RESEARCH & MARKET INFORMATION

INVESTMENT INTENTIONS SURVEY 2008

INREV

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INREV is the European Association for Investors in Non-listed Real Estate Vehicles. In seeking to generate increased levels of liquidity within the European private real estate fund market, INREV's strategy is to promote 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 fund market. INREV is dominated by institutional investors and supported by other market participants such as fund managers, investment banks, lawyers and other advisers.

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EXECUTIVE SUMMARY

While the impact of the credit crunch in the financial markets is on the minds of respondents to this latest survey, there is little to indicate that it will dampen their long term views on the attractiveness of the non-listed real estate funds market.

The survey was undertaken in October 2007 so too early to examine the full impact of the credit crunch but soon enough for respondents to anticipate a market in 2008 where performance will be less reliant on gearing and where there will be a further emphasis on manager quality and outperformance.

The current climate has not dampened the long-term outlook for non-listed property with 82% of investors expecting to increase their levels of exposure to the non-listed sector while 18% will maintain existing levels.

The non-listed sector was seen to be well-equipped to weather current financial uncertainty but many expected highly-geared funds to be more exposed than core products. Once again this was dependent on the quality of the manager.

Appetite for risk has also not waned in the current climate. In the next two years, more than half of investors are expecting to increase their allocations to opportunity and value added funds. Managers are mostly keeping up with current demand but fall behind slightly in offering enough opportunity fund products.

Corporate governance is acknowledged as having increasing importance in the light of the changing climate, which is reflected in the increasing weight being placed on adherence to INREV guidelines. Indications are that there is likely to be an increasing premium on transparency and efficient management.

France took first place as investors' top location for 2008 for the first time but in contrast it was much less favoured by fund of funds managers and fund managers. There is consensus among all three groups that Germany should be a strong market in 2008 with its attractiveness rising for investors but diminishing for fund managers and fund of funds managers.

Investors are now truly global with holdings in a wide range of national markets across Europe, America, Asia and Australia and with all indications that investors and fund of funds managers intend to strongly increase their presence in these markets. Many investors were also beginning to explore South America.

Geographically, the dynamism of fund of funds managers comes through strongly in the report. They have the greatest enthusiasm for many of the emerging markets in Europe as well as being most bullish on Asia. They too are the least satisfied when it comes to the number of products available from managers to meet their broad investment intentions.

There is more of a mixed view on expansion into alternative sectors. Investors are most open to considering investments into alternative funds such as infrastructure, hedge funds and derivatives but there is little appetite from fund managers to offer such products.

The survey reports the investment intentions of companies active in the European non-listed real estate industry. It covers 34 investors, 66 fund managers and 12 fund of funds managers.

1 INTRODUCTION

This is the fourth INREV Investment Intentions Survey, which provides a guide to the expected investment trends among players in the non-listed property funds industry in 2008.

The report focuses on preferences in 2008 for investors, fund managers and fund of funds managers in terms of location, sector and fund strategy as well as their views on the progress on the non-listed industry.

This year's survey extends the coverage of players' global expansion plans and their ambitions for investing or creating funds in alternative real estate asset classes. It also examines the change in importance of factors which encourage investment in the sector. For the first time, respondents were asked for their views on the main issues facing the non-listed sector for the coming year.

This year the survey was sent to a senior representative from each INREV member company: institutional investor, fund manager or fund of funds manager. This numbered 198 in total, refelecting the intention of gaining a company view from each of our members.

For the second year, the survey's coverage was also broadened outside the INREV membership by circulating it to IPE Real Estate's readership, which includes approximately 13,000 contacts.

The survey attracted 117 responses, of which five were excluded because of duplication. Of the 112 responses used in the analysis 96 were from members, representing a 48% response rate among the membership.

The questionnaire was completed by 66 fund manager organisations, 34 institutional investors and 12 fund of funds managers. The respondents were based in 21 countries.

The 34 institutional investors who participated in the survey have nearly €104 billion invested in real estate globally, of which 33% is allocated to non-listed property. The majority of the investors covered have holdings in ten or more non-listed vehicles.

A more detailed description of the respondents can be found in the Appendix of this report.

2 TRENDS IDENTIFIED BY PLAYERS IN THE NON-LISTED MARKET

Survey respondents were asked to give their own ideas about the key issues facing the European non-listed property market over the next two years.

The biggest issues in the property market as a whole are identified as being the impact of the credit crunch on the availability of debt and refinancing, and its general implications for the market in terms of re-pricing and upward movements in yields.

The biggest issues for the non-listed property funds market mainly relate to the expectation of more difficult credit conditions and the consequent weakness of commercial and residential property markets. The timing of this survey coincided with the initial tightening of global credit markets in the autumn of 2007. Specific consequences of the difficult conditions are seen as likely to include:

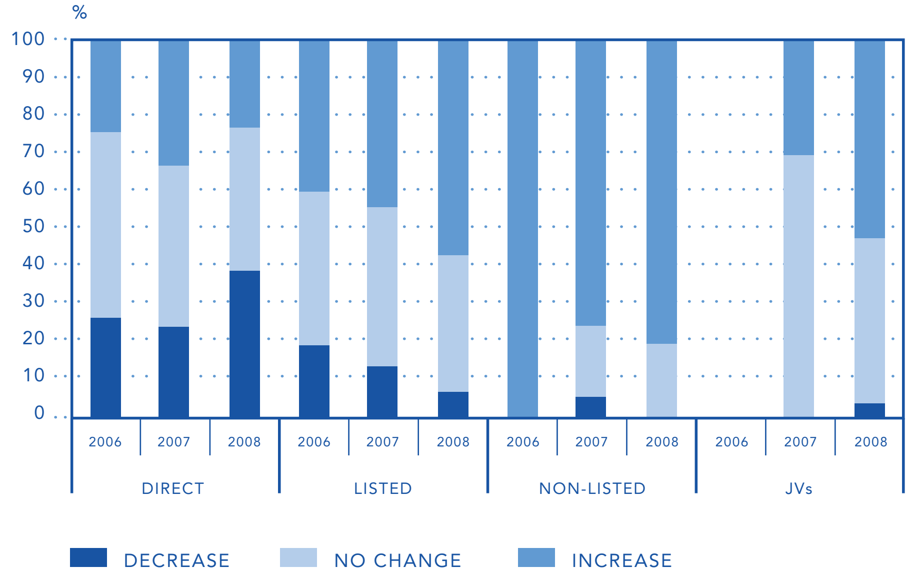
- The impact of reduced liquidity on the direct and indirect property markets globally.
- An adjustment of expectations to reflect performance which is less reliant on gearing, and the effects on the performance of geared funds of higher interest rates.
- An increasing emphasis on manager quality and out-performance – alpha rather than beta. Funds will also need to show greater alignment of interest with their investors than in the easier market conditions of previous years.
- Investors may start to play closer attention to the performance records of fund managers, which could lead to some rationalisation in the fund management business.
- Greater importance is likely to be attached to market transparency, real estate valuation quality and corporate governance.

In general, players in the non-listed funds market believe that it should be well-equipped to weather the current financial market uncertainty. But many see varying impacts likely to take place depending on specific vehicle characteristics:

- Funds with higher gearing are likely to be more exposed than those mainly dependent on equity. So opportunistic funds may be more vulnerable than core, but this is also likely to depend on the quality of the fund manager.
- Closed ended funds should be more secure than open ended.
- Some see the non-listed market as being less exposed than either direct real estate or the listed market to the volatility caused by credit difficulties.

3 INVESTORS' FUTURE ALLOCATIONS

FIGURE 01 / INVESTORS' EXPECTED CHANGE IN REAL ESTATE ALLOCATION IN THE PAST THREE YEARS



Despite current uncertainty in asset markets generally, Figure 01 shows that confidence in non-listed property appears robust with investors expecting either to increase (82%) or maintain (18%) their levels of exposure to the sector. Investors responding to this survey currently have around €104 billion of global real estate, of which 33% is allocated to non-listed property.

A significant 38% of investors are expecting to reduce their exposure to direct real estate, which appears likely to benefit non-listed to a greater extent than listed indirect property.

More than half of the investors (53%) are expecting to increase their joint venture activity, up on the 31% intending to raise this exposure in last year's survey.

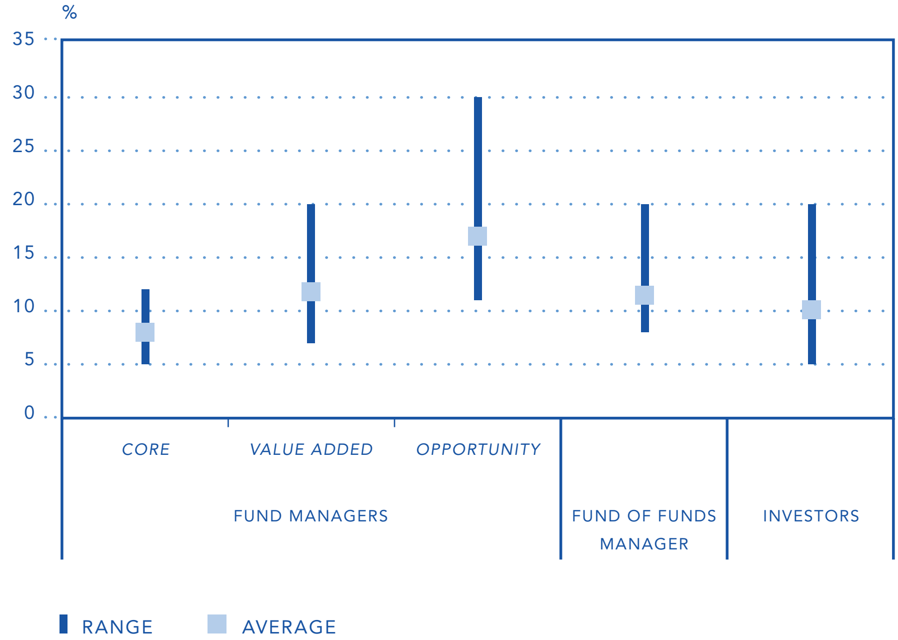
Target Returns

The average target rate of return for those investors contributing to this survey is 10.13% and 11.5% for fund of funds managers. Figure 02 shows that investors reported a slightly broader range of returns but expectations at the upper end were identical at 20%.

