RESEARCH & MARKET INFORMATION

INVESTMENT INTENTIONS SURVEY 2010

INREV

JANUARY 2010

INREV
STRAWINSKYLAAN 631
1077 XX AMSTERDAM
THE NETHERLANDS

T +31 (0)20 799 39 60
INFO@INREV.ORG
WWW.INREV.ORG

INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. Our aim is to improve the accessibility of non-listed real estate funds for institutional investors by promoting greater transparency, accessibility, professionalism and standards of best practice.

As a pan European body, INREV represents an excellent platform for the sharing and dissemination of knowledge on the non-listed real estate funds market. The association's primary focus is on institutional investors, although other market participants such as fund managers, investment banks, lawyers and other advisors provide additional support.

CONTENTS

EXECUTIVE SUMMARY

This year's sixth annual INREV Investment Intentions Survey provides a guide to the expected trends among investors, fund of funds managers, fund managers and for the first time bankers active in the non-listed real estate funds industry for 2010. In addition there is a special focus on sustainable investment intention, which is a topic of growing importance for the industry.

There are no significant changes in overall real estate allocation, as tactical allocations are more or less similar to current allocations with 2.5% to global and 9% to European real estate. Last year's decline in the number of investors intending to increase their allocation to non-listed property funds continues, with only 49% planning to increase allocations in 2010, down from 63% in 2009 and 85% in 2008. This decline has been in favour of 'no change' in expectations for allocation rather than a decrease.

Methods which give investors more discretion over their investments, such as joint ventures and direct real estate, are growing in popularity compared to 2009. This need for increased discretion is also reflected in preferred fund structures. Around 80% of investors prefer high level investor involvement and a significant proportion of investors and fund of funds managers now prefer a small pool of investors.

There is a clear downward trend in the risk appetite of investors. Almost 70% now favour a core style fund which is 32 percentage points higher than in the 2009 study and a staggering 65 percentage points higher than in 2008. This increased interest in core funds has been almost completely at the expense of opportunity funds which fell by 34 percentage points to 3%. Fund of funds managers, however are increasing their allocation to opportunity funds by 20 percentage points to 43% at the expense of value added which has drop by 40 percentage points since last year to 14%. This could imply that fund of funds managers already see opportunities in the current market for opportunity funds.

These results are in line with the expected style allocations. Around 55% of investors plan to increase their core allocations while decreasing their value added (20%) and opportunity (40%) allocations. This suggests that investors are reweighting their allocations to mitigate their portfolio risk. A majority of fund managers (70%) respond to this with intended core fund launches.

The lack of alignment of interest between investors and fund managers has overtaken market conditions and transparency as the main obstacle to invest in non-listed property funds for investors, although fund of funds managers hold the opposite view. Investors (54%) and fund managers (70%) alike now see a fund manager's staff track record and the fund manager company track record as the most important factors for fund selection. This is different from manager's local presence which has been the most important criterion since 2007.

The ability of fund managers to handle debt exposure has become much more important and this is seen as one of the main challenging obstacles for fund managers. Due to the high levels of leverage in the market, managing the existing exposure will be a concern in 2010 as well as any refinancing. This is confirmed by bankers who all felt that there is a very real risk of lack of supply of debt over the next few years to meet the combined demand from new and existing borrowers. The intentions showed that banks are taking a more conservative lending approach, with a maximum Loan-To-Value Ratio of 65% and focusing on core income producing properties. Like investors and fund managers, they also focused more on experience, track records and execution capabilities of borrowers.

As the reflection of the impact of the crisis came earlier in the UK, it comes as no surprise that the UK is the preferred location in Europe for the second year running. Four of the ten most preferred country/sector combinations include the UK, with UK offices being the most preferred. After UK offices, French offices come second and are preferred by investors, fund of funds managers and fund managers, likely because the French office market is a large and liquid market. In the 2009 study, Eastern and Central Europe were included in the most preferred country/sector locations but did not make the top 10 this year. Most investors have returned to the more core European markets. Likewise most bankers stated that they would be concentrating their lending on the established, mature and more liquid markets of Western Europe.

Sustainable factors have found their way into investment and business policies of investors, fund of funds managers and fund managers active in the non-listed property funds market. Of the three sustainable factors, Environment, Social and Governance factors (ESG), Corporate Governance factors are the most important and applied factors. Nonetheless there is still a lack of real ESG targets which might partly be the reason for the limited intentions to make sustainable investments in 2010.

1 INTRODUCTION

The sixth annual INREV Investment Intentions Survey provides a guide to the expected trends among investors, fund managers and fund of funds managers in the non-listed real estate funds industry in 2010.

The report focuses on preferences in the next 12 months in terms of location, sector and fund strategy as well as views on the progress on the non-listed property funds industry. For the first time the report includes a chapter on the future preferences of bankers active in the non-listed real estate fund industry. It also includes a special focus on sustainability, which is a topic of growing interest for our members.

The report is based on the results of an online survey, which questioned INREV members and other participants in the non-listed real estate funds industry. This numbered 324 in total. The survey was sent to a senior representative in each organisation, with the intention for each response to represent a company view.

The survey attracted 119 respondents, which comprised 35 investors, 14 fund of funds managers and 70 fund managers. Of the total, 105 were INREV members, representing a 40% response rate from our members.

More details on survey respondents can be found in Appendix 2 on page 40 – 44.

2 BANKING INDUSTRY – INTENTIONS FOR 2010

A healthy banking sector is a pre-requisite of a healthy real estate sector. The recent global recession has had a significant impact on the finance industry. Many banks and other institutions are still dependent on state aid for their continued existence and despite the continued intervention from Governments and central banks, we are still some way from a return to normality, however this might be defined.

This year's Investor Intentions Survey includes a section on the current situation facing Europe's real estate lenders and their outlook for the next 12 months and beyond, in an attempt to better understand the implications for real estate investing.

As the effects of the recession have become clearer, the European real estate banking landscape has changed. Many former dominant players have effectively been sidelined as they manage their existing portfolios of loans, while others see this as an opportunity to develop their activities either through new relationships or into new geographies or both.

For the survey we interviewed nine European banks (three German, two French, two Dutch, one British and one Spanish) with a combined exposure of approximately €300 billion to European real estate. All but one of the banks had a significant (25% or more) proportion of their loans secured on property outside their domestic market. All of the banks stated that they lent to all of the major real estate investor categories including listed funds, non-listed funds, institutions and in some cases private investors. All of the banks said that they had lent on core, value added and opportunistic real estate, although the majority stated that most of their loans were on core property.

The first part of the interview focused on the banks' current loan books. All of the banks confirmed that they had loans which were in some form of default with the most common cause being a breach of the Loan-To-Value (LTV) Ratio. Most felt that this was not a major cause for concern and were actively working with borrowers to remedy the breach either through a contribution of additional equity where possible or through a renegotiation of the terms of the loan. Some banks saw this as an opportunity to increase margins, others were more focused on risk management. In some cases, notably on residential development land in certain markets, the falls in value have been so great that the banks have either foreclosed or repossessed assets. Although most respondents currently saw relatively few issues concerning Interest Service Coverage Ratios (ISCR), several commented that they expected to see more breaches of this covenant over the next months in view of the continued underlying weakness in most European economies.

Only one bank confirmed that they had sold some debt but that this was part of an exercise to reduce risk in a certain area and free up capital for writing new business. Several other banks, notably those with the largest proportion of provisions for bad loans, confirmed that they were in the process of, or considering, selling parts of their loan books. Some added that these potential dispositions coincided with decisions to exit certain countries or markets.

All of the banks confirmed that they had either already made provisions or written down the value of their loan portfolio, or they expected to do so in 2009. In almost all cases, the respondents felt that there would be further write downs or provisions in 2010.

When asked about increased capital requirements and notably the effect of Basel II, all banks expected that this would have an impact on their business in terms of higher margins. Two banks felt that the impact, although significant, had already been taken into account in the cost of the capital that is allocated to them by their bank and did not necessarily anticipate any further impact.

The second part of the interview concerned the banks' attitude towards new lending in 2010 and beyond.

All of the respondents confirmed that they would be able to provide new loans for real estate in 2010. In terms of the source of their funds for writing new business, the group was split into two between the German banks who said that they were reliant for a significant part of their capacity on the *Pfandbrief* market and the others who received finance from more traditional capital market sources via their treasury departments. One non-German bank said that they would consider how they could access the *Pfandbrief* market.

When asked if they had a budget for the amount of new business that they wished to write in 2010 most respondents either stated that they didn't or only talked about very broad targets.

All of the banks clearly stated that they would take a much more cautious approach to new lending than that witnessed in the last years of the run up to the peak of the cycle in 2007. All of the respondents clearly stated that they would be concentrating on the established, mature and more liquid markets of Western Europe. Several banks who have developed a large local presence across Europe in recent years stated that they would be much less active in some of the smaller more peripheral European markets. A number have closed some offices. One bank said that they would exit from all non-domestic lending. Those who have been less active internationally expressed an interest in growing their businesses further beyond their domestic markets, albeit selectively.

When asked about their lending criteria in terms of LTVs and ISCRs, all of the respondents clearly expressed that they would be much more conservative than they had been in the past. The maximum LTV that they said they would be prepared to consider, almost without exception, was 65% and in some cases there was a clear preference for less. There was also a very consistent requirement for amortization. Given this, it was no surprise that almost all of the banks said that they were focusing on core income producing properties and had little or no appetite for secondary, value added or opportunistic investments. One bank did however state that they would continue to provide development finance for residential properties in their domestic market. A significant majority of the respondents said that they would only lend on the more traditional property types such as offices, retail properties and warehouses. A minority said that they would consider hotels on a selective basis but that there was no appetite for other operational businesses.

Most confirmed that they had seen an increase in competition amongst banks for the best business with margins during the last few months of 2009 falling to less than 200 BPS in some cases. However, several noted that this downward trend might be reversed in 2010 as central bank support for lending is gradually removed.

All banks thought that the current lending environment would see more club (as opposed to syndication) deals amongst banks although one did say that they expected to see a syndication in their domestic market in 2010. Many expected club deals to be initiated for loans of more than €50 million. All of the respondents thought that there would possibly be new entrants into the lending market, for example insurance companies, Sovereign investors or debt funds, although there seemed to be some scepticism about how successful they would be in penetrating the market in any meaningful way.

The general trend to more conservative lending in 2010 will also extend to the type of borrowers that the banks wish to do business with. Although some said that they were focusing on existing relationships while others said that they saw the current market as an opportunity to build new relationships, all stated that they would be much more focused on the experience, track record and execution capabilities of borrowers. These factors were much more important than the profile of the borrower (in terms of listed entity, institutional investor, non-listed fund etc).

All of the responses are consistent with a radically different lending market than the one witnessed in the later part of the last real estate investment cycle. While the withdrawal, or at least the retrenchment, of some of the region's most prolific lenders of the last few years will undoubtedly mean opportunities for others, all of those interviewed felt that there was a very real risk of a lack of supply of debt over the next few years to meet the combined demand from new and existing borrowers. Several also commented that they did not expect to see strong enough economic growth in the short term to prevent more loans becoming non-performing, especially in terms of ISCR, which risked increasing the need for write downs and provisions. This may prove the catalyst for the new entrants that the respondents referred to.

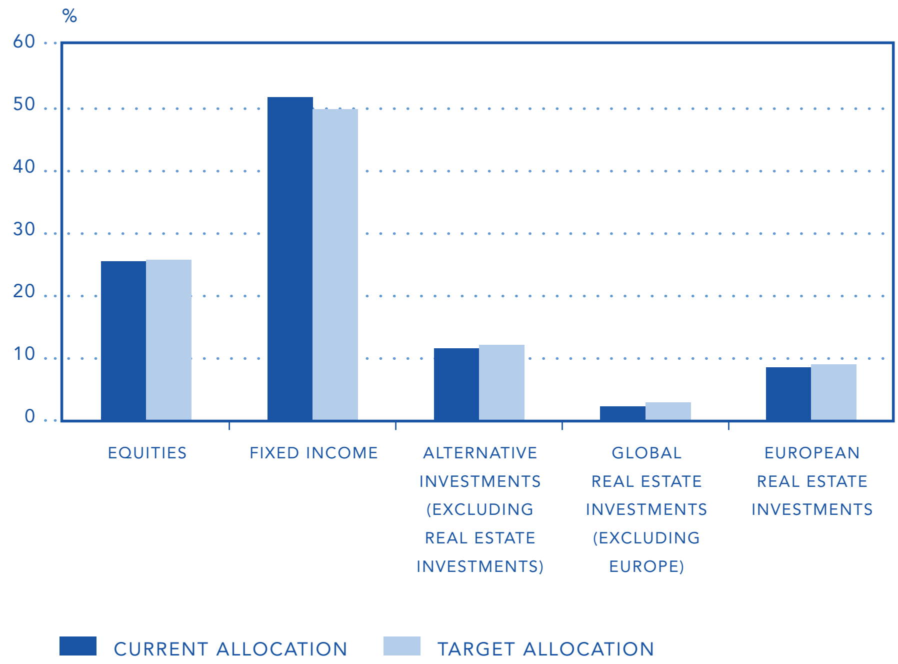
With an excess of demand over supply and higher funding costs, either as a result of regulatory changes or from the capital markets, respondents felt that the cost of debt is unlikely to fall much further in the short term. Although all acknowledged that the environment for raising funds, either via the *Pfandbrief* or other markets, had become easier, there was some concern that this might be reversed.

We started this section by stating that a healthy banking sector is an essential condition for a healthy real estate market. The evidence from our survey seems to be that we are still some way from both.

