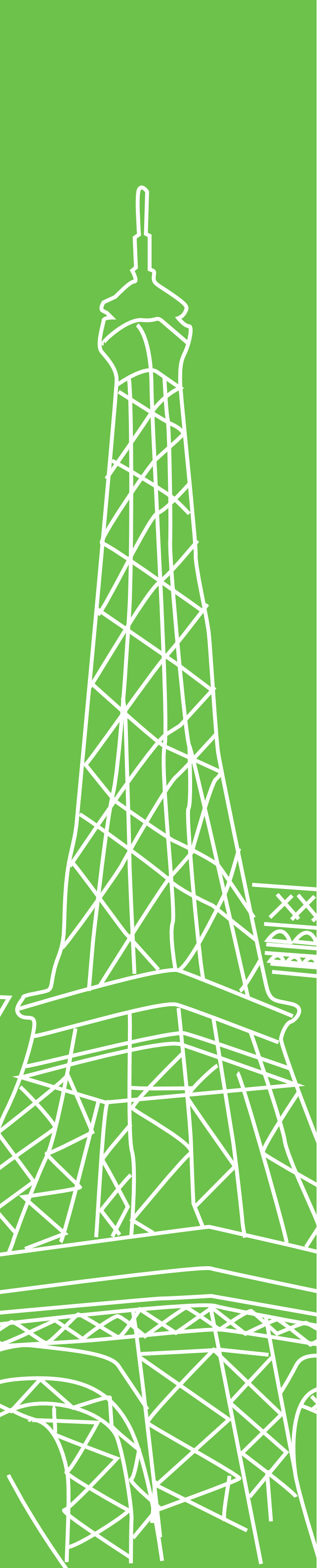

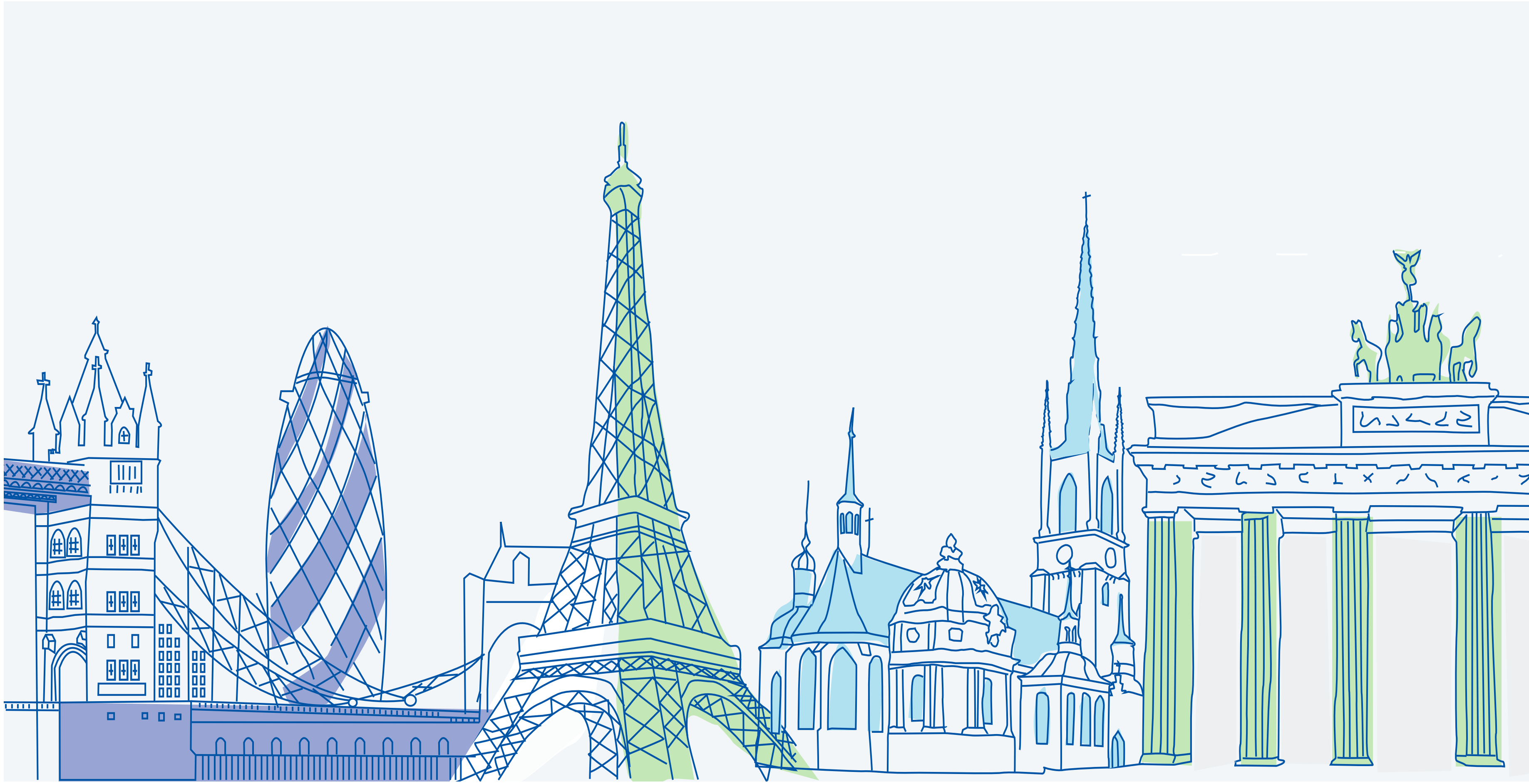

Investment Intentions Survey
2020

Research

INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. Our aim is to build a competitive and sustainable asset class for institutional investors by promoting greater transparency, accessibility, professionalism and standards of best practice.

INREV is Europe's leading platform for the sharing and dissemination of knowledge on the non-listed real estate industry.

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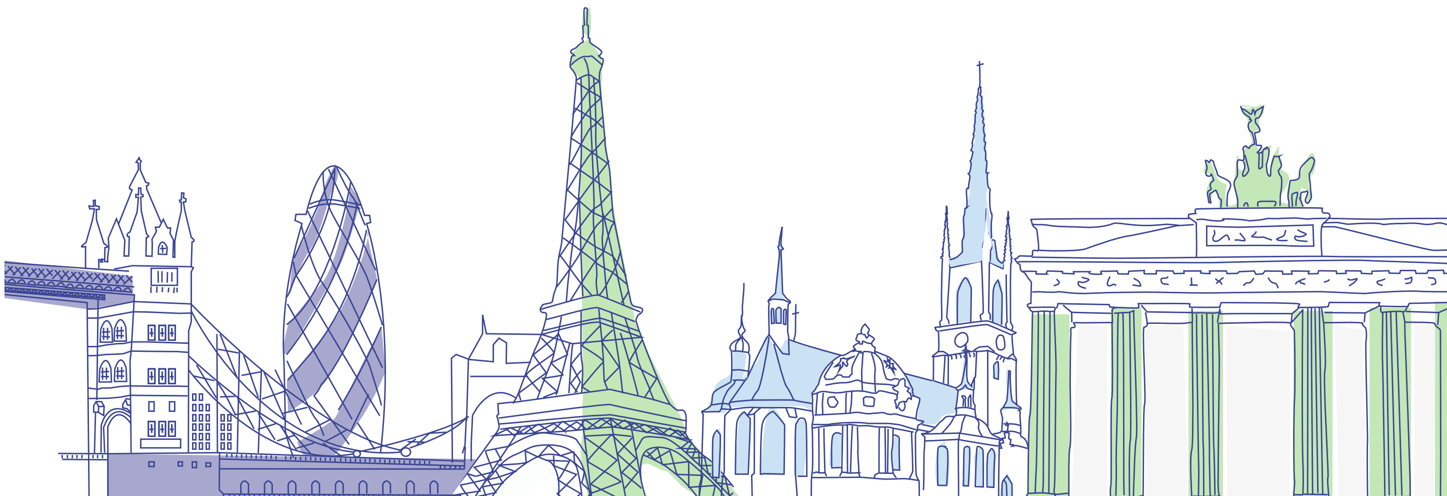


Contents

Executive summary

> The global real estate sector is expected to see an influx of €98.1 billion in 2020
> A notable shift towards opportunity style investments
> Retail drops out of top 3 most preferred sectors

Capital raised for investment into the global non-listed real estate industry remained at record level in 2018, even increasing slightly to €154.8 billion[1]. Investors remained under-allocated to the sector and intended to further increase their allocations, signalling more capital inflows into the sector.

Respondents to this year's global Investment Intentions survey indicated plans to place a total of €98.1 billion in new capital in 2020 (€88.5 billion from investors and €9.6 billion from funds of funds). Of the €88.5 billion, 61.1% is expected to come from Europe, 19.3% from North America and 19.4% from Asia Pacific.

Of the €88.5 billion, €41.3 billion is expected to be invested in some type of non-listed real estate vehicle (with the biggest share of that amount again coming from European sources), and of that €22.3 billion is targeting non-listed funds.

While Europe accounts for the major share of the planned global capital investments in 2020, it is the destination for 45.0% of planned investments. This indicates that there will be a continued net outflow of real estate capital from Europe, which in absolute numbers is even larger compared to 2019.

The average allocation to real estate equals 10.4% on average, slightly higher than last year, but still below this year's elevated target allocation of 11.4%.

This year's results show a shift in investment style preferences which indicates that investors move up the risk curve. Though value added remains the most favoured investment style among institutional investors, there has been a notable shift toward opportunity.

When comparing the preferred and expected investment styles, these are, to a great extent, in line regardless of domicile or investor type. In 2019 investors already assessed riskier investments most attractive in terms of risk-adjusted performance prospects but remained cautious. This year a larger share of investors are willing to increase the exposure to riskier investments.

Focusing on destinations Germany, the UK and France remain the preferred countries in Europe among investors while funds of funds also included the Netherlands at the top of their ranking.

Germany takes the top spot for the second consecutive year backed by approximately two-thirds of the investors. The biggest climber is Ireland, which moved up to ninth place, having not been in the top 10 last year, while Norway dropped from the sixth place out of the top 10.

In contrast to previous years, the appetite for retail as the preferred sector has dropped remarkably from 75% to 43% of the investors. Among funds of funds the appetite for retail is even lower. For investors, office remains the most preferred sector, now followed by industrial/logistics and residential. Also noteworthy is the increased preference for new investments in developments, both among investors and funds of funds.

With the majority of investors intending to either maintain their current real estate allocations or further increase them, the most likely route that investors will take to access the European markets are via non-listed real estate funds.

Non-listed real estate funds show the largest expected increase for accessing the European real estate markets. They are followed by directly held real estate and joint ventures and club deals.

Access to expert management and the diversification benefits that funds bring are cited as key reasons for investing via non-listed real estate funds. On the flip side availability of suitable products and current market conditions have been highlighted as the most challenging obstacle when investing in European non-listed real estate funds over the last few years.

1 Source: ANREV / INREV / NCREIF Capital Raising Survey 2019

Section 1

Introduction

Introduction

The 2020 ANREV INREV PREA Investment Intentions Survey is the seventh time the three non-profit organisations have cooperated to provide a truly global look at institutional real estate portfolios and intentions for new investments going forward.

The Investment Intentions Survey explores aspirations for investment in the real estate sector over the next two years, with a focus on non-listed real estate funds, and is published once a year in January.

The Investment Intentions Survey was launched in 2007. Since 2014, the survey has had a global reach, as a joint research project between ANREV, INREV and PREA.

This is the second year that the Survey is focused entirely on institutional investors and fund of funds managers. Previously it covered the investment intentions of fund managers too.

This year’s sample includes 140 respondents in total: 15 fund of funds managers and 125 investors. The results of this study are based on data provided directly by investors and fund of funds managers.

Aggregate results are shown only when there is a minimum sample size of three for any category. ANREV, INREV and PREA do not use publicly available information, and both members and non-members can provide data to the survey.

ANREV, INREV and PREA would like to thank all participants for contributing to the Investment Intentions Survey 2020.

Use

The results of the Investment Intentions Survey may be used for research and information purposes only.

They may not be used for the following:

- To determine the value of a fund
- To determine the value of a financial instrument
- To determine the amount payable under a financial instrument
- To determine the amount payable under a financial contract
- To calculate performance fees
- To define the allocation of a portfolio

It is important to note that the sample size and its composition varies year by year. As such, historical comparison should be treated with caution.

Sample size by investor domicile and investor type

This year's Investment Intentions Survey achieved the second highest number of respondents in the history of the survey: 125 institutional investors and 15 fund of funds managers.

Around half of the sample are based in Europe, just over a quarter are based in North America and just less than one fourth are based in Asia Pacific. By number this represents 64 in Europe, 43 in North America and 33 in Asia Pacific.

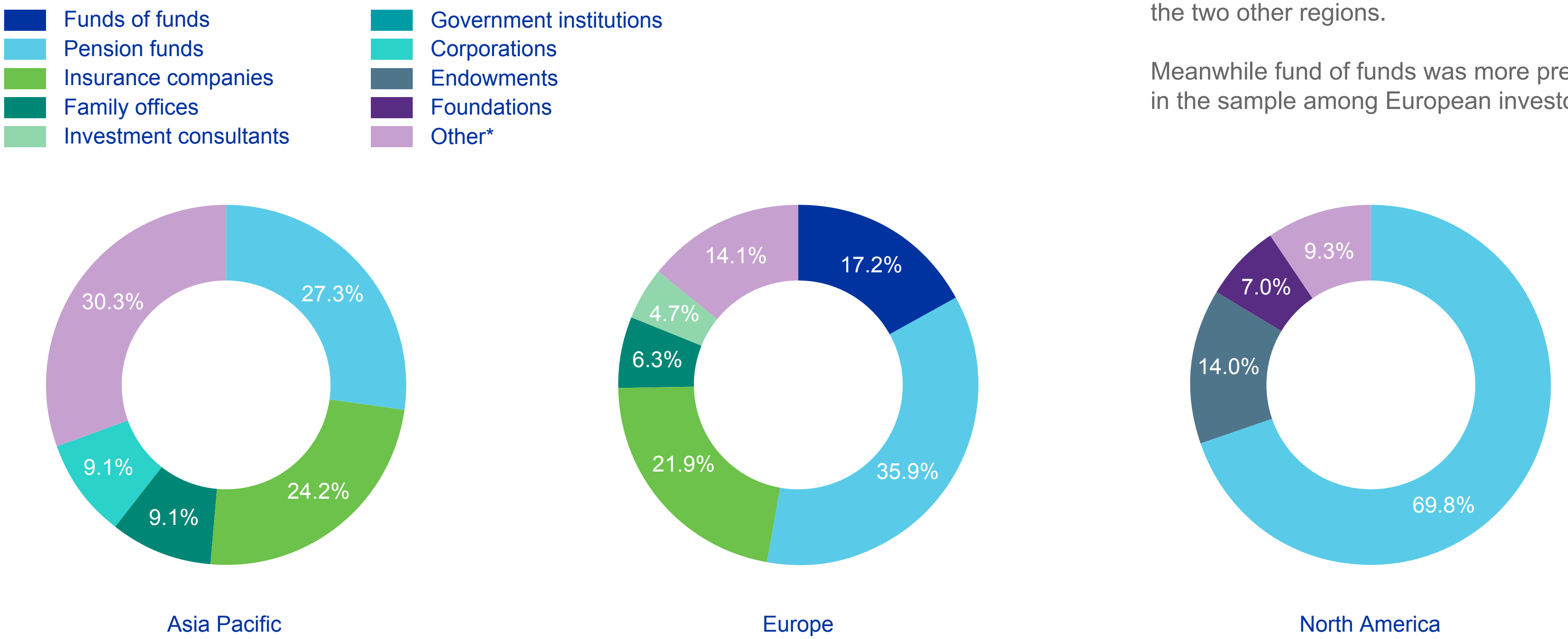
For the second year the two largest groups of investors were pension funds (62) and insurance companies (22). While pension funds represent over 40% of the sample, insurance companies share was just above 15% of the sample. Endowments (9), family offices (7) and foundations (5) complete the top 5.

Pension funds dominate the samples across all regions, to a greater extent in North America, where this group represents more than three quarters of the North American sample, and to a lesser extent in Asia Pacific.

Insurance companies were more dominant among investors in Asia Pacific than any of the two other regions.

Meanwhile fund of funds was more prevalent in the sample among European investors.

Figure 1: Sample size by investor domicile and investor type



Based on a sample of 140 respondents

Other* includes banks, charities, sovereign wealth funds, non-profit organisations, high net worth individuals and other unspecified

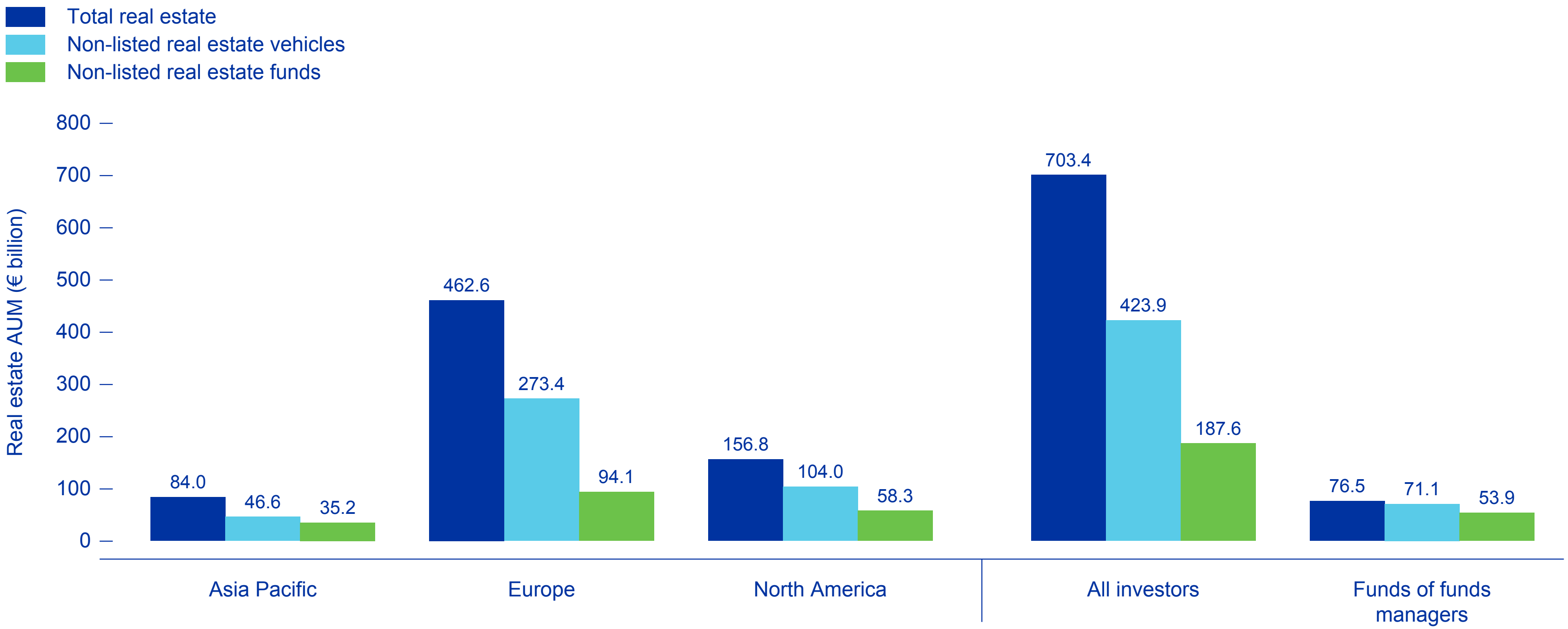
Section 2

Global real estate allocations and intentions

Current value of global assets

This is the seventh time that ANREV, INREV and PREA have cooperated to produce a global look at the current state of institutional real estate portfolios as well as intentions for investment going forward. Once again, the survey received a tremendous response from the institutional investor community with investors holding at least €703.4 billion in real estate assets under management (AUM) responding to the survey, as well as funds of funds managers with €76.5 billion in real estate AUM. Note that these AUM figures represent minimums, as not all survey respondents reported their total portfolio values. Of the total invested in real estate by institutional investors, €423.9 billion is held within non-listed real estate vehicles (a general term covering funds, separate accounts, joint ventures, club deals, etc.) and, of that, €187.6 billion is held in non-listed funds (a subset of vehicles).

Figure 2: Real estate AUM of the sample



Based on a sample of 132 respondents

The appeal of real estate

To get an idea of the attraction to real estate as an institutional asset class, the survey asked about the importance of various characteristics of real estate. The ability to diversify the overall, multi-asset class portfolio remains the most important factor in real estate's appeal. This is followed by the enhancement of returns, good risk-adjusted performance, and the provision of income. Inflation hedging is ranked as the least important factor among the commonly cited characteristics listed.

Investors from all three regions, Asia Pacific, Europe, and North America, agree on the importance of diversification, although in Asia Pacific investors rank real estate's ability to enhance returns almost as highly. Investors from all regions also agree that inflation hedging is the least important factor asked about.

Figure 3: Reasons to invest in real estate by respondent type

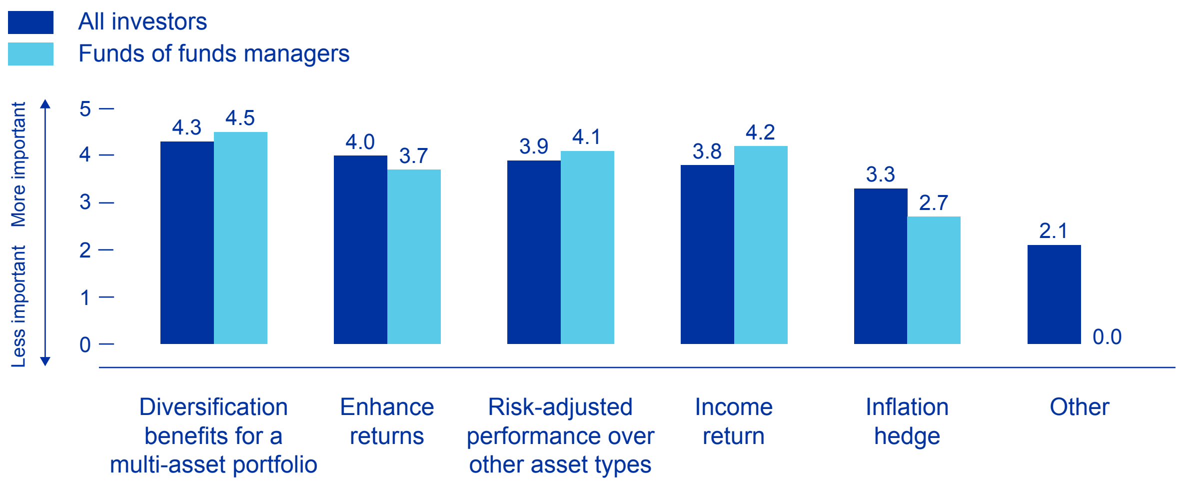
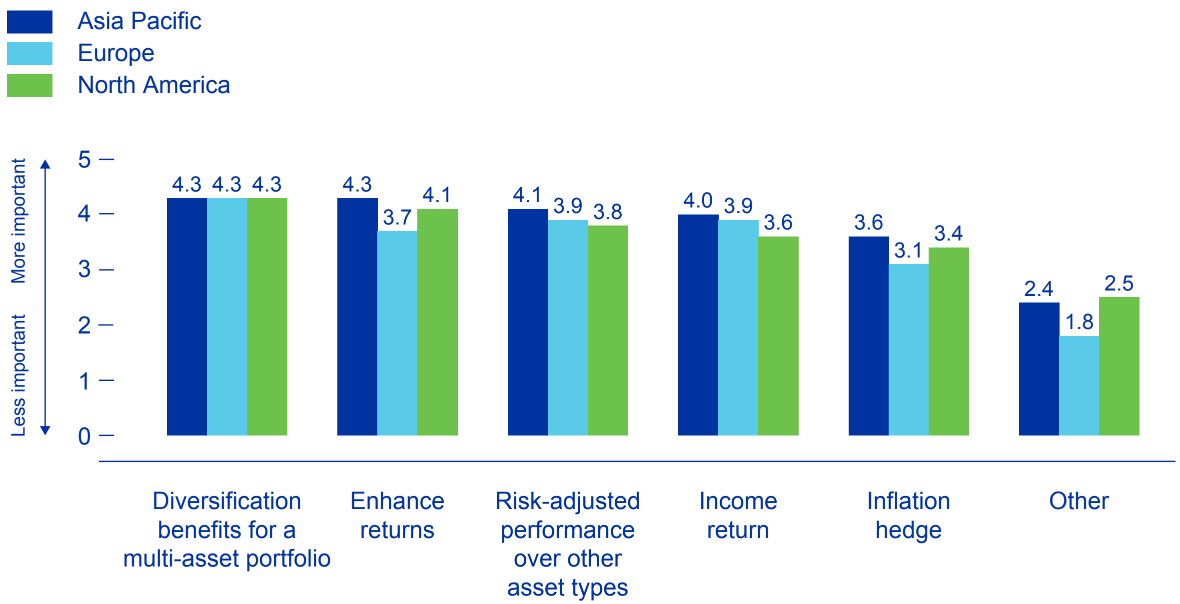


Figure 4: Reasons to invest in real estate by investor domicile

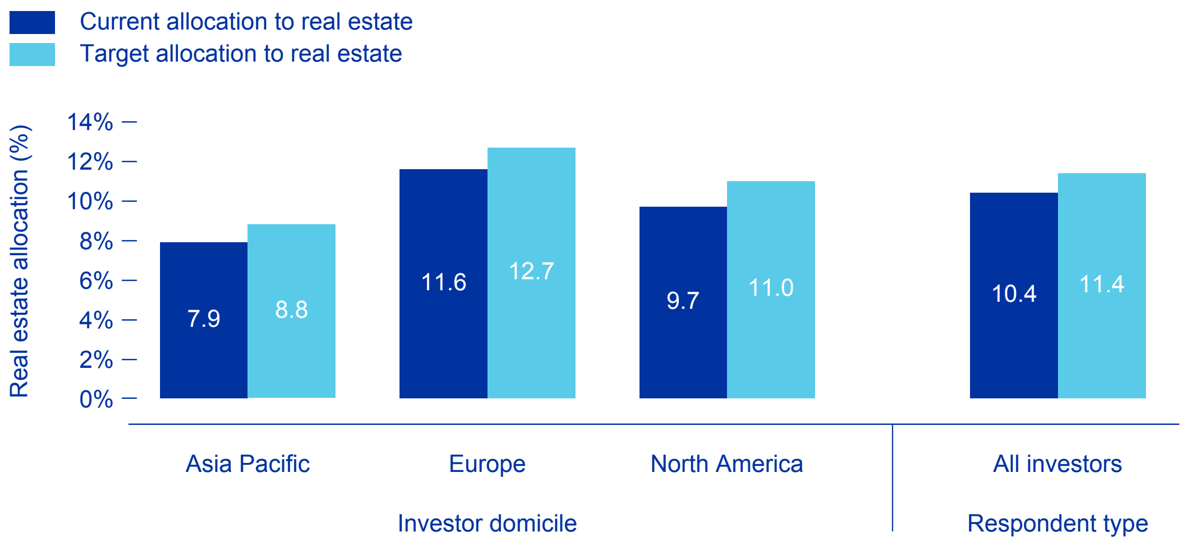


Based on a sample of 137 respondents

Current and target allocations to real estate

This year's survey showed an average institutional allocation to real estate of 10.4%. This is up from the 10.0% reported in last year's survey. Target allocations for two years from now are, on average, 11.4% indicating that the average institutional investor is currently below target and that more capital should be expected to flow to real estate over the coming two years. While current and target allocations by investors vary across the regions, with the highest among European investors and the lowest in Asia Pacific, all regions globally report allocations below target. North American investors report being the furthest below target, with current allocations lagging targets by 130 basis points (bps) in that region, followed by investors in Europe (110 bps) and investors domiciled in Asia Pacific (90 bps).