Fund managers creating product are on average looking for a target rate of return of 8.1% for core funds, 11.82% for value added and 17.03% for opportunity funds.

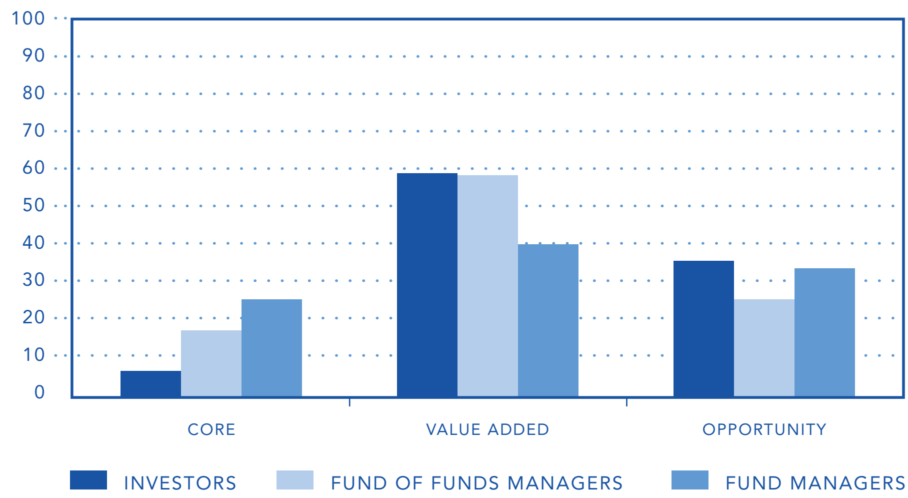
The range for core funds was the smallest among expected returns for funds by managers and had a standard deviation of 1.67. The highest standard deviation at 4.05% was among the opportunity funds, reflecting a larger range based on a smaller sample.

FIGURE 02 / RANGE AND AVERAGE OF IRRs



4 PREFERRED STYLE AND FUND TYPES

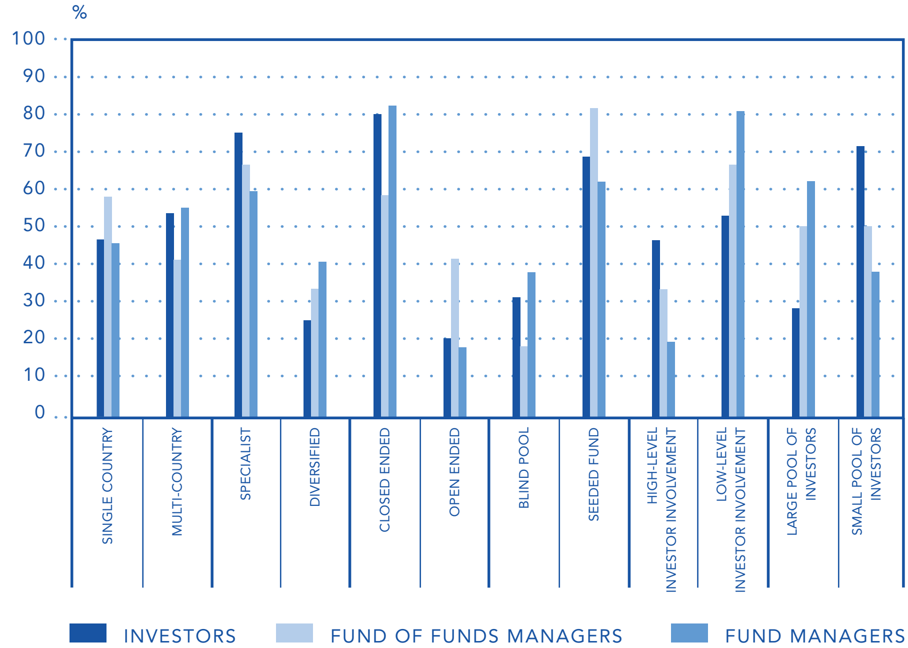
FIGURE 03 / PREFERRED VEHICLE STYLE



Nearly 60% of both investors and fund of funds managers prefer to invest in value added funds rather than the other two categories (Figure 03). The proportion favouring value added has increased since last year's survey when it was already most preferred, while the numbers favouring core are perhaps surprisingly small considering the adverse direct market conditions starting to emerge.

Both investors (35%) and funds of funds (25%) are also increasing their interest in opportunistic vehicles compared to 2007. This could be partly due to investors wanting to increase their exposure to opportunity funds to reach target allocations while the majority already have more core exposure.

FIGURE 04 / PREFERRED STRATEGY FOR CHOSEN FUND TYPE

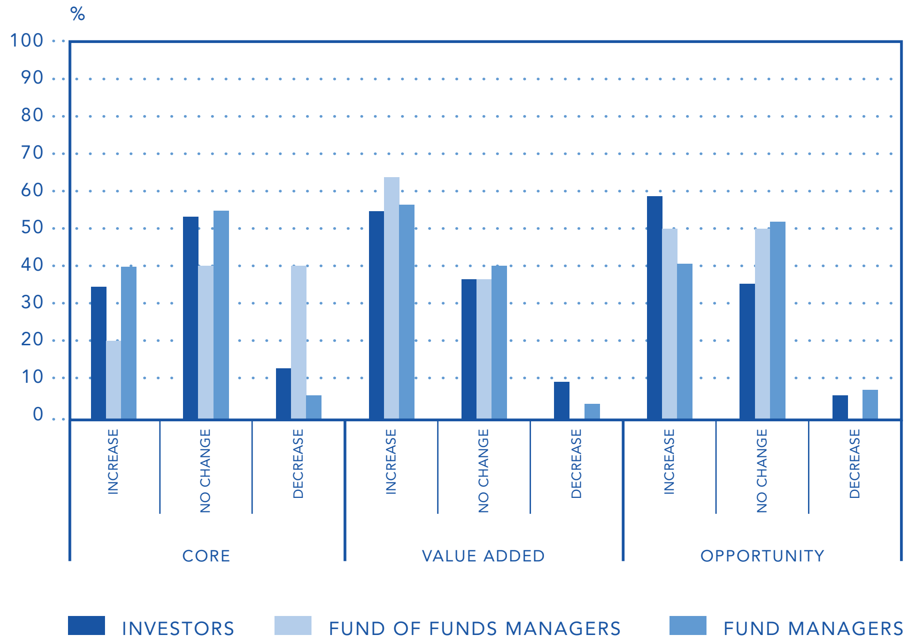


As in previous years, all of the groups surveyed show a strong preference for closed ended as against open ended vehicle structures, although a significant proportion (42%) of funds of funds favour open funds (Figure 04). This is likely to be because of the liquidity provisions that funds of funds offer their investors.

The preference for specialised as against diversified vehicles among all groups has also been maintained.

In general all three groups are in agreement about their preferences. One notable but not entirely surprising exception relates to the number of investors participating in a fund – investors would prefer a small pool whereas fund managers would prefer a larger group.

FIGURE 05 / EXPECTED STYLES FOR NON-LISTED REAL ESTATE ALLOCATIONS AND NEW LAUNCHES 2006 – 2008



As we have already seen, all groups are expecting to see activity in the non-listed market continuing to rise in the next two years. There are also some indications that they continue to have an appetite for risk as they opt for higher return fund styles.

Figure 05 shows that more than half of investors are expecting to increase their allocations to opportunity (59%) and value added (55%) funds. Funds of funds are anticipating similar growth in activity, with value added investments (64% favour) leading the way.

None of the fund of funds managers covered are expecting reduced allocations to either the value added or opportunity vehicles, but 40% are expecting a decreasing allocation to core funds.

In general managers look to be in tune with these demands on the basis of the types of funds they are intending to launch. The most significant discrepancy may be for opportunity funds, where both investors and fund of funds managers look likely to impose heavy demands.

As previously commented, these trends look somewhat out of step with imminent real estate market conditions in Europe, but may reflect a longer term time horizon than that alluded to in the surveyed descriptions of current investment issues.