3 INVESTORS' ALLOCATION TRENDS

Of the 35 investor respondents, 11 reported on their actual and target global asset allocation. Figure 01 shows almost no difference between the current allocation and target allocations with around 2.5% allocated to global real estate and 9% to European real estate. These results indicate that real estate allocations will increase by a small percentage in the next year. However, these results should be analysed with caution due to the small sample size.

FIGURE 01 / ACTUAL GLOBAL AND TARGET ASSET ALLOCATION

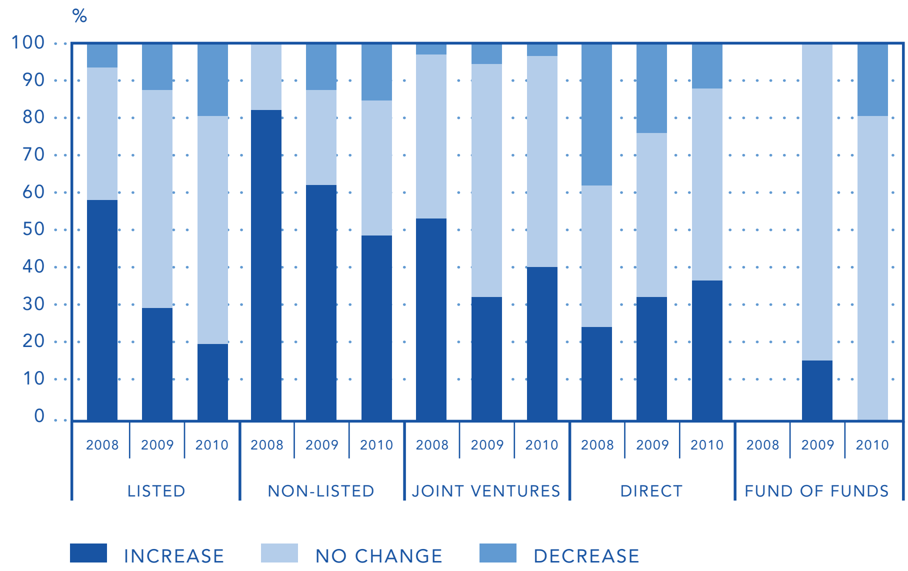


This year's results see the trend for investors to increase allocations to European non-listed real estate funds continue to decline (Figure 02, page 10). The study shows that 49% of investors intend to increase allocations to non-listed property funds in 2010 compared to 63% in 2009 and 85% in 2008. The decline has been in favour of 'no change' in expectations for allocations rather than a decrease by investors.

This drop is in conjunction with the decreased interest to invest in the listed. However, the listed has already started to attract equity since March 2009. This might be because since March 2009, listed real estate markets started recovering.

Compared to 2009, the study shows that investors are more inclined to increase allocations to joint ventures and direct real estate. This supports the view that market volatility has increased the popularity of methods which give investors more discretion over their investments. However, in many cases the total size of allocations to real estate and resources available restrict these approaches to a limited number of larger investors.

FIGURE 02 / INVESTORS' EXPECTED CHANGE IN EUROPEAN REAL ESTATE ALLOCATION OVER THE NEXT TWO YEARS

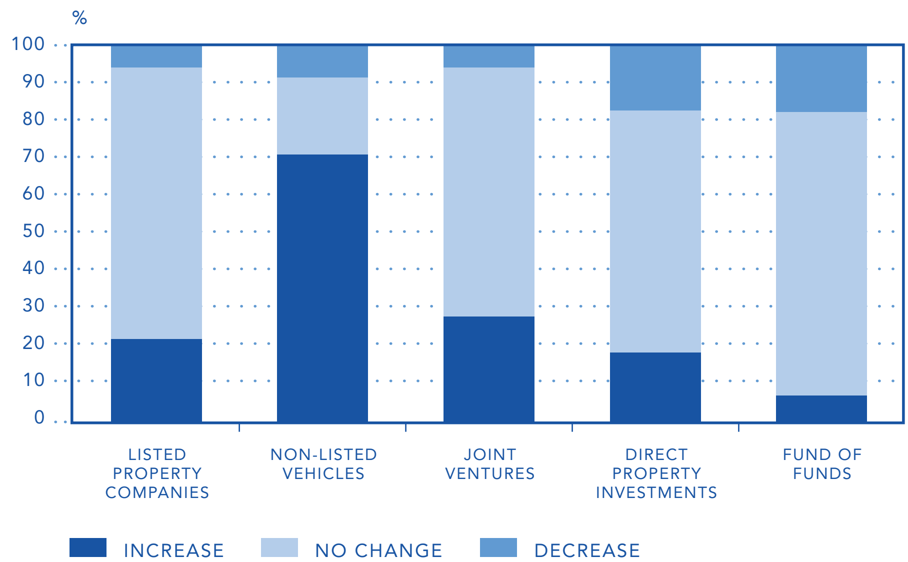


Respondents were asked to report any expected changes in their non-European real estate allocations over the next two years (Figure 03).

At 71%, the large majority of investors intend to increase their allocations to non-European, non-listed real estate funds. Generally, for other real estate structures, investors remain committed to existing allocations.

In line with the allocations for Europe, investing in joint ventures is the preferred investment method after non-listed real estate funds for the next two years. However, also 20% of investors intend to increase their allocations with listed property companies as this might be an easy way to invest.

FIGURE 03 / INVESTORS EXPECTED CHANGE IN NON-EUROPEAN REAL ESTATE ALLOCATION OVER THE NEXT TWO YEARS



4 TARGET RETURNS

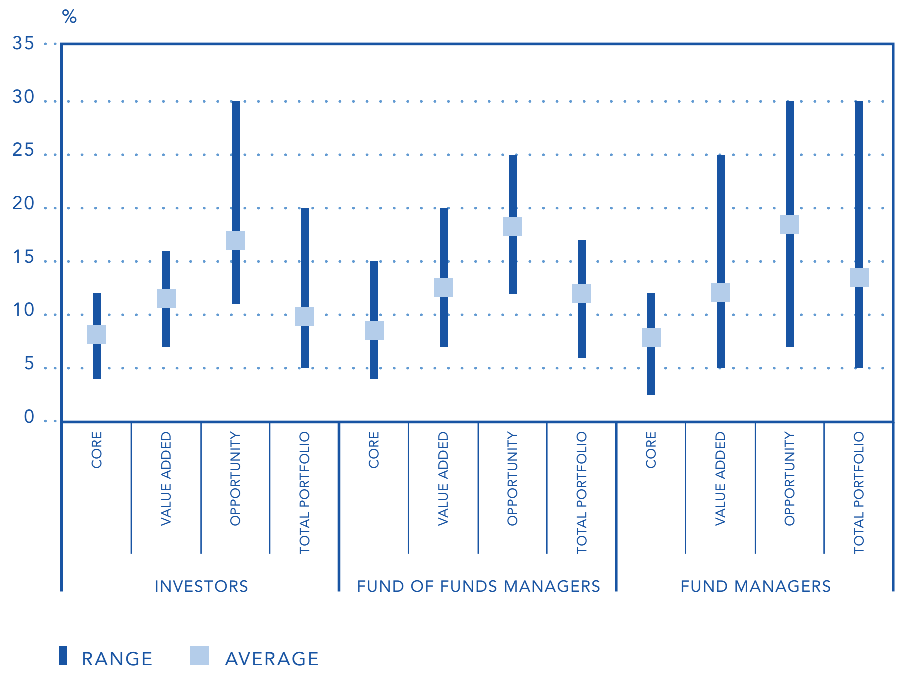
The average target Internal Rate of Return (IRR) across the sample of investors' portfolio is 9.8% while fund of funds managers are looking to achieve 11.8%. These results are almost equal to the 2009 target IRRs of 10.0% and 11.9% respectively. Fund managers overall target IRRs for all fund products are higher at 13.5%. This could be due to the number of value added/opportunity funds managers participating in the study who target higher IRRs for their complete portfolios compared to investors' portfolios, which are likely to include core exposures.

Respondents were asked to break down IRRs by style. Figure 04 shows that there is a large range of IRRs among respondents. However, they almost mirror the 2009 survey results, showing that market participants are not downgrading target IRRs, despite market conditions.

Fund of funds managers appear to be targeting higher levels of return for core and value added funds compared to fund managers and investors. This could imply that some fund of funds managers already see opportunities in the current market to make higher returns as they were expecting lower returns in 2009 study.

For opportunity funds there is a wide range of return expectations. Investors aim to achieve an IRR of 16.9% while fund of funds managers target 17.5% and fund managers 18.4%. These results indicate that investors are more pessimistic about the opportunity funds in the current market.

FIGURE 04 / RANGE AND AVERAGE OF IRRs

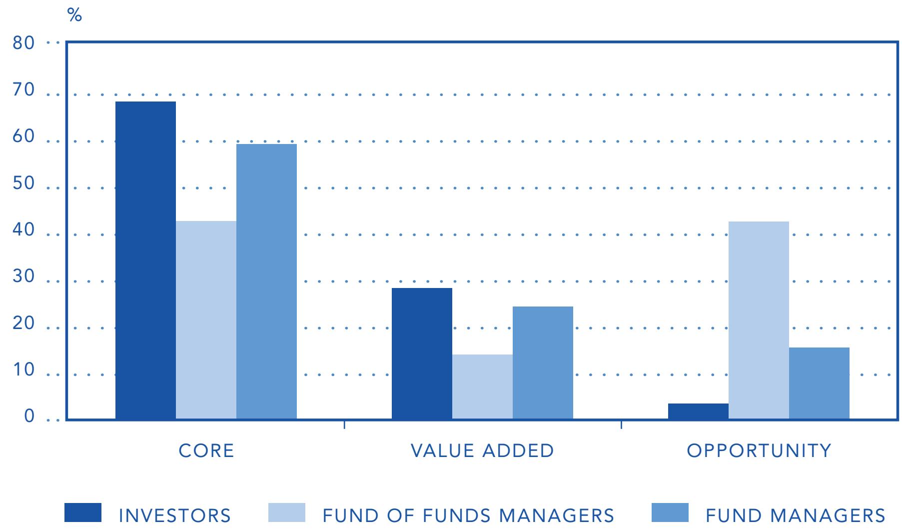


5 PREFERRED STYLE AND FUND TYPES

The preferred fund style for investors, fund of funds managers and fund managers has changed significantly since last year's study. Almost 70% of the investors now favour a core style fund which is 32 percentage points higher than in the 2009 study. If you compare this to the 2008 results the differences are even greater. At that time only 5% of investors preferred core over the other two styles. This increased interest in core funds has been almost completely at the expense of opportunity which has fallen by 34 percentage points to 3%. These results show a downward trend in the risk appetite of almost all investors. These results are mirrored by the fund managers' responses with almost 60% of the fund managers preferring a core style.

Fund of funds managers have also changed their preferred fund style significantly in comparison with last year. In the 2009 study 54% preferred value added, which has now dropped by 40 percentage points to 14%. Interest in opportunity funds grew with 20 percentage points to 43% which could imply that fund of funds managers already see opportunities in the current market for opportunity funds.

FIGURE 05 / PREFERRED FUND STYLE



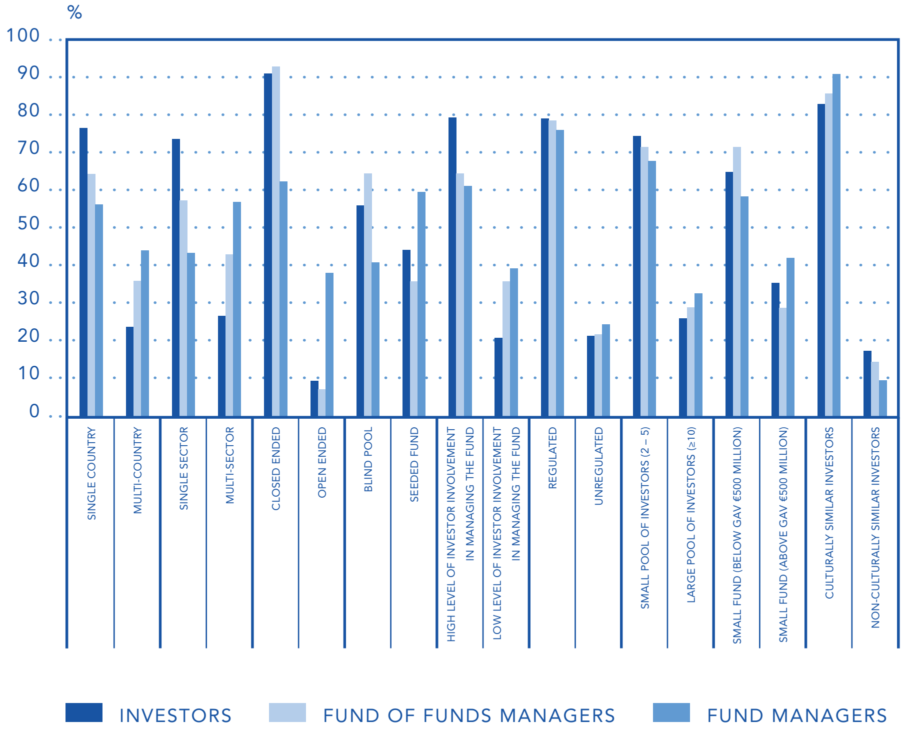
The groups surveyed continue to show a strong preference for closed ended as opposed to open ended vehicle structures, although 39% of fund managers favour open ended funds. A large proportion of all groups prefer a single country/sector strategy except for fund managers who prefer a multi-sector strategy. These results are similar to 2009 although there is an increased interest from investors in single country funds, which rose by 25 percentage points to 77%. Investors and fund of funds managers prefer blind pool to a seeded fund, although seeded fund increased slightly in popularity.