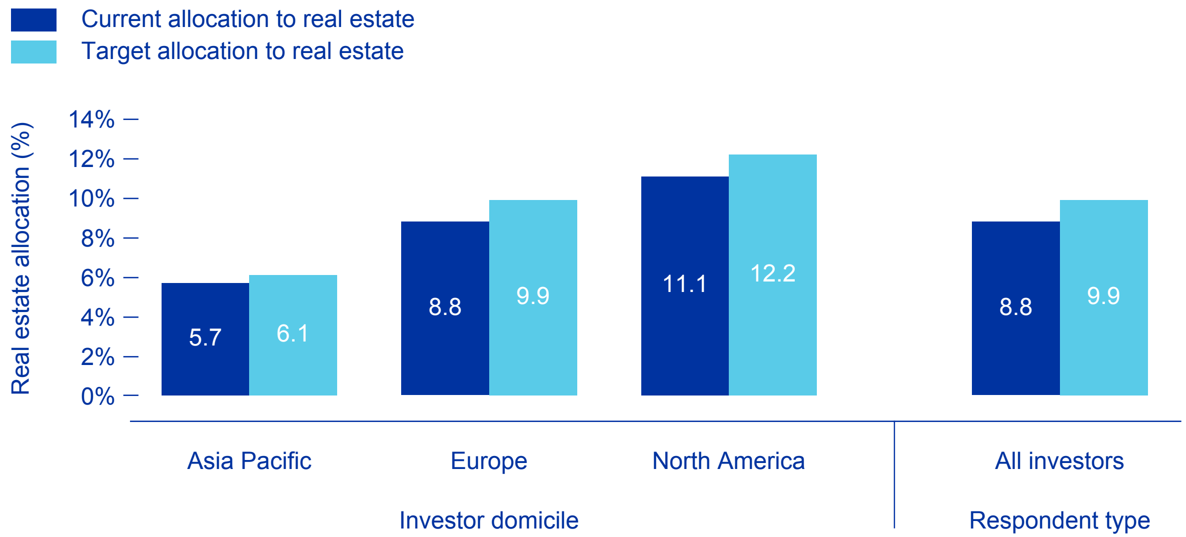
Figure 5: Current and target allocations to real estate (equally weighted)



Based on a sample of 88 respondents

Weighting the current and target allocations by total AUM will give a better idea of the overall allocation to real estate within the universe of institutional assets, rather than the allocation of typical investor. Weighted by AUM, the current allocation to real estate is 8.8% versus a target allocation of 9.9%. Looking at weighted average allocations by region, the results are somewhat different than they are when looking at simple averages. Both current and target allocations are lower in Asia Pacific and Europe when weighting by AUM indicating that in these regions larger investors tend to have lower allocations to real estate than do smaller investors. For North American investors, however, allocations are higher when weighting by AUM (in fact, North American investors show the highest current and target allocations when weighted) implying that in North America larger investors tend to have higher allocations to real estate. The weighted allocations show investors from all regions having current allocations that are higher than from last year's survey, but still below target.

Figure 6: Current and target allocations to real estate (weighted by total AUM)

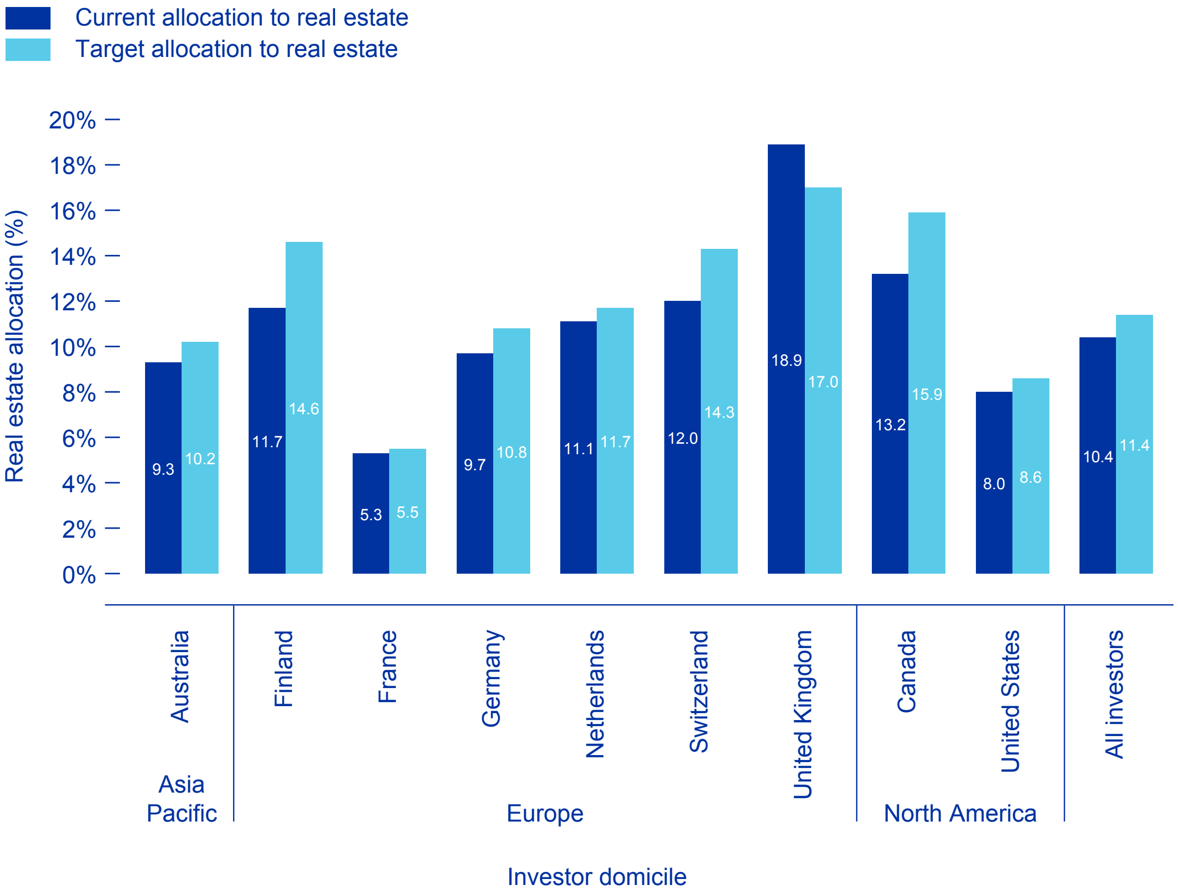


Based on a sample of 88 respondents

Current and target allocations to real estate by investor domicile and investor type

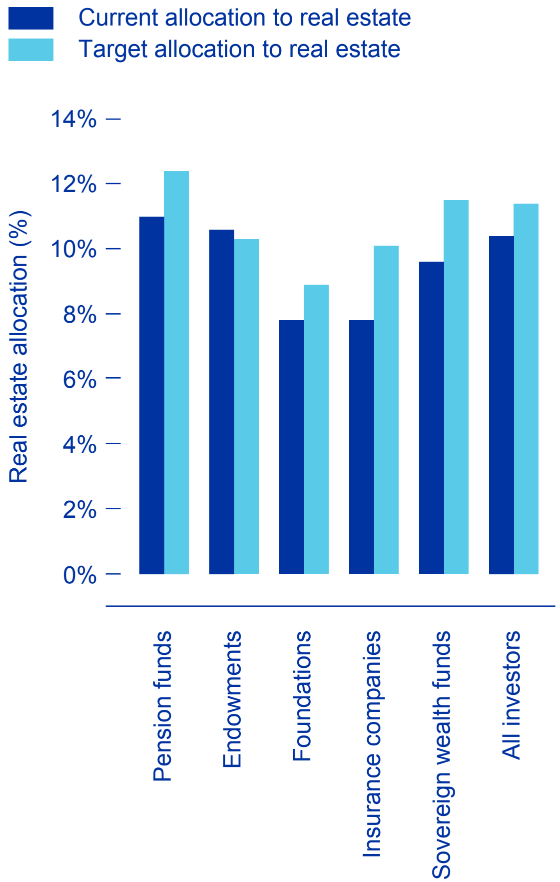
Of course, real estate allocations vary by specific country of the investor as well as by the type of institutional investor. By country, the highest allocations are for UK based investors (although the sample size from that particular country is small, at only three institutions), followed by Canada and Switzerland. By type of investor, the highest allocations are among pension funds at 11.0% followed by endowments at 10.6%. However, for target allocations sovereign wealth funds have the second highest, after pension funds, at 11.5%.

Figure 7: Current and target allocations to real estate by investor domicile



Based on a sample of 88 respondents

Figure 8: Current and target allocations to real estate by investor type

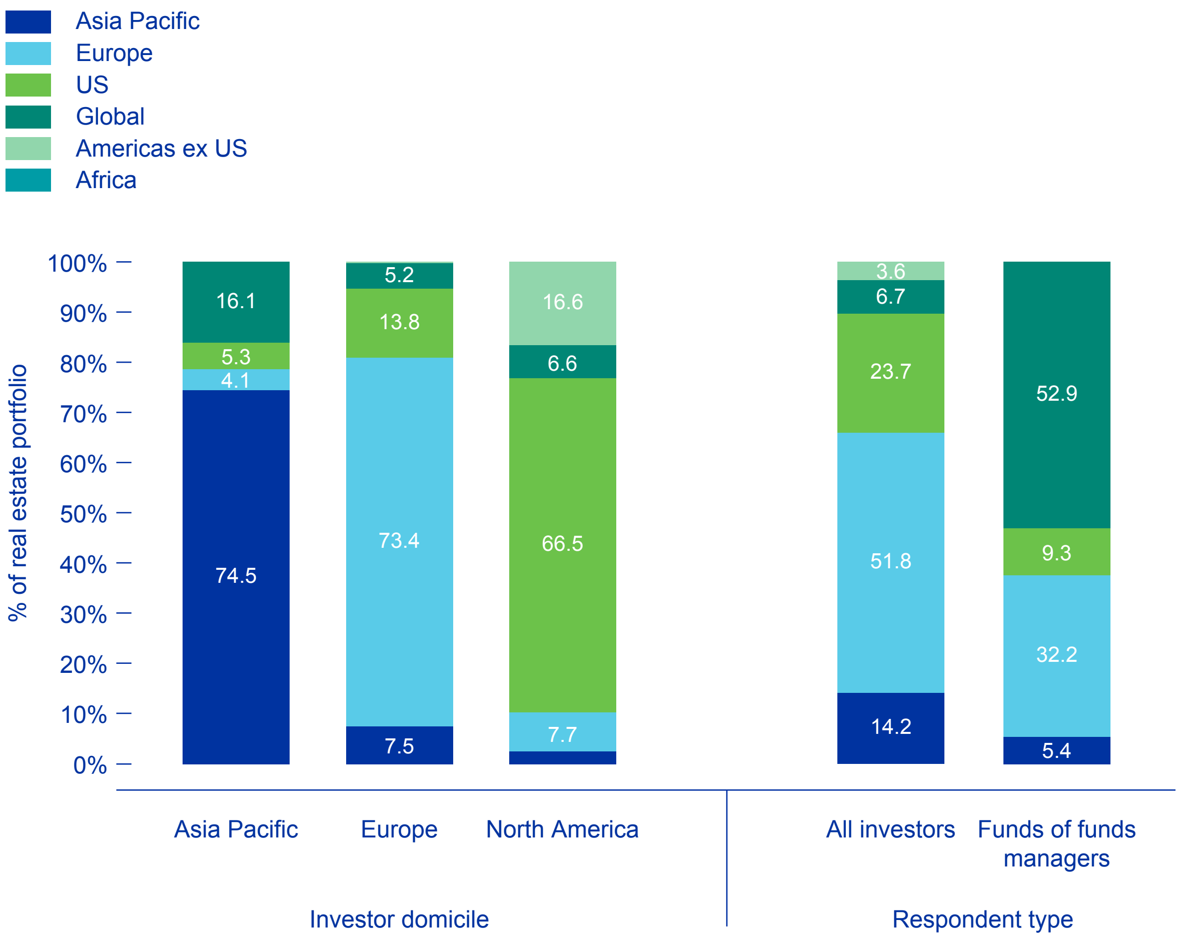


Current allocations within real estate portfolios

In order to get an idea of the current composition of institutional real estate portfolios, the survey asked several questions regarding current allocations by geography, strategy, property type, and investment structure.

Portfolios for investors from all regions show a strong home-bias. Almost two-thirds of North American investors' real estate assets are in the US, with the next largest allocation being to the Americas ex US likely reflecting the number of Canadian investors responding to the survey. For investors from Asia Pacific and Europe nearly three quarters of real estate asset are located in their home region. The next largest allocation for European based investors is to the US, which accounts for 13.8% of European portfolios. For investors from Asia Pacific, after their home region the next largest allocation is to global strategies, in which less than 90% of assets (by GAV) are held in a single region. Note that funds of funds managers have a much stronger interest in global strategies than do institutional investors, with over half of funds of funds allocations being to global strategies.

Figure 9: Current allocations to real estate by regional strategy

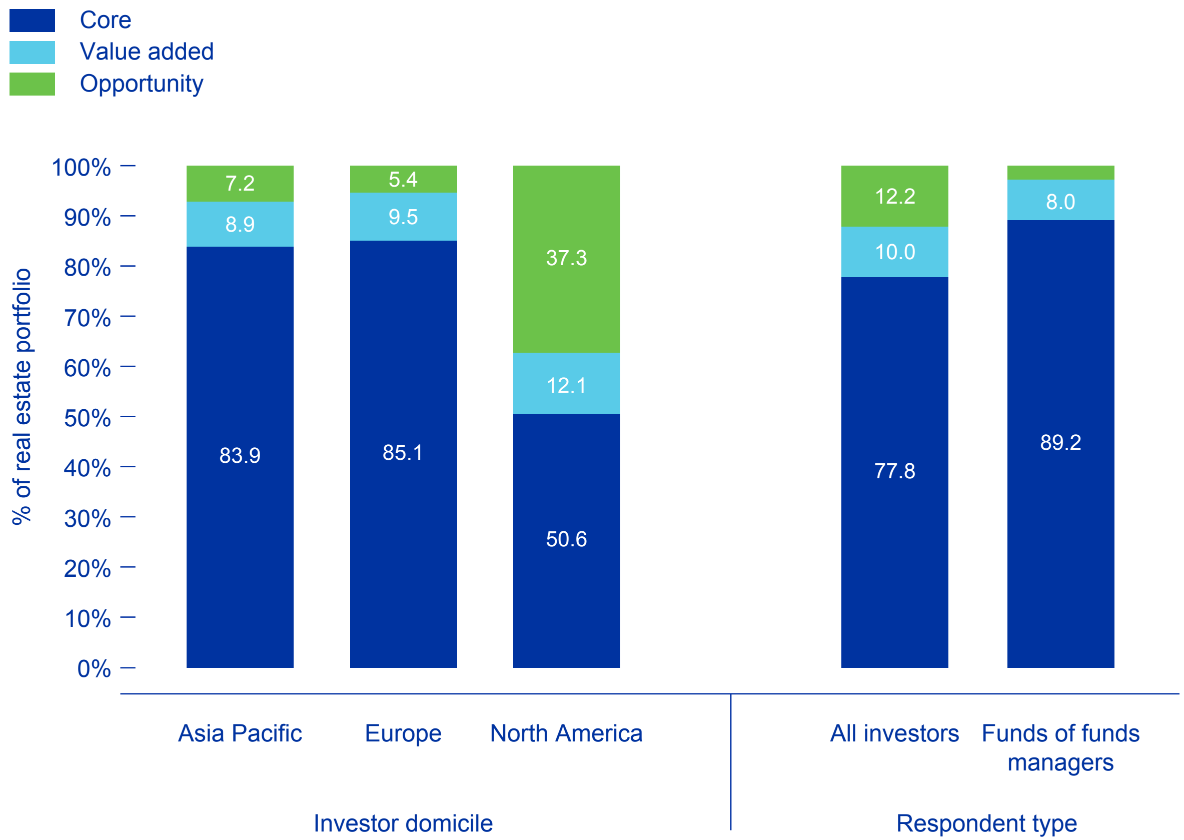


Based on a sample of 127 respondents

Current allocations within real estate portfolios by style strategy and investor type

Looking at real estate portfolios by investment strategy, core remains the bedrock of institutional portfolios, accounting for 77.8% of the institutional real estate assets globally. Opportunity strategies are next most popular, at a 12.2% allocation, followed by value added at 10.0%. However, there are differences between North American based investors and those from other regions. Investors based in Asia Pacific and Europe have portfolios dominated by core, with allocations of 83.9% and 85.1%, respectively. The dominance of core is much less among North American investors for whom core accounts for just over half of real estate investments. The lessor allocation to core in North America reflects a much larger allocation to opportunity strategies than seen in Europe or Asia Pacific.

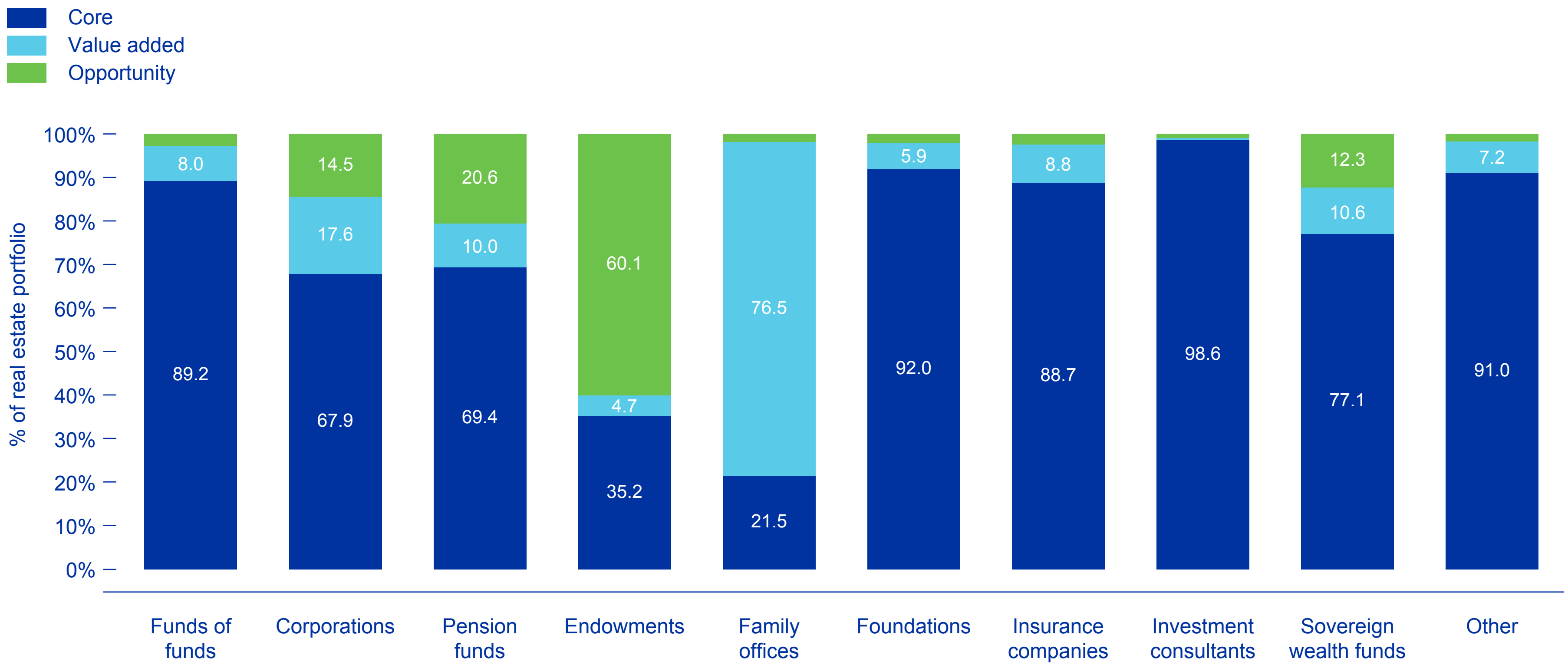
Figure 10: Current allocations to real estate by style strategy



Based on a sample of 127 respondents

Allocations across core, value added, and opportunity strategies also vary by type of institutional investor. Foundations have the highest allocation to core at 92.0%, whereas pension funds are much lower at, a still considerable, 69.4%. The lowest interest in core strategies is shown by endowments and family offices which have only 35.2% and 21.5% allocated to core, respectively.

Figure 11: Current allocations to real estate by style strategy and investor type

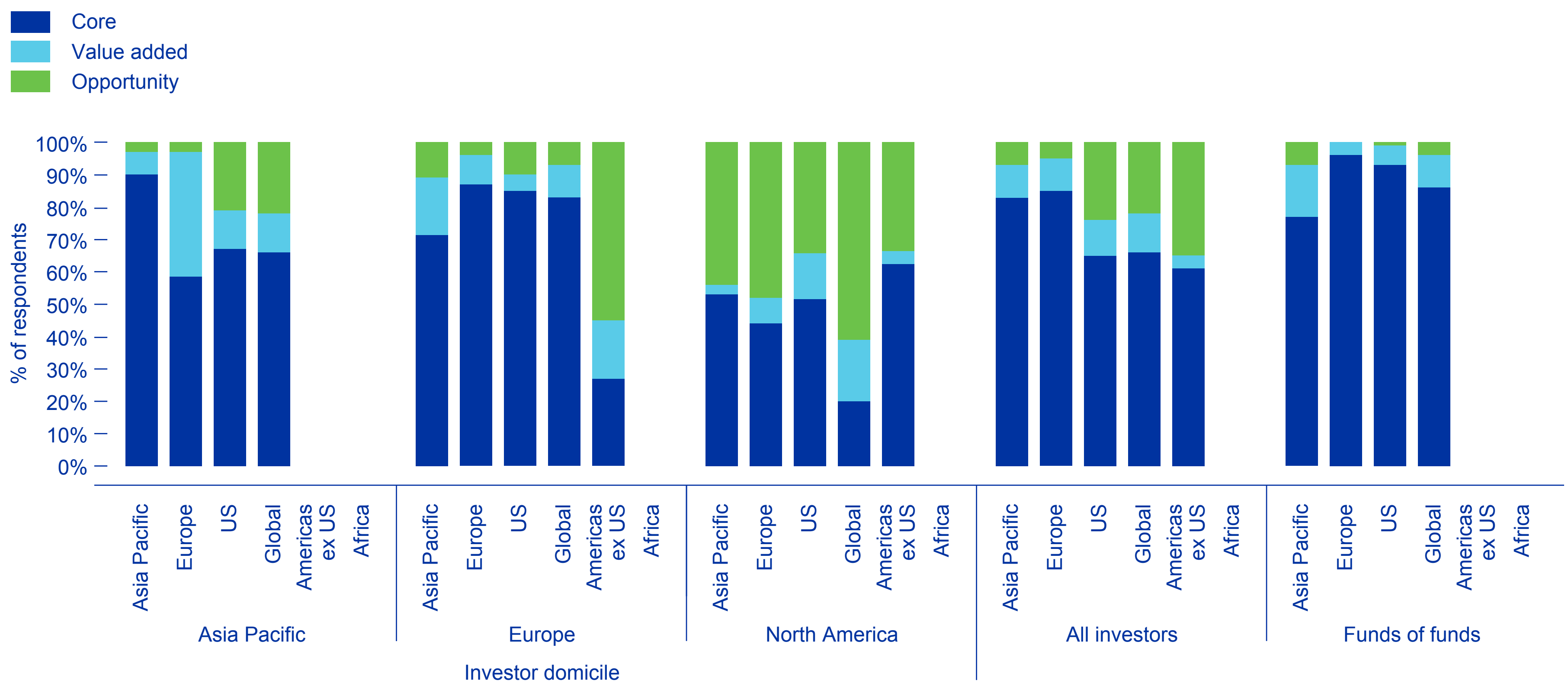


Based on a sample of 127 respondents

Current allocations within real estate portfolios by regional and style strategies

Combining the responses on geography and strategy, one can see if institutional investors tend to use different strategies in different regions. For Asia Pacific based investors, core makes up the majority of investments in all regions. However, they appear to be more open to higher risk strategies when investing outside Asia Pacific. For example, value added makes up 38.1% of their investments in Europe, much higher than the 6.5% in value added for investments within the Asia Pacific region. For European investors, core also makes up the majority of investments in all regions, other than in Americas ex US which has only a tiny allocation in European portfolios (0.2%). Again, North American investors can be seen to have a larger allocation to opportunity investments, especially when investing outside their home region. North American investors have very large allocations to opportunity in Asia Pacific (44.3%), Europe (48.0%), and especially when investing in global strategies for which 61.3% of their investments are in opportunity.

Figure 12: Current allocations to real estate by regional and style strategies

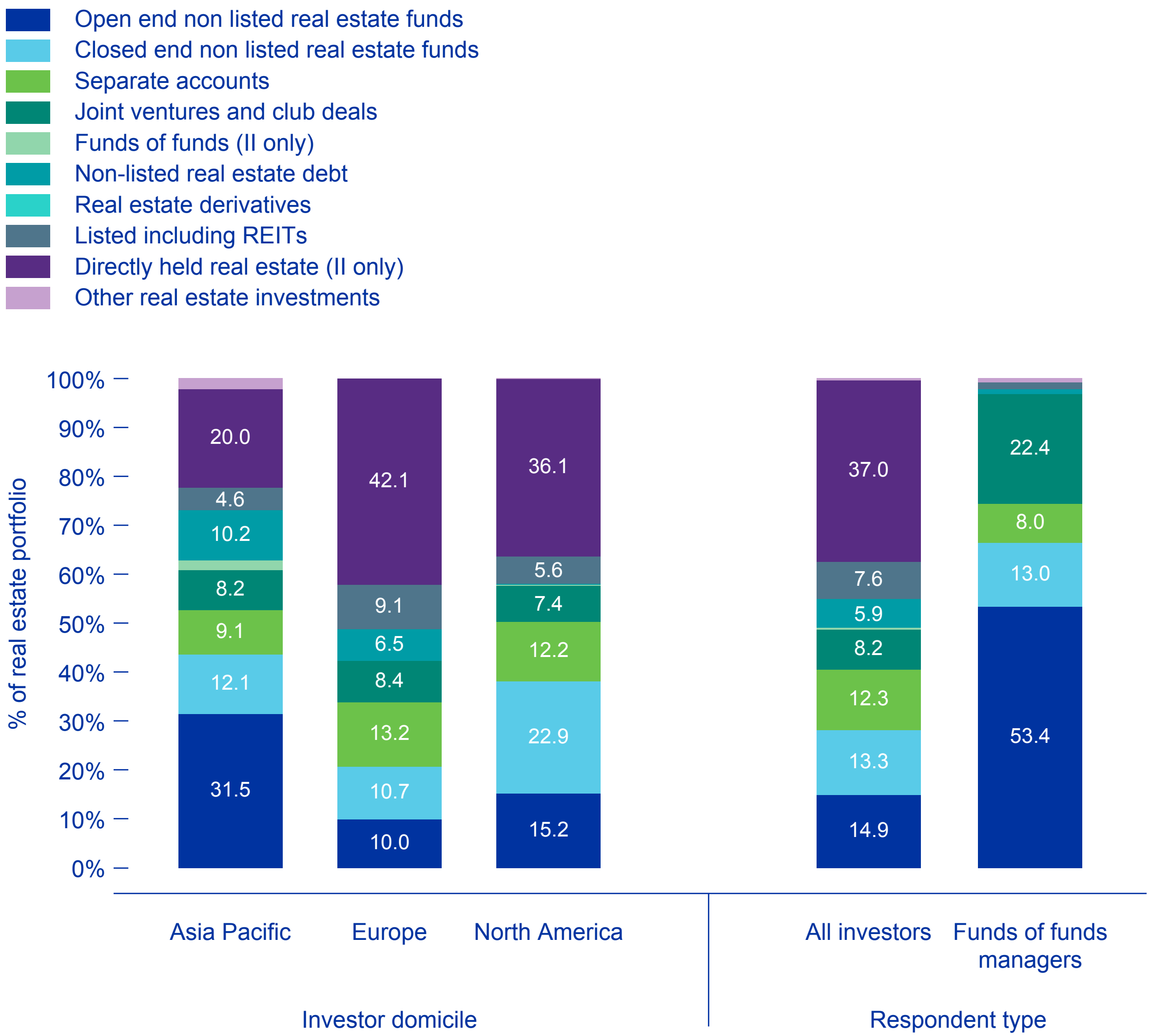


Based on a sample of 127 respondents

Current allocations within real estate portfolio by vehicle type

Turning to the types of vehicles in which institutional real estate investments are held, the survey reveals that the most common form of real estate investment globally is directly held assets, which account for 37% of assets. This is followed by open end funds in which 14.9% of assets are held, closed end funds (13.3%), and separate accounts (12.3%). Directly held assets are most common among European investors, who also have the lowest allocation to open end funds. Conversely, Asia Pacific based investors have the greatest interest in open end funds but hold the least directly (reflecting the number of Australian investors responding to the survey). North American investors have a larger allocation to closed end funds than do investors from the other regions.