FIGURE 06 / MOST IMPORTANT CRITERIA FOR FUND SELECTION

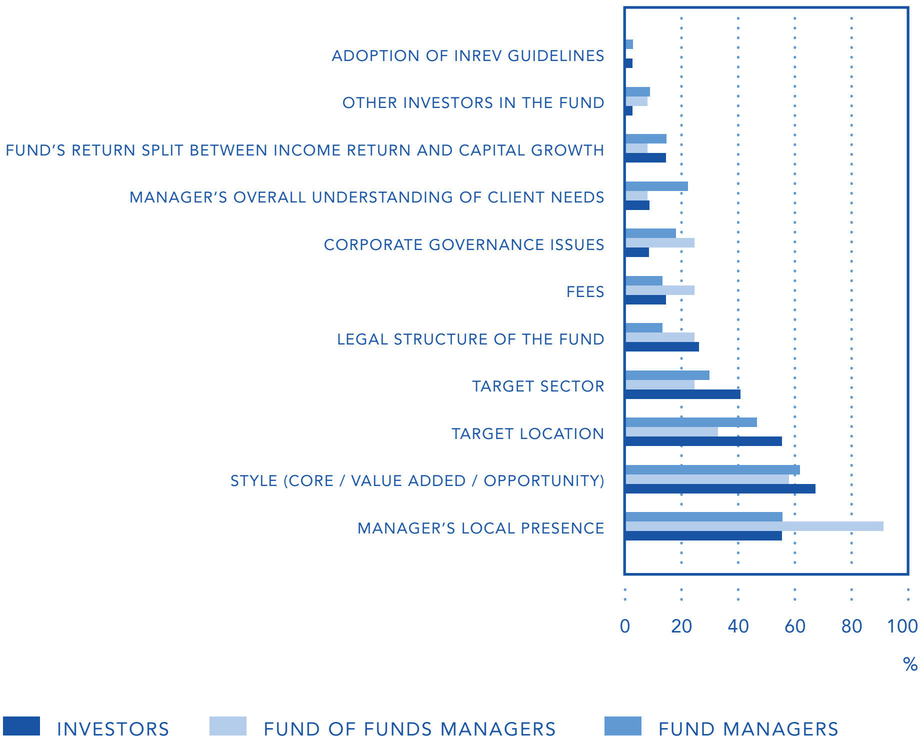


Figure 06 shows that for investors fund style is the most important criterion for selecting a vehicle (68% see this as important), whereas for funds of funds the manager's local presence (92%) is most significant.

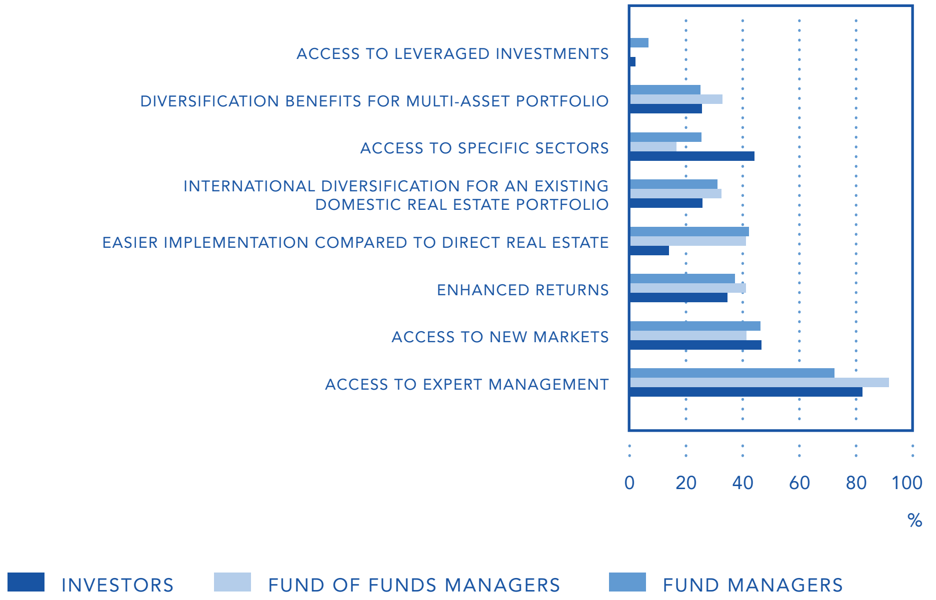
The legal structure of vehicles is seen as important by many more investors and funds of funds than managers, whereas on the importance of the manager understanding the client's overall needs the situation is reversed.

All groups say the relative importance of the fund manager's local presence has increased substantially, in a new question added this year. This may reflect the view that more difficult market conditions will demand greater local market understanding in order to extract alpha. See Appendix for graph.

Corporate governance issues are also seen as gaining in importance, as there is likely to be an increasing premium on transparency and efficient management over the years to come. This is reflected in the increasing weight being placed on adherence to INREV's guidelines. Fund of funds managers are placing more emphasis on which other investors are in the fund as well as its legal structure.

5 PROS AND CONS OF INVESTING IN NON-LISTED REAL ESTATE

FIGURE 07 / REASONS FOR INVESTING IN NON-LISTED REAL ESTATE VEHICLES



All groups now rate access to expert management as the most important reason for investing in non-listed property.

This year investors are placing greater weight (44% of respondents) on the ability to access the sectors they require through non-listed vehicles than previously.

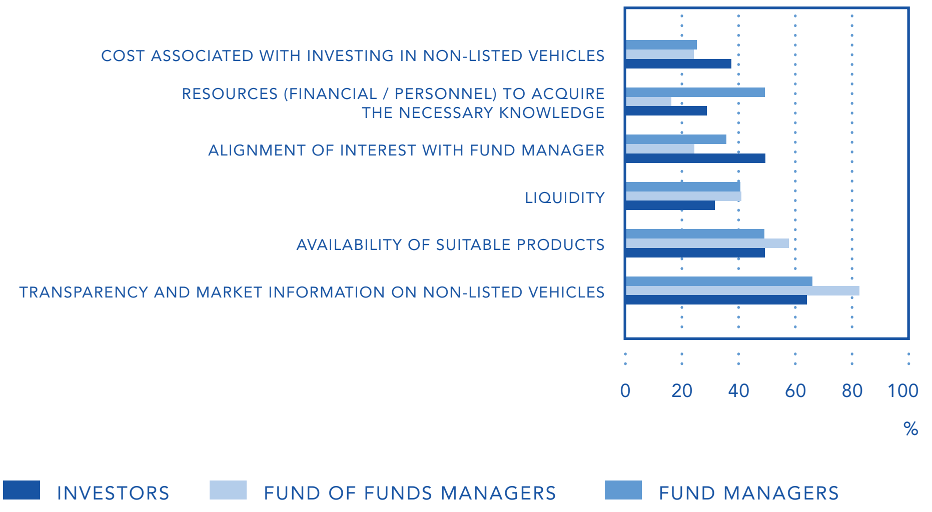
There now seems to be less emphasis on international diversification for existing domestic real estate portfolios, perhaps because most have already gone beyond their own boundaries if they have the intention to do so. There continues to be strong emphasis on accessing new markets.

Most notably, 49% of fund managers see access to leveraged investments as now less important than previously, in an additional question asked this year, but funds of funds and investors are far less certain on this point. See Appendix for graph.

Investors' quest for alpha is emphasised by an increasing concern to access expert management and new markets.

Fund of funds managers rate international diversification as the most important change in their reason for investing, supporting their strong showing for international locations earlier in this report.

FIGURE 08 / REASONS FOR NOT INVESTING IN NON-LISTED REAL ESTATE VEHICLES



Transparency and lack of market information continue to be the main stumbling blocks for the non-listed sector, with more funds of funds (83%) and investors (65%) citing this as an area of concern than last year.

There are now fewer worries over limited liquidity, but a lack of suitable product has increased as a reason to not invest, perhaps because investors now have a greater desire to access new markets.

All groups involved in the non-listed market believe that there have been improvements over the last year in the areas which might discourage investment.

There is a heavy weight of opinion among all groups that transparency and product availability have been improving recently, according to a new question asked this year.

One third of fund managers see an improvement in the alignment of investors' interests with theirs, but a significant proportion of investors feel that this situation has deteriorated.

A significant minority of both investors (13%) and managers (19%) reckon that liquidity has declined in over the past year, but these are still outnumbered by those who believe it is continuing to improve. See graph in Appendix.

6 BEST LOCATIONS IN EUROPE AND WORLDWIDE

Europe

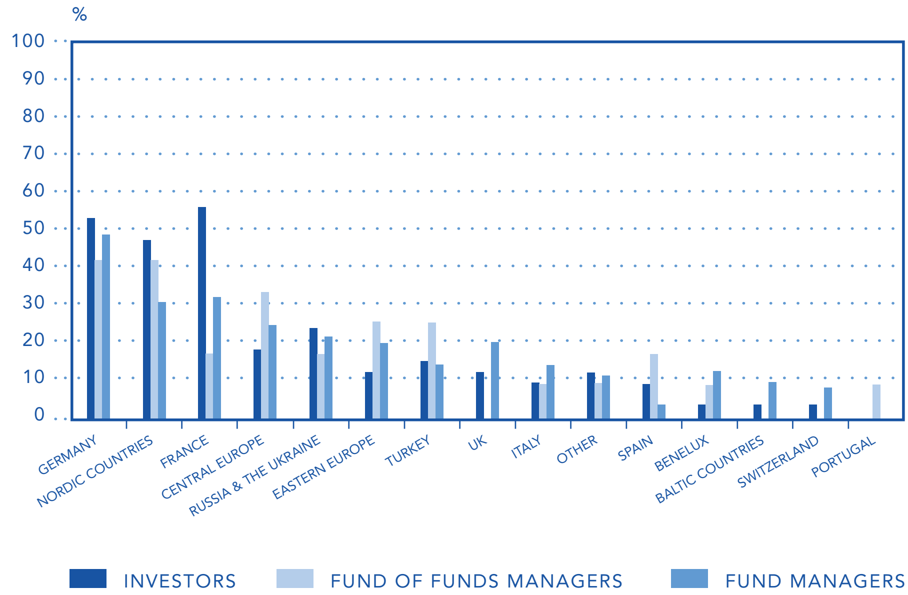
France is the investors' favourite location for 2008, with 56% of the group interested, surpassing Germany for the first time, as shown in Figure 09. However this enthusiasm for the French market is far greater than that expressed by fund managers (32%) and fund of funds managers (17%).

