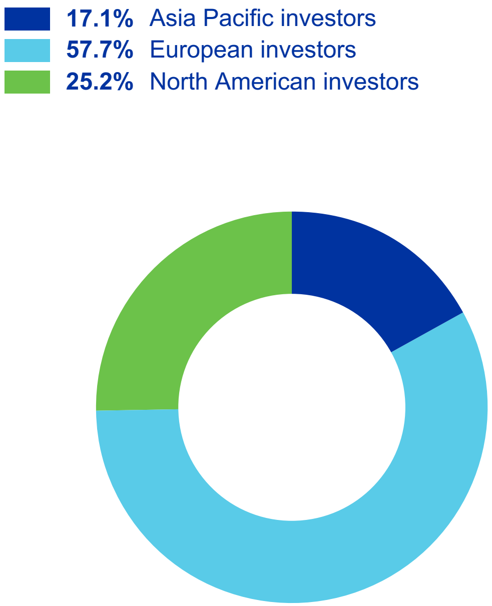
Overall, investors plan to increase their global real estate allocations over the next two years. On average current allocations are expected to move from 8.9% to an average target allocation of 10.2%. When weighted by total AUM, current and target allocations globally are 8.0% and 8.7%, respectively.

A minimum of €51.1 billion is expected to be invested into real estate in 2018. The majority of this (57.7%) is coming from European investors, followed by North American (25.2%) and Asia Pacific (17.1%) institutions. However, 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 the continent. The US and Americas ex US together account for 35.1% of planned investments. Asia Pacific capital inflows and outflows remain in balance.

The three main European economies, UK, France and Germany, continue to dominate as top investment destinations within Europe, a clear reflection of the size, maturity and transparency of these markets. This year the UK tops the list with two out of three investors (66.1%) planning to invest there,

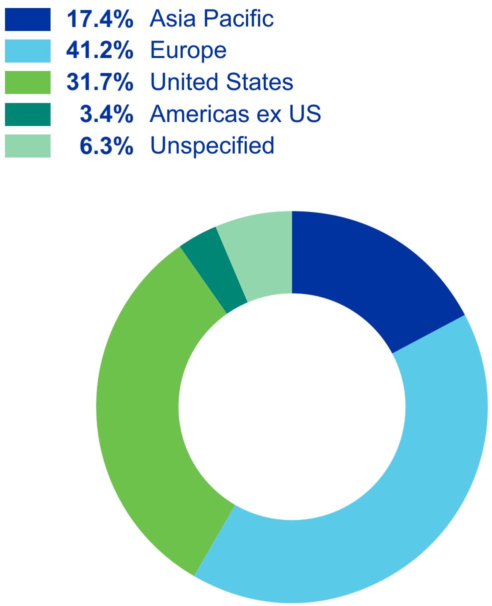
> ‘An increased appetite for opportunitistic’

Figure 1: Sources of capital: Amount expected to be invested in real estate in 2018 by investor domicile (total: €51.1 billion)



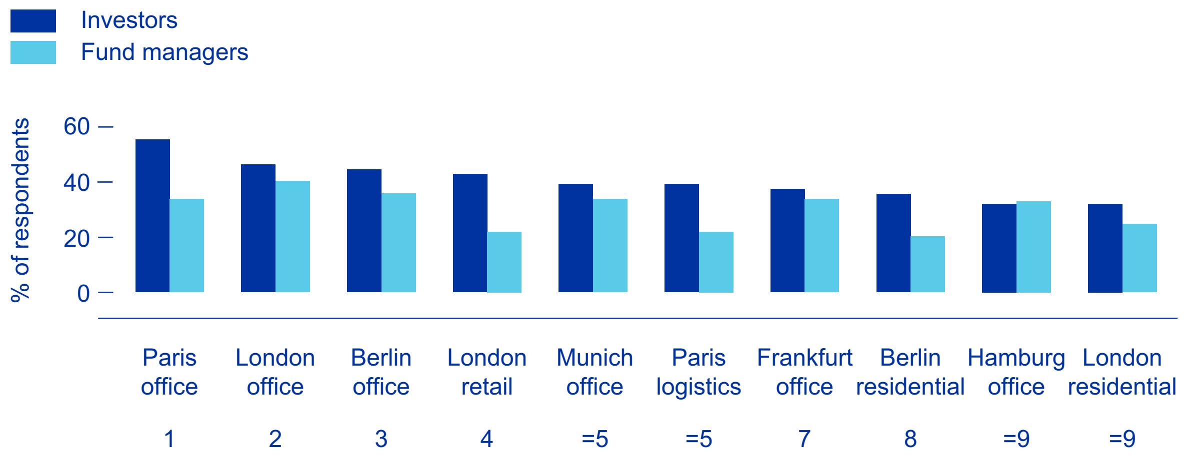
Note: based on a sample of 93 investors

Figure 2: Destination of capital: Amount expected to be invested in real estate by region in 2018 (total: €51.1 billion)



Note: based on a sample of 92 investors

Figure 3: Preferred city and sector combinations in 2018 by respondent type



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

compared with 62.5% and 60.7% for France and Germany, respectively.

Following this well-established trio, next comes a tally 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 a 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.

Sector wise, it is the office sector that is most preferred by investors in 2018. Office is followed by retail in second and residential in third. Industrial / logistics takes the fourth spot and development follows in fifth.

When looking at country / sector combinations it is France office, UK office and Germany office, in that order, that are ranked as the top three investment markets among investors. On a city / sector level investors rank Paris office in first place, London office in second and Berlin office in third. London office, previously ranked fourth, has jumped to second place this year.

When it comes to risk and return prospects investors have indicated that value added would be their preferred investment style for investing in Europe in 2018, with half (49.4%) indicating so. Core is next with 31.8% of investors indicating that they consider this style most attractive in risk and return terms, followed by opportunity (18.8%). This is the third year running that value added is preferred ahead of core, and now there is also an increase in preference for opportunistic.

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

In terms of how to access the European real estate markets non-listed real estate funds are considered the preferred route to market with 50.0% of investors expecting to increase their allocation to funds. Joint ventures and club deals is in second place (40.0%). Directly held real estate is the third most preferred route to market in 2018 (28.7%). On a value weighted basis joint ventures and club deals are in first place (55.8%), following funds (48.8%) and separate accounts (39.6%).

It is the access to expert management that investors consider as the main benefit of investing into non-listed real estate funds.

Availability of suitable products, currency risk exposure as well as current market conditions are being seen as the key challenges facing investors in non-listed real estate funds.

For further details, contact research@inrev.org.

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