The biggest turnaround for preferences on fund type has been in respondents' views of investors' involvement and the preferences for the size of pools of investors. Almost 80% of investors now prefer a high level of investor involvement, which is also supported by fund manager respondents. A significant proportion of investors and fund of funds managers prefer a small pool of investors including 2 – 5 investors. This differs to 2009 where preferences for a small or large pool of investors were equally divided.

This shows that alignment of interest and due diligence between investors has become as important as between investors and fund managers.

The 2010 study saw respondents being asked to report for the first time on their preferences for regulated or unregulated funds, small or large funds and whether they prefer to invest alongside investors with cultural similarities or multicultural investor groups. All groups overwhelmingly prefer a regulated, small fund with culturally similar investors.

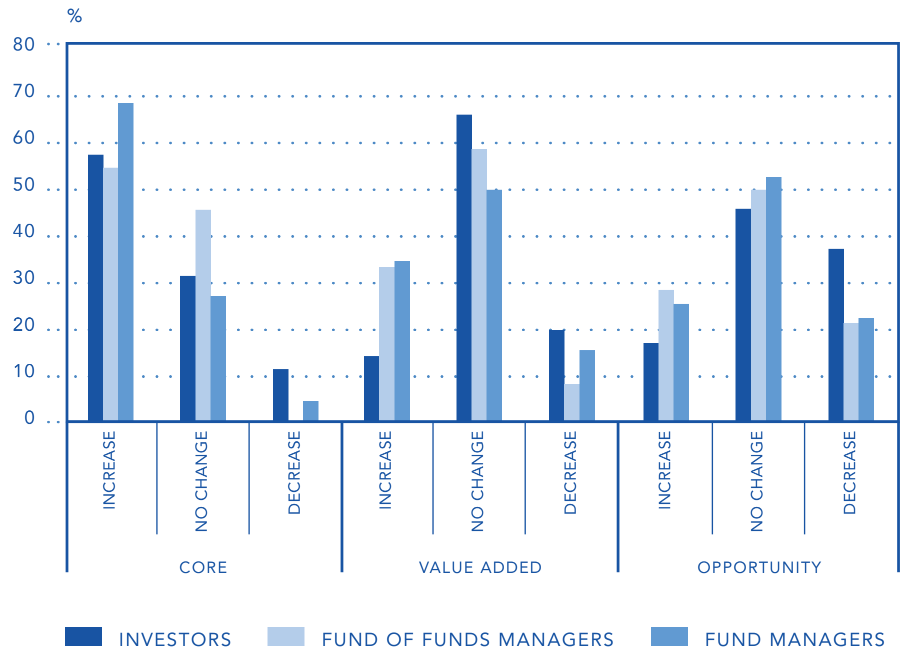
FIGURE 06 / PREFERRED STRATEGY FOR CHOSEN FUND TYPE



As we have already seen, there is strong preference from investors in core funds and around half of the investors tend to increase their allocations to non-listed real estate funds. This is reflected in the results of the expected style allocations for 2010 – 2012 (Figure 07, page 14). Approximately 55% of investors and fund of funds managers investing in non-listed real estate funds are expecting to increase their allocations to core funds. Fund managers anticipate on this with almost 70% of fund managers intending to launch core funds in the next two year.

In conjunction with the increased interest in core funds, investors also intend to decrease their allocations to higher risk funds. Investors are likely to decrease their allocations to value added and opportunity funds by 20% and 40% respectively. This seems to suggest that investors reweight their allocations to mitigate their portfolio risk.

FIGURE 07 / EXPECTED STYLES FOR NON-LISTED REAL ESTATE ALLOCATIONS AND NEW LAUNCHES 2010 – 2012



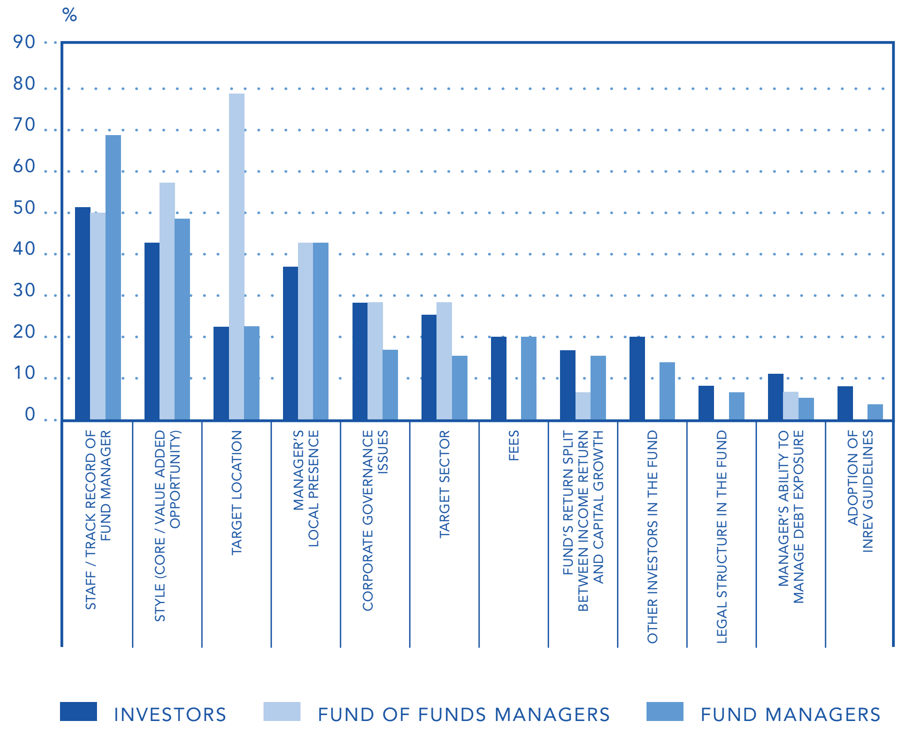
6 CRITERIA FOR FUND SELECTION AND CHALLENGES FOR FUND MANAGER

Figure 08 shows that 54% of investors now think that fund manager's staff/track record and fund manager track record is the key criterion for selecting a vehicle. Fund managers are aligned in this view with almost 70% indicating that the staff/track record is of prime importance. This is a significant shift as manager's local presence has been the most important criterion since 2007 study, reflecting investors' concerns over the stability of fund managers.

The style of the fund is the second key criterion with 43% of investors choosing this option with manager's local presence now in third place.

For fund of funds managers target locations is now most important criterion for fund selection with almost 80% choosing this option. This replaces the style of the fund which was most preferred in the 2009 study.

FIGURE 08 / MOST IMPORTANT CRITERIA FOR FUND SELECTION



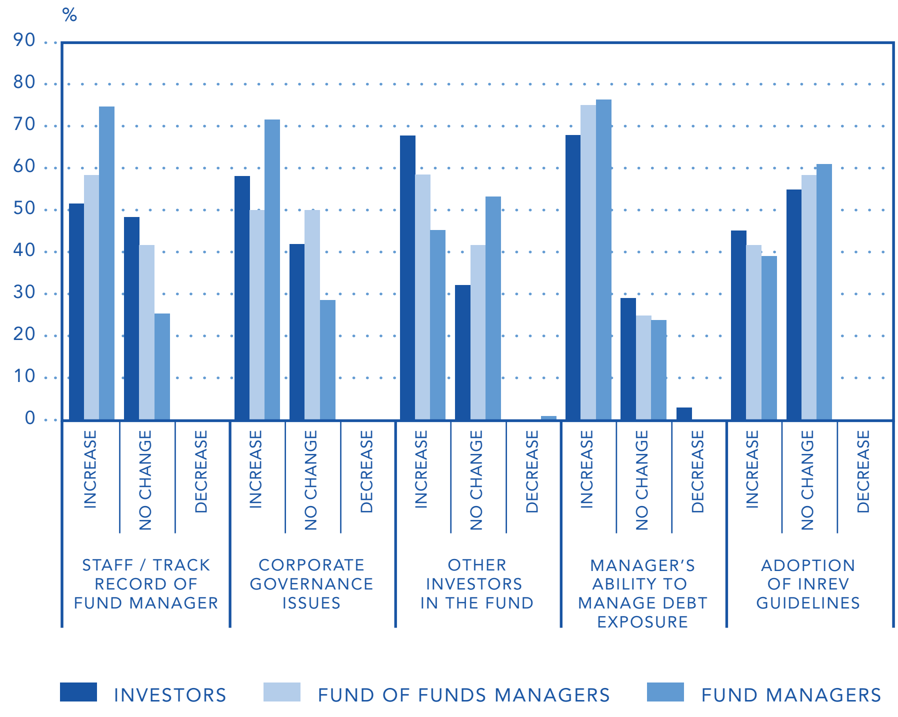
The adoption of INREV Guidelines has remained stable for investors with 9% now choosing it as an important criterion for fund selection compared to 10% in the 2009 survey. However, more interesting is the relative change in importance among respondents for the Guidelines compared to this time last year (Figure 09, page 16). The results showed that 45% of investors, 42% of fund of funds manager and 39% of fund managers now see the adoption of the Guidelines as more important than last year.

Other factors have also gained more importance in respondents' eyes since last year. Almost 70% of investors now see that the other investors in the fund and the manager's ability to handle debt exposure is more important compared to last year.

This comes as no surprise as investors have become more concerned about the profile of co-investors and the expertise of fund managers in the light of debt problems. In addition, the INREV Debt Study 2009 showed that breaching lending terms (including LTV Ratios, interest coverage ratios) was a concern for 88% of investors and 85% of fund of funds managers, which supports investors' concerns.

For an overview of the relative change of in importance for fund selection for all criteria see Figure A01 in Appendix 1, page 36.

FIGURE 09 / RELATIVE CHANGE IN IMPORTANCE OF FACTORS FOR FUND SELECTION



Survey respondents were asked to choose the three most challenging obstacles for fund managers in the next 12 months. All respondents chose the fund manager's ability to raise capital as the most pressing obstacle (Figure 10, page 17). In addition, 60% of investors see the ability to secure financing as an issue for fund managers.

The market downturn has seen a drop in market activity with investors putting commitments to funds on hold. INREV's Market Activity Survey in September showed that there were some equity commitments in due diligence but activity is likely to remain slow in 2010, with fund managers therefore finding capital raising challenging.

In addition, with a smaller pool of lending available in the market, it is also difficult for fund managers to refinance existing loans or finance new loans. It therefore is no surprise that the ability to manage existing debt exposure is seen as one of the main challenging obstacles for fund managers. Due to high levels of leverage in the market, managing the existing exposure will be a concern in 2010 as well as any refinancing.

FIGURE 10 / MOST CHALLENGING OBSTACLES FOR FUND MANAGERS OF NON-LISTED REAL ESTATE FUNDS IN THE NEXT 12 MONTHS

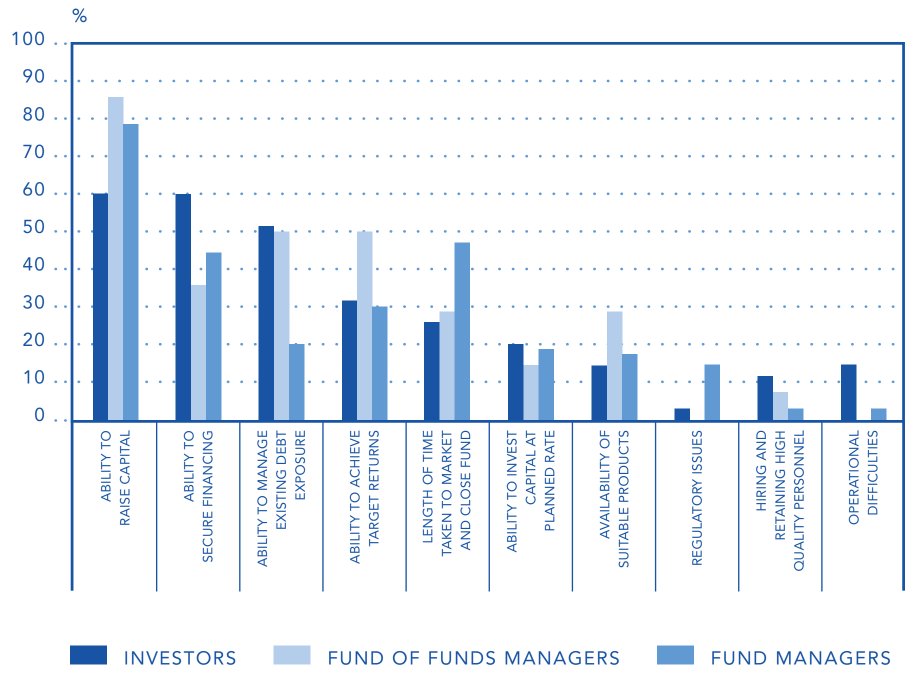
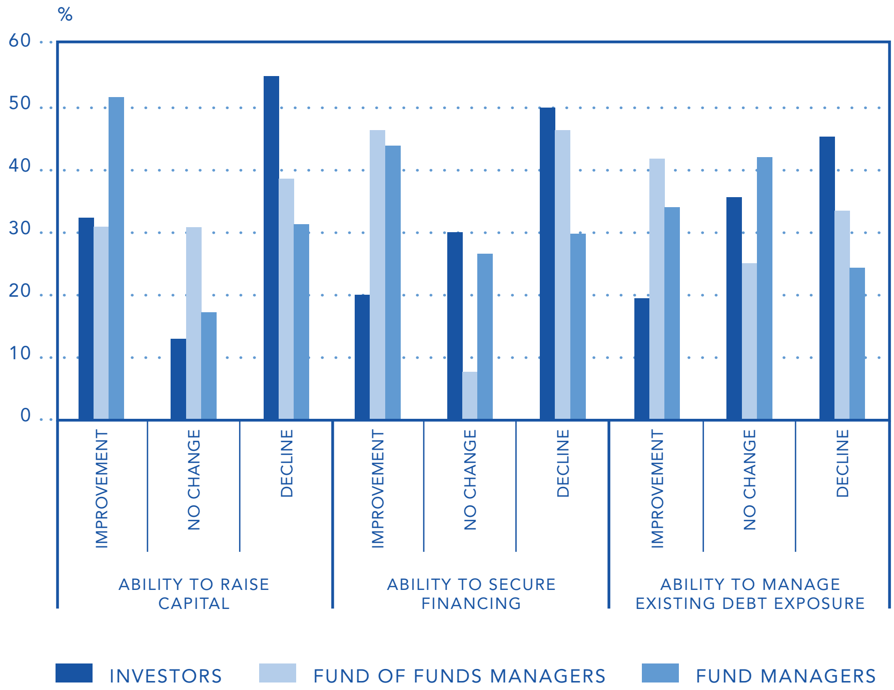


Figure 11 (page 18) shows whether respondents think the obstacles have become more or less of a problem. Interestingly, all groups do not seem to agree as there are variations in the results. Of the fund of funds managers, 31% saw the ablity to raise capital as less of an obstacle, 31% saw no change and 39% saw it as more of a problem. Fund managers think differently with 52% seeing the ability to raise capital is now less of an obstacle. This is contast with 55% of investors who think it is now more difficult compared to last year for fund manager to raise capital.