There is consensus that Germany should be a strong market in 2008, among all three groups. But compared to 2007 its attractiveness has risen in the eyes of investors (53%), while diminishing in the eyes of fund of funds managers (42%) and fund managers (48%), if only slightly in the latter case.

Investors continue to favour the largest and most transparent property markets – Germany, France and Nordics, but with the notable exception of the UK, which is seeing capital values fall.

Fund of funds managers are showing significant interest in Central and Eastern Europe, and there is evidence of this stretching further to take in Turkey and the former Soviet nations. These markets were separately identified in the survey for the first time this year.

FIGURE 09 / PREFERRED LOCATIONS IN EUROPE



Most investors consider that their favoured markets are adequately supplied with fund products, according to a new question added to the survey this year. However fund of funds managers are rather less satisfied, with only half deeming supply to be adequate, and fully 42% seeing it as inadequate, as can be seen in Figure 10.

This dissatisfaction is likely to reflect funds of funds' greater enthusiasm for many of the emerging markets when compared to fund managers and investors.

However, 42% of fund managers still see a high level of interest from investors in their most favoured locations. This reflects the strong overall interest in the European non-listed property funds sector.

FIGURE 10 / SUPPLY OF PRODUCTS AND INTEREST FROM INVESTORS

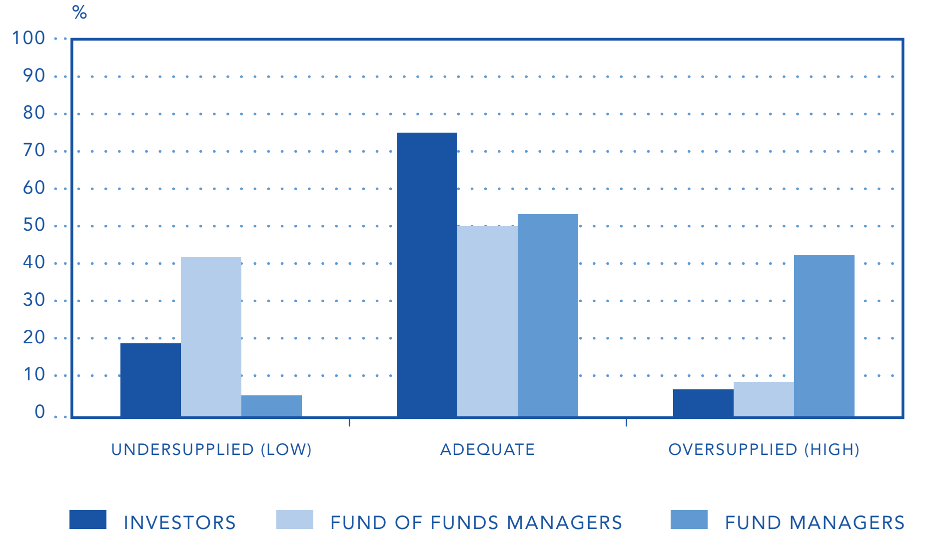
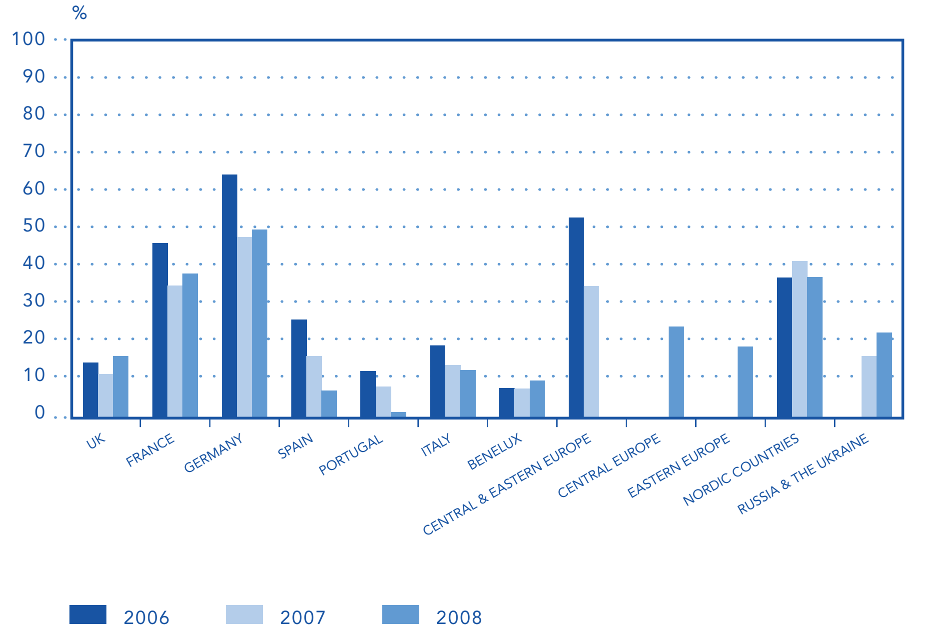


FIGURE 11 / PREFERRED LOCATIONS IN EUROPE 2006 – 2008



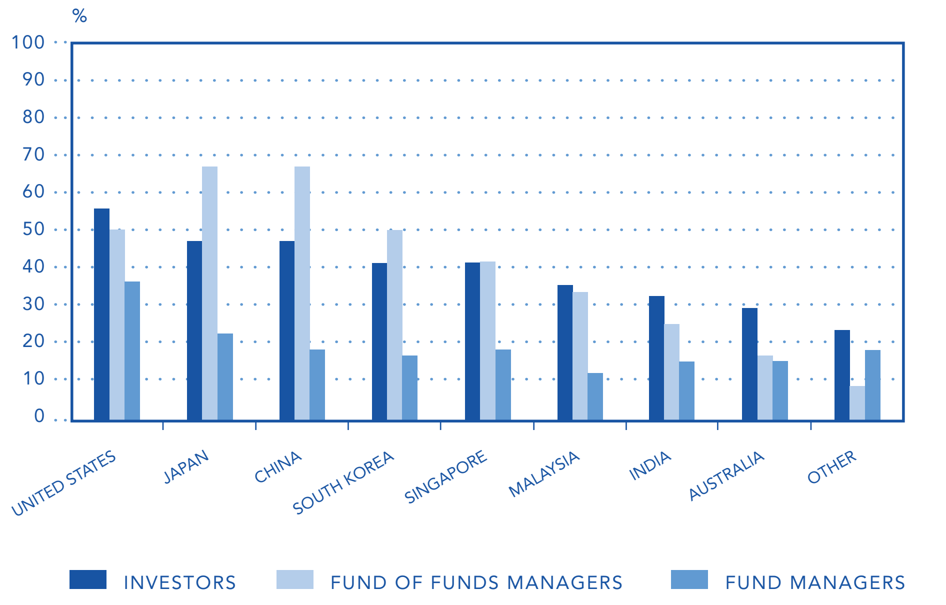
When analysing locations in the past three years (Figure 11), the popularity of Germany has waned when taken as an average of three respondent groups. Interest in Spain and Portugal continues to fall sharply. Spain, in particular has been perceived as an over-heated market in the last year. New categories added to the chart such as the split between

Central and Eastern European locations illustrates the popularity of these markets. Russia and the Ukraine also gained more interest.

Worldwide

Investors are now truly global, with holdings in a wide range of national markets across America, Asia and Australia, as can be seen in Figure 12. Fund of funds managers have sought to mirror this demand for global diversification with an even wider spread of holding locations.

FIGURE 12 / INVESTMENTS IN AND OFFERING OF FUNDS OUTSIDE EUROPE

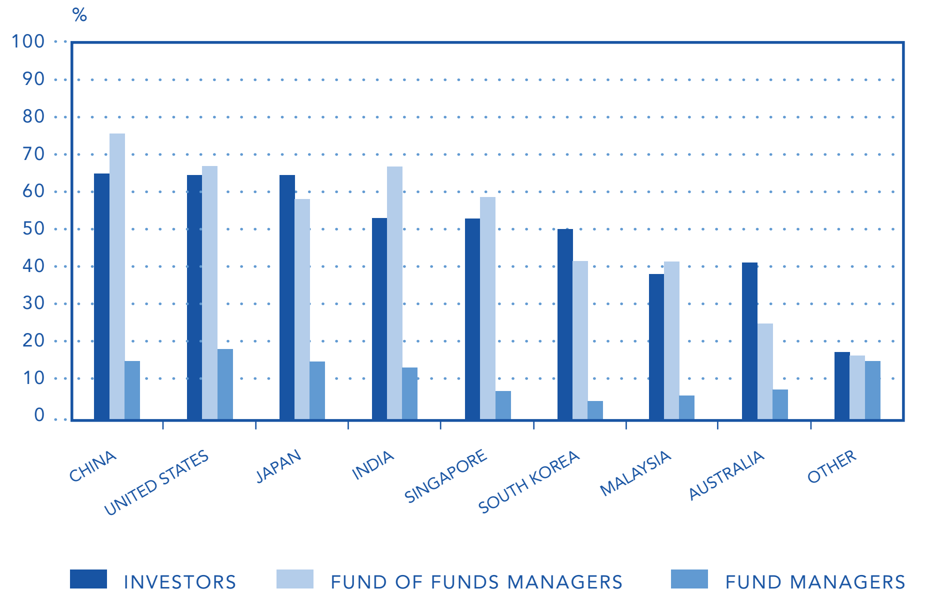


Fund management organisations tend to be more regionally specialised, meaning that there are relatively few managers from this sample to choose from in each of the major markets around the world. Investor and fund of funds manager appetite is likely to be partly satisfied by local managers.