Figure 13: Current allocations to real estate by vehicle type



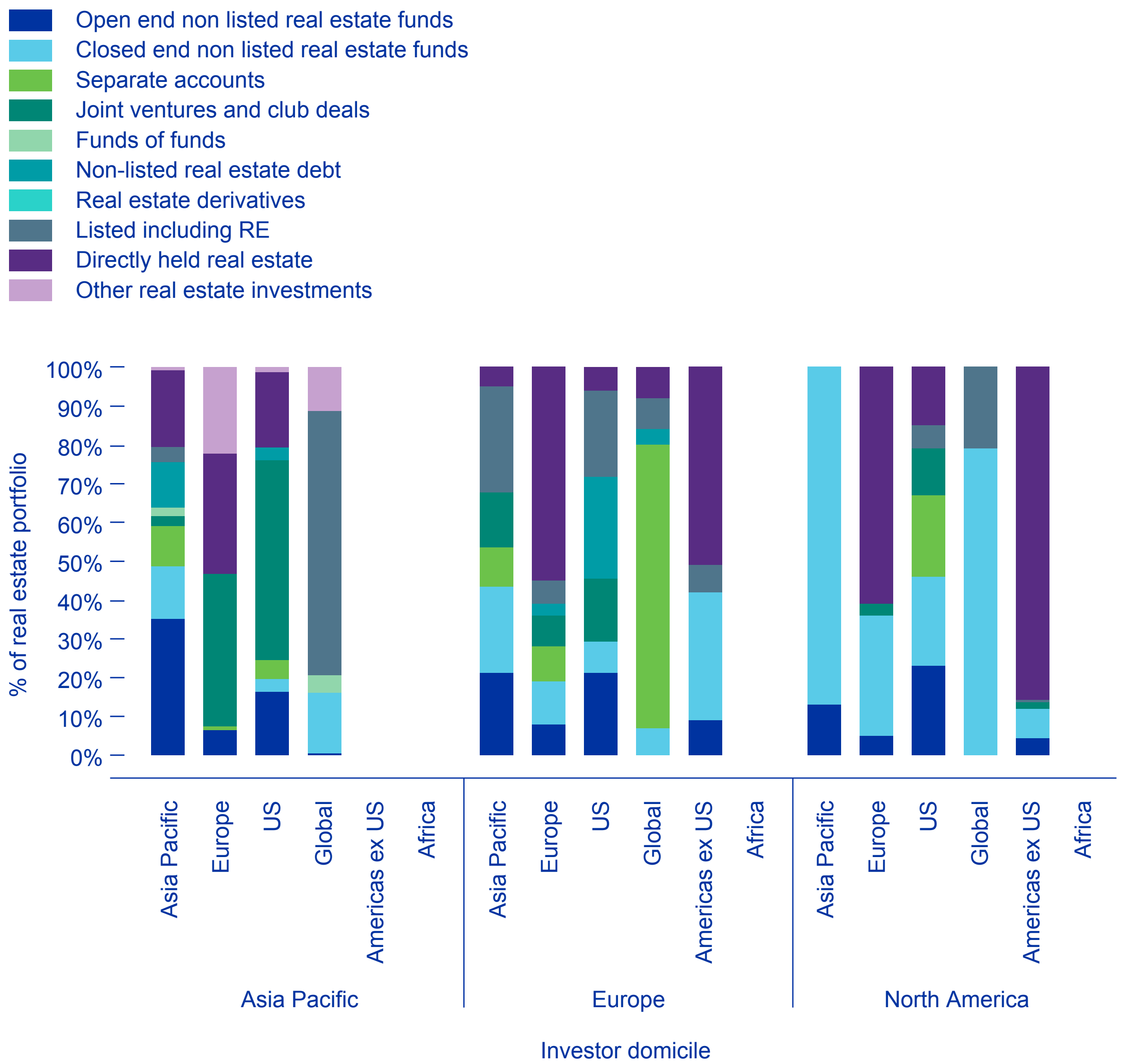
Based on a sample of 114 respondents

Current allocations within real estate portfolios by sector strategy and investor type

However, the type of investment vehicle used depends on where the investment is being made. While open end funds are the most common vehicle for investors from Asia Pacific when investing in their own region, JVs and club deals are the most common vehicle when they invest in Europe or the US. While it was previously shown that Asia Pacific based investors have the highest allocation to global strategies, the majority of those investments are held in the form of listed real estate vehicles such as REITs. It is interesting that when investing in Europe and the US, Asia Pacific based investors make significant use of directly held assets, as well as 'other' vehicles within Europe. Hence, while investors from Asia Pacific make the greatest use of open end funds for their home region investments, they tend to use alternative vehicles and generally avoid non-listed real estate funds when investing outside Asia Pacific.

While European investors are the heaviest users of directly held real estate, this is due to it being the dominant vehicle for investment within Europe. Outside of their home region, European investors rely on other types of vehicles for their real estate investments. North American investors use a variety of vehicles to invest in the US, but their investments in Asia Pacific and in global strategies are dominated by positions in closed-end funds, while direct holding of assets is the most common vehicle for both European and Americas ex US investments.

Figure 14: Current allocations to real estate by regional strategy and vehicle type

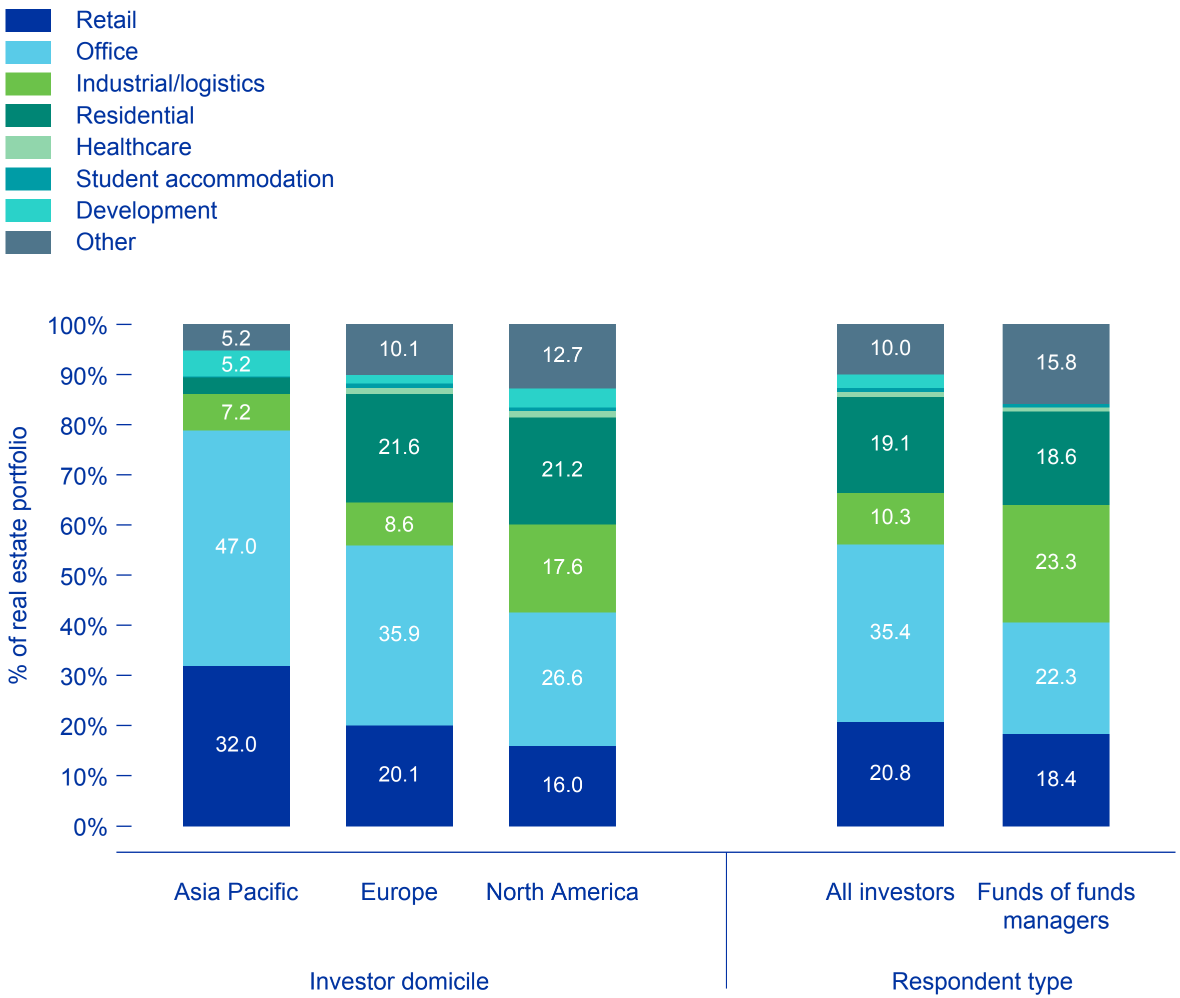


Based on a sample of 114 respondents

Current allocations within real estate portfolios by sector strategy and investor type

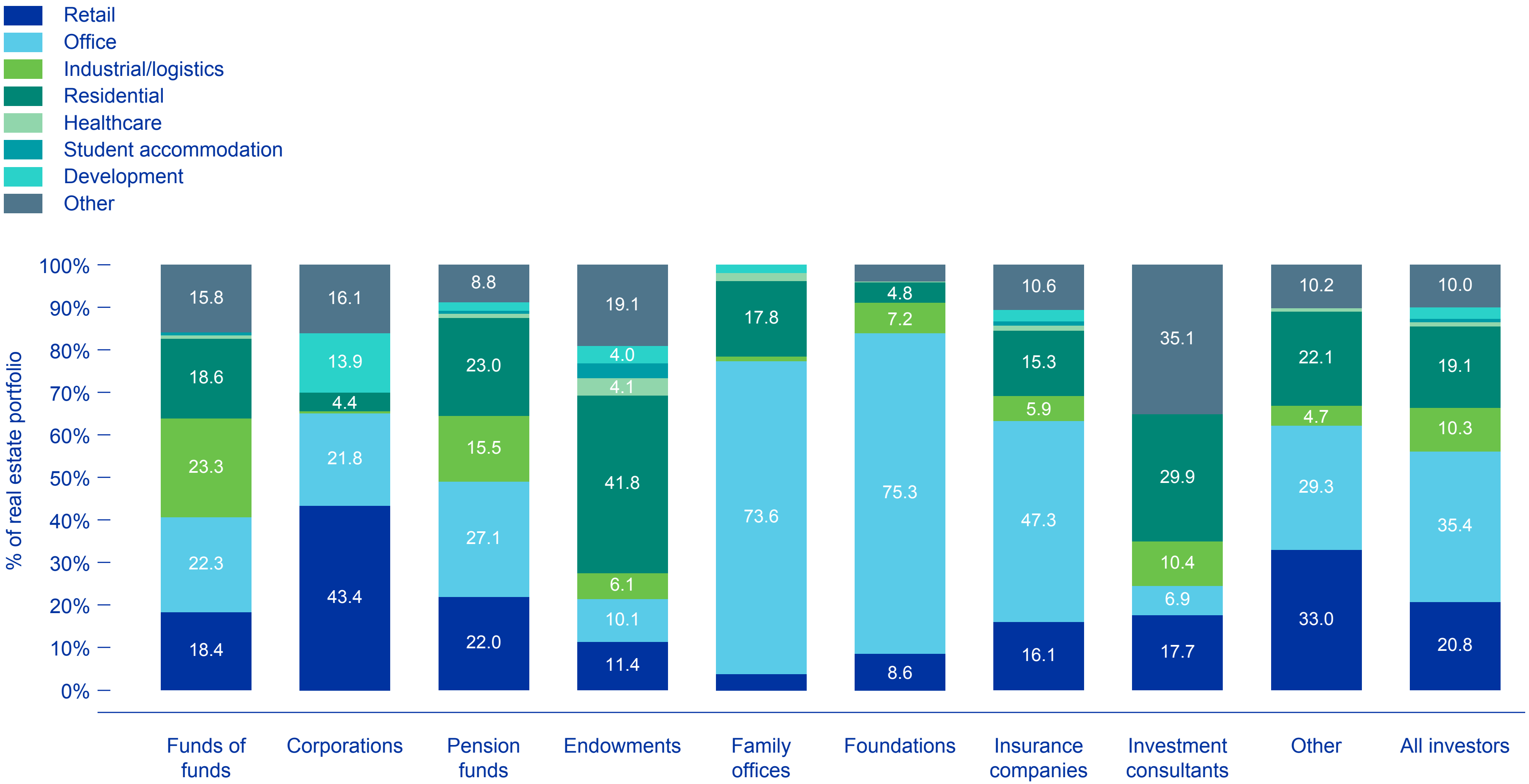
Looking at portfolio allocations by property type, the most common sector for institutional investments is office which accounts for 35.4% of institutional portfolios globally. This is followed by retail (20.8%), residential (19.1%) and logistics (10.3%). There is some regional variation in this, with the portfolios of Asia Pacific investors being more dominated by office and retail assets than investors from the other regions. There are also differences in sector allocations by type of investor, with the portfolios of foundations and family offices being almost three-quarters invested in office assets, while the largest allocation for endowments is to residential which accounts for 41.8% of endowment real estate assets, Pension funds have a somewhat more even distribution of assets across the four major property types.

Figure 15: Current allocations to real estate by sector



Based on a sample of 111 respondents

Figure 16: Current allocations to real estate by style strategy and investor type

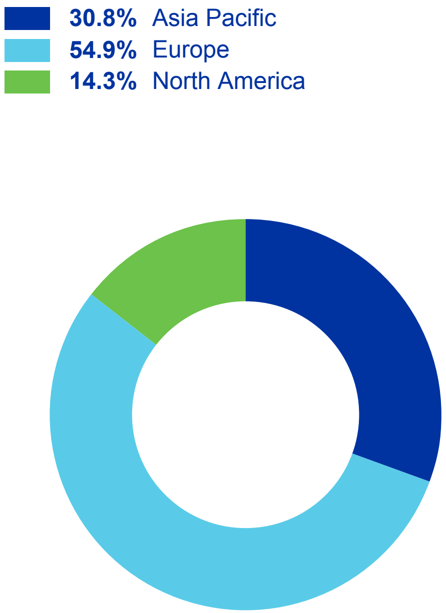


Based on a sample of 111 respondents

Current allocations within real estate portfolios to development

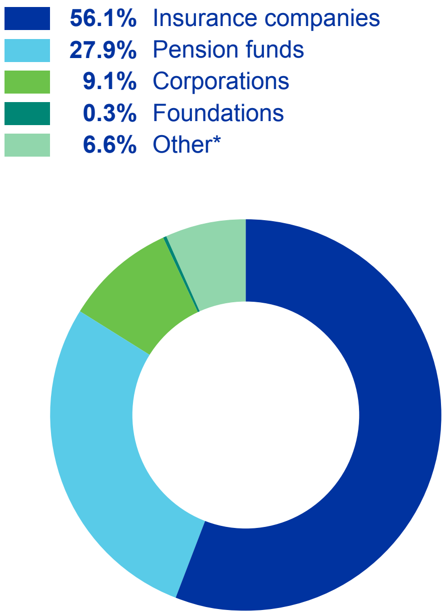
Development projects account for a substantial 2.6% of current portfolios held by institutional investors globally. This is based on the survey respondents reporting a total of €38.2 billion worth of projects currently in development, indicating the importance of this approach in the current real estate investment climate. Of this amount 54.9% comes from European investors engaging in development, versus 30.8% from Asia Pacific investors and 14.3% from North American investors. Development is most popular among insurance companies, which account for over half of the reported development projects, followed by pension funds, and corporate investors. Development is much less popular among foundations and "other" types of investors which together account for only 6.9% of reported development.

Figure 17: Value of properties under development by investor domicile (€38.2 billion)



Based on a sample of 67 respondents

Figure 18: Value of properties under development by investor type (€38.2 billion)

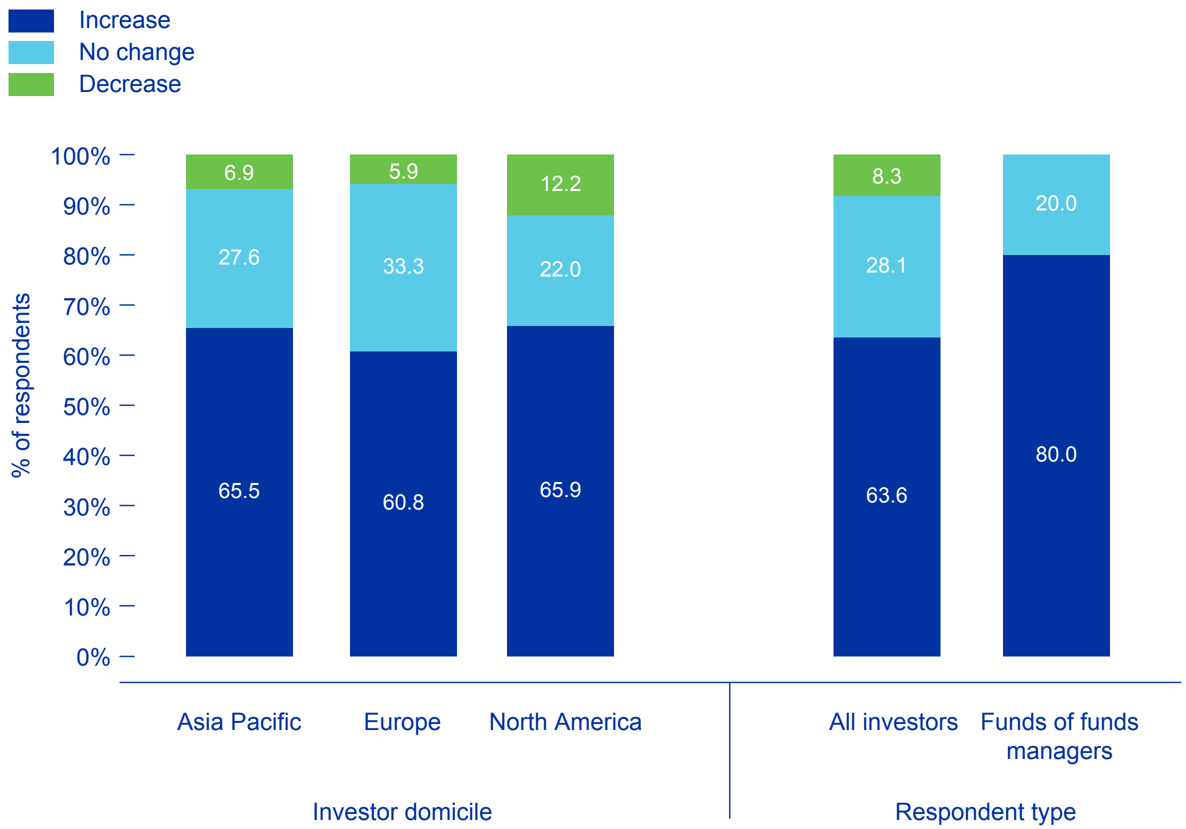


Other* includes endowments, family offices, charities, sovereign wealth funds, investment consultants, non-profit organisations, high net worth individuals and other unspecified

Looking forward – investment intentions for the future

Consistent with current allocations to real estate being below target, the majority of investors globally (63.6%) expect their allocation to real estate to increase over the next two years versus only 8.3% who expect a decrease in their allocation. These expectations are fairly consistent across regions, although slightly more North American investors expect a decrease in allocations (12.2%) than do investors from other regions. Weighting the survey responses by AUM reveal larger differences across regions. When weighted, only 51.7% of Asia Pacific investors expect to see their real estate allocations increase, versus 7.1% who expect a decrease. Thus, for Asia Pacific based investors, smaller investors are somewhat more bullish on allocation prospects than are larger Asia Pacific investors, who are, on average, closer to their target allocations.

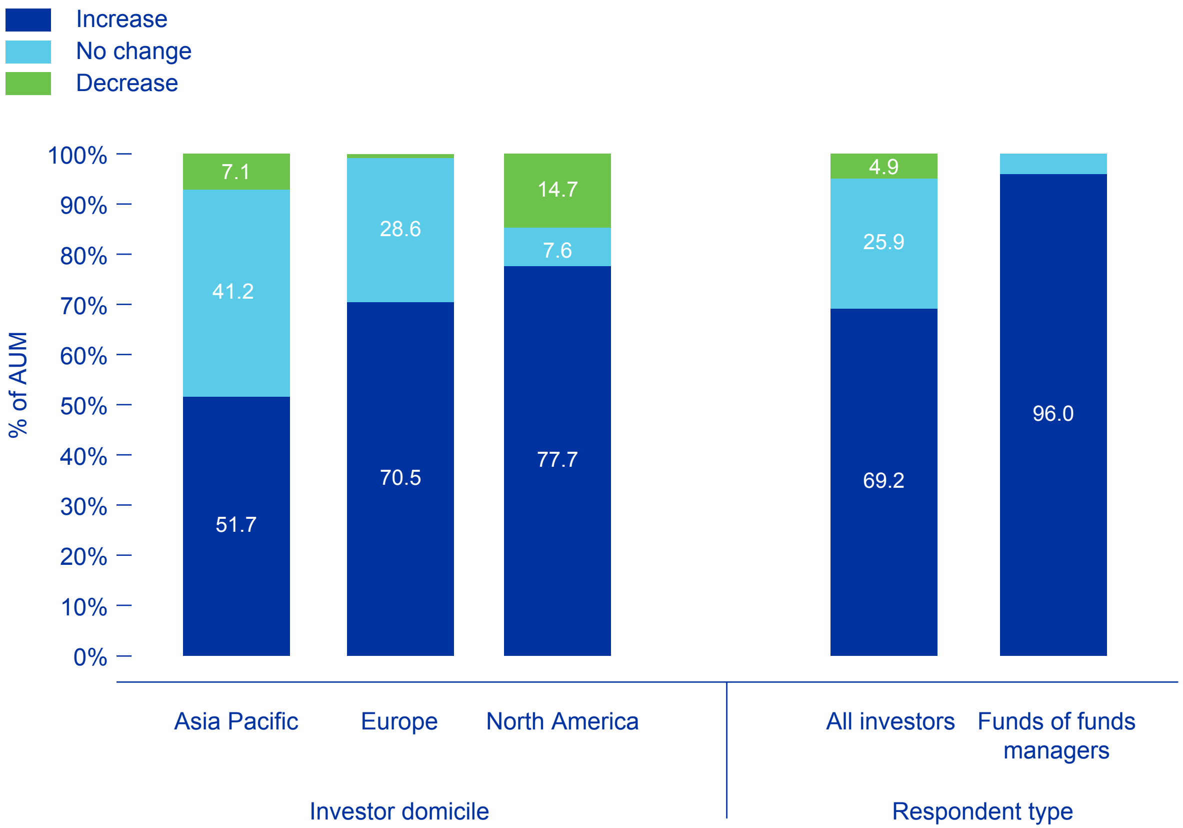
Figure 19: Expected changes in global real estate allocations over the next two years (equally weighted)



Based on a sample of 136 respondents

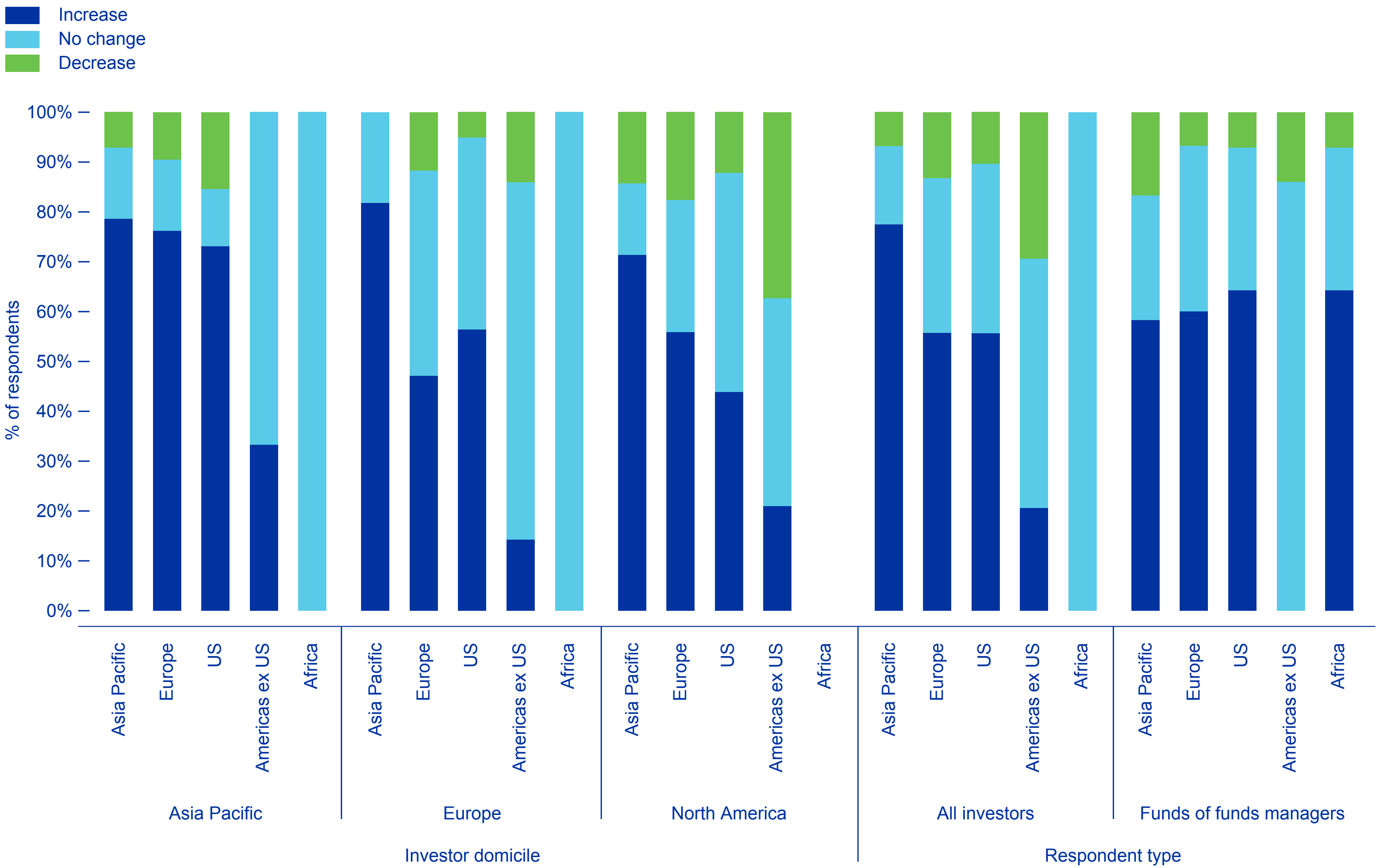
Results vary somewhat when looking at expectations of future allocation changes by region. For Asia Pacific domiciled investors, a majority indicate an expectation to increase allocations to all three major regions (Asia Pacific, Europe, and the US). An exception is Americas ex US for which only one-third of Asia Pacific investors expect to increase allocations in the future. Investors based in North America and Europe are particularly interested in Asia Pacific investments going forward, with 81.8% of European investors and 71.4% of North American investors expecting their allocations to that region to increase over the next two years. The most bearish sentiment is towards Americas ex US by North American investors; only 20.8% of North American institutional investors expect their allocations to Americas ex US to increase versus 37.5% who expect a decrease.