For the ability to secure financing and to manage existing debt exposure, there is no concensus within the groups except for among investors. Half of investors indicated that these two obstacles had become worse for fund managers.

For an overview of the relative change of in difficulty of the obstacles faced by fund managers for all criteria, see Figure A02 in Appendix 1, page 37.

FIGURE 11 / RELATIVE IMPROVEMENT OR DECLINE IN OBSTACLES FACED BY FUND MANAGERS



7 PROS AND CONS OF INVESTING IN NON-LISTED REAL ESTATE VEHICLES

Figure 12 shows that access to expert management continues to be the most important reason for investing in non-listed property funds for 2010.

More than 80% of the fund of funds managers and 40% of the investors want to invest in non-listed real estate funds in the next 12 months to take advantage of current market conditions. As this option is more tactical compared to the other options, it is not surprising that in the current market conditions it plays an important role whether or not to invest in non-listed real estate funds. This is especially the case for fund of funds managers who see advantages in the current market conditions which might be due to their investment strategy. A majority of them invest in the higher risk/return styles with possibilities to take advantages of current market opportunities at an early stage.

Risk/return profile compared to other real estate asset classes has dropped in importance compared to last year. This might start to reflect the fact that all asset classes including real estate were hit by the market downturn. This was particularly the case for the non-listed real estate funds sector due to high use of leverage. This may affect the attractiveness of the risk/return profile of these funds at this moment.

FIGURE 12 / REASONS FOR INVESTING IN NON-LISTED REAL ESTATE FUNDS IN THE NEXT 12 MONTHS

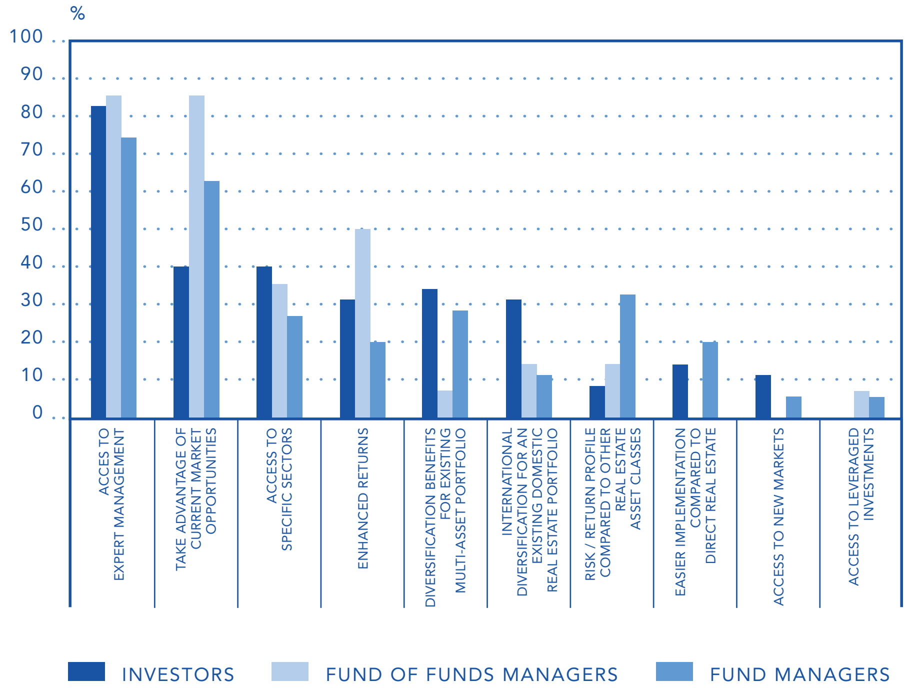
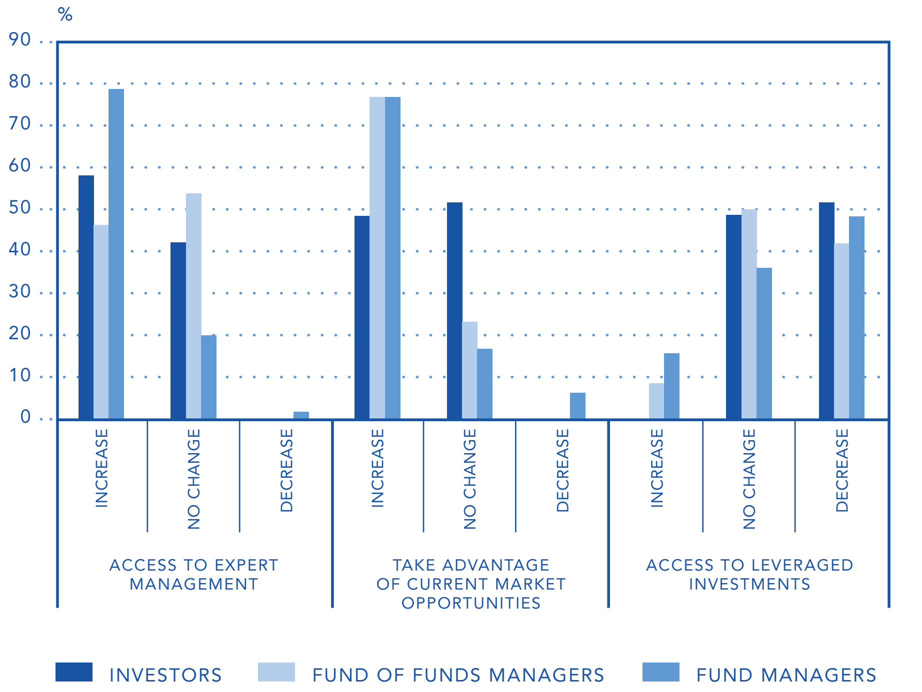


Figure 13 (page 20) shows the perceptions of the changing importance of these reasons for investing in non-listed real estate as identified in the 2009 survey. More than 50% of the investors now see access to expert management as more important than last year. This is supported by the earlier result that staff/track record is the most important criteria for fund selection.

Like 2009, access to leveraged investments is seen as less important with more than 50% of the investors viewing it as of decreased importance. This could also reflect investors to return to the basics of property with the income return being seen as the most important component.

For an overview of the relative change of in importance of the factors for investing in non-listed real estate funds see Figure A03 in Appendix 1, page 37.

FIGURE 13 / RELATIVE CHANGE IN IMPORTANCE OF REASONS FOR INVESTING IN NON-LISTED REAL ESTATE



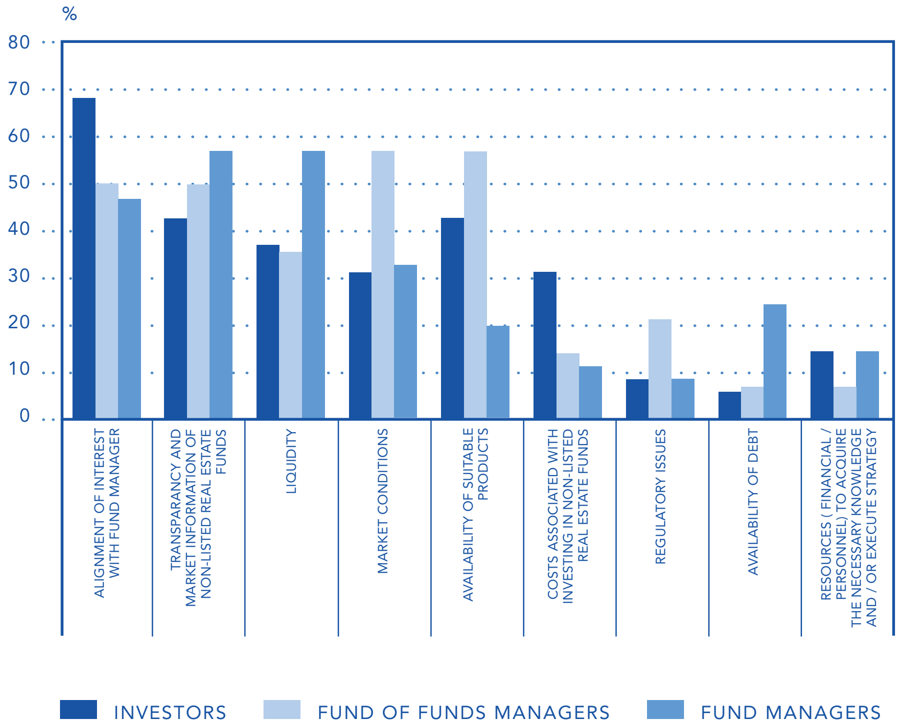
The lack of alignment of interest between investors and fund managers was cited as the main reason for not investing in non-listed real estate funds by investors (Figure 14). This factor has now overtaken market conditions and transparency as the major obstacles. This market downturn has seen alignment of interest structures tested such as the viability of performance fee structures as well as whether fund managers had the appropriate levels of co-investment and other features such as key-man clauses.

As can be seen in Figure 14, fund of funds managers are less concerned about the lack of alignment of interest with 57% selecting market conditions and the availability of suitable products as main reasons for not investing in non-listed real estate funds.

Fund managers see liquidity and transparency as major obstacles with 57% selecting both these options. Investors and fund of funds managers are less concerned about the liquidity with 37% and 36% respectively citing it as an obstacle.

It is interesting to see the different opinions about the availability of suitable products. A significant group of investors and fund of funds managers (43% and 57% respectively) see this as a main reason for not investing in comparison with just 20% of fund managers.

FIGURE 14 / REASONS FOR NOT INVESTING IN NON-LISTED REAL ESTATE FUNDS

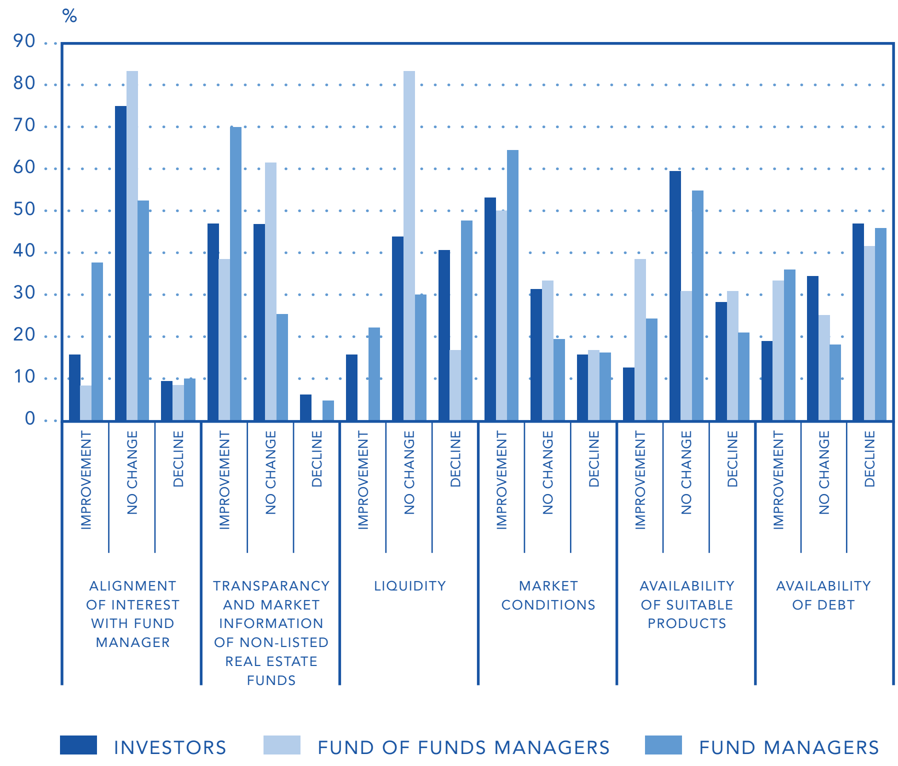


When asked to consider whether the obstacles had become better or worse, 75% of investors and 83% of fund of funds managers see no change for alignment of interest (Figure 15, page 22). Considering the market conditions, it is not surprising that the issue of the availability of debt and liquidity were seen as worse obstacles compared to last year by investors.

Over half of respondents indicated that market conditions are now less of a barrier to invest in non-listed real estate funds in the next 12 months. Transparency and market information are now seen as less of an obstacle by 47% of investors, 39% of fund of funds managers and 70% of fund managers.