Fund of funds managers have particularly focused on the Asian markets, seeking to tap into the high levels of economic growth that are being seen there. However the relatively small number of fund managers present may have posed difficulties in gaining access to product.

In the 'other' category South American countries feature strongly, with Mexico and Brazil most popular.

FIGURE 13 / INVESTMENT PLANS IN AND OFFERING OF FUNDS OUTSIDE EUROPE IN 2008 AND 2009



As shown in Figure 13, investors are intending to increase their buying of non-European non-listed property still further over the next two years, with future interest in the Indian and Chinese markets looking particularly buoyant.

Fund managers' intentions for launching new funds in these locations appear far less ambitious, but may reflect recently launched vehicles not yet being fully subscribed. Respondents to this survey are also more likely to be focused on Europe.

Funds of funds appear to be even more bullish about the Asian markets than investors, with the significant exception of Japan. This may reflect funds of funds' tendency to focus on more opportunistic locations.

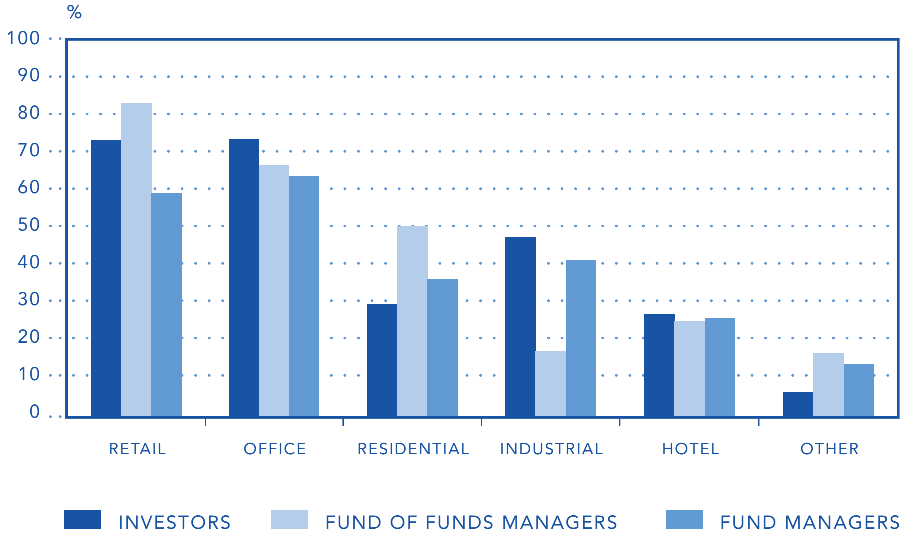
7 BEST SECTORS AND ALTERNATIVE SECTORS

Investors now find the retail and office sectors similarly appealing in terms of their expected performance in 2008, with 74% of the group saying they would invest in either sector (Figure 14). The position of retail has improved somewhat compared to last year.

Funds of funds are tending to favour retail (83%) somewhat over offices (67%), while fund managers conversely have the greatest weight of expectation for offices (64%).

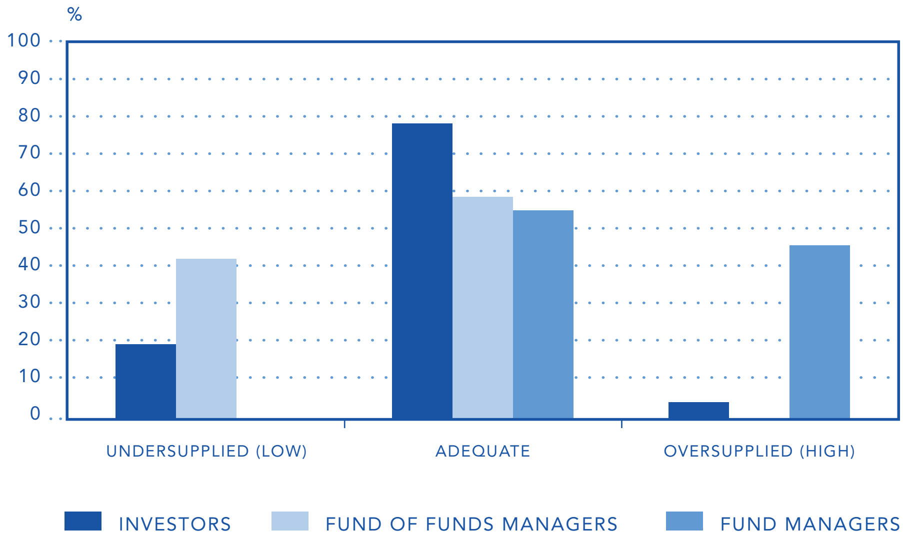
Industrial has improved its rating among investors (47% favour) while residential has improved significantly in the eyes of funds of funds (50%).

FIGURE 14 / PREFERRED SECTORS



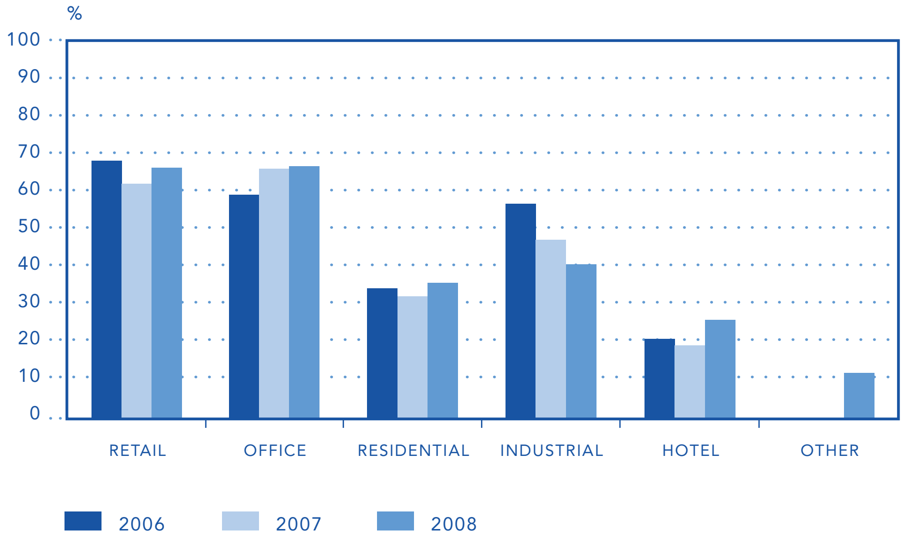
It should be emphasised that respondents' ratings of sector prospects are likely to be influenced by the specific national markets upon which they are focusing.

FIGURE 15 / SUPPLY OF PRODUCTS AND INTEREST FROM INSTITUTIONAL INVESTORS



Much in the same way as with location, Figure 15 shows that the supply of investment product by sector is mainly seen as adequate, though a significant proportion of funds of funds (42%) see the range of funds available as inadequate. This may be in part due to the rapid development of funds of funds, which may not be in line with available product. Fund managers meanwhile see the level of investment demand by sector as either high (45%) or adequate (55%).

FIGURE 16 / PREFERRED SECTORS 2006 – 2008



Industrial is the only sector seeing a decline in its popularity this year compared to 2006 and 2007 with the hotel sector seeing strong growth in popularity, according to Figure 16. The other category, asked for the first time, included student housing, assisted living and healthcare.

Alternative sectors

FIGURE 17 / WHICH OF THE FOLLOWING FALL WITHIN YOUR REAL ESTATE INVESTMENT PROCESS

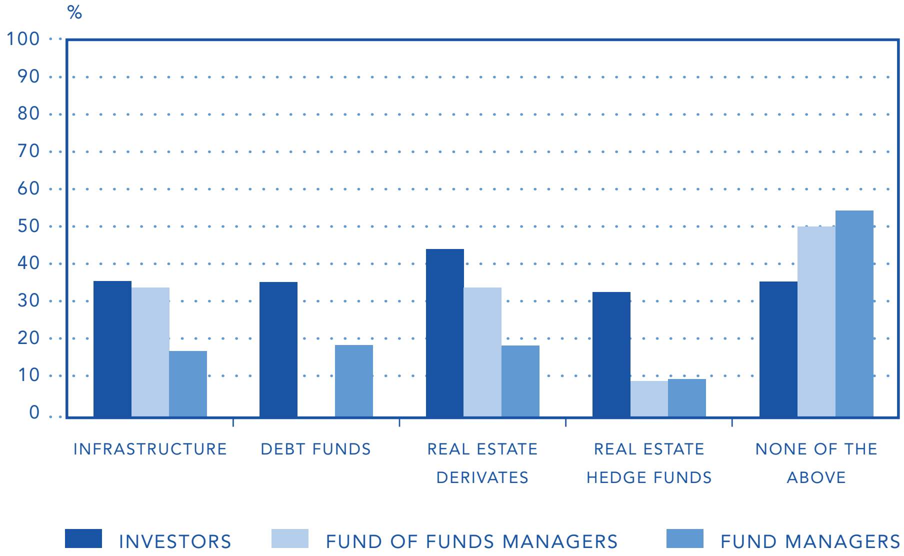
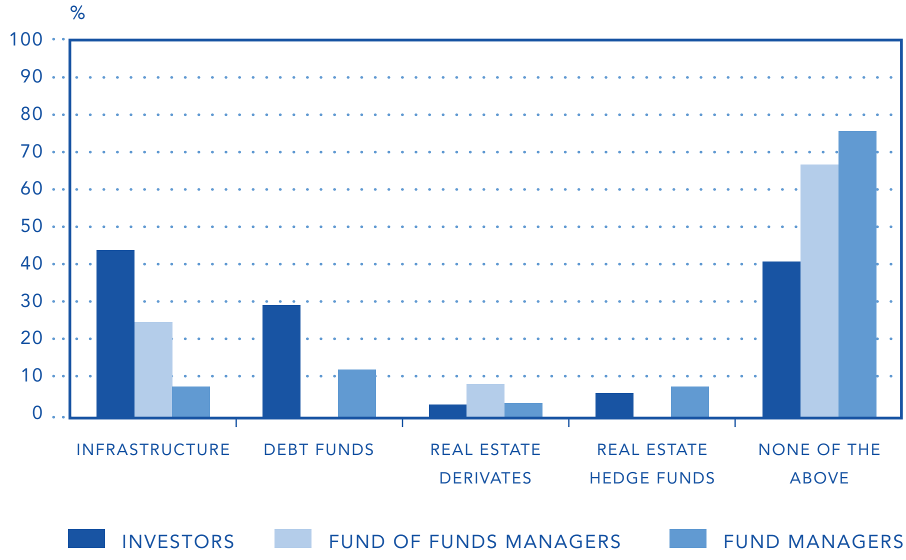