Figure 20: Expected changes in global real estate allocations over the next two years (weighted by AUM)



Based on a sample of 136 respondents

Figure 21: Intention to invest in real estate by region over the next two years



Based on a sample of 137 respondents

Intentions to deploy capital in 2020

Looking specifically at investment plans for 2020, the vast majority of investors across all regions and all investors types expect to deploy new capital during the year.

Figure 22: Expectations to make investments into real estate in 2020

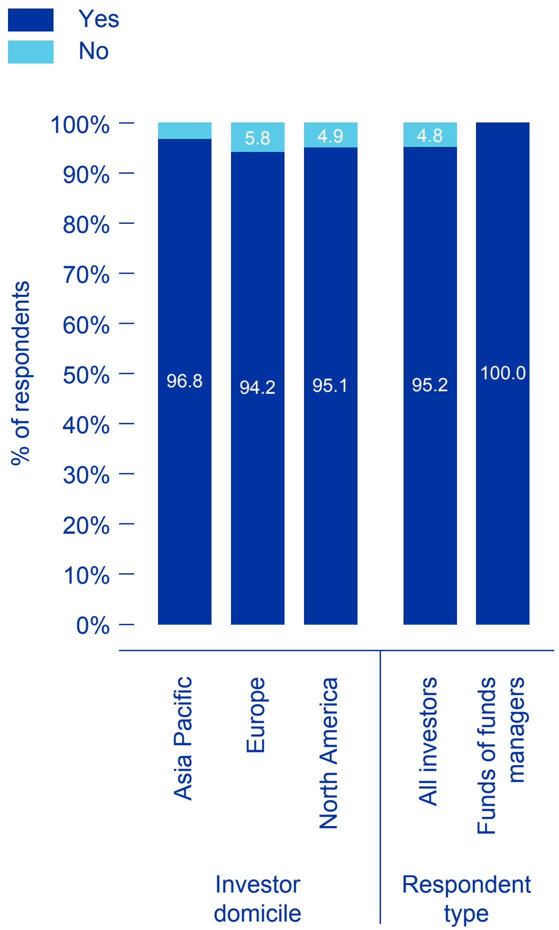
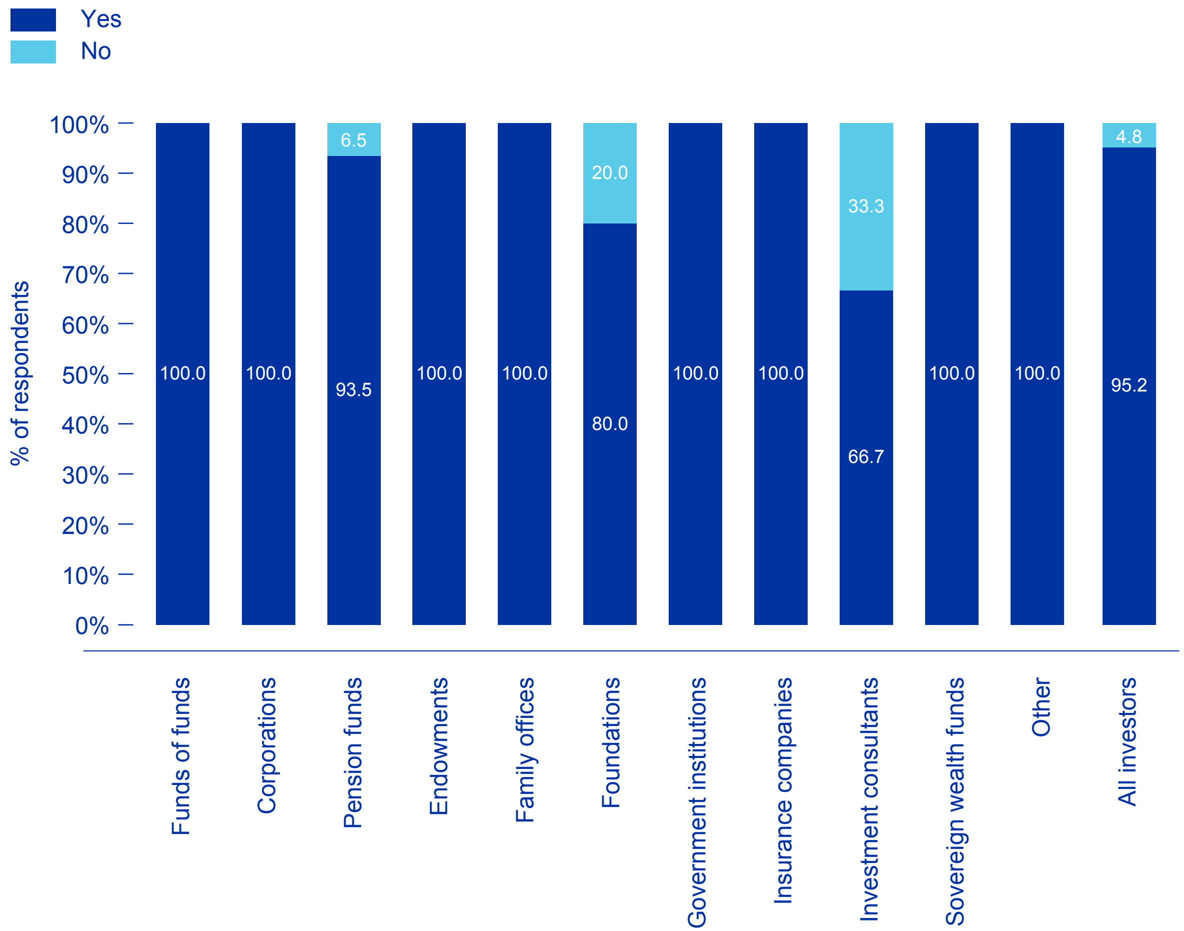


Figure 23: Expectations to make investments into real estate in 2020



Based on a sample of 139 respondents

Capital expected to be invested in 2020

Survey respondents indicated plans to deploy €88.5 billion into real estate during the year. Of this total, 61.2% comes from European investors with just under 20% coming from each of North America and Asia Pacific. Of the €88.5 billion, €41.3 billion is expected to be invested in non-listed vehicles of some type, with €22.3 billion specifically targeting non-listed real estate funds. Of the capital expected to go into real estate funds, 44.7% is from Europe, 30.6% from North America, and 24.7% from Asia Pacific.

Figure 24: Capital expected to be invested into real estate in 2020 by investor domicile (€ 88.5 billion)

19.5% Asia Pacific
61.2% Europe
19.4% North America

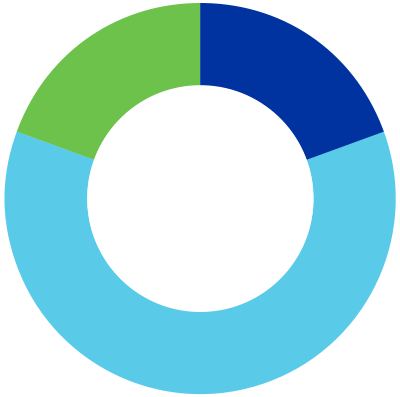


Figure 25: Capital expected to be invested into non-listed RE vehicles in 2020 by investor domicile (€ 41.3 billion)

16.0% Asia Pacific
50.3% Europe
33.7% North America

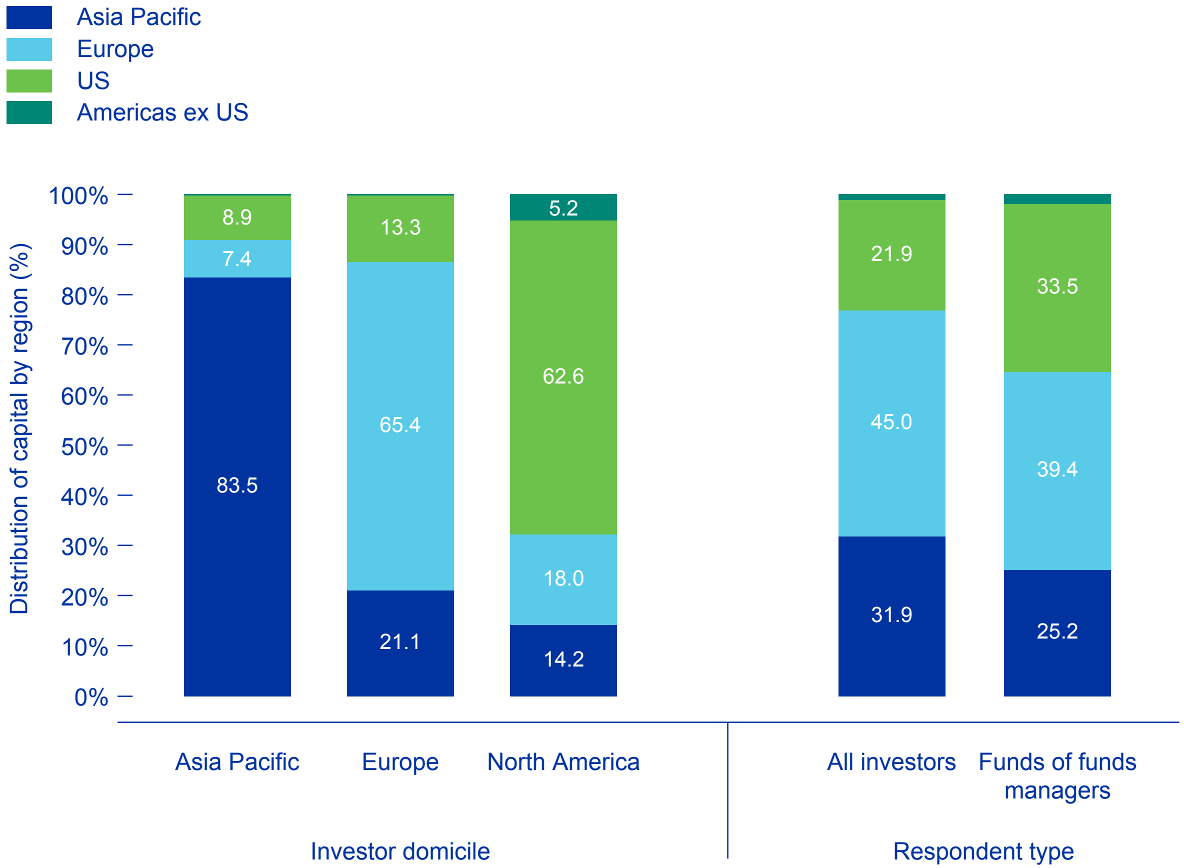
Figure 26: Capital expected to be invested into non-listed RE funds in 2020 by investor domicile (€ 22.3 billion)

24.7% Asia Pacific
44.7% Europe
30.6% North America

Based on a sample of 122 respondents

Europe is expected to receive the largest share of 2020 capital deployments, with 45.0% of capital targeting that region, followed by Asia Pacific (31.9%), and the US (21.9%). Americas ex US is expected to receive only 1.1% of new capital investments during this year. Geographic plans for 2020 investment vary by investor domicile, however, with planned investments having a home bias just as do existing portfolios. Asia Pacific based investors expect to make 83.5% of their 2020 investments within the same region, European investors expect to invest 65.4% of capital within Europe in 2020, and North American Investors are targeting 62.6% of 2020 capital deployments for the US and 5.2% for Americas ex US.

Figure 27: Capital expected to be invested into real estate in 2020 geographically



Based on a sample of 120 respondents

Section 3

Preferred styles for investing into Europe

Preferred investment styles

This section of the report focuses exclusively on investment into real estate markets in Europe.

From a total sample of 138 respondents (123 investors and 15 funds of funds), 92 investors and 13 funds of funds are already invested in Europe, while 15 investors and 2 funds of funds expect to invest in Europe in the next 2 years. Among the respondents expecting to invest in Europe are investors from Japan, the US, the UK and Australia. Together they hold a minimum of €292.0 billion in European real estate AUM, and intend to invest a minimum of €43.6 billion in European real estate in 2020.

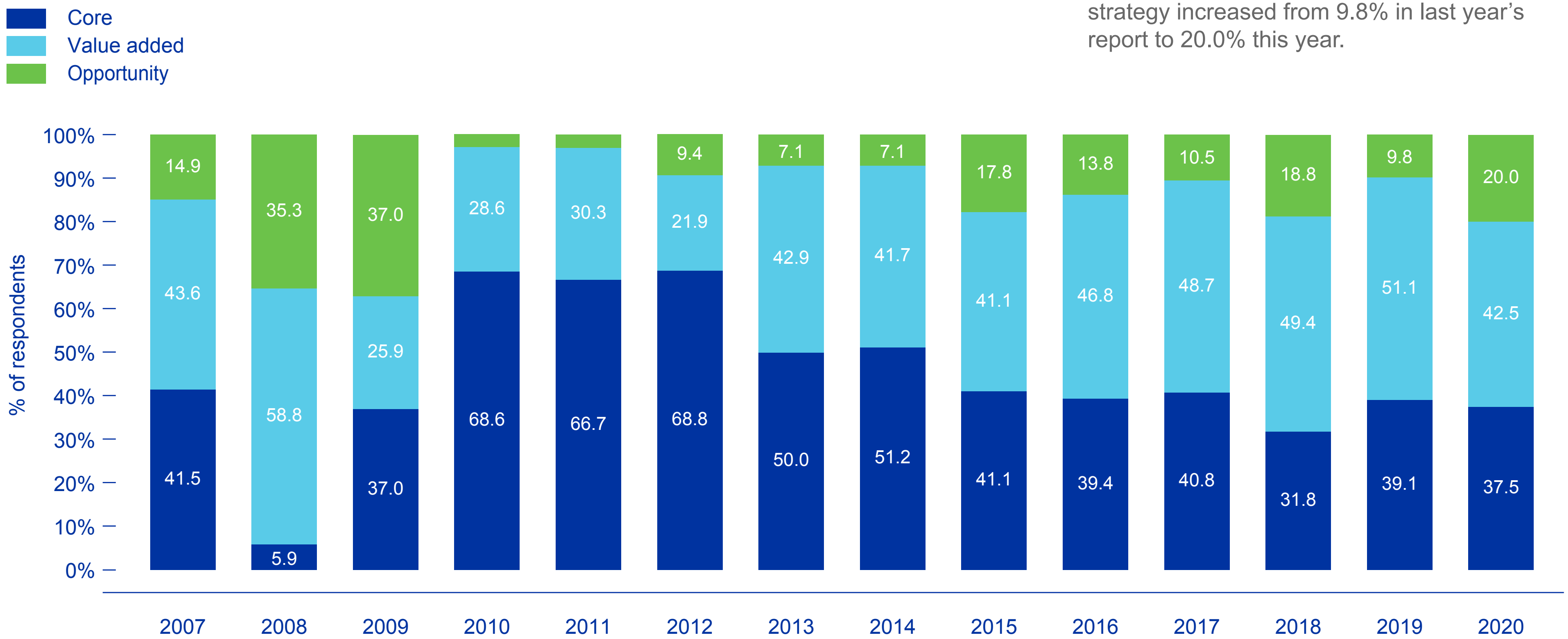
This year's results show a change in preferences for investment style. Although value added (defined in terms of risk adjusted returns) remains the preferred strategy, there is a large increase in the share of investors stating opportunity as their preference.

The low return environment that investors have faced during the past year is pushing them up the risk curve, as they seek higher returns by investing in value added and opportunity strategies.

As in each of the previous five years, investors find value added strategies to be the most attractive in terms of risk and return, but the proportion is somewhat smaller than previously.

The largest difference is observed for opportunity, for which the proportion of investors indicating it to be their preferred strategy increased from 9.8% in last year's report to 20.0% this year.

Figure 28: Investment style preferences 2007 to 2020



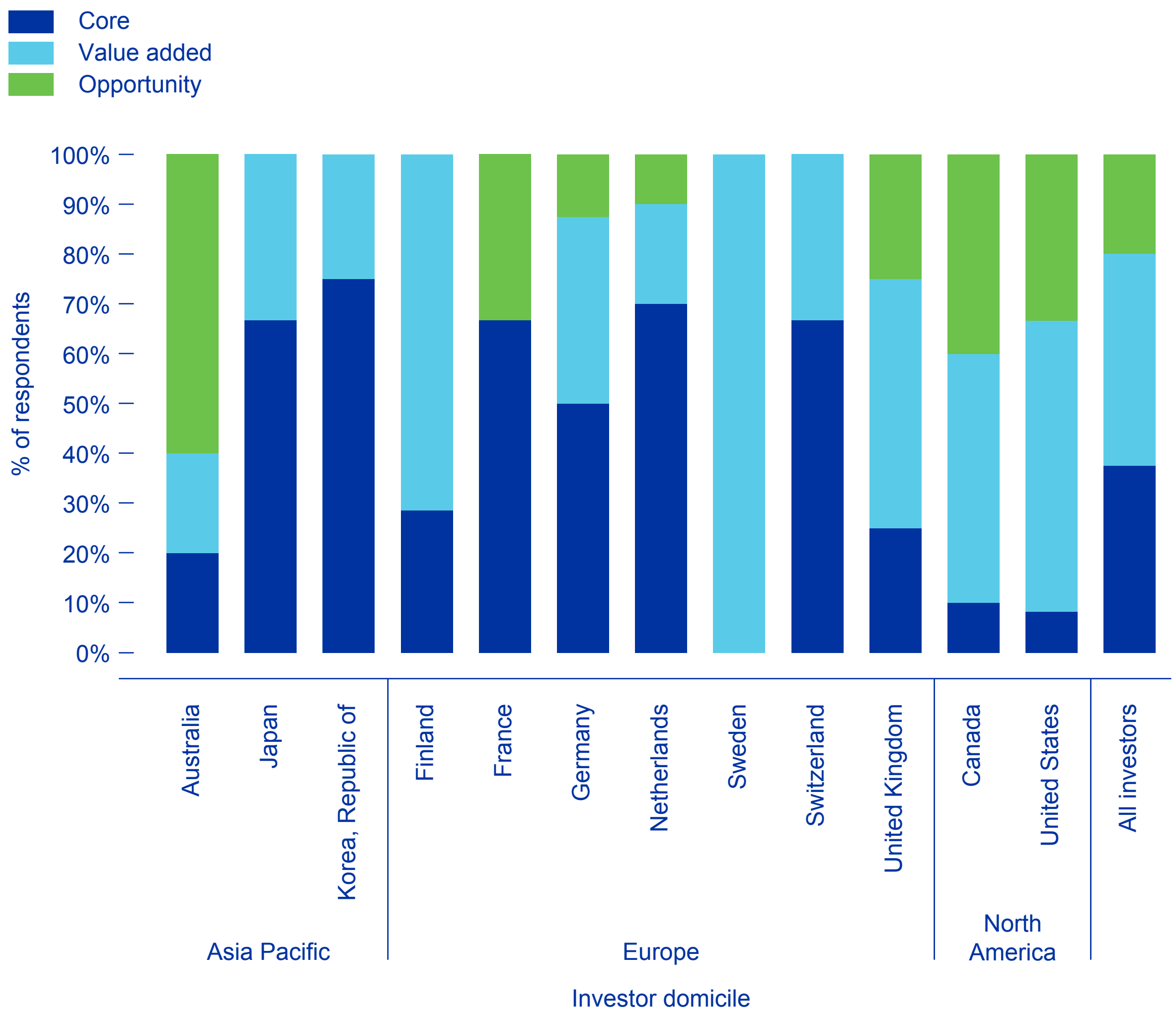
Based on a sample of 123 respondents

Preferred and expected investment styles by investor domicile

Investment preferences vary considerably for those domiciled in different countries and regions. Asia Pacific investors have historically preferred core strategies, while investors based in other regions, particularly North America, have tended to prefer higher risk strategies when investing in Europe as they aim for higher returns, presumably to make up for currency risks and tax leakage.

Differences in preferred investment style are also observed across European countries. Core remains the preferred style for investors based in France, Germany, the Netherlands and Switzerland, while those from Finland, Sweden and the UK prefer riskier strategies.

Figure 29: Preferred investment styles by investor domicile

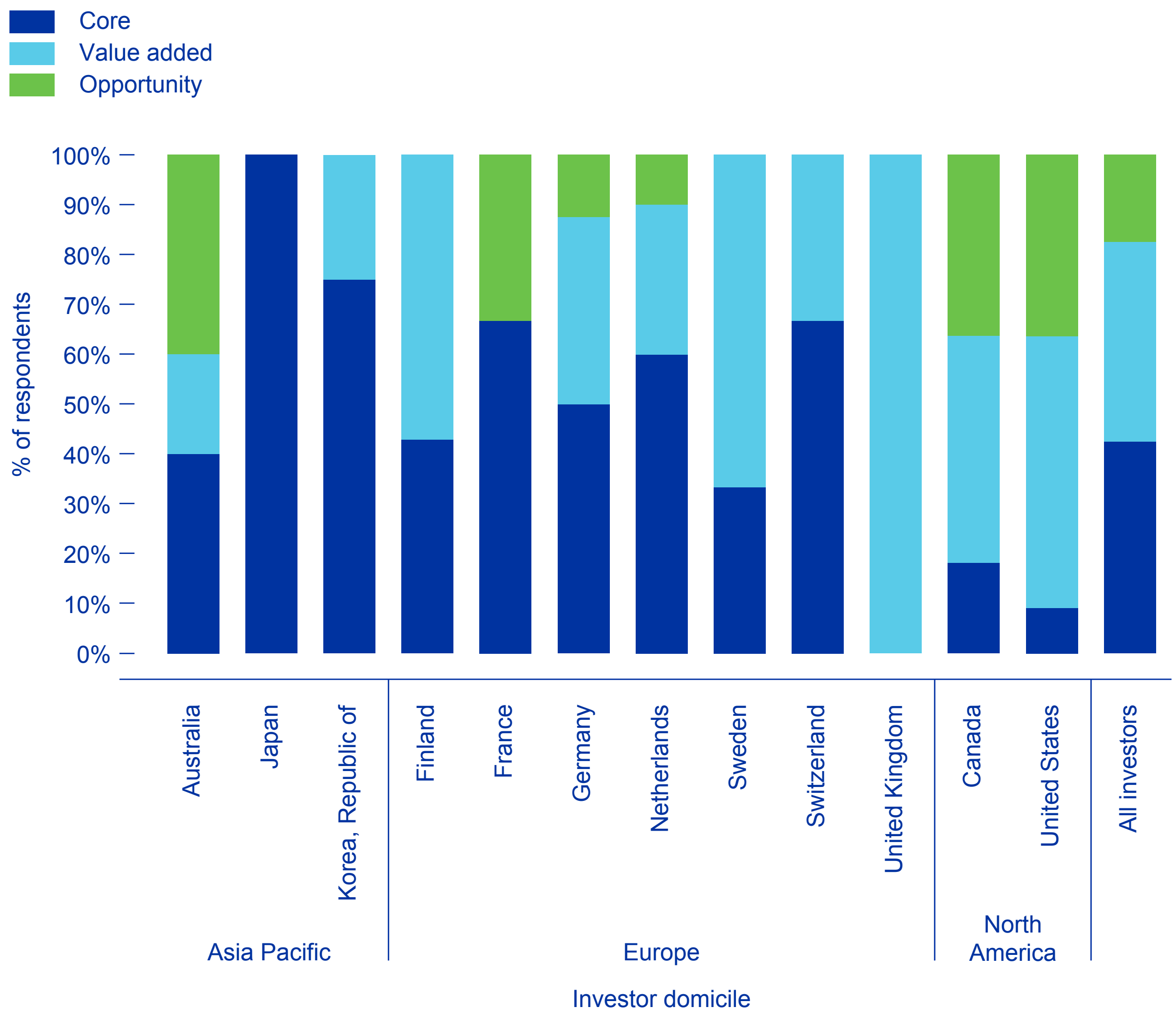


Based on a sample of 80 respondents

North American investors, both from the US and Canada, have historically tended to prefer the riskier value added and opportunity strategies above core. For Asia Pacific investors the preferred strategies vary depending on their country of domicile. Japanese and South Korean investors prefer core strategies, with none from these countries choosing opportunity. On the other hand, investors from Australia show a clear preference for opportunity above the other styles.

Nonetheless, when asked about the styles they intend to implement in the next two years, most of the investors indicate that they prefer the riskier strategies, value added and opportunity.

Figure 30: Expected investment styles by investor domicile



Based on a sample of 80 respondents

Section 4

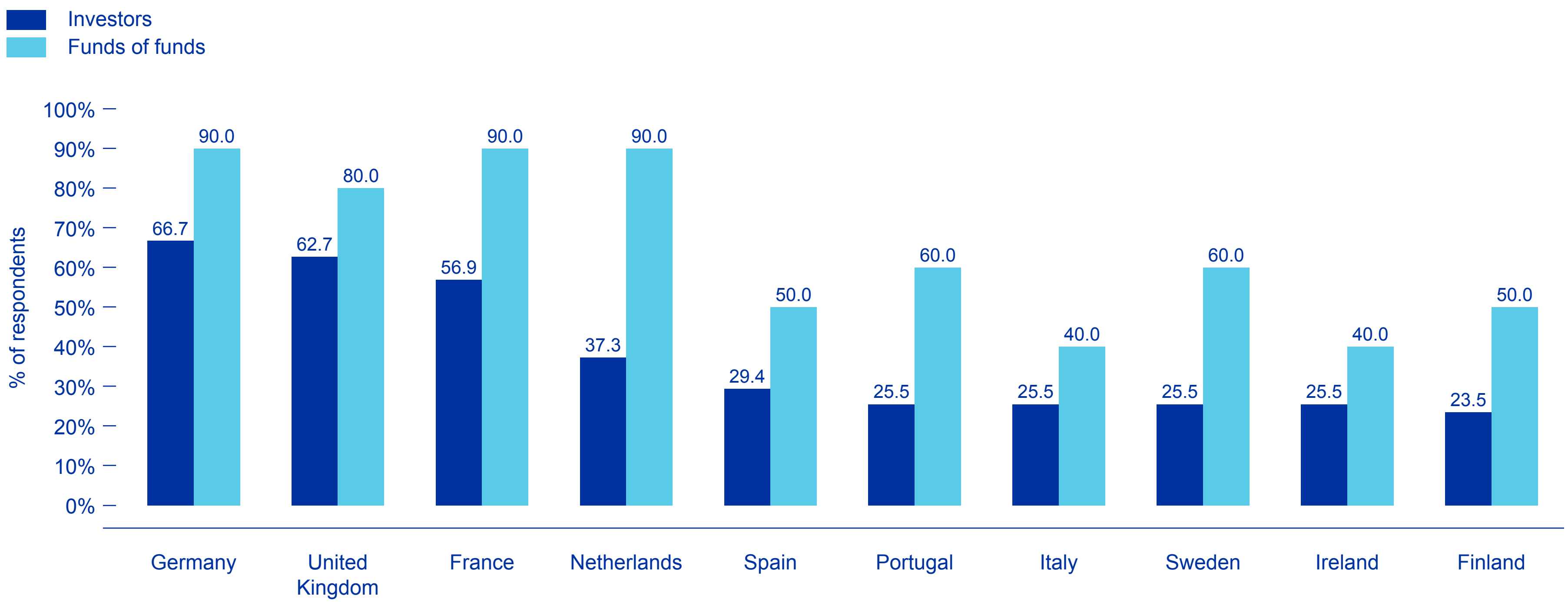
Preferred sectors and destinations for investing into Europe

Preferred country by respondent type and investor domicile

Germany, the UK and France remain the preferred destination countries for those investors operating in Europe. This reflects that these are the three biggest, most mature and transparent markets in the region.