For an overview of the relative change of in importance of the factors for not investing in non-listed real estate funds see Figure A04 in Appendix 1, page 38.

FIGURE 15 / RELATIVE IMPROVEMENT OR DECLINE OF OBSTACLES FOR NOT INVESTING IN NON-LISTED REAL ESTATE FUNDS



8 PREFERRED LOCATIONS AND SECTORS IN EUROPE

Respondents were asked to rate the three most appealing country/sector combinations in terms of performance prospects. As the reflection of the impact of the crisis on values was measured earlier in the UK, it comes as no surprise that the UK is one of the most preferred investment countries in Europe for the second year running (Figure 16).

Four of the ten most preferred country/sector combinations include the UK. UK offices is the most preferred country/sector combination for 53% of investors and 42% of fund managers, similar to the 2009 study. It should be noted that over 25% of the respondents are from the UK which may affect the results.

For fund of funds managers, French offices is most preferred which replaces UK diversified and German Residential from 2009. After UK offices, French offices is also the most preferred country/sector combination for Investors and fund managers. France is now the most preferred country to invest in after the UK with three of the ten most preferred country/sector combinations. This is likely to be as it is a large and liquid market.

In the 2009 study, Eastern and Central Europe were included in the most preferred country/sector locations. These markets did not make this year's top 10 as most investors have returned to the more core European markets. This is supported by the fact that other emerging markets such as Turkey, Russia and the Ukraine were not mentioned on large scale by respondents. In the 2008 study these countries were all included in the seven most preferred countries.

It should be mentioned that Spanish retail and diversified, German retail and all sectors in the Benelux were chosen by a part of the respondents but the percentages were not high enough to be included in the top 10.

FIGURE 16 / PREFERRED LOCATIONS AND SECTORS IN EUROPE

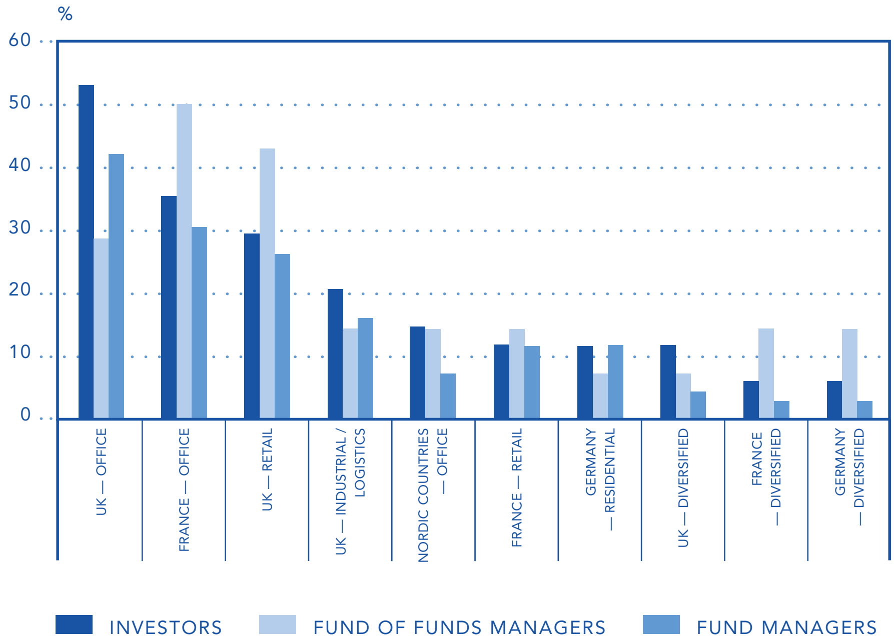
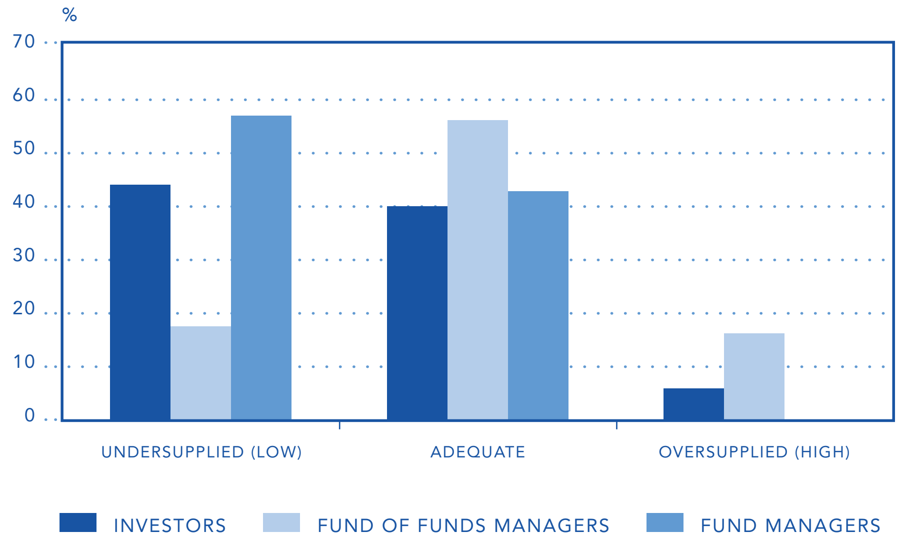


Figure 17 shows that a significant proportion of investors think that the supply side of their favoured markets is inadequate. This is in contrast with 57% of fund managers which see a low level of interest from investors in their most favoured locations. For 50% of investors, 66% of fund of funds managers and 43% of fund managers, market intentions are in equilibrium in terms of available supply and demand.

FIGURE 17 / SUPPLY OF PRODUCTS AND INTEREST FROM INVESTORS IN TOP LOCATIONS AND SECTORS



9 ALTERNATIVE SECTORS

Figure 18 shows that the scope of the investment instruments available to investor and fund of funds manager respondents. Listed real estate comes within 54% of investors' investment processes but for other alternatives, fewer investors have mandates.

Fund of funds managers are more likely to be able to invest in distressed real estate debt and mezzanine debt, which is comparable with the 2009 study. This might be due to the higher risk/return strategy of fund of funds managers. Distressed and mezzanine debt products might be an area of the property sector where opportunistic levels of return may still be achievable.

Besides listed real estate, infrastructure and mezzanine debt have proved to the most popular with investors so far with 29% and 17% respectively already made investments (Figure 19, page 26). A significant proportion of investors made investments in listed real estate and infrastructure although fund managers tend not to offer funds for this alternative. Fund managers are more likely to offer listed real estate as part of their services than infrastructure which often falls within the private equity side of their business rather than real estate.

FIGURE 18 / WHICH OF THE FOLLOWING FALL WITHIN YOUR REAL ESTATE INVESTMENT PROCESS

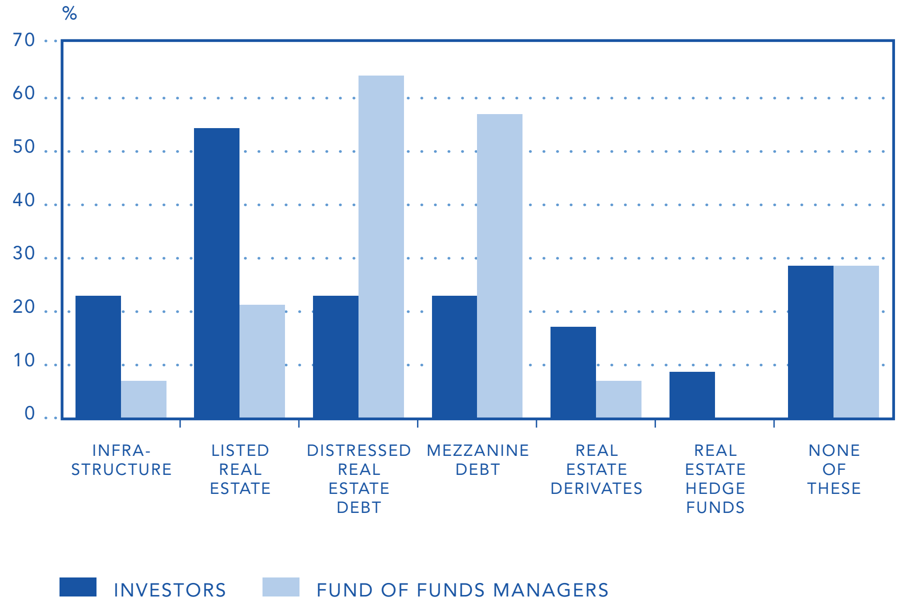


FIGURE 19 / INVESTMENTS AND FUND OFFERINGS IN ALTERNATIVES FOR NON-LISTED REAL ESTATE FUNDS

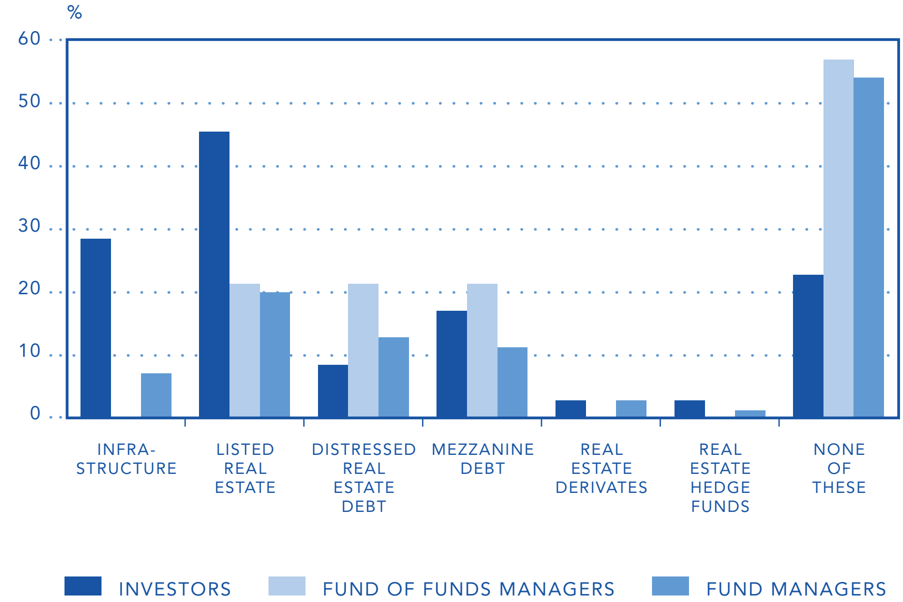
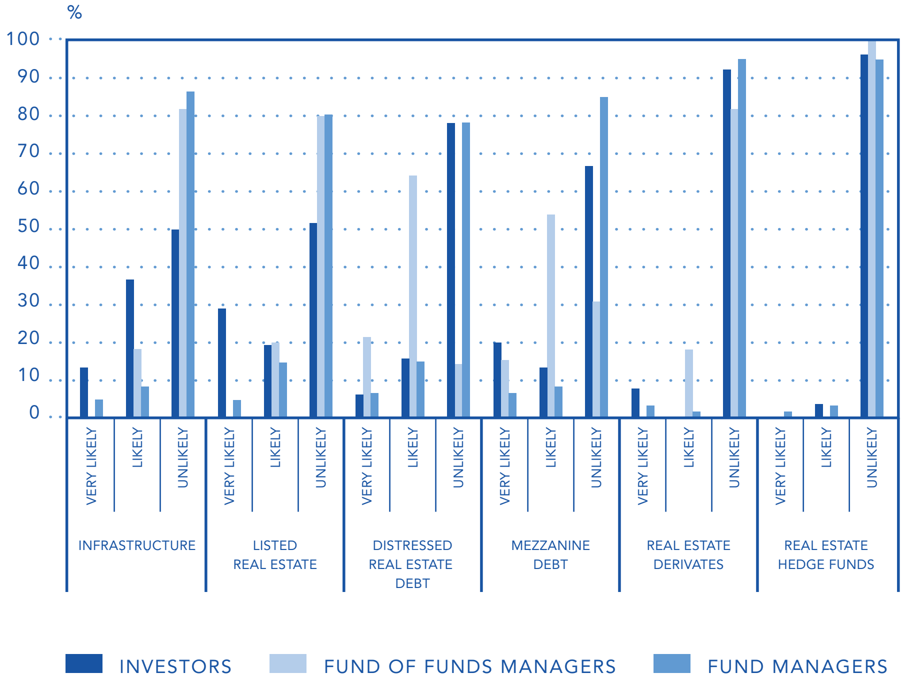


Figure 20 shows that more than 90% of investors and 80% of fund of funds managers are very unlikely to be investing in real estate derivatives and real estate hedge funds. In line with the 2009 results, 37% of investors are likely to invest in infrastructure and 13% are very likely to invest.

FIGURE 20 / EXPECTATION TO MAKE AN INVESTMENT AND OFFER A FUND IN AN ALTERNATIVE SECTOR



10 SPECIAL TOPIC: SUSTAINABILITY

The theme of sustainability resonates in many of today's discussions in the European non-listed real estate market. There has been a steady growth of interest in sustainable investment and appears to still be on the agenda of investors and fund managers in today's challenging market. In this year's study we have included some basic questions to explore and understand views on sustainability within the European non-listed real estate funds market.

There are many definitions of sustainability used in the market. For the purpose of this questionnaire we have used the following*:

– ENVIRONMENTAL FACTORS: Factors that measure the impact that a company/fund and its activities have on the environment. Measures of environmental impact can include a company's/fund's tendency to pollute air and water, its energy management policies, the resources it consumes and the direct impact its activities have on the local environment.

– SOCIAL FACTORS: Factors that measure the impact that a company/fund and its activities have on the society. Measures of societal impact can include a company's labour management policies and approach towards equal opportunities and human rights, and the direct impact its activities have on the local community.