Figure 17 shows that the scope of the investment instruments available to property funds is continuing to widen, and has been examined by this survey over the last two years.

The results show that 65% of investors allow for at least one of these instrument types within their investment process, but fund managers (45%) and fund of funds managers (50%) have less leeway. This is unsurprising given that fund managers and funds of funds generally define their investment offer with certain restrictions in order to appeal to specific investor markets.

Real estate derivatives are currently the most accepted of these instruments within the investment process, but even here, as shown in Figure 18, only 44% of investors are in a position to use them. Infrastructure is now within the remit of just over 30% of investors and fund of funds managers alike.

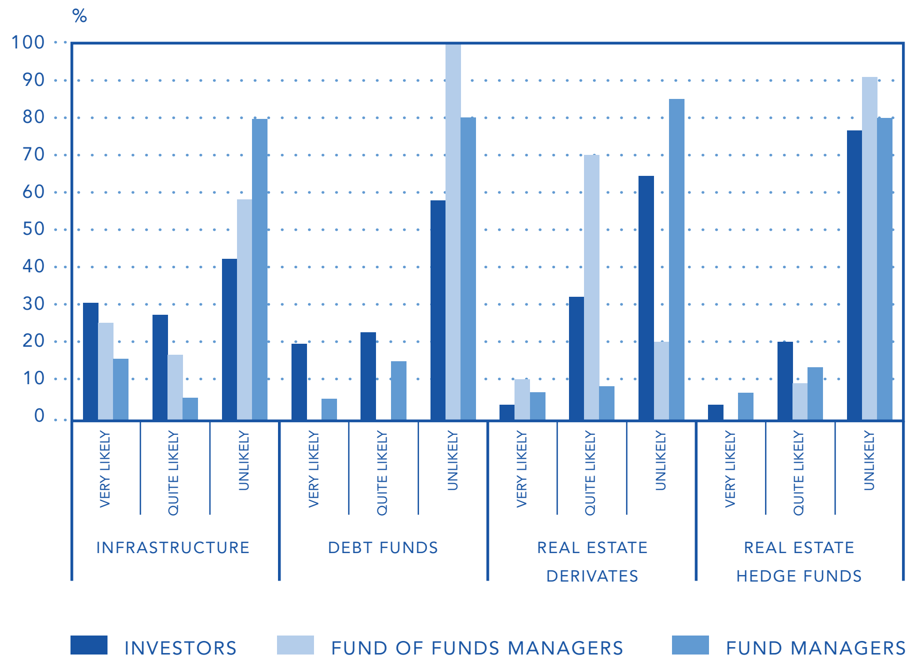
FIGURE 18 / INVESTMENTS IN AND FUNDS OFFERED IN ALTERNATIVE SECTORS



The great majority of fund managers (76%) and fund of funds managers (67%) have not yet offered products featuring these alternative property instruments (Figure 18). There has however been significant investment in infrastructure (44%) by investors, and to a lesser extent by fund of funds managers (25%).

Fund managers are overwhelmingly continuing to restrict their fund offer to vehicles offering property as traditionally defined. A few fund managers (around 10%) have developed debt funds and hedge funds, but hardly any are including real estate derivatives within the vehicles they manage. However, for both investors and fund managers this could also be due to the fact that investment in some of these sectors is not handled within the real estate process.

FIGURE 19 / EXPECTATION TO MAKE AN INVESTMENT AND OFFER A FUND IN AN ALTERNATIVE SECTOR



For those investors looking to allocate to alternatives going forward, the most likely sectors are infrastructure and debt funds with a more tentative interest in derivatives and real estate hedge funds, as shown in Figure 19.

Fund of funds managers are generally reluctant to invest in alternatives going forward, with the least interest in debt fund and real estate hedge funds. Meanwhile, the majority of fund managers in each case see it as unlikely that they will offer such products in the future.