On the other hand, funds of funds show different preferences in their preferred European destinations, selecting Germany, France and the Netherlands as their favourite markets.

Figure 31: Top ten most preferred locations for 2020 by respondent type

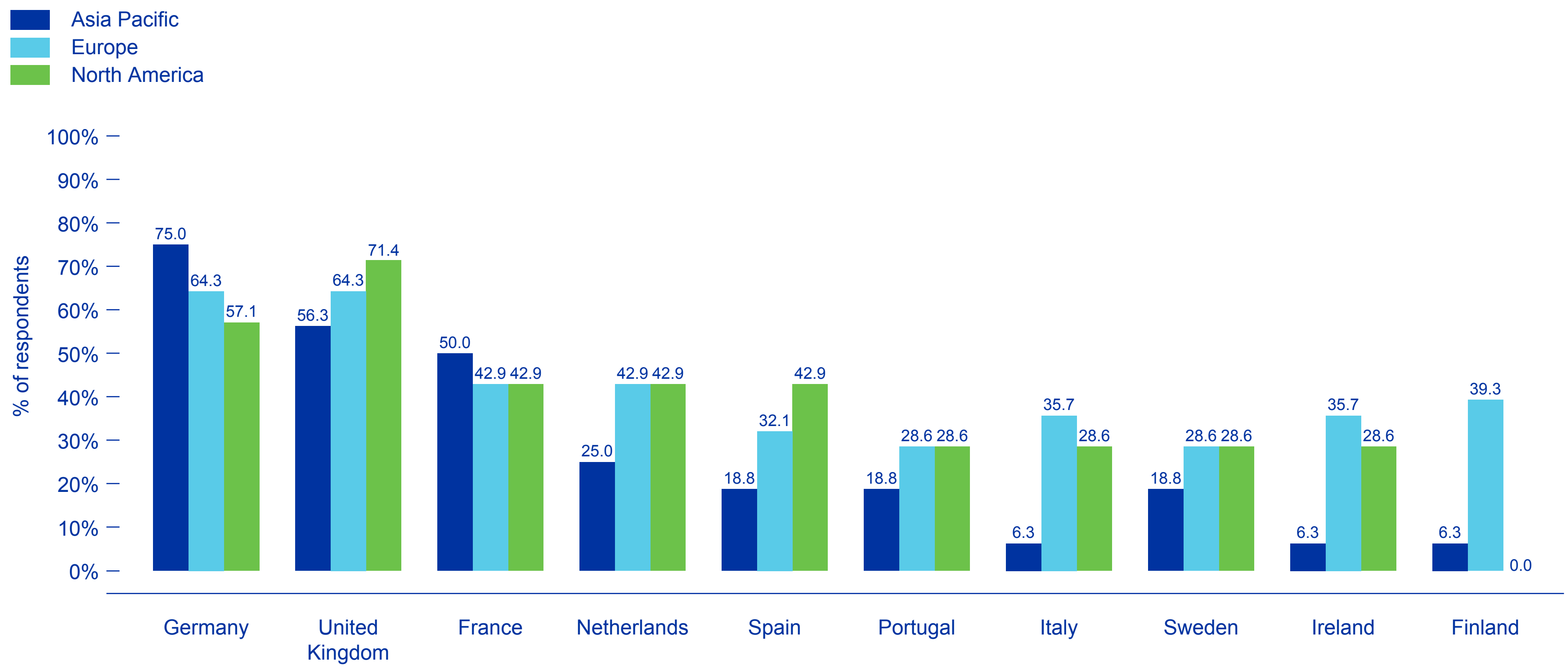


Based on a sample of 61 respondents

Investors based in Asia Pacific and the US prefer mature, liquid and transparent markets when they invest in Europe. For Asia Pacific investors, Germany stands in first place, followed by the UK and France, while for North American investors France and the UK are tied in first position, followed by Germany. European investors also prefer these larger markets, despite their potentially wider knowledge of Europe as a whole.

The ranking of investors' top ten favourite destination countries has remained quite similar over the past year. The biggest change was for Portugal, which has replaced Norway in sixth position in the ranking.

Figure 32: Top ten most preferred locations for 2020 by investor domicile



Based on a sample of 61 respondents

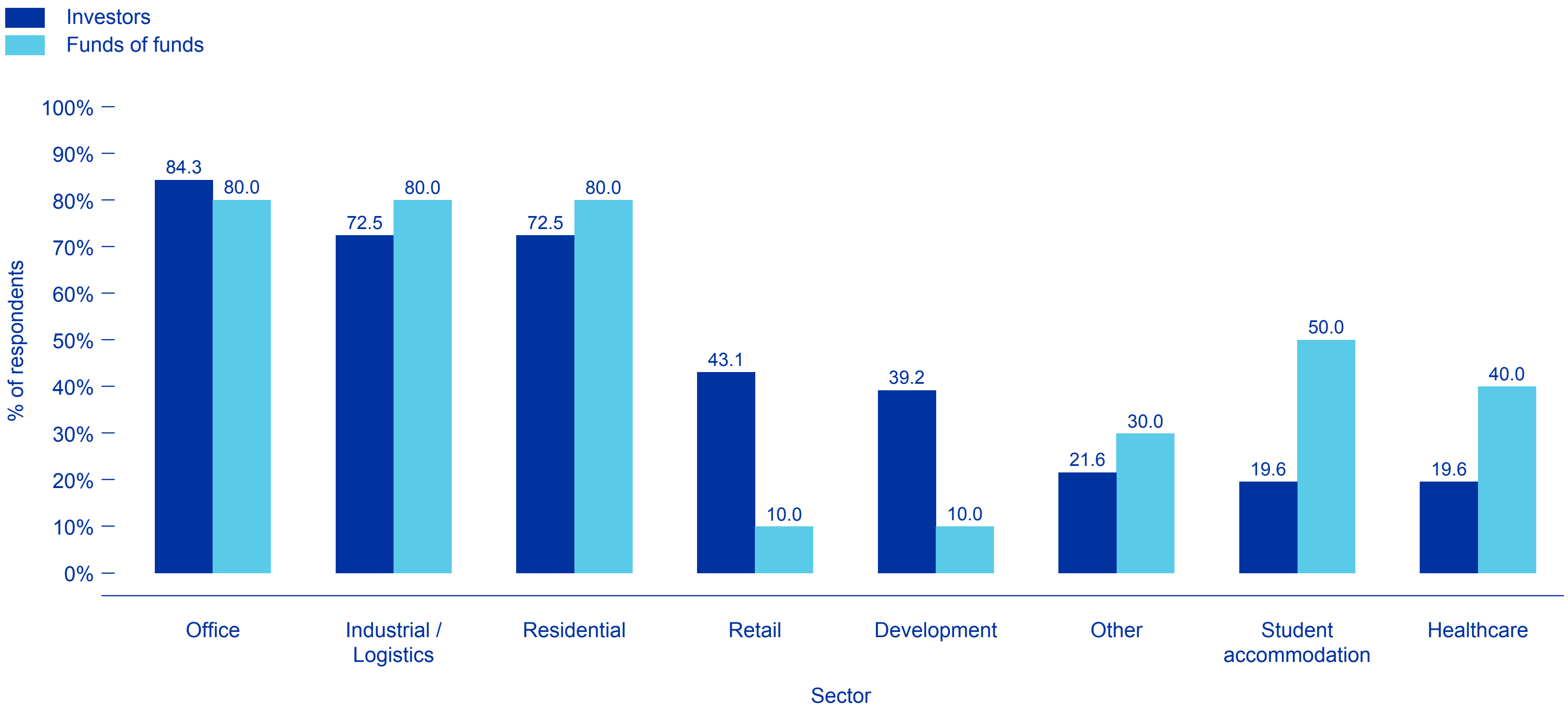
Preferred sectors by respondent type and investor domicile

Traditional mainstream real estate sectors continue to be the preference of both investors and funds of funds. Office remains the favourite sector, followed by industrial/ logistics and residential tied in second place, with retail next.

Notably, the retail sector has fallen from second to fourth place in the list, no doubt due to its poor performance in recent years.

Although funds of funds prefer the same three sectors as investors, they show a greater interest in alternative sectors such as student accommodation and healthcare. This interest in alternatives was noted in previous years' reports, but healthcare only emerged as a specific preference this year.

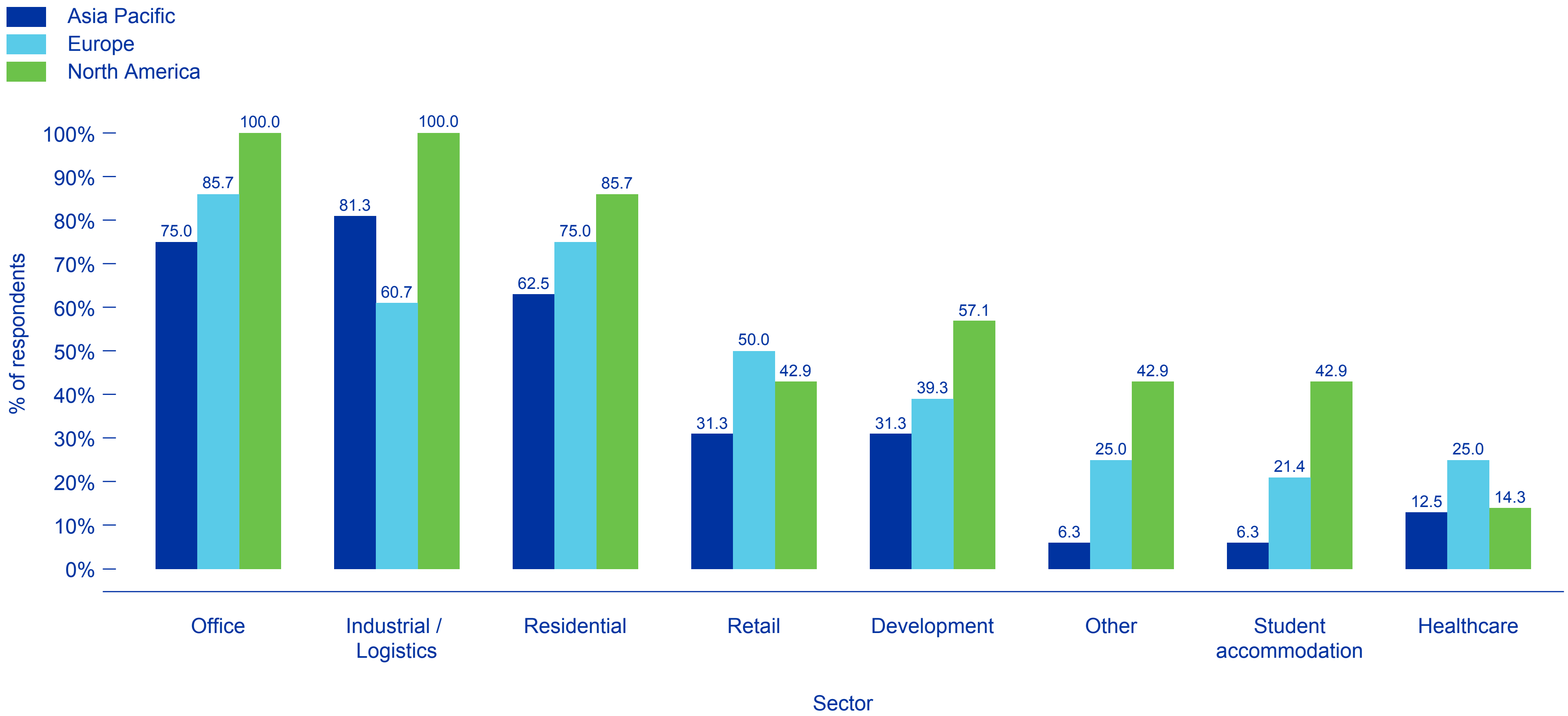
Figure 33: Most preferred sectors for 2020 by respondent type



Based on a sample of 61 respondents

By investor domicile, the decline in interest in the retail sector was greater for Asia Pacific and North American investors. The top three sectors for Asia Pacific investors are industrial/logistics, office and residential, while for North American investors the order is office, industrial/logistics and residential. European investors place the same three sectors in a different order again: office, then residential, then industrial/logistics. Among other sectors, North American investors have a particular interest in student accommodation and development, while European investors tend to favour healthcare.

Figure 34: Most preferred sectors for 2020 by investor domicile



Based on a sample of 61 respondents

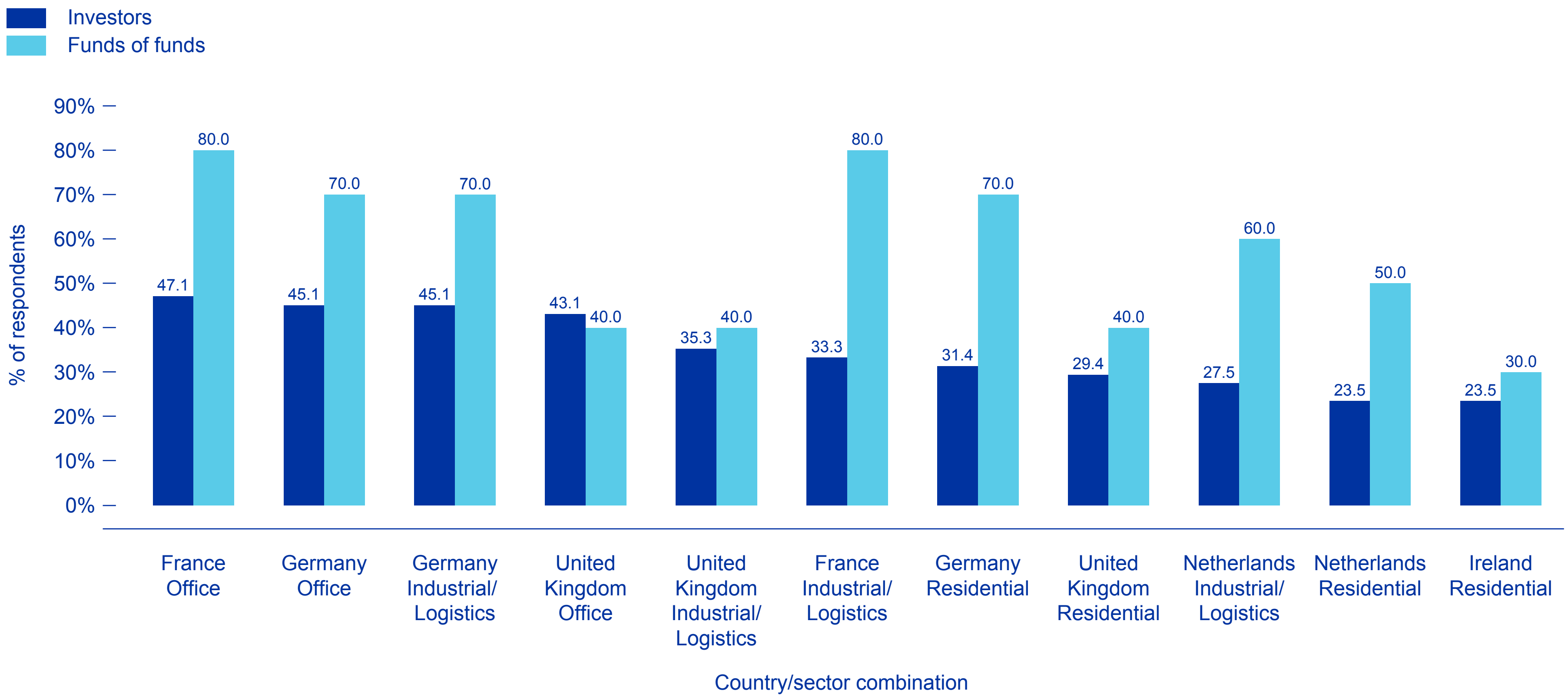
Preferred country / sector combinations by respondent type and investor domicile

Looking at the analysis for country-sector combinations, the four most in favour are France office, Germany office, Germany industrial/logistics and UK office. These four combinations were selected by at least 40% af the investors.

Four-fifths of the funds of funds identify France office and France industrial/logistics as their preferred combination, followed by office, industrial/logistics and residential in Germany (joint second place) and industrial/logistics in the Netherlands next.

The top ten country-sector combinations are mainly made up of the traditional sectors in the biggest European economies. Importantly, this was the first time since 2012 that UK retail failed to appear among the top 10 preferred combinations for investors.

Figure 35: Most preferred country/sector combination by respondent type



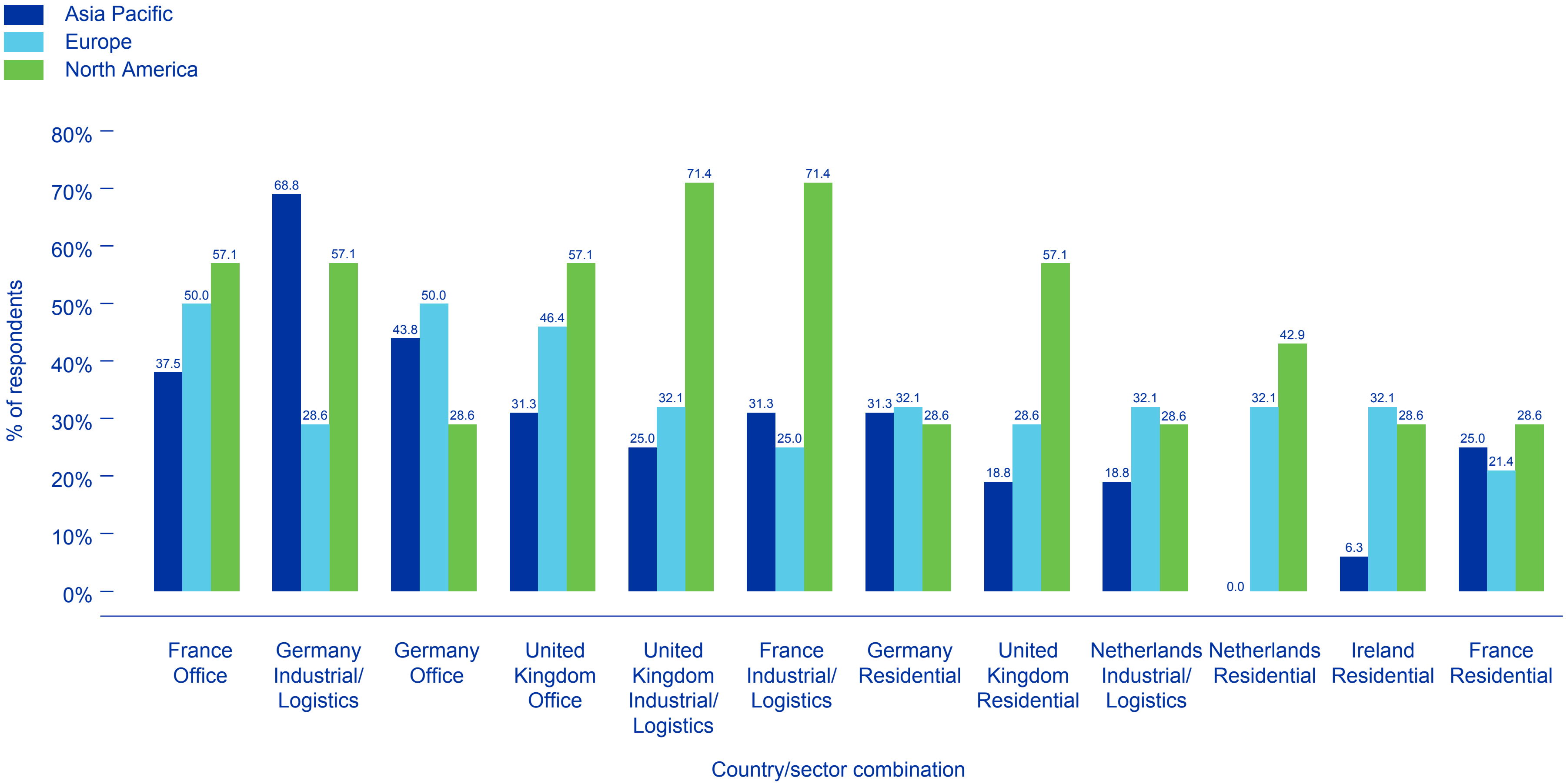
Based on a sample of 61 respondents

North American investors indicate that industrial/logistics in the UK and in France are their preferred combinations, followed by France office, Germany industrial/logistics and UK residential next, with residential in the Netherlands thereafter.

Meanwhile, European investors point to France office and Germany office as their favourite destinations, with UK office next and UK industrial/logistics, Germany residential, Netherlands industrial/logistics, Netherlands residential and Ireland residential tied in fourth position.

Asia Pacific investors show a clear preference for Germany and France, selecting Germany industrial/logistics in first place, followed by Germany office and France office, in second and third places respectively.

Figure 36: Preferred country/sector combination by respondent domicile



Based on a sample of 61 respondents

Over the last decade as a whole, France, Germany and the UK are the preferred destinations for investors targeting Europe, while office is the preferred sector for most of the investors, followed by industrial/logistics and residential. For country-sector combinations, this year broke the pattern of the previous two, with German industrial/logistics taking over from UK office in second place among investors' preferences. This reflects the strong recent performance of the logistics sector and the German market compared to the rest of Europe.

Table 1: Most preferred country / sector combinations 2009 to 2020

	First	Second	Third
2020	France Office	Germany Industrial/Logistics	Germany Office
2019	France Office	UK Office	Germany Office
2018	France Office	UK Office	Germany Office
2017	Germany Office	France Office	Germany Retail
2016	Germany Office	France Office	UK Office
2015	Germany Retail	Germany Office	UK Office
2014	UK Office	France Office	Germany Office
2013	Nordic Retail	Germany Retail	Germany Residential
2012	Germany Retail	Nordic Retail	Nordic Office
2011	Germany Retail	France Office	Germany Office
2010	UK Office	France Office	UK Retail
2009	UK Office	UK Retail	UK Diversified

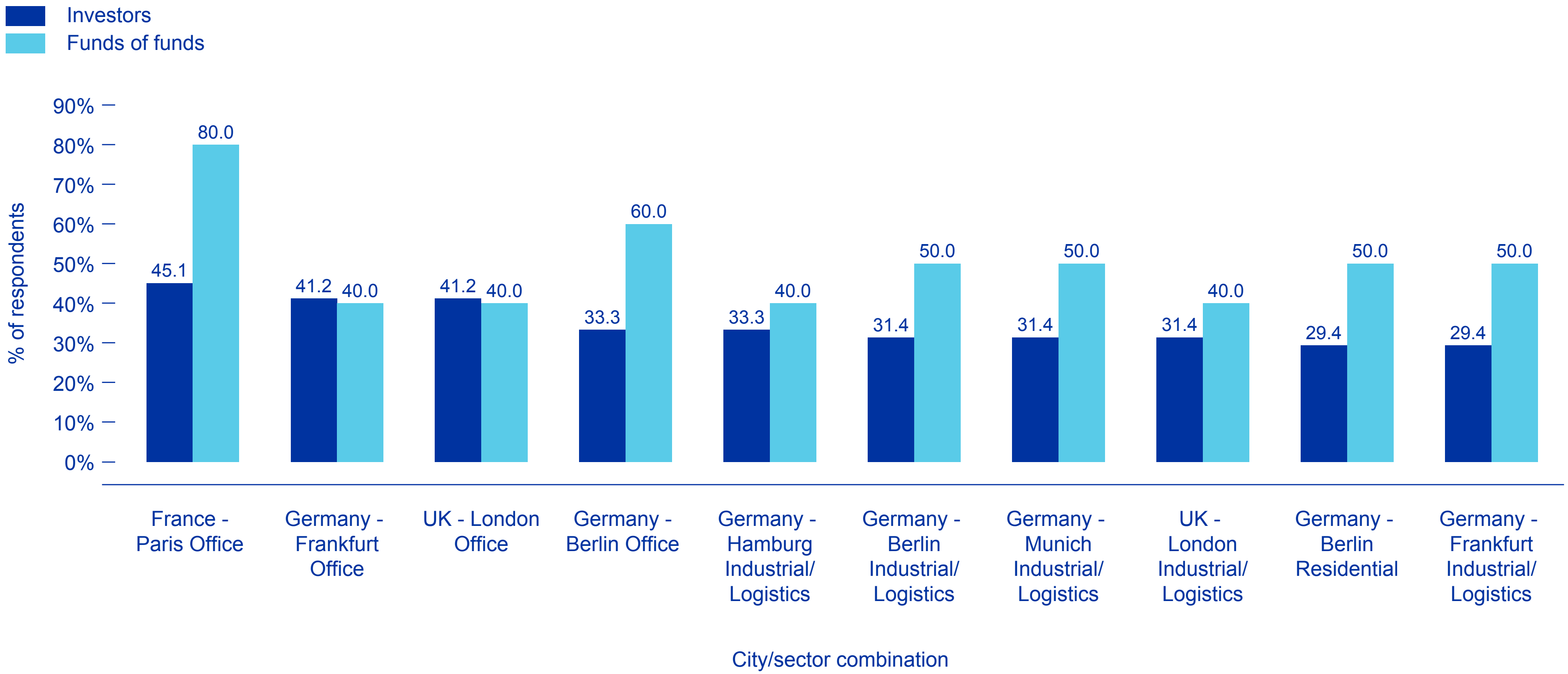
Preferred city/sector combinations by respondent type and investor domicile

Turning to investors' preferred city-sector combinations, Paris office, Frankfurt office and London office take the first three places this year, as they also did last year.

The top 10 city-sector combinations are constituted by the traditional sectors in the largest European cities, although unlike in previous years, retail does not appear in this list. Despite the appetite for investments in Europe's strongest rental housing markets, only Berlin residential is included in the top 10.

Funds of funds show a different set of city-sector preferences. Although Paris office is the favourite, it is followed by Berlin office in second place and Berlin industrial/logistics, Munich industrial/logistics, Frankfurt industrial/logistics and Berlin residential tied in third.