– GOVERNANCE FACTORS: Governance procedures that are taken into consideration by the company/fund. Measures of governance can include a company's internal structure and practices, the consideration it gives to shareholder rights, its transparency and its accountability.

– ESG is an abbreviation for Environmental, Social and Governance factors.

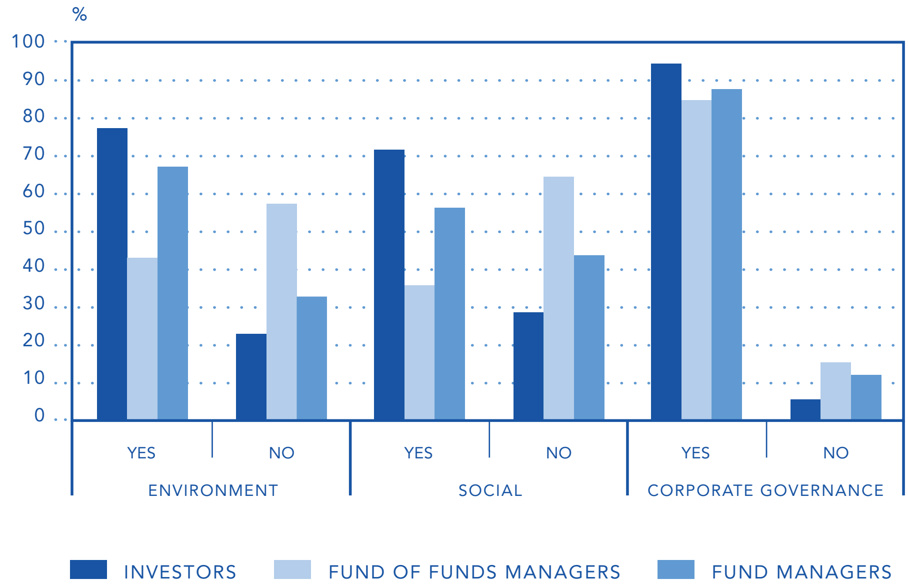
*Based on definitions published on www.axa.com

Most of the respondents have some factors of sustainability incorporated into their business or investment processes (Figure 21, page 28). Across the different respondent groups, governance factors are by far applied the most. Second in importance are the environmental factors, while only just over half of the respondents have some social factors built-in into their business or investment policies.

Fund managers and investors are very similar in their attitude towards sustainability. Most of the investors (94%) and fund managers (88%) have incorporated corporate governance factors and a significant part of investors and fund managers (77% respectively 67%) apply environmental factors. The only difference between them is their attitude towards social factors. Over 71% of the investors but only 56% of fund managers take social factors into their investment policies.

Based on this survey, fund of funds managers appear to be the least sustainable. With the exception of governance factors around 40% have the other aspects of sustainability, environment and social included into the investment policies.

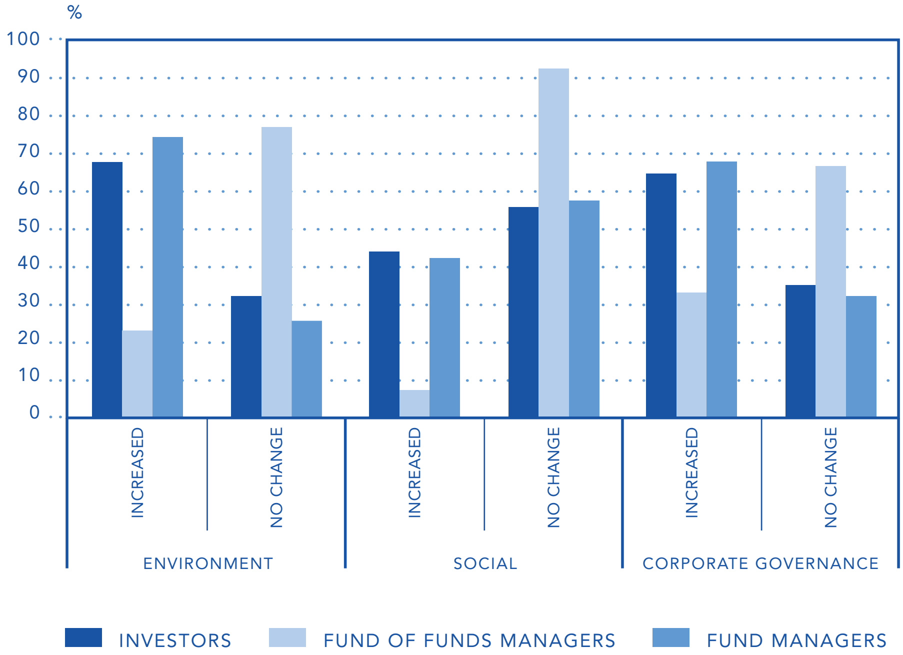
FIGURE 21 / POLICIES ON OR ACTIVELY INCORPORATE THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS (ESG) OF SUSTAINABILITY IN BUSINESS OR INVESTMENT PROCESS



Not only do fund of funds managers have the least sustainable factors in their investment policies, they do not expect to see any significant increase in importance over the next 12 months either (Figure 22, page 29). Investors and fund managers again show a rather similar, opposite, pattern.

The majority of investors (68%) and fund managers (74%) expect environmental factors to show the biggest increase in importance this year, while an even larger share of fund of funds managers (77%) think otherwise. The same can be said for governance factors Already incorporated by most respondents, around two-third of investors and fund managers still expected these factors to become more important over the next 12 months, while two-third of fund of funds managers disagree. Respondents seem to agree that social factors of sustainability will not gain much and therefore remain the least important sustainably factors in 2010.

FIGURE 22 / CHANGE IN IMPORTANCE IN THE ESG ASPECTS OF SUSTAINABILITY DURING THE LAST 12 MONTHS

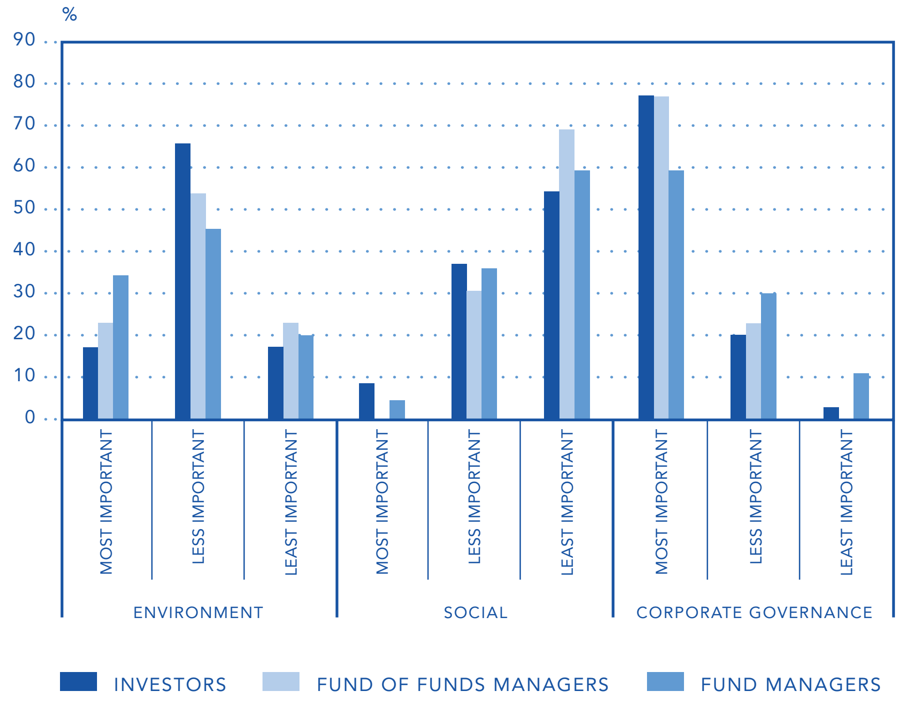


When asked the relative importance for the different aspects of sustainability, governance factors are seen by all respondents as the most important (Figure 23, page 30). Over three quarter of investors and fund of funds managers see these factors as most important and environmental factors as less important (66% respectively 54%). Social factors are regarded as least important by almost two third of the investors and fund of funds managers.

Fund managers are more balanced in the responses. While governance factors are also most important to them, almost one third regard environmental factors as most important.

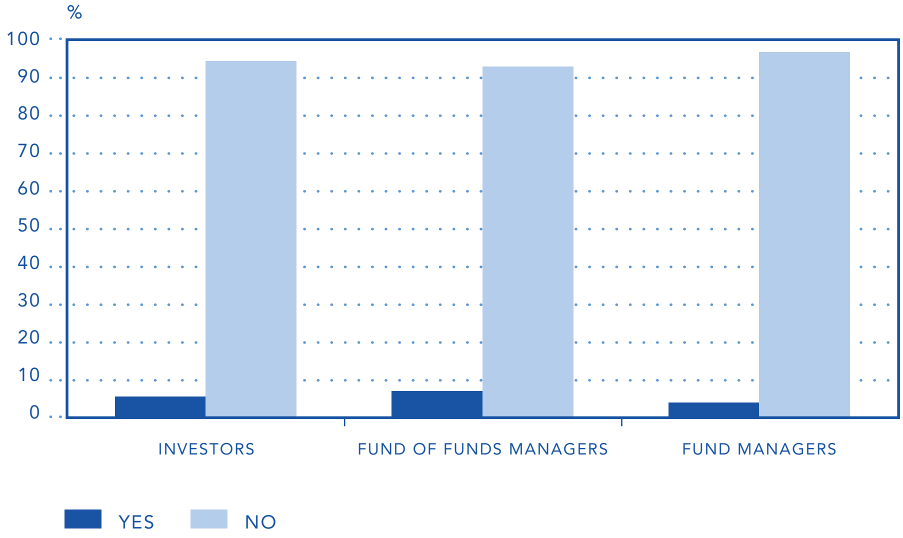
It is interesting to see that still almost 9% of investors regard social factors this as the most important sustainability factors, despite the fact that of these factors are applied the least.

FIGURE 23 / RANKING OF THE RELATIVE IMPORTANCE OF THE ESG ASPECTS OF SUSTAINABILITY WHEN ACTIVELY SEEKING INVESTMENTS INTO NEW FUNDS OR SETTING UP NEW FUNDS



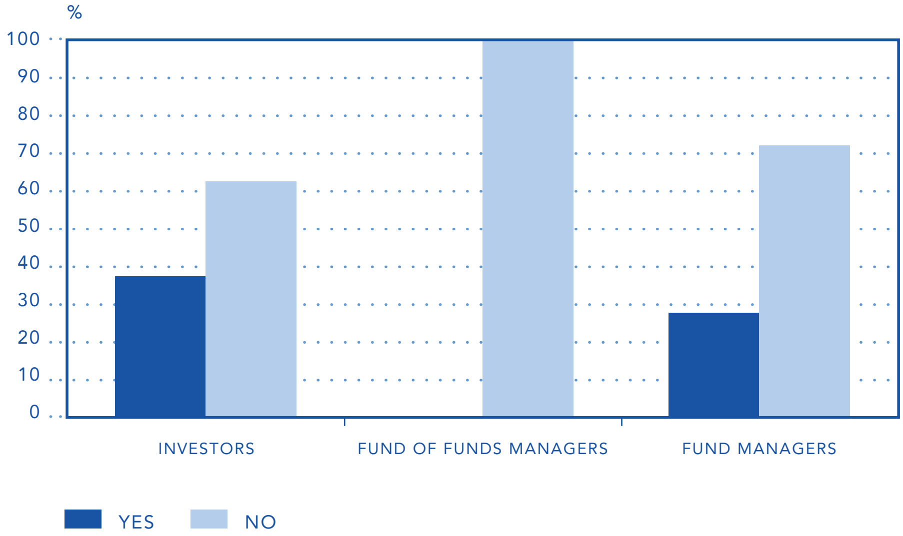
Given that the majority of the respondents use at least some factors of sustainability in their investment or business policies, it is expected that this would be reflected in the number of sustainable non-listed real estate funds in the market. However, this is not the case. Only just over 3% of the fund managers have actually launched a European non-listed real estate fund that was clearly marketed as being sustainable in past year. Investors and fund of funds managers have not made any significant investments into sustainable funds either. Despite having incorporated the least sustainable factors into their investment policies, a higher percentage of fund of funds managers have actually make investments into sustainable non-listed real estate funds than investors (7.1% respectively 5.7%).

FIGURE 24 / INVESTMENTS IN OR LAUNCHED FUNDS, CLEARLY MARKETED AS SUSTAINABLE, DURING THE LAST 12 MONTHS



The limited investments made to sustainable European non-listed real estate funds could be down to a shortage of suitable products. But when ask whether or not there are enough of these sustainable non-listed real estate funds in the market, almost 40% of the investors answered positively. Interestingly, none of the fund of funds managers seems to agree with the investors. Almost one third of the fund managers think that are enough sustainable non-listed real estate funds in the market that meet the requirements of investors.