APPENDIX 1: ADDITIONAL GRAPHS

The following three graphs relate to information on pages 10 – 12

FIGURE A01 / RELATIVE CHANGE IN IMPORTANCE OF FACTORS FOR FUND SELECTION

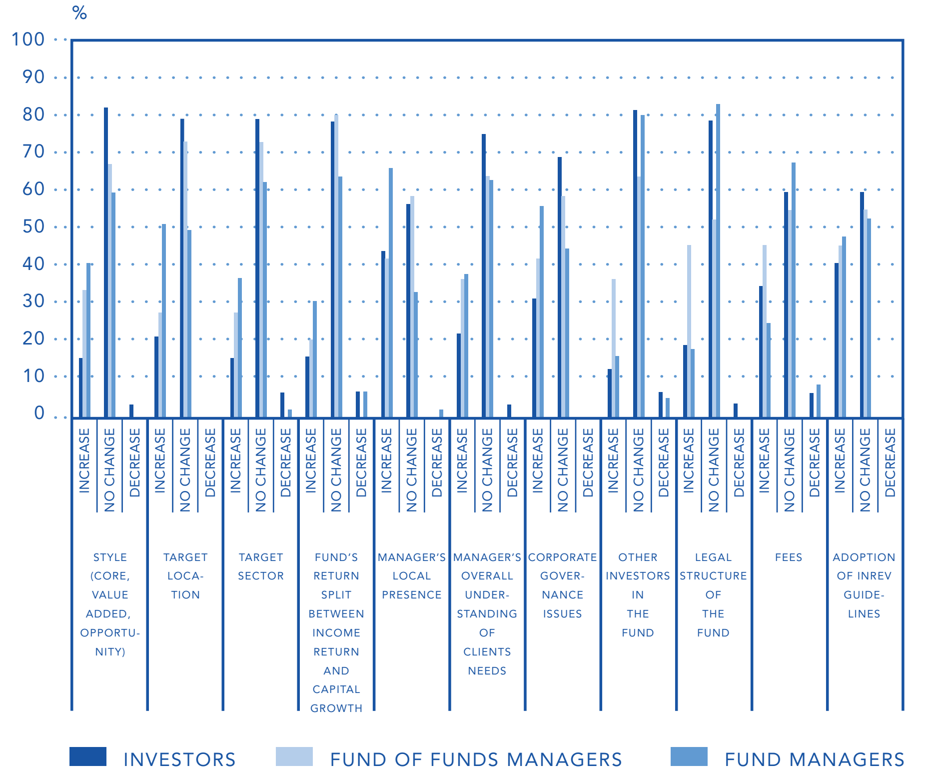


FIGURE A02 / RELATIVE CHANGE IN IMPORTANCE OF REASONS FOR INVESTING IN NON-LISTED REAL ESTATE

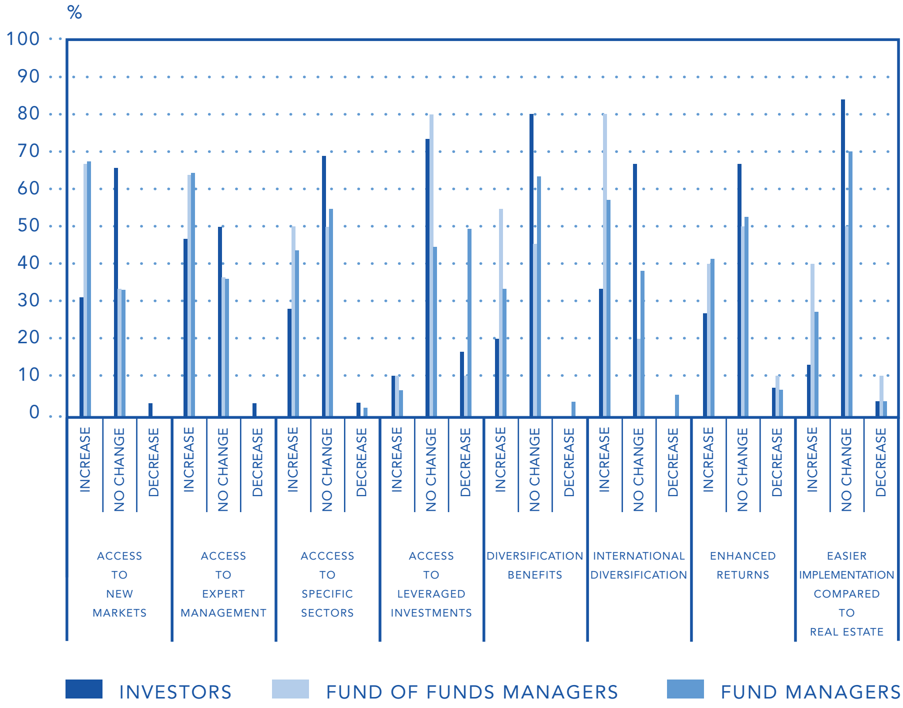
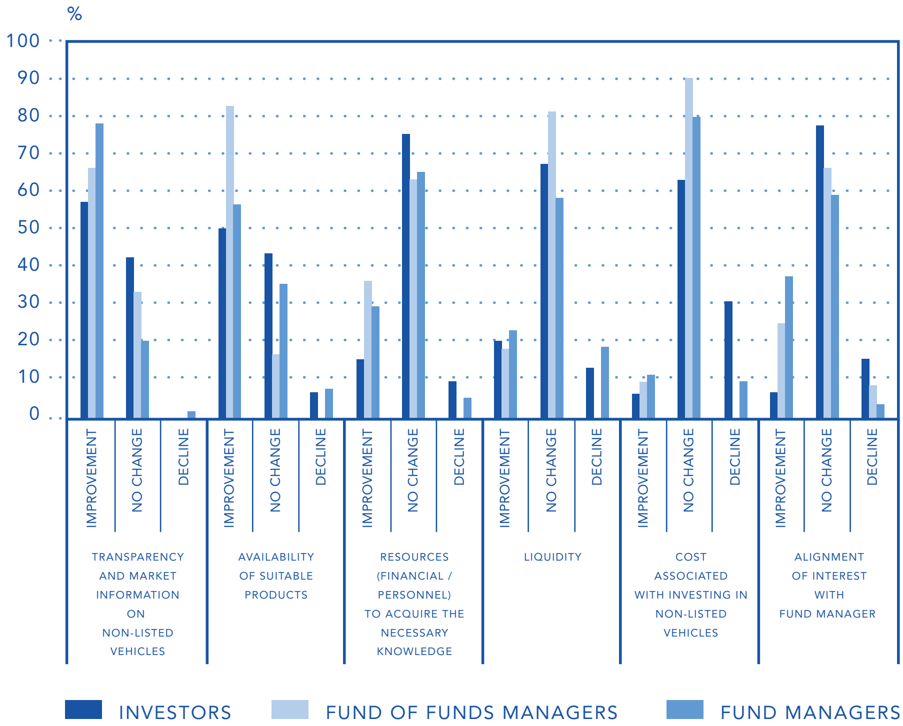


FIGURE A03 / RELATIVE IMPROVEMENT OR DECLINE ON NON-LISTED VEHICLES



APPENDIX 2: RESPONDENTS

All respondents

FIGURE A04 / RESPONDENTS BY COMPANY TYPE AND INREV MEMBERSHIP

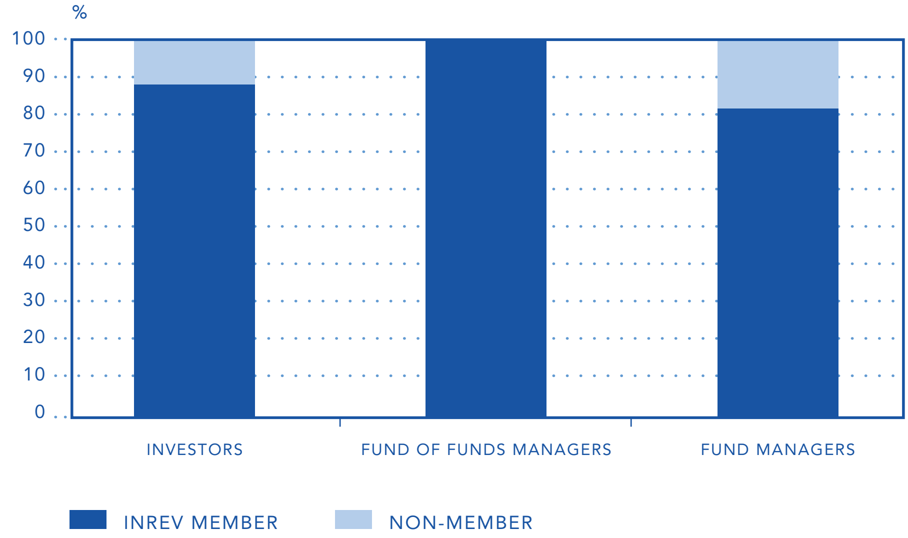
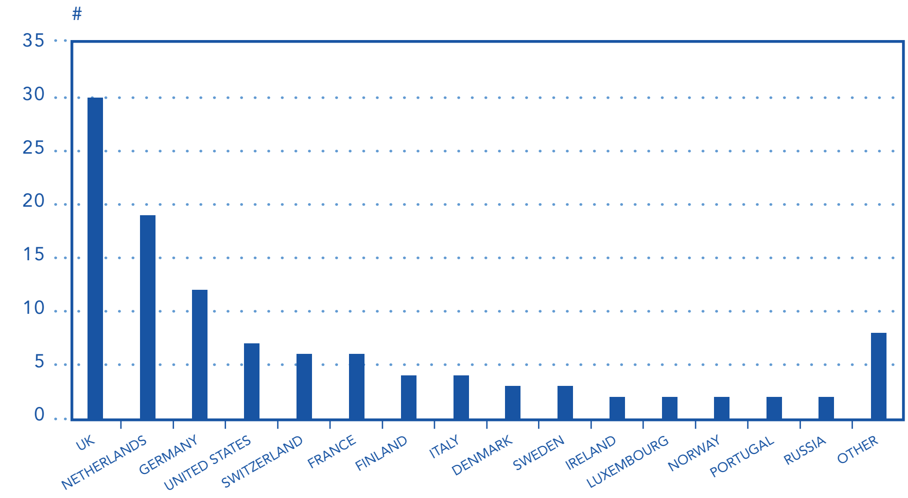