Figure 37: Preferred city/sector combination by respondent type



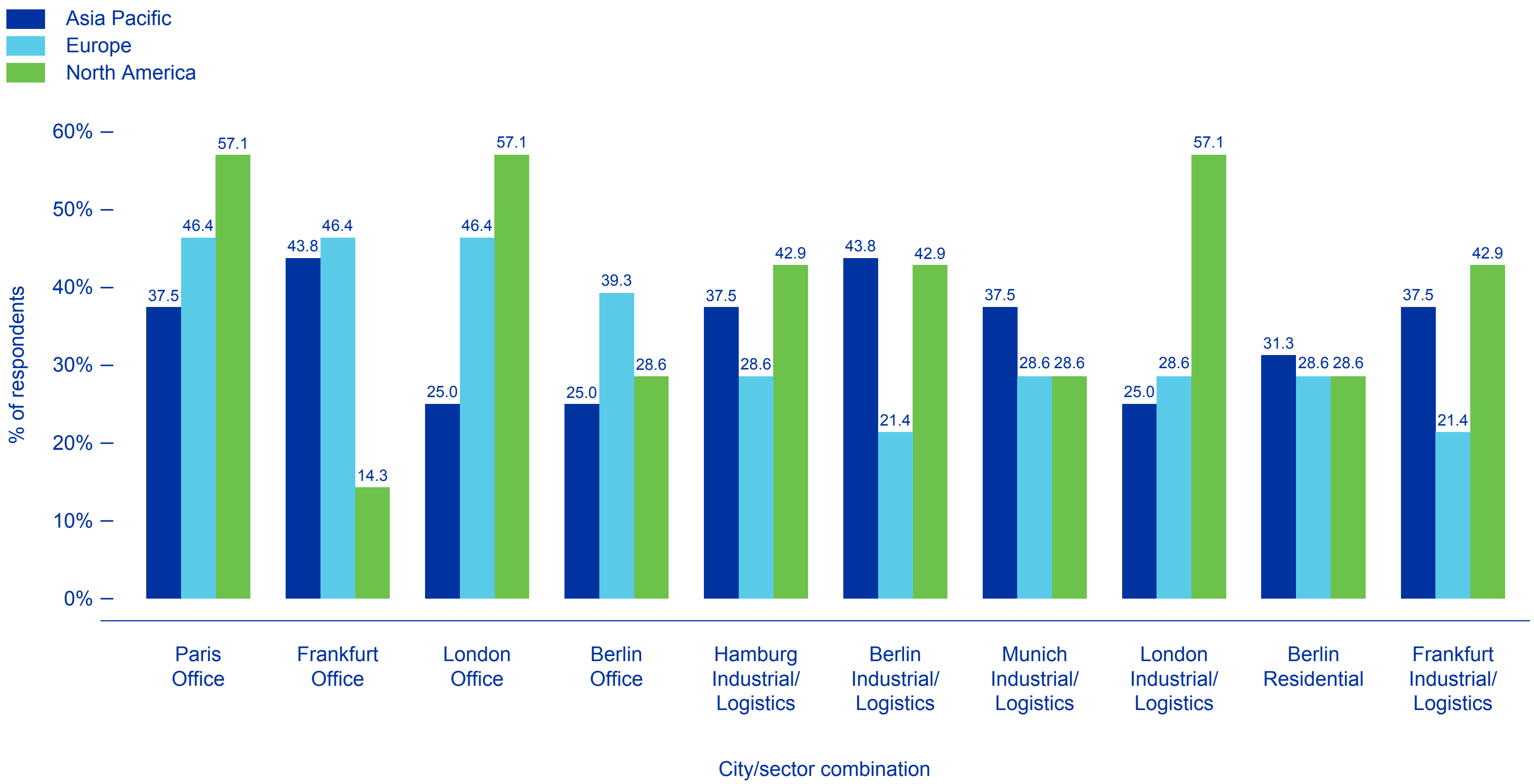
Based on a sample of 61 respondents

Investors from different regions also show varying preferences when they invest in Europe. Asia Pacific investors show a clear preference for Germany, selecting industrial/logistics in Berlin and office in Frankfurt as their preferred sector-city combinations.

On the other hand, North American investors choose London office and industrial/logistics together with Paris office as their preferred combinations. They also show a strong interest in the German industrial/logistics sector, specifically in Hamburg, Berlin and Frankfurt.

European investors select Paris office, Frankfurt office and London office as their preferred destinations, followed by Berlin office next and then industrial/logistics in Hamburg, Munich and London, and residential in Berlin as their subsequent preferences.

Figure 38: Preferred city/sector combination by respondent domicile



Based on a sample of 61 respondents

Section 5

Expected investment trends for accessing Europe

Expected changes to real estate allocations

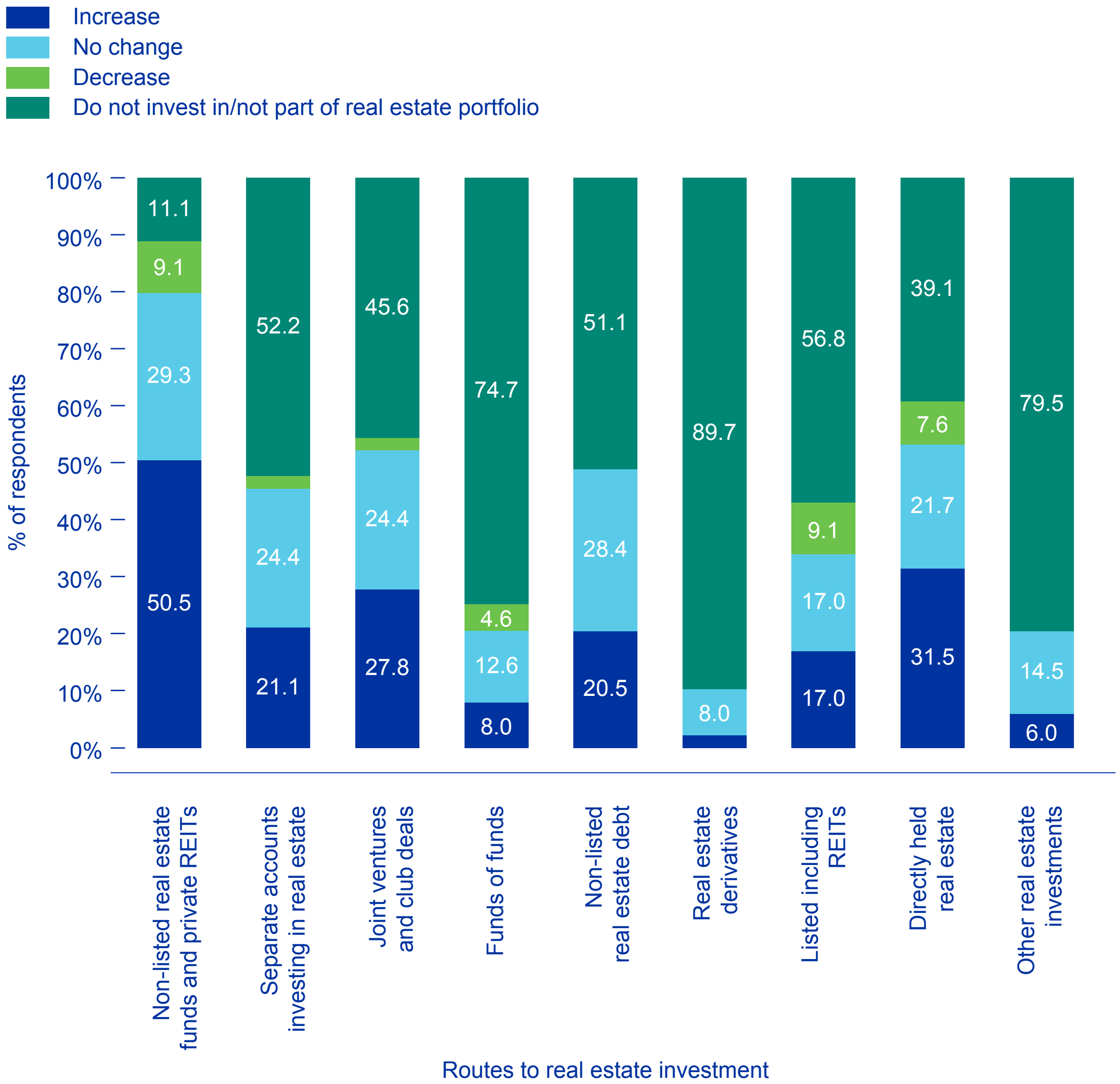
In the next two years, a large quantity of capital is expected to be placed in European real estate, in total €39.8 billion compared to €28.3 billion for Asia Pacific and €19.4 billion for North America.

Like previous years, non-listed funds and private REITs are the vehicles to which most investors expect to be allocating new capital, followed by directly held real estate, and joint ventures and club deals.

At the other end of the spectrum, very few investors expect to allocate new money to real estate derivatives. This access route is little used by either funds of funds or investors.

A significant number of investors indicate that certain types of vehicle/access routes do not play any part in their real estate portfolios. This is also the case for real estate derivatives in many funds of funds.

Figure 39: Expected changes to real estate allocations in Europe over the next two years



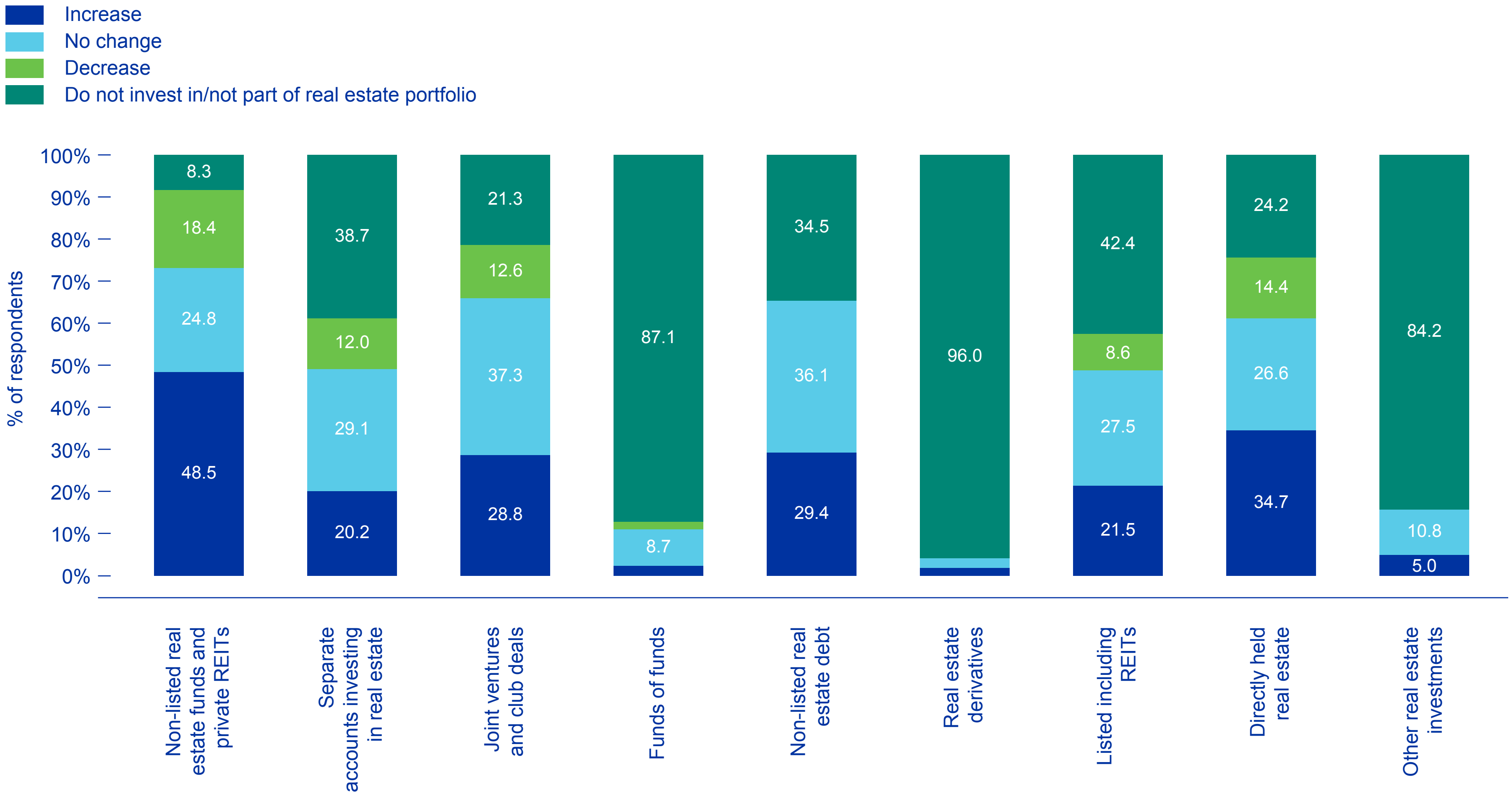
Based on a sample of 101 respondents

Different findings emerge if the analysis is weighted by real estate assets under management (AUM).

Comparing these with the unweighted results, it is clear that joint ventures and club deals, directly held real estate and derivatives are more attractive to larger investors. For the two first access routes, this could reflect that larger investors are looking for more control when they invest in real estate.

As last year, non-listed funds are the vehicles for which the largest share of investors expect to decrease their allocations, while real estate derivatives remain unused by most investors and funds of funds.

Figure 40: Expected changes to real estate allocations in Europe over the next two years (weighted by real estate AUM)



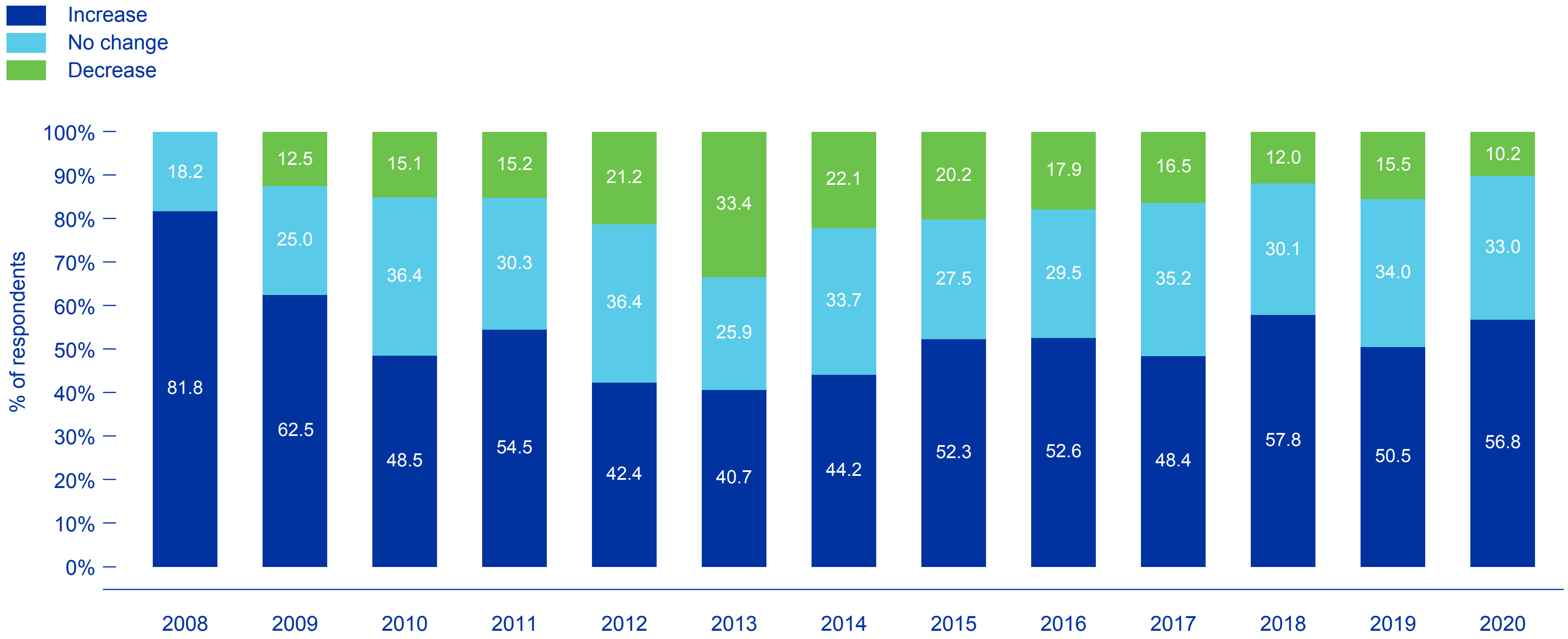
Based on a sample of 95 respondents

Expected changes to non-listed real estate funds

Over the last 13 years, investors with non-listed funds in their portfolios have indicated that they expect to maintain or increase their allocation to this type of vehicle.

Compared to last year, more investors now expect to increase their allocation to non-listed funds, with over half of the respondents intending to raise their allocations. The fact that the lowest number of respondents since 2008 expect to decrease their allocation to non-listed funds further supports the belief that investors generally have a positive view this vehicle type.

Figure 41: Expected changes in allocations to non-listed real estate funds and private REITs 2008 to 2020



Based on a sample of 88 respondents

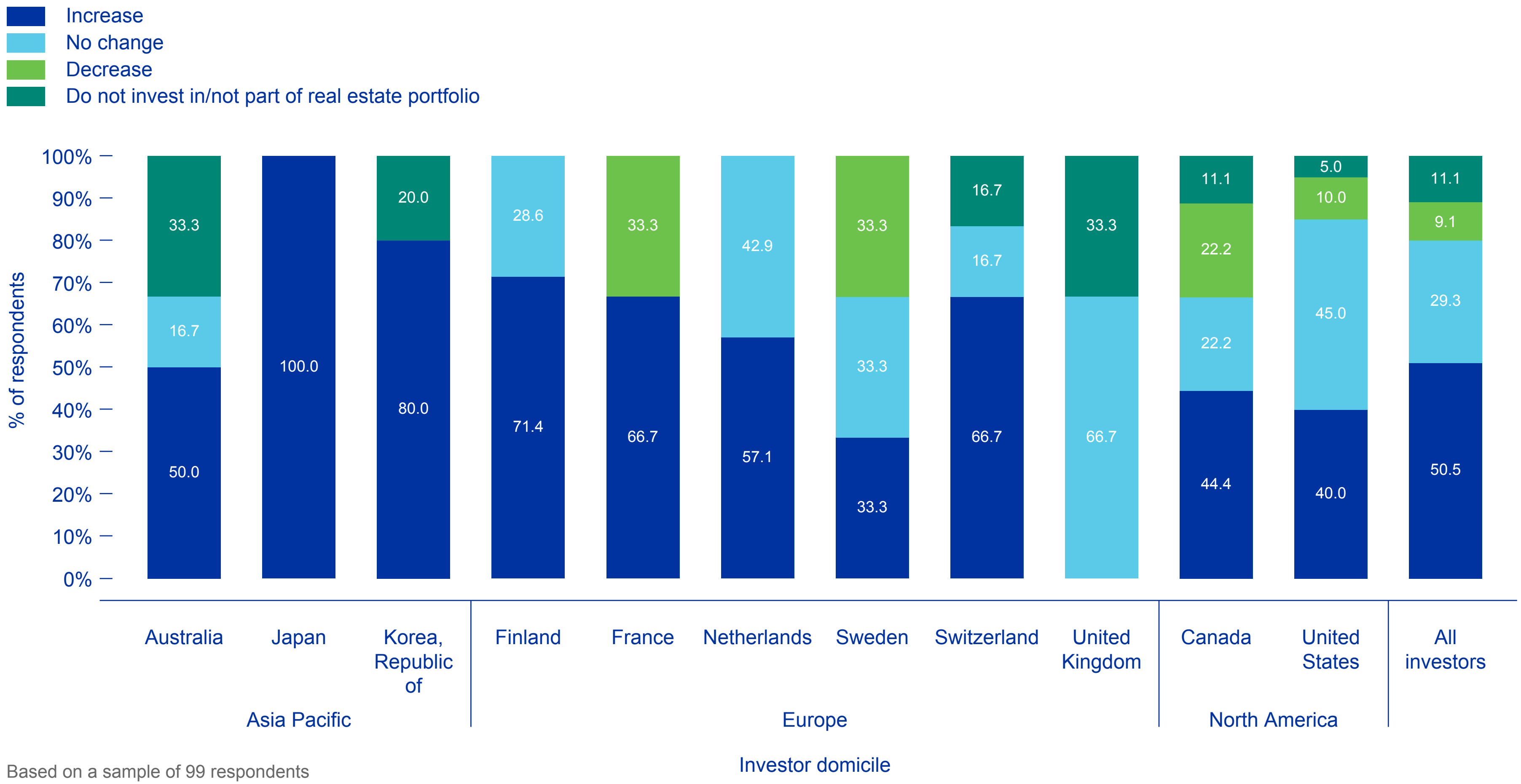
By investor domicile, some regional differences are worth highlighting.

Asia Pacific investors appear to have a particularly positive view of European non-listed funds, with the majority expecting to increase their allocation to such vehicles.

The majority of European investors also expect to increase their allocation to non-listed funds, although there are some notable exceptions by country of domicile, specifically Sweden and France.

More than 40% of North American investors expect to invest in European non-listed funds in the next two years. However, 22% of Canadian investors expect to decrease their allocation here in the next two years. Canada has the third highest proportion of investors expecting to decrease their allocation to European non-listed funds, behind Sweden and France.

Figure 42: Expected changes in allocations to non-listed real estate funds and private REITs by investor domicile

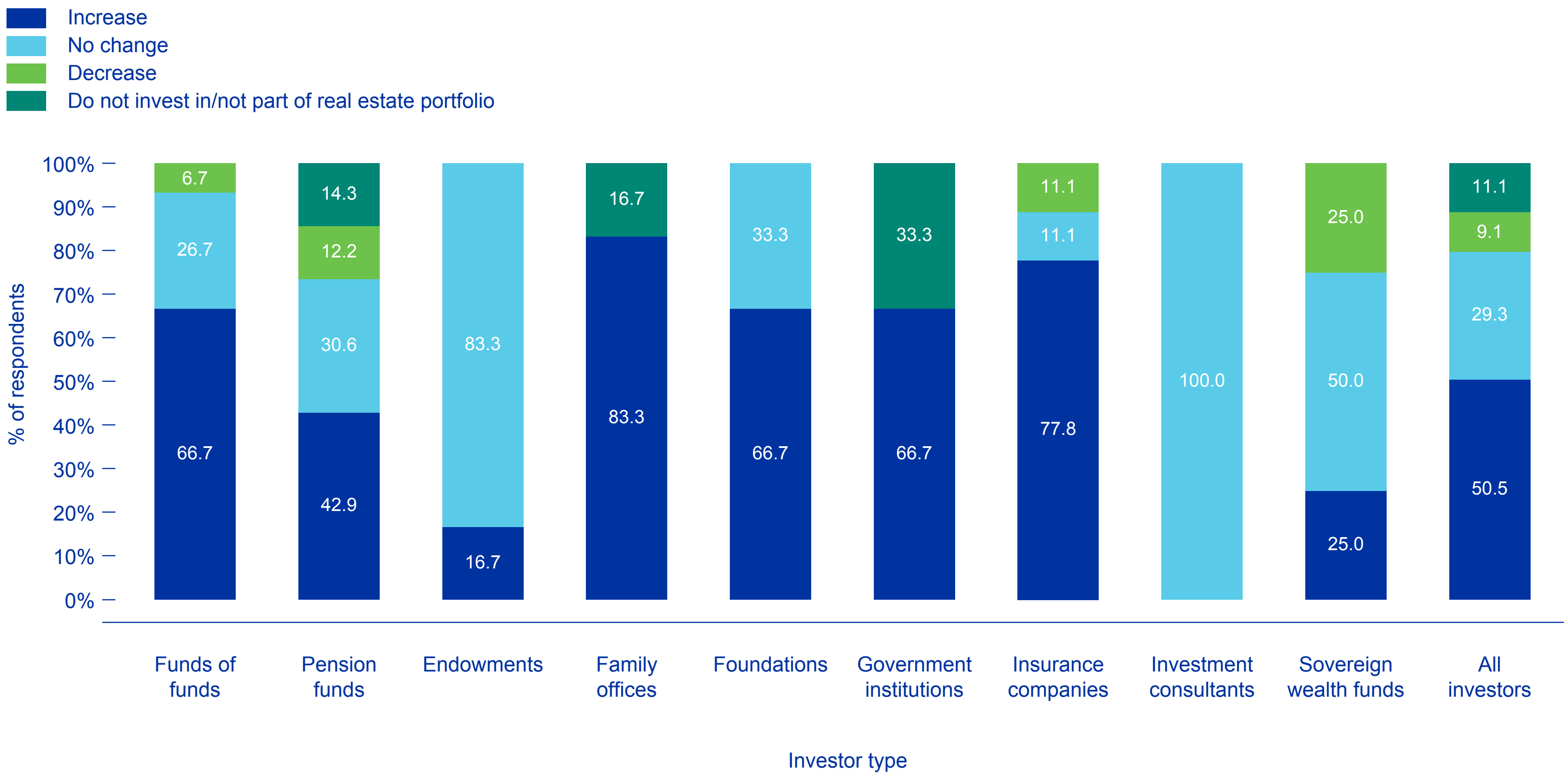


Based on a sample of 99 respondents

Repeating the analysis by investor type produces a similar picture, with the majority of investors expecting to increase their allocation to European non-listed funds. The exceptions to this are investment consultants and sovereign wealth funds. While the former expect to maintain their allocation to this type of vehicle, a quarter of the sovereign wealth funds investing in European non-listed funds expect to decrease their allocation to these vehicles in the next two years.

On the other hand, all family offices and 77.8% of the insurance companies investing in non-listed funds expect to increase their allocation in the next two years.

Figure 43: Expected changes in allocations to non-listed real estate funds and private REITs by investor type



Based on a sample of 99 respondents

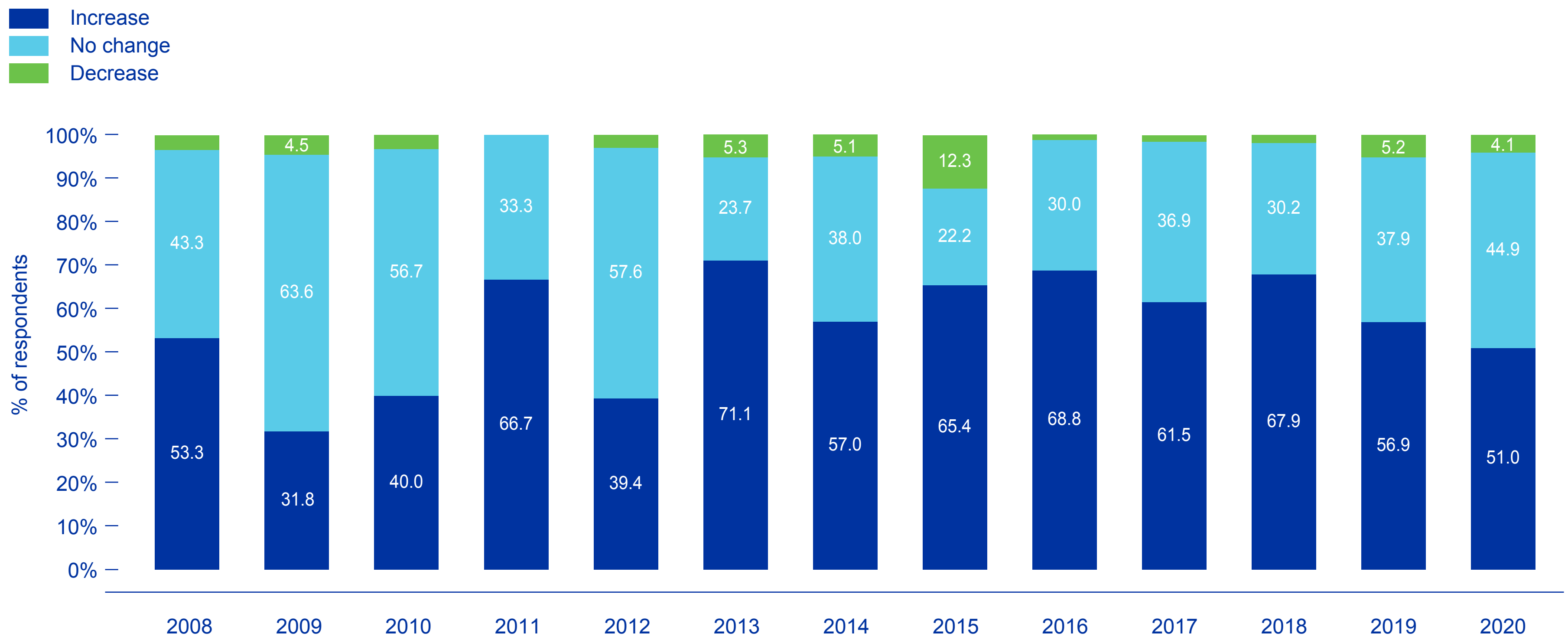
Expected changes to joint ventures and club deals

Since 2012, the interest in joint ventures and club deals has boomed. In each of the last seven years, the proportion of investors indicating that they intend to increase their allocation to this type of vehicle has stood above 55%.

In the 2020 report, 51.0% of investors state that they intend to invest in joint ventures and club deals, the lowest share since 2013. This follows the trend that started last year, with fewer investors increasing their allocation to this kind of vehicle and more maintaining their level of exposure.

This may reflect that a growing number of investors have achieved their desired allocation to this vehicle type over the last few years.

Figure 44: Expected changes in allocations to joint ventures and club deals 2008 to 2020



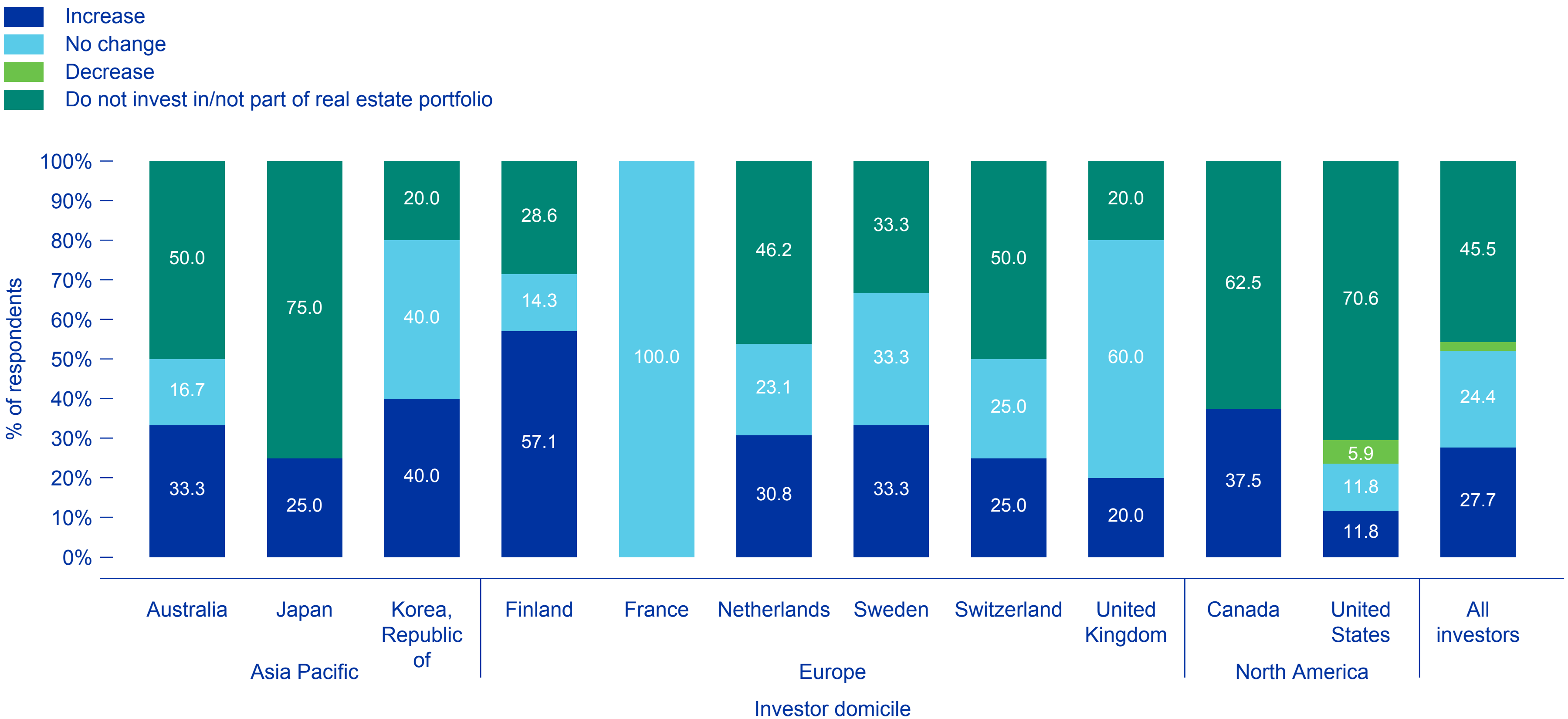
Based on a sample of 49 respondents

Asia Pacific investors generally expect to increase their allocation to joint ventures and club deals, although there are some differences between countries. All Japanese investors holding these vehicles in their portfolio expect to increase their allocation to them, while 50% of investors from South Korea and 33% of investors from Australia expect to maintain their allocation, and the rest of those from that country expect to increase it.

There is little consensus among European investors regarding joint ventures and club deals. Half of the investors in the Netherlands, Sweden and Switzerland that invest in joint ventures and club deals intend to maintain their allocations, while the other half plan to increase them. In the UK and France, the majority of investors intend to maintain their positions, while in Finland a significant majority are looking to raise their allocations.

In the North America region, all investors from Canada that have these vehicles in their portfolio expect to increase their allocation in the next two years, while a number of investors in the US are among the few expecting to decrease their allocation to JVs and clubs.

Figure 45: Expected changes in allocations to joint ventures and club deals by investor domicile

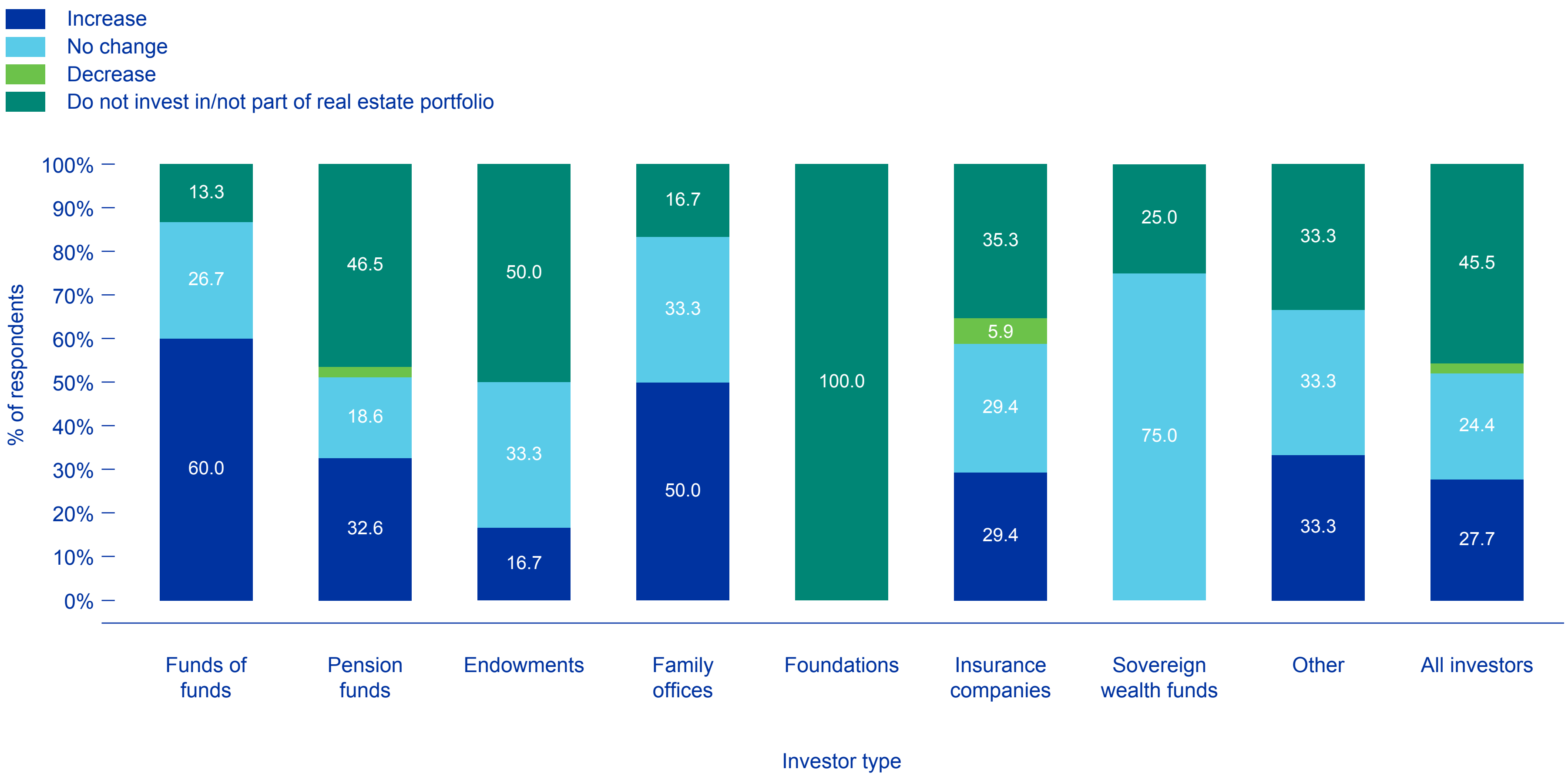


Based on a sample of 90 respondents

As in previous years' reports, funds of funds have a relatively strong commitment to joint ventures and club deals, with 60% of such respondents expecting to increase their allocation to this type of vehicle.

The majority of most other types of investors expect to increase or maintain their allocation to these vehicles. Only a small proportion of pension funds and insurance companies are planning to reduce their allocation to them in the next two years.

Figure 46: Expected changes in allocations to joint ventures and club deals by investor type



Based on a sample of 90 respondents

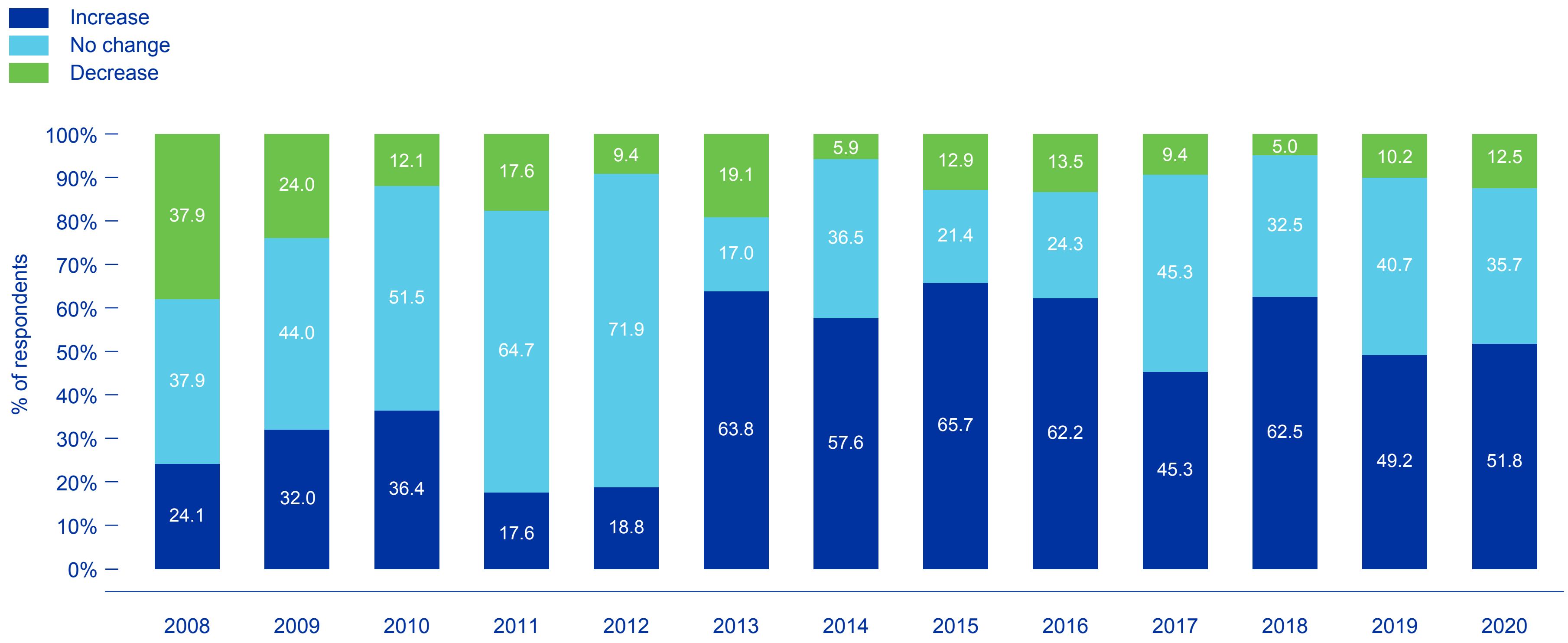
Expected changes to directly held real estate

Since 2013, most investors have expressed the intention of increasing their allocation to directly held real estate in Europe, or at least to maintain their current allocation.

This year is no exception, as more than half the respondents expect to increase their allocation to direct real estate in the next two years. This is a slightly higher level than in last year's results.

On the other hand, there was also a rise in the number of investors that expect to decrease their allocation to directly held real estate in the next two years.

Figure 47: Expected changes in allocations to directly held real estate 2008 to 2020



Based on a sample of 56 respondents

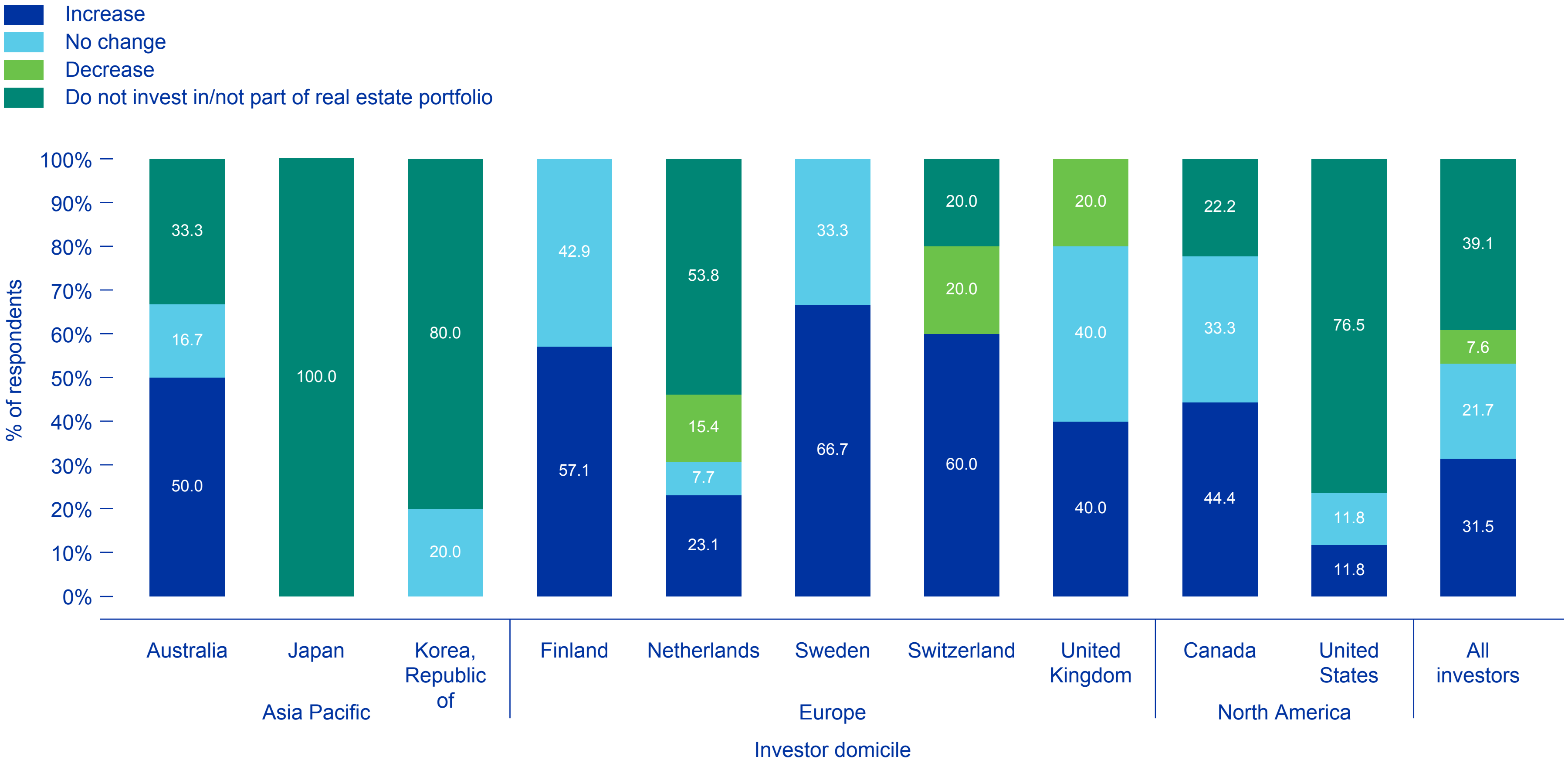
Among investors from the Asia Pacific region, only those based in Australia expect to increase their allocation to directly held European real estate.

Most European investors expect to increase their allocation to direct real estate, especially those from Finland, Sweden and Switzerland.

The Netherlands, Switzerland and the UK are the only countries where any investors intend to decrease their allocation to directly held real estate.

All the investors from North America expect to increase or maintain their allocation to direct real estate. While the US situation is balanced, with half the investors that hold direct real estate expecting to maintain their allocation and the other half expecting to increase it, in Canada more investors expect to raise their allocation than to maintain it.

Figure 48: Expected changes in allocations to directly held real estate by investor domicile



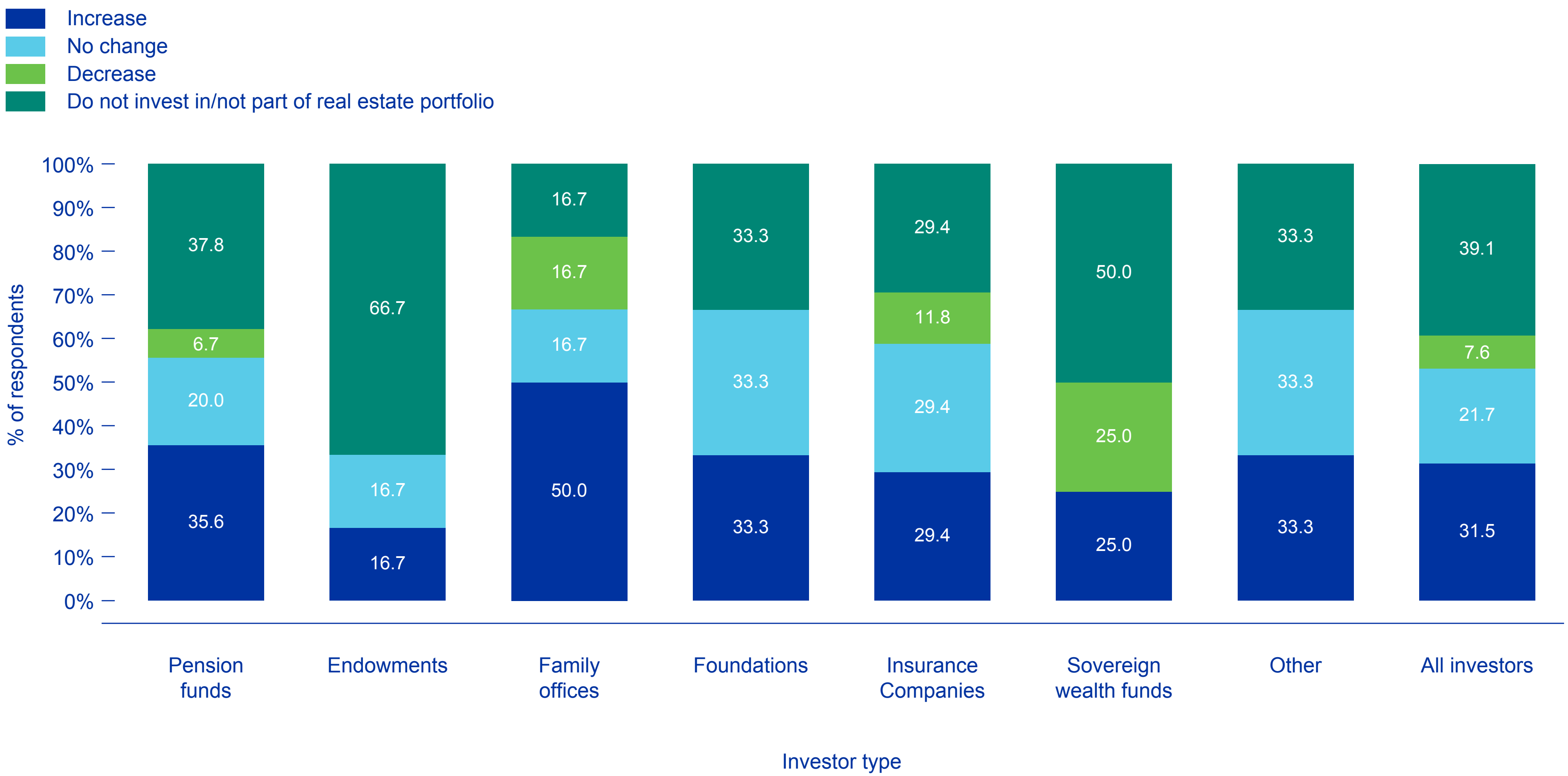
Based on a sample of 92 respondents

As previously mentioned, most types of investors expect to increase or maintain their allocation to European direct real estate, but there are exceptions.

A large proportion of sovereign wealth funds, around 50% of those with allocations to direct real estate, expect to decrease their allocation.

On the other hand, more than half of the family offices in the report expect to increase their allocation in the next two years.

Figure 49: Expected changes in allocations to directly held real estate by investor type



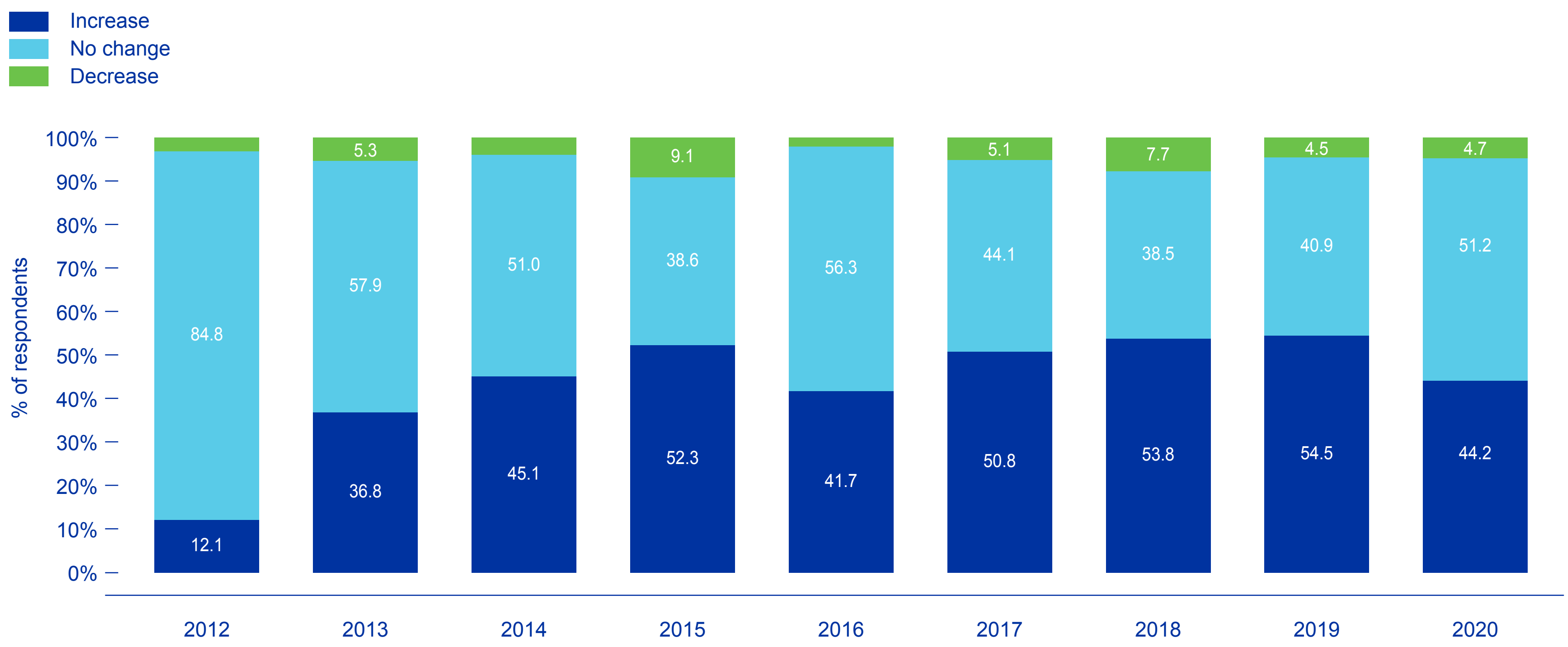
Based on a sample of 92 respondents

Expected changes to separate accounts investing directly

Between 2012 and 2019, there has been a strong tendency for investors to increase their allocation to separate accounts.

In line with this trend, around 45% of the respondents expect to increase their allocation to separate accounts in the next two years, although this is almost 10% less than in 2019. On the other hand, more than 50% of investors expect to maintain their allocation in the next two years and less than 5% expect to reduce it.

Figure 50: Expected changes in allocations to separate accounts investing in real estate 2012 to 2020



Based on a sample of 43 respondents

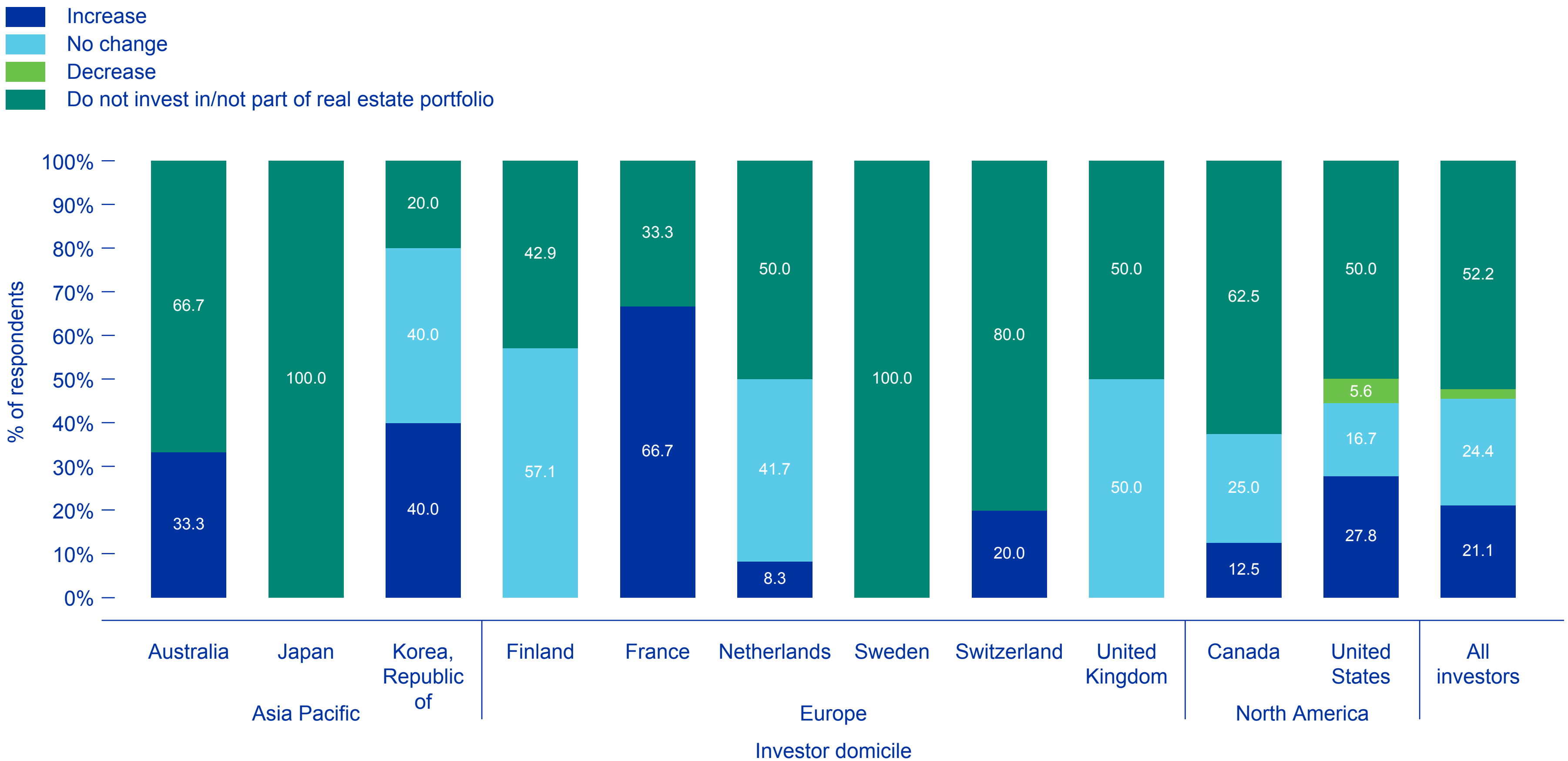
Regardless of their home region or type, the majority of investors do not use separate accounts to access the real estate market.

Of those based in Asia Pacific who use this kind of vehicle for managing their real estate investments, none expect to decrease their allocation to it. Investors from Australia mainly intend to increase their allocation, while those from South Korea are divided: around 50% of those investing in this vehicle type expect to increase their allocation, while the other 50% expect to maintain it.

Those investors based in Europe show a similar pattern, with the majority expecting to maintain or increase their allocation to separate accounts in the next two years.

The situation is the same in Canada and the US, with most investors intending to continue or increase their allocation in the next two years, although a small group of US investors expect to decrease their allocation in this period.

Figure 51: Expected changes in allocations to separate accounts investing in real estate by investor domicile



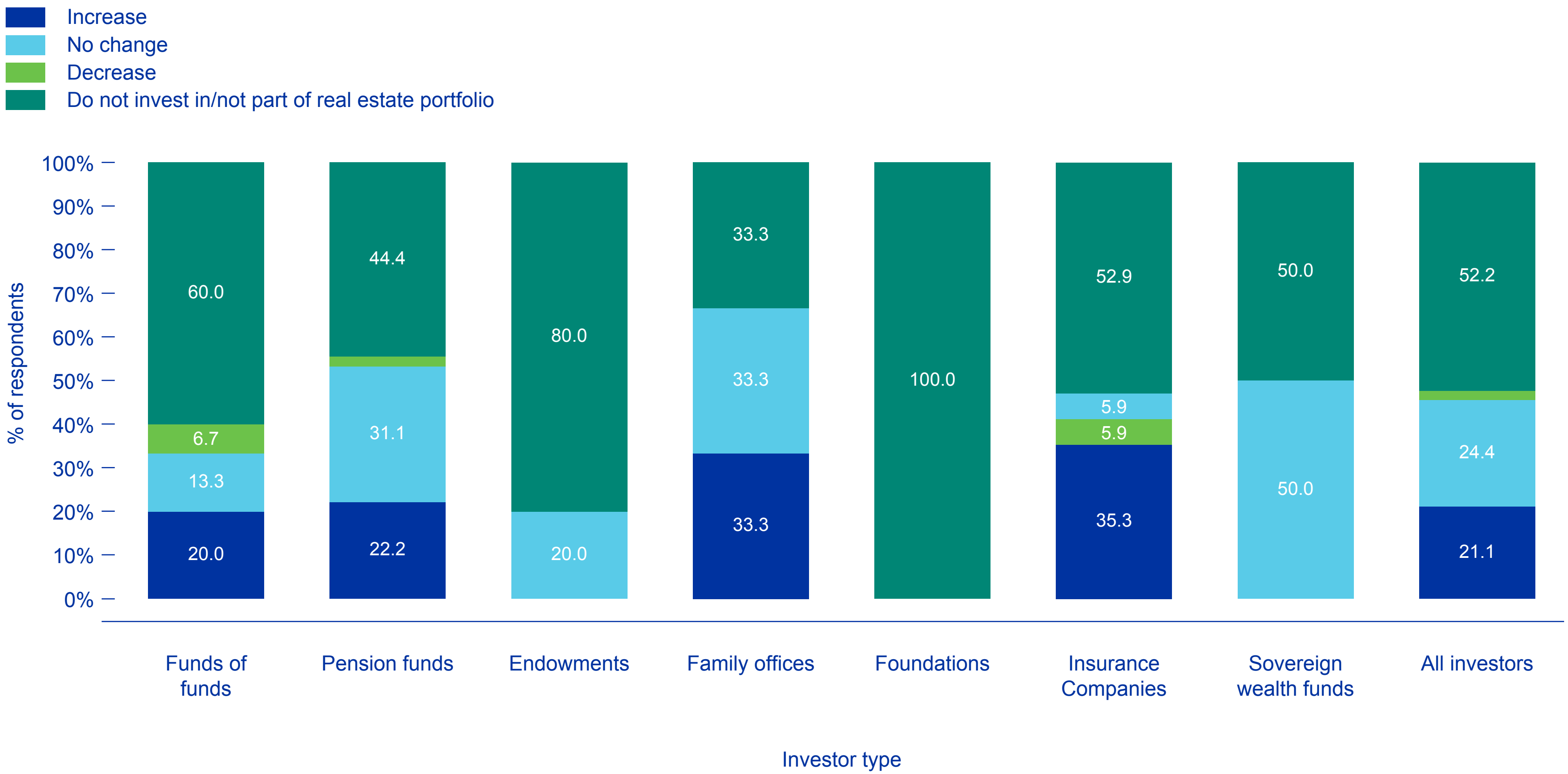
Based on a sample of 90 respondents

In aggregate, most types of investor investing in separate accounts in Europe expect to maintain or increase their allocation to them in the next two years.

Funds of funds, pension funds and insurance companies are the only types of investor among whom some respondents expect to decrease their allocation to this type of vehicle in the next two years.

Although remaining less popular as a means to invest in European real estate than non-listed funds or directly held real estate, there is continuing interest in joint ventures, club deals and separate accounts, especially for those investors of sufficient scale to use them effectively in their strategies.

Figure 52: Expected changes in allocations to separate accounts investing in real estate by investor type



Based on a sample of 90 respondents

Section 6

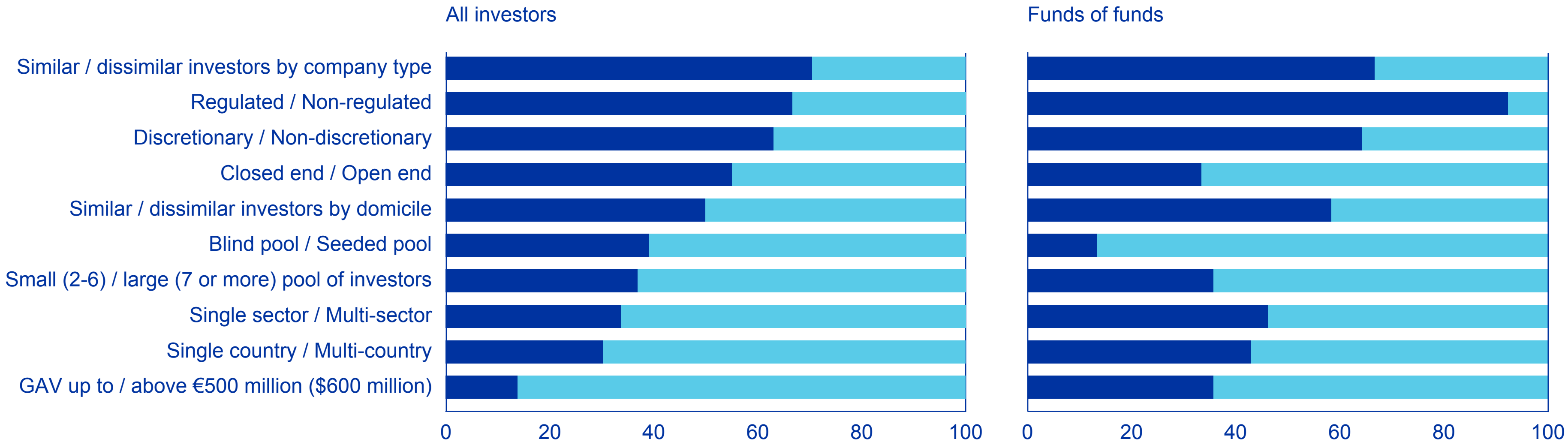
Preferred features of non-listed real estate funds

Preferred features of non-listed real estate fund investments by respondent type

When investing in European non-listed real estate funds, investors have a strong preference for larger funds (GAV above €500 million), for investing alongside other investors of a similar type, and for investing in multi-country funds. They also prefer discretionary funds that operate in a regulated environment, while generally looking to invest in funds with a large number of co-investors and with a seeded pool. Investors do not show a clear preference between closed-end and open-end funds, or regarding the domicile of other investors participating in the fund.

Funds of funds have a strong preference for regulated funds and for those where they can invest with a similar group of investors by type, as well as preferring discretionary funds with a seeded pool. They also prefer to invest in larger funds with an open-end structure, a large pool of investors and a multi-country and multi-sector strategy.

Figure 53: Preferred features of non-listed real estate fund investments by respondent type



Based on a sample of 76 respondents. Note: The preferred features relates to the features that investors prefer for the bulk of their non-listed real estate fund investments

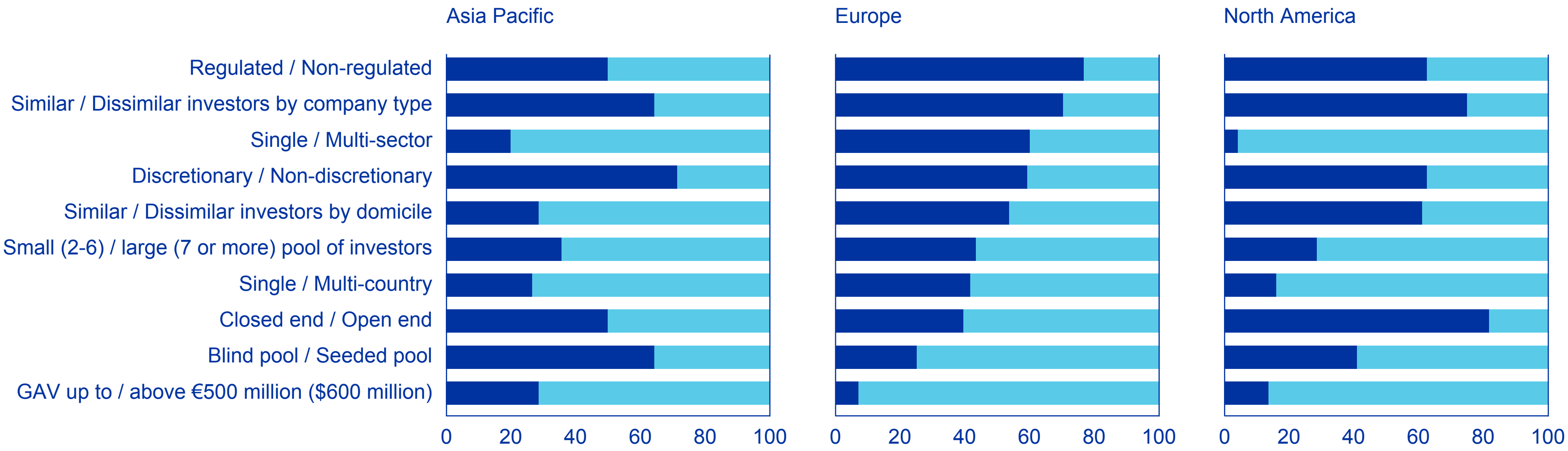
Preferred features of non-listed real estate fund investments by investor domicile

Analysing by region of domicile, Asia Pacific investors show a clear preference for discretionary funds with a multi-country and multi-sector strategy. They also prefer to invest in large blind pool funds with many investors of a similar type, but with different domiciles. On the other hand, Asia Pacific investors have no clear preference on fund structure – either open-end or closed-end, regulated or unregulated.

European investors show different preferences to their Asia Pacific peers. They prefer to invest in regulated, large, seeded pools with a single-sector strategy. They also prefer funds with an open-end structure and a large pool of investors. Further, European investors have a slight preference for investing in multi-country funds. However, they have no clear view on the kind of co-investor they prefer.

North American investors prefer to invest in closed-end funds with a multi-sector, multi-country strategy, together with similar types of investors. They also prefer to invest in large funds with a large pool of investors, discretionary mandates and seeded pools. Additional preferences are to invest in regulated funds and with investors from a similar domicile.

Figure 54: Preferred features of non-listed real estate fund investments by respondent type



Based on a sample of 76 respondents. Note: The preferred features relates to the features that investors prefer for the bulk of their non-listed real estate fund investments

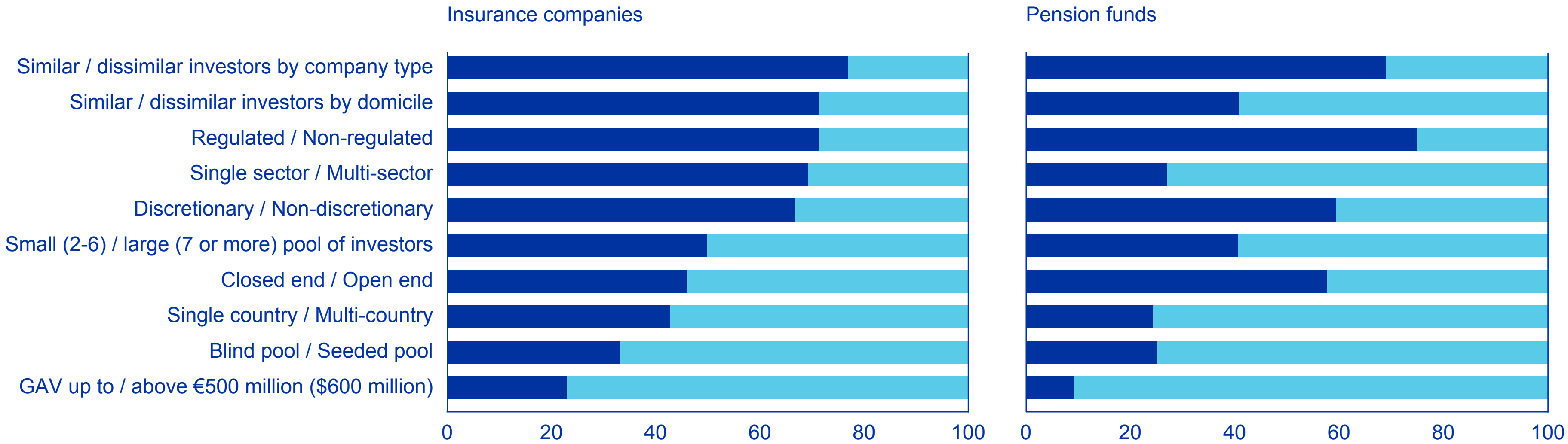
Preferred features of non-listed real estate fund investments by investor type

The two largest groups by investor type, insurance companies and pension funds, have many similarities in the features they prefer when investing in non-listed funds, as well as some minor differences.

Insurance companies prefer to invest together with other insurers from a similar domicile, in larger, regulated funds with single-sector and multi-country strategies, and discretionary mandates. They also prefer to invest in seeded pool funds. Regarding the structure and the number of co-investors, they have no clear preference between closed-end or open-end structures or between investing alongside a small or large pool of investors.

Like insurers, pension funds prefer to invest in larger regulated funds, alongside investors of a similar type and with a discretionary mandate. They also prefer closed-end funds with seeded pools and which pursue multi-country and multi-sector strategies. However, they have no clear preference regarding the number of co-investors or their domicile.

Figure 55: Preferred features of non-listed real estate fund investments by respondent type



Based on a sample of 51 respondents

Section 7

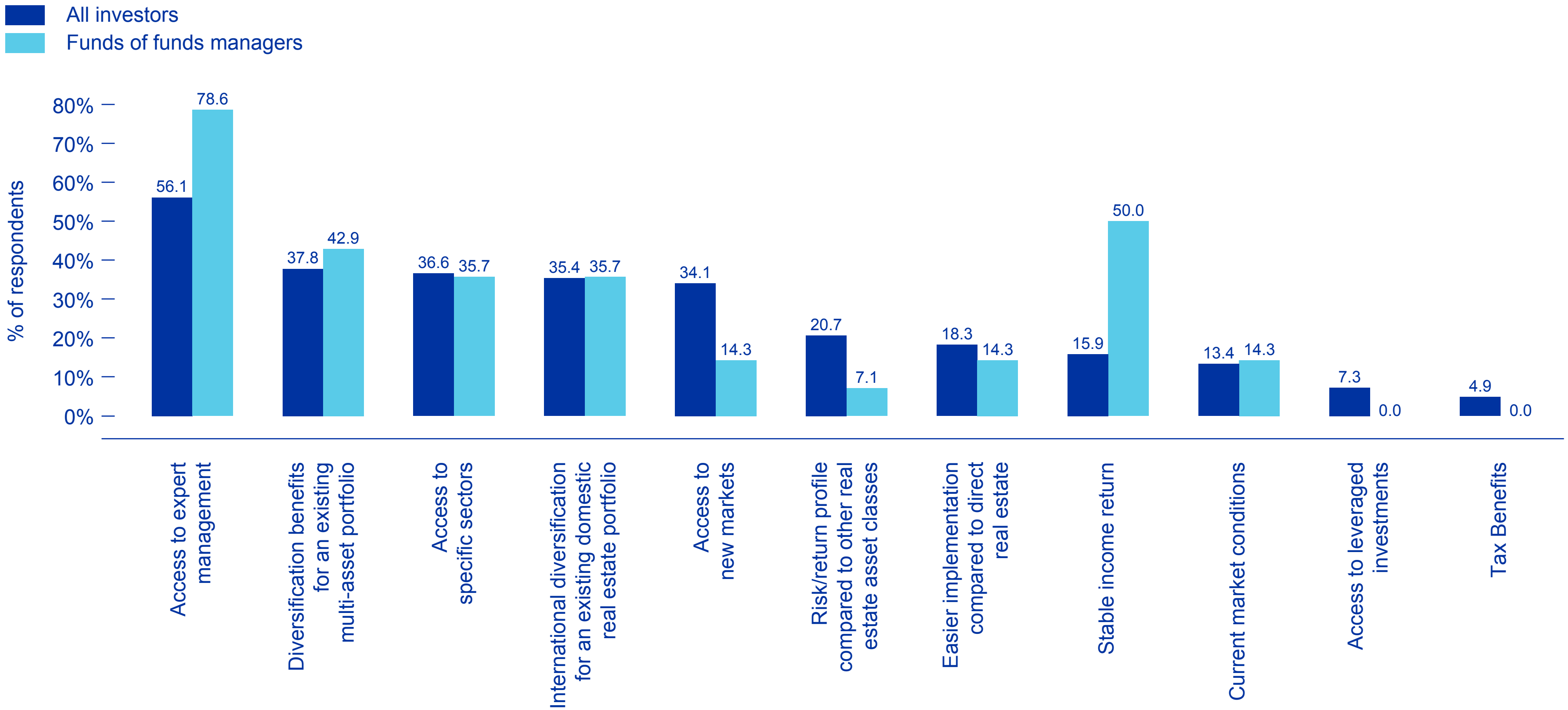
Pros and cons of investing in non-listed real estate funds

Reasons to invest in non-listed real estate funds

The report found that when investors invest in non-listed real estate funds, their primary motivation is to access to expert management, followed by achieving diversification benefits in an existing multi-asset portfolio and gaining quick access to specific sectors.

While funds of funds are also looking in the first instance for expert management when investing in non-listed funds, a stable income return and diversification benefits in an existing multi-asset portfolio come in second and third place.

Figure 56: Reasons to invest in non-listed real estate funds by repondent type



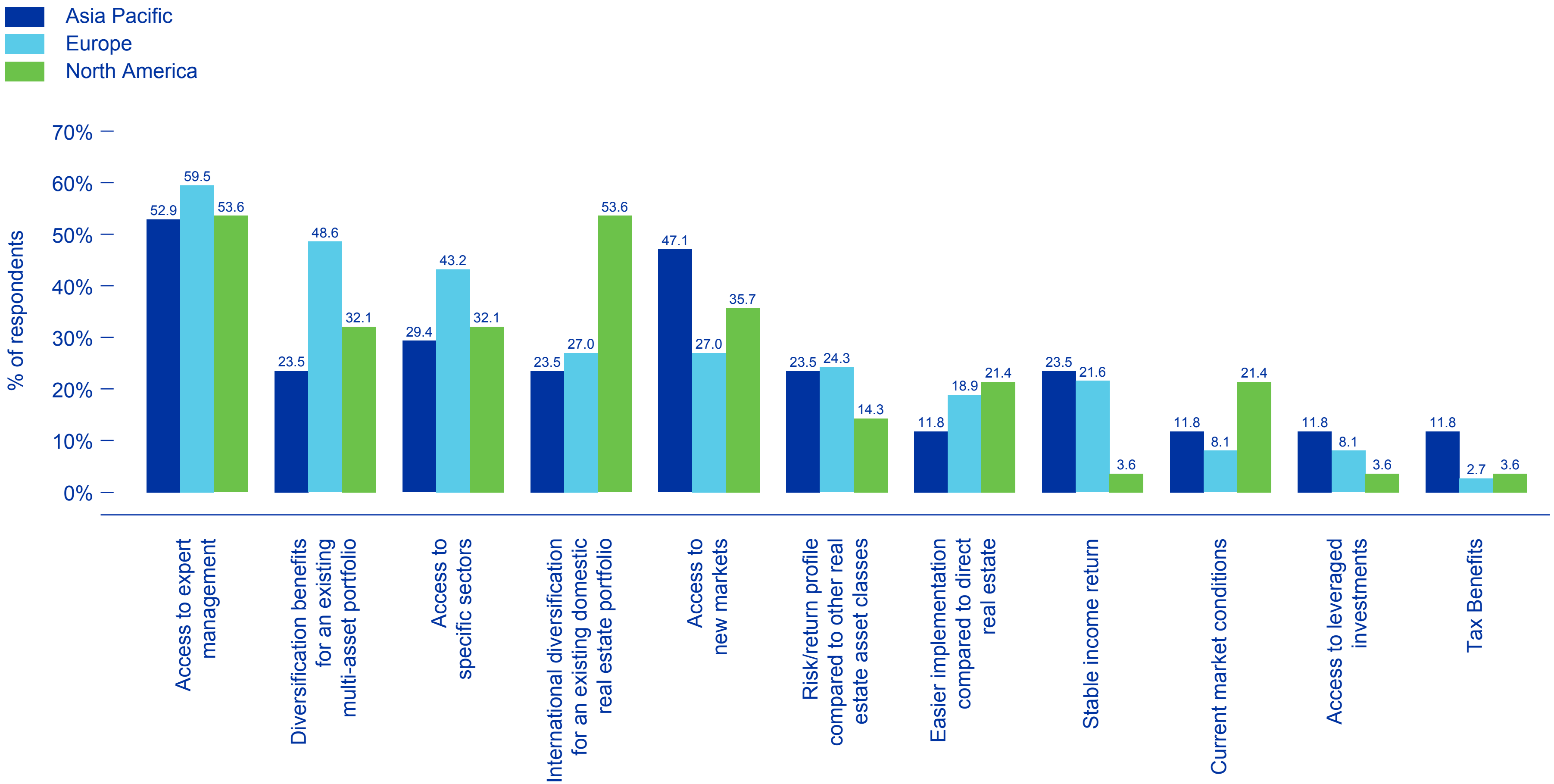
Based on a sample of 96 respondents

Considering non-listed fund investment preferences by domicile of investor, those from Asia Pacific are seeking access to expert management, followed by access to new markets and to specific sectors.

European investors are also using funds primarily as a way of accessing expert management, but this is followed by the aim of obtaining diversification benefits for an existing multi-asset portfolio and accessing specific sectors.

North American investors invest in European non-listed funds to access expert management, gain international diversification for an existing domestic portfolio and to access to new markets.

Figure 57: Reasons to invest in non-listed real estate funds by investor domicile



Based on a sample of 82 respondents

Most challenging obstacles when investing in non-listed real estate funds

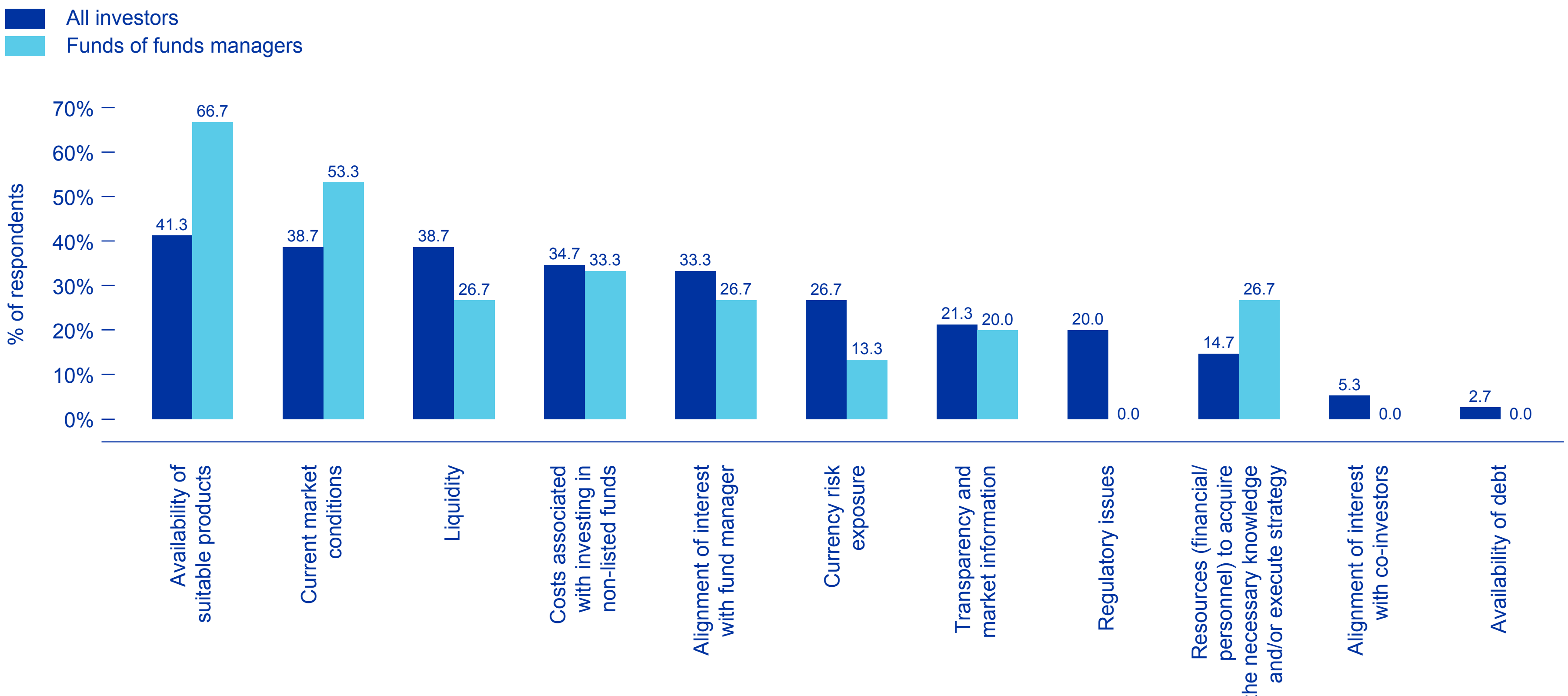
Traditional investors and funds of funds encounter similar problems when investing in non-listed real estate funds, even though their internal structures and objectives may be quite different.

Both groups cite the availability of suitable products as the biggest challenge when investing in non-listed real estate. This is likely to be a consequence of the growing demand for real estate investments, which may mean there are limited options available at a price investors are prepared to pay.

Linked to this point, both groups then choose current market conditions and the cost associated with investing in non-listed real estate funds as the second most important challenge, followed in third place by currency risk exposure.

The main change from last year's report is that currency risk has replaced liquidity as one of the top five issues when investing in non-listed funds.

Figure 58: Most challenging obstacles when investing in non-listed real estate funds by respondent type