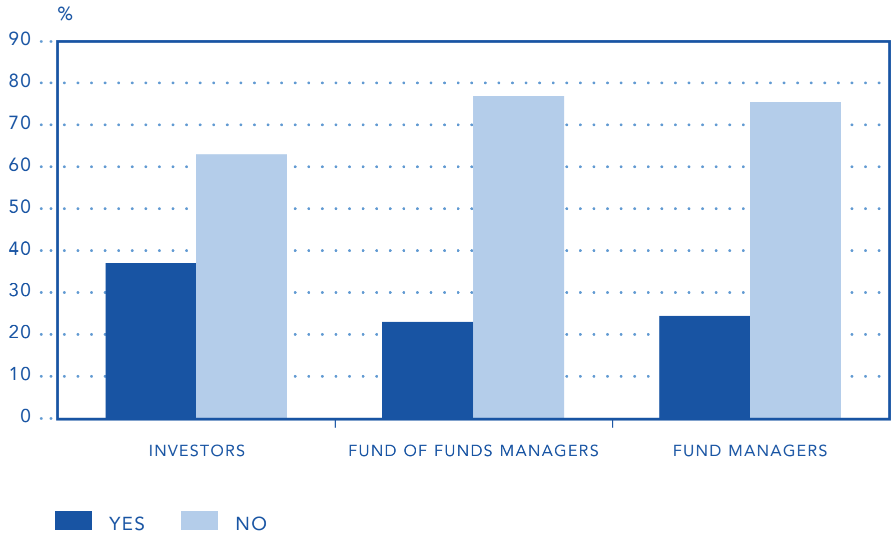
FIGURE 25 / ARE THERE ENOUGH SUSTAINABLE PRODUCTS, THAT MEET THE REQUIREMENTS OF INVESTORS, AVAILABLE IN THE MARKET AT THIS MOMENT?



Going forward, almost one quarter of the fund of funds managers expect to make an investment into a sustainable non-listed real estate fund this year as opposite to only 7% of fund of funds managers who have made sustainable investments last year. Even more investors, over 37% are planning to do so this year as well, compared to less than 6% of investors doing so last year. Fortunately almost one quarter of fund managers are planning to launch real sustainable non-listed real estate funds, which may help to prevent a shortage of suitable products, if all the investment intentions materialise. Overall there is an increase in investment intentions into sustainable products.

Nonetheless this is only very limited. Over three quarters of the fund managers have no intention to launch a sustainable European non-listed real estate funds. Likewise the majority of fund of funds managers (77%) and investors (63%) have no intention to make any investments in these products either.

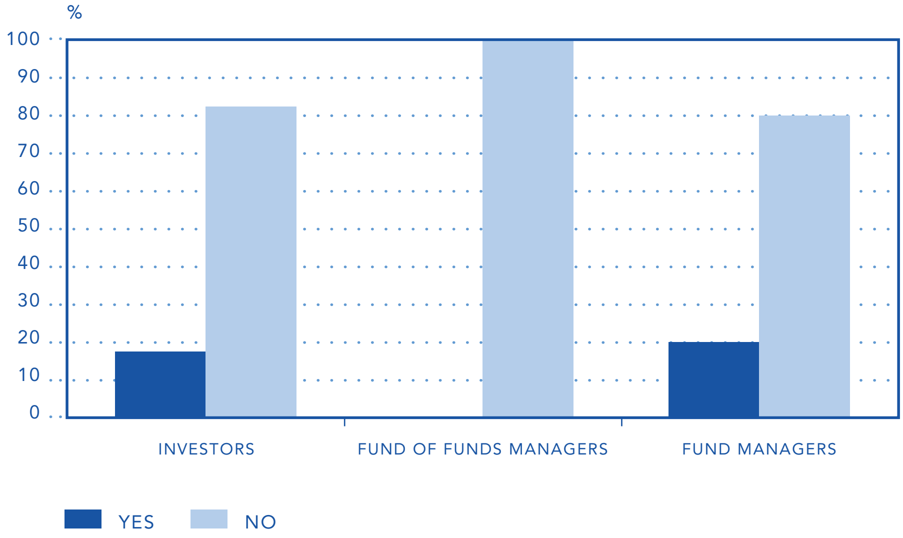
FIGURE 26 / GOING TO INVEST IN OR LAUNCH ANY FUNDS, CLEARLY MARKETED AS SUSTAINABLE, IN THE NEXT 12 MONTHS



Despite the fact that sustainability is often the topic of discussions in the European non-listed real estate funds market and is finding its way into investment and business policies, actual targets with regards to ESG performance are still very limited.

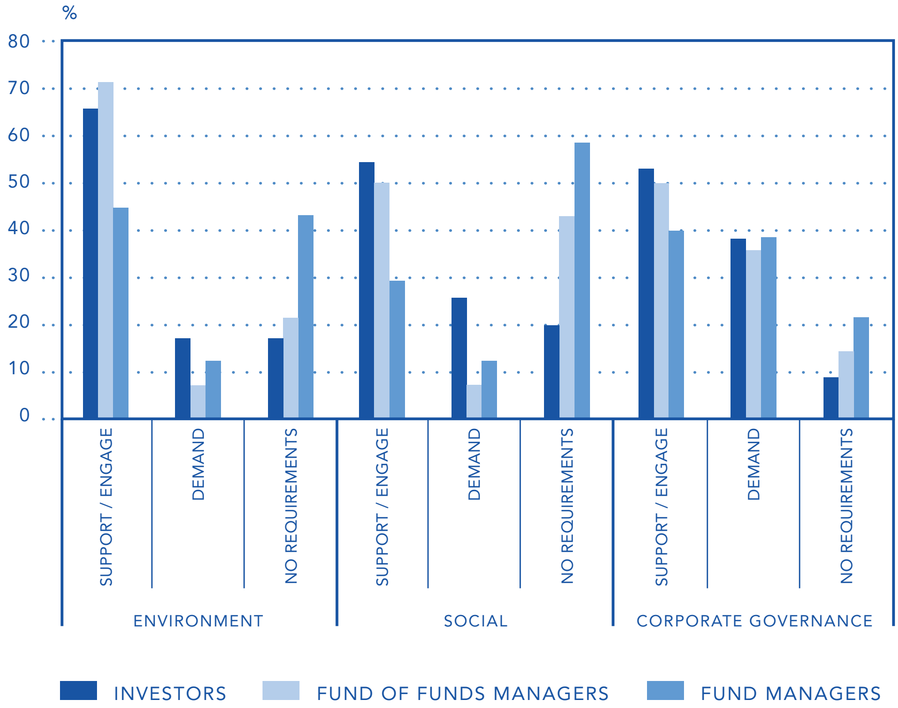
Only around 20% of the investors and fund managers have specific targets with regards to ESG, which might explain the investment intentions. None of the fund of funds respondents use any of ESG targets. Interestingly almost one quarter of fund of funds are planning to make investments to sustainable non-listed real estate funds, despite having no specific targets.

FIGURE 27 / SPECIFIC TARGETS WITH REGARDS TO ESG PERFORMANCE OF YOUR EXISTING OR FUTURE FUNDS



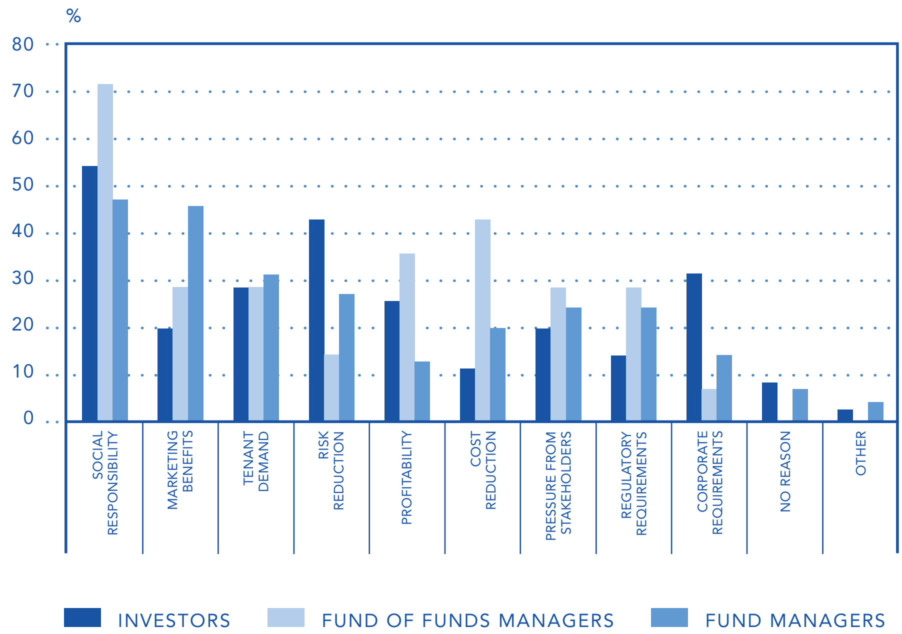
Given that Governance factors have found their way into most of the investors' investment polices, it is no surprise that these factors are demanded twice as often as the other factors to be incorporated into a fund strategy (Figure 28). The other factors – Environment and Social – seem more non-committal than Governance as these are mainly supported rather than demanded like the Governance factors.

FIGURE 28 / INVESTORS ACTIVELY SUPPORT / ENGAGE OR DEMAND TO INCORPORATE THE FOLLOWING ASPECTS OF SUSTAINABILITY



The main reason for all respondents to pursue a sustainable investment strategy is their social responsibility. Fund managers are quite frank that their second reason for taking a sustainable approach is marketing benefits. Investors indicate that risk reduction is another significant factor followed by their corporate requirements. For fund of funds managers the main reasons beside social responsibility are financial; cost reduction and profitability.

FIGURE 29 / MOST IMPORTANT CRITERIA FOR FUND SELECTION



Sustainable factors have found their way into the investment and business policies of investors, fund of funds managers and fund managers active in the European non-listed real estate funds market. Most important and mostly applied are the corporate governance factors of sustainability, followed by environmental factors with social factors being regarded as the least important aspects of sustainability.

Based on sustainability factors incorporated into investment policies, fund of funds managers seem to be the least sustainable. But when it comes to actual investments into sustainable products, a larger percentage of them have actually done so.

Overall the level of investments made towards purely sustainable non-listed property funds is still very limited. And although interest in sustainable investments in 2010 is significantly higher than last year, still the majority of respondents have no concrete plans to do so.

Today's challenging market might be to blame (the sustainable movement was gaining considerable momentum before the downturn), but the fact that although many investors and fund managers have sustainable factors incorporated into their policies, the lack of real ESG targets is not helping either.

APPENDIX 1: ADDITIONAL GRAPHS

The following graphs relate to information on page 15 – 21.