FIGURE A05 / RESPONDENTS BY COUNTRY



Investors

FIGURE A06 / GLOBAL ALLOCATION WITHIN REAL ESTATE

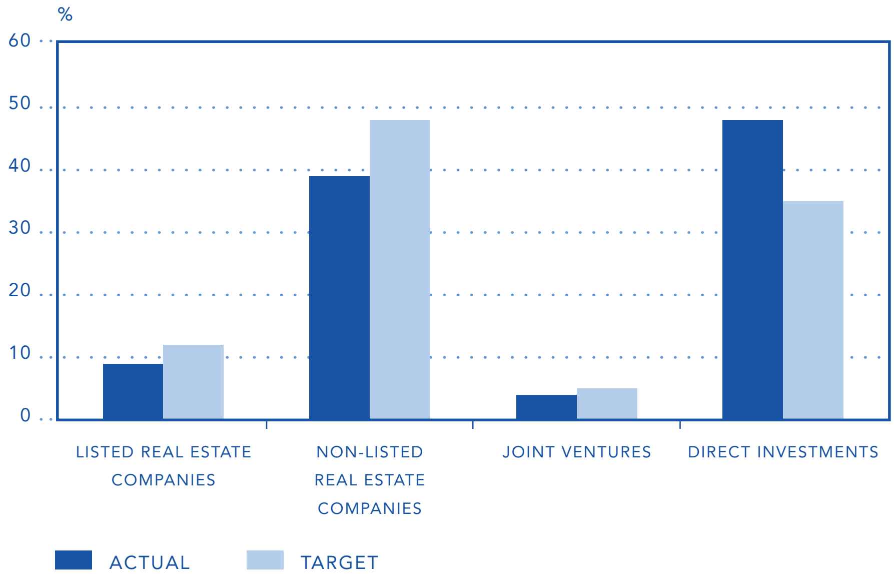


FIGURE A07 / EUROPEAN ALLOCATION WITHIN REAL ESTATE

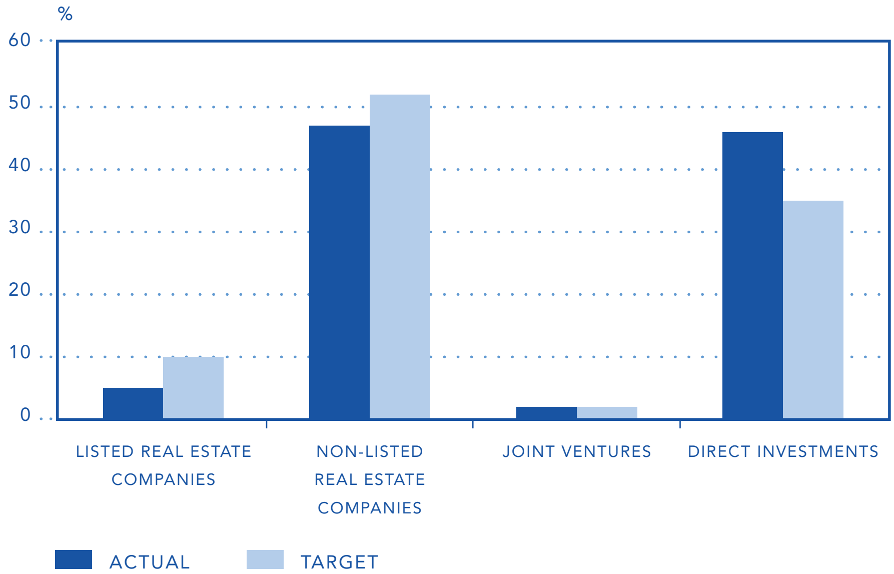


FIGURE A08 / BREAKDOWN EUROPEAN REAL ESTATE ALLOCATION GEOGRAPHICALLY

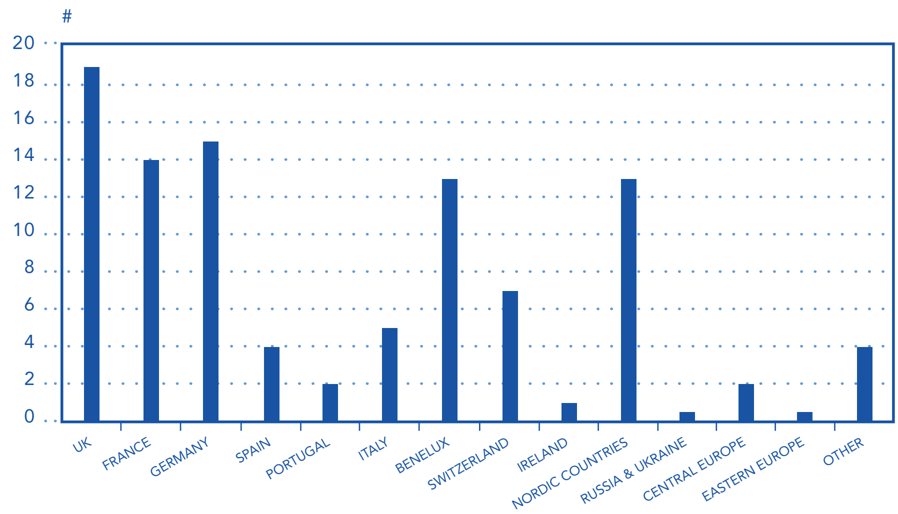


FIGURE A09 / BREAKDOWN EUROPEAN REAL ESTATE ALLOCATION BY SECTOR

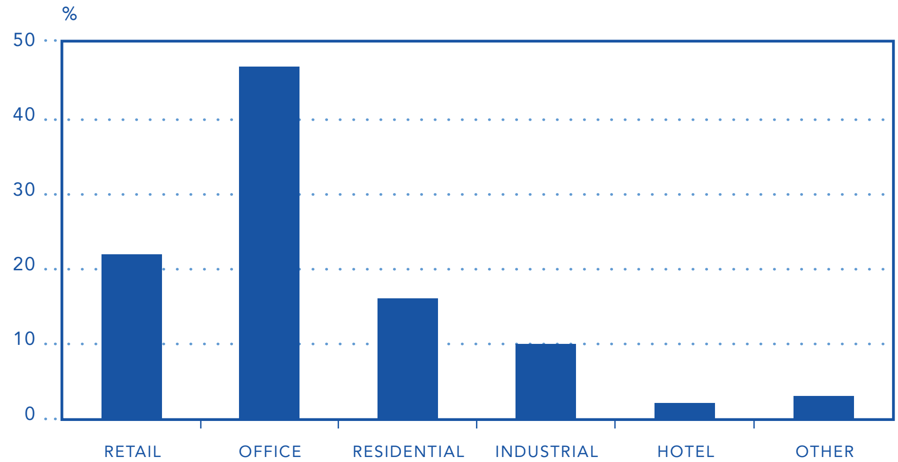


FIGURE A10 / BREAKDOWN EUROPEAN NON-LISTED REAL ESTATE ALLOCATION BY STYLE

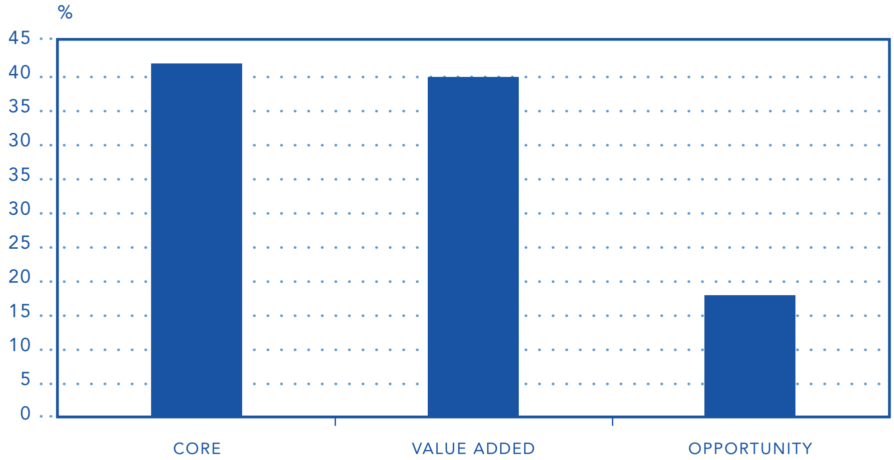
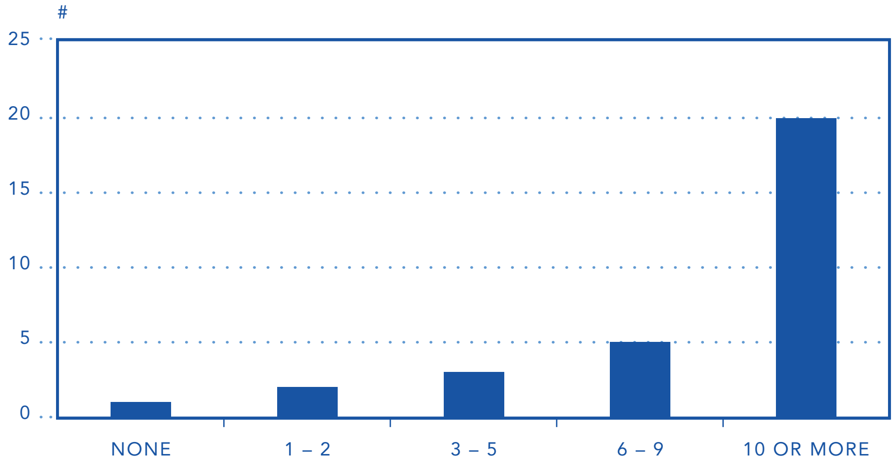


FIGURE A11 / NUMBER OF NON-LISTED FUNDS INVESTED IN



Fund Managers

FIGURE A12 / BREAKDOWN ASSETS MANAGED FOR INSTITUTIONAL AND RETAIL INVESTORS

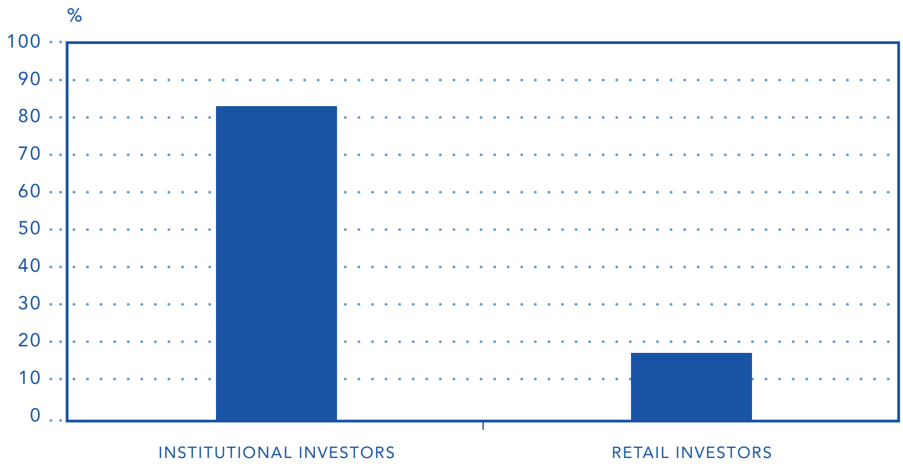
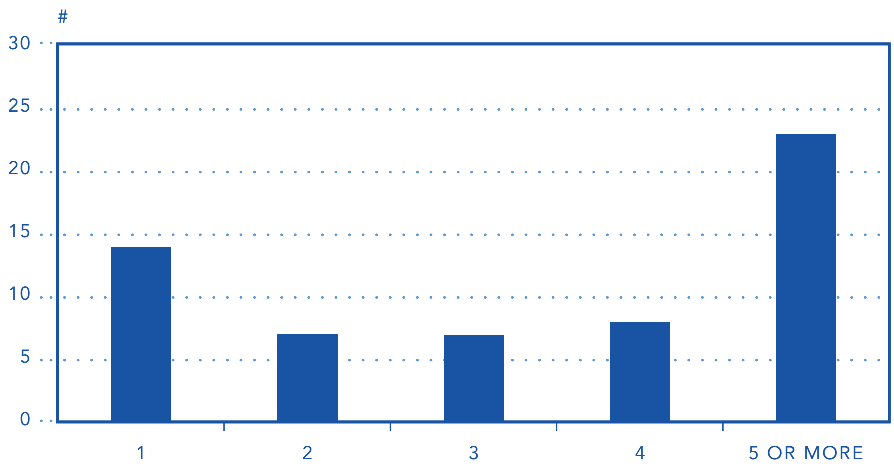


FIGURE A13 / NUMBER OF VEHICLES INVESTING IN EUROPE UNDER MANAGEMENT



Fund of Funds Managers

FIGURE A14 / NUMBER OF NON-LISTED FUNDS INVESTED IN