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

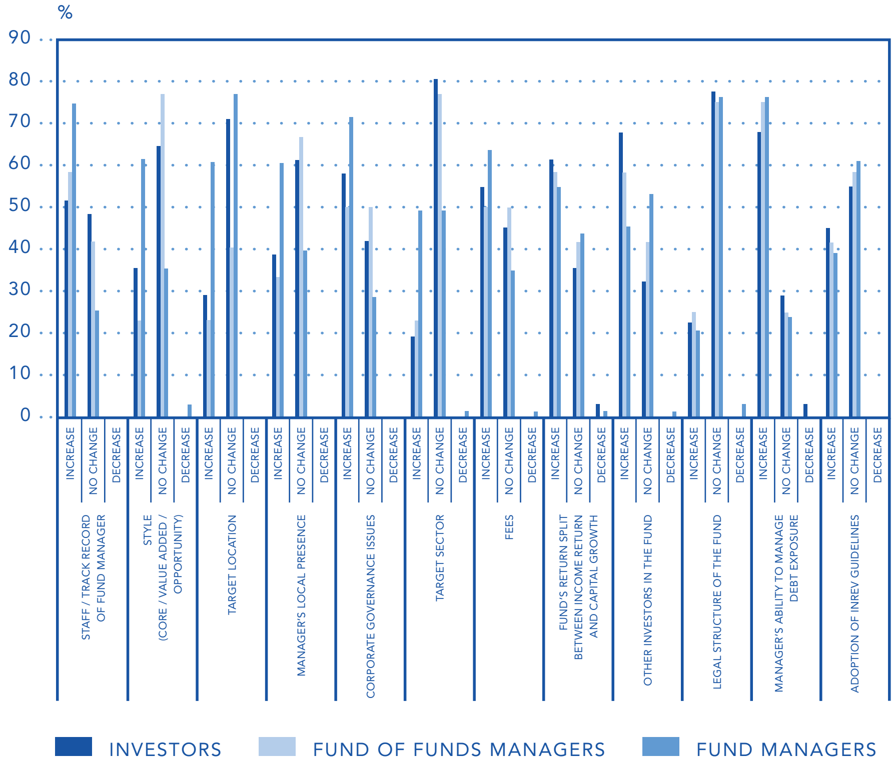


FIGURE A02 / RELATIVE IMPROVEMENT OR DECLINE IN OBSTACLES FACED BY FUND MANAGERS

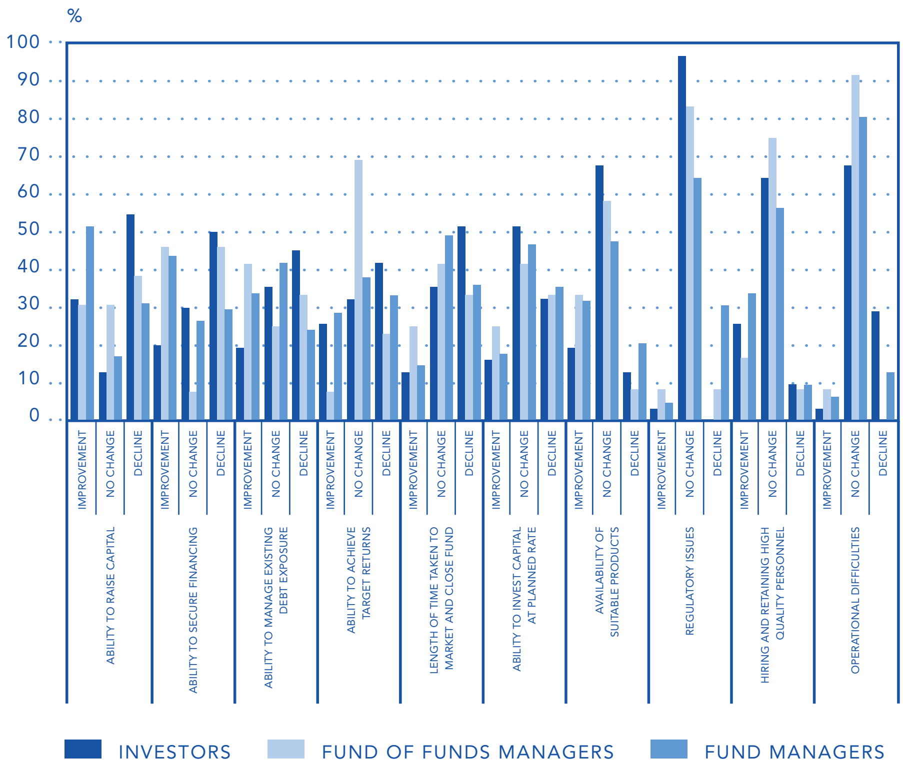


FIGURE A03 / RELATIVE CHANGE IN IMPORTANCE OF REASONS FOR INVESTING IN NON-LISTED REAL ESTATE FUNDS

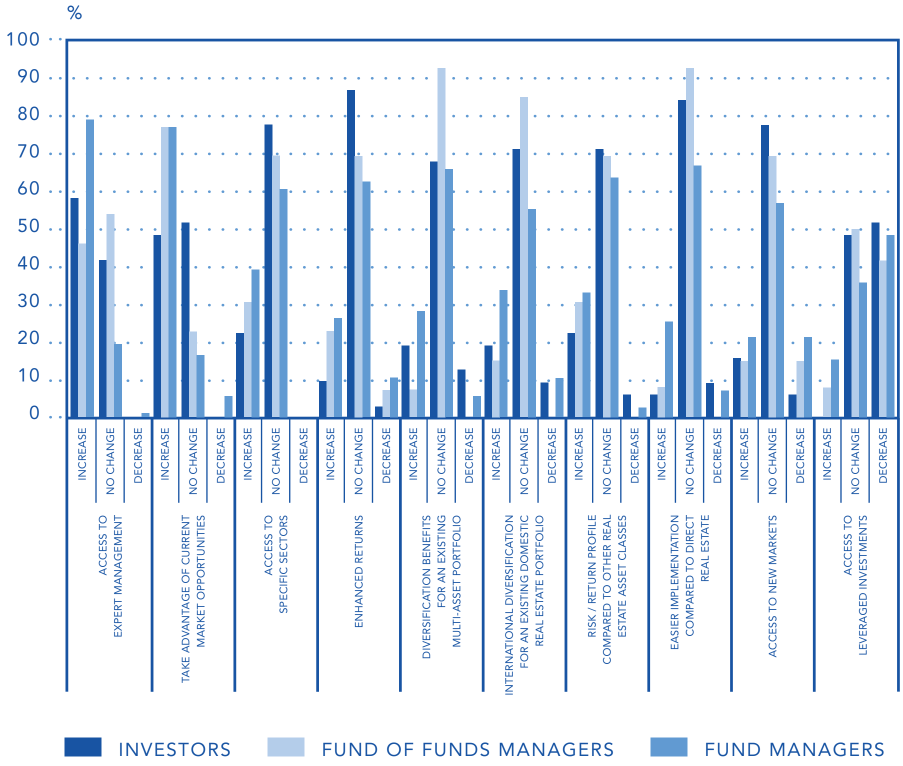
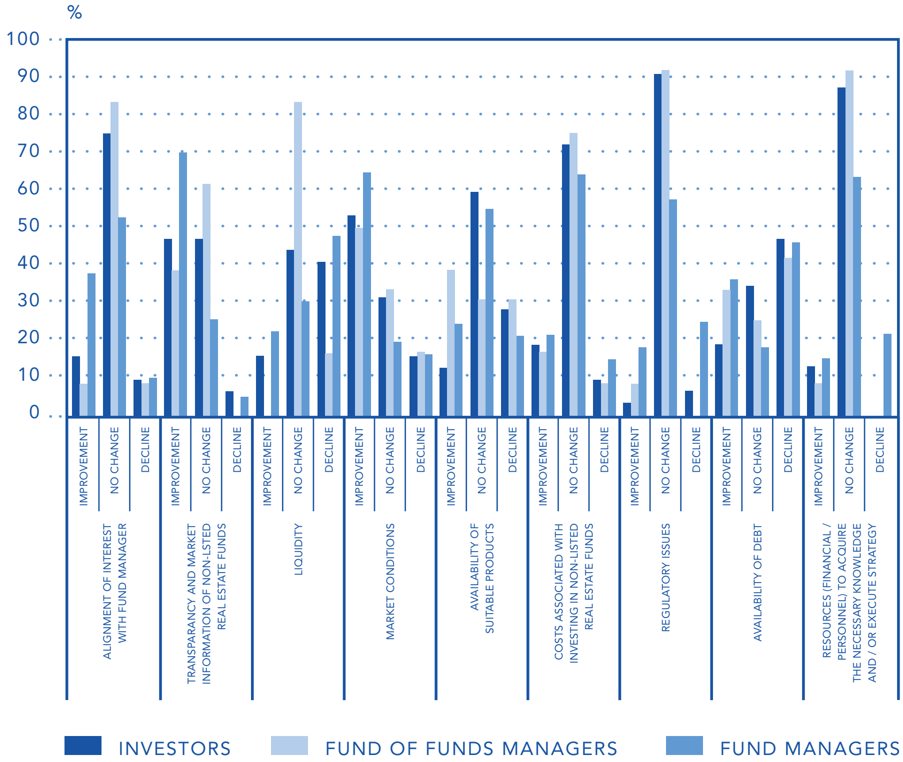


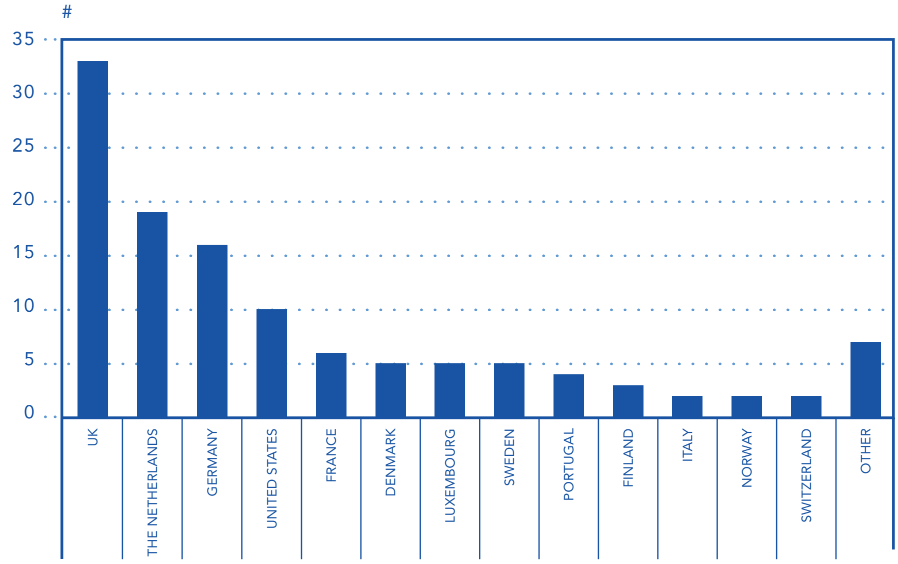
FIGURE A04 / RELATIVE IMPROVEMENT OR DECLINE OF OBSTACLES FOR NOT INVESTING IN NON-LISTED REAL ESTATE FUNDS



APPENDIX 2: RESPONDENTS

All respondents

FIGURE A05 / NUMBER OF RESPONDENTS BY COUNTRY



Investors

FIGURE A06 / BREAKDOWN EUROPEAN REAL ESTATE ALLOCATION GEOGRAPHICALLY

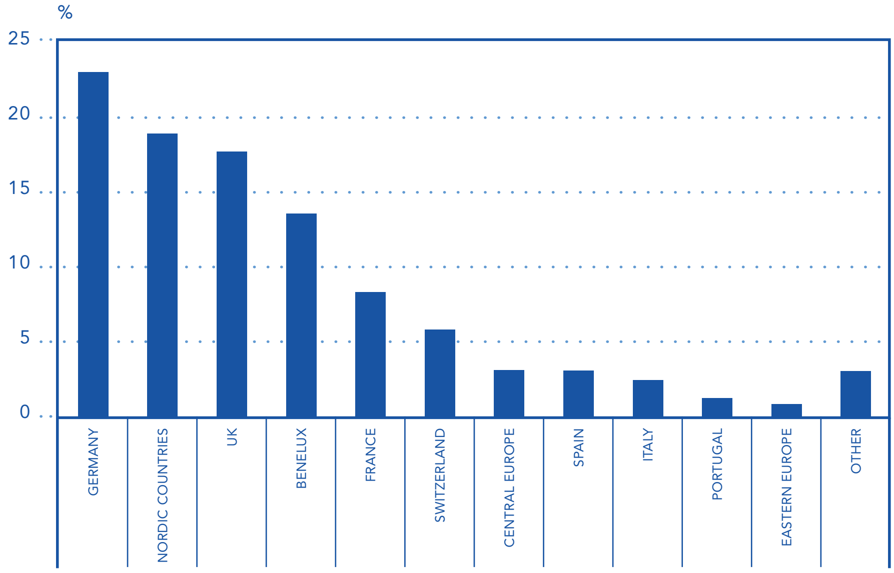


FIGURE A07 / BREAKDOWN EUROPEAN NON-LISTED REAL ESTATE ALLOCATION BY SECTOR

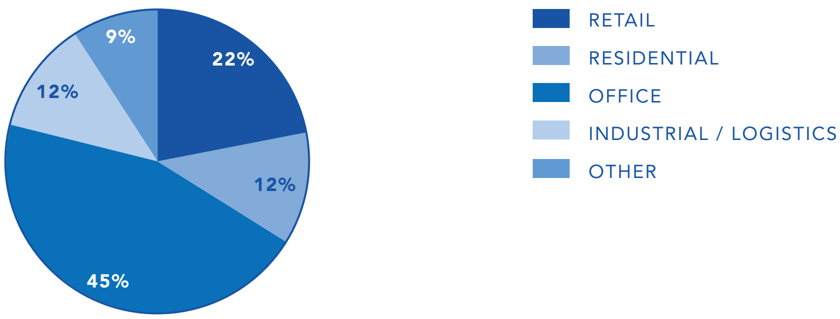


FIGURE A08 / BREAKDOWN EUROPEAN NON-LISTED REAL ESTATE ALLOCATION BY STYLE

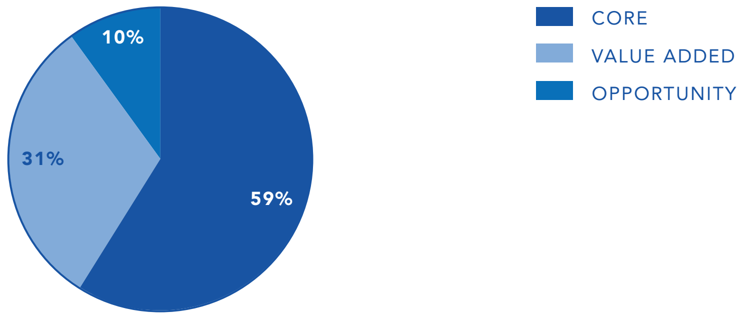
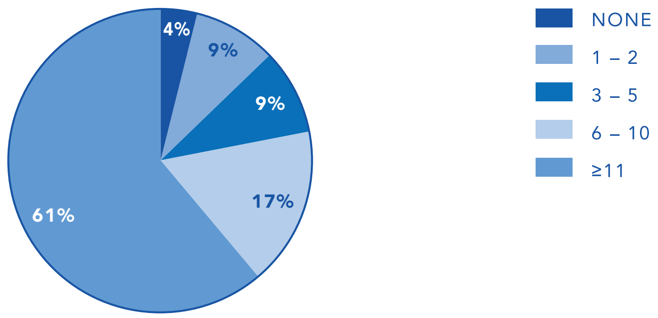


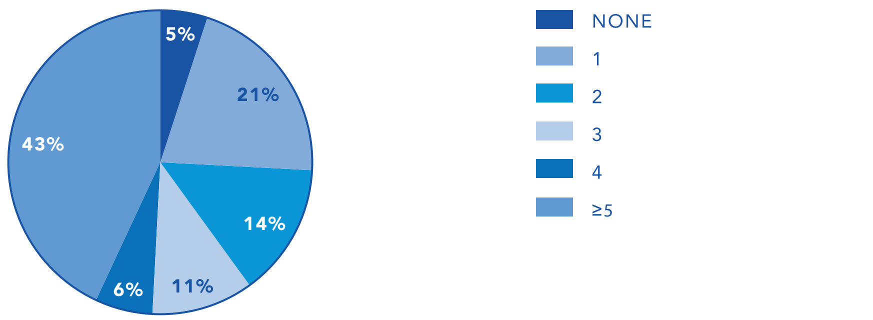
FIGURE A09 / NUMBER OF NON-LISTED REAL ESTATE FUNDS INVESTED IN



Fund Managers

FIGURE A10 / BREAKDOWN OF ASSETS MANAGED BY INVESTOR TYPE

FIGURE A11 / NUMBER OF FUNDS INVESTING IN EUROPE UNDER MANAGEMENT



Fund of Funds Managers

FIGURE A12 / NUMBER OF NON-LISTED REAL ESTATE FUNDS INVESTED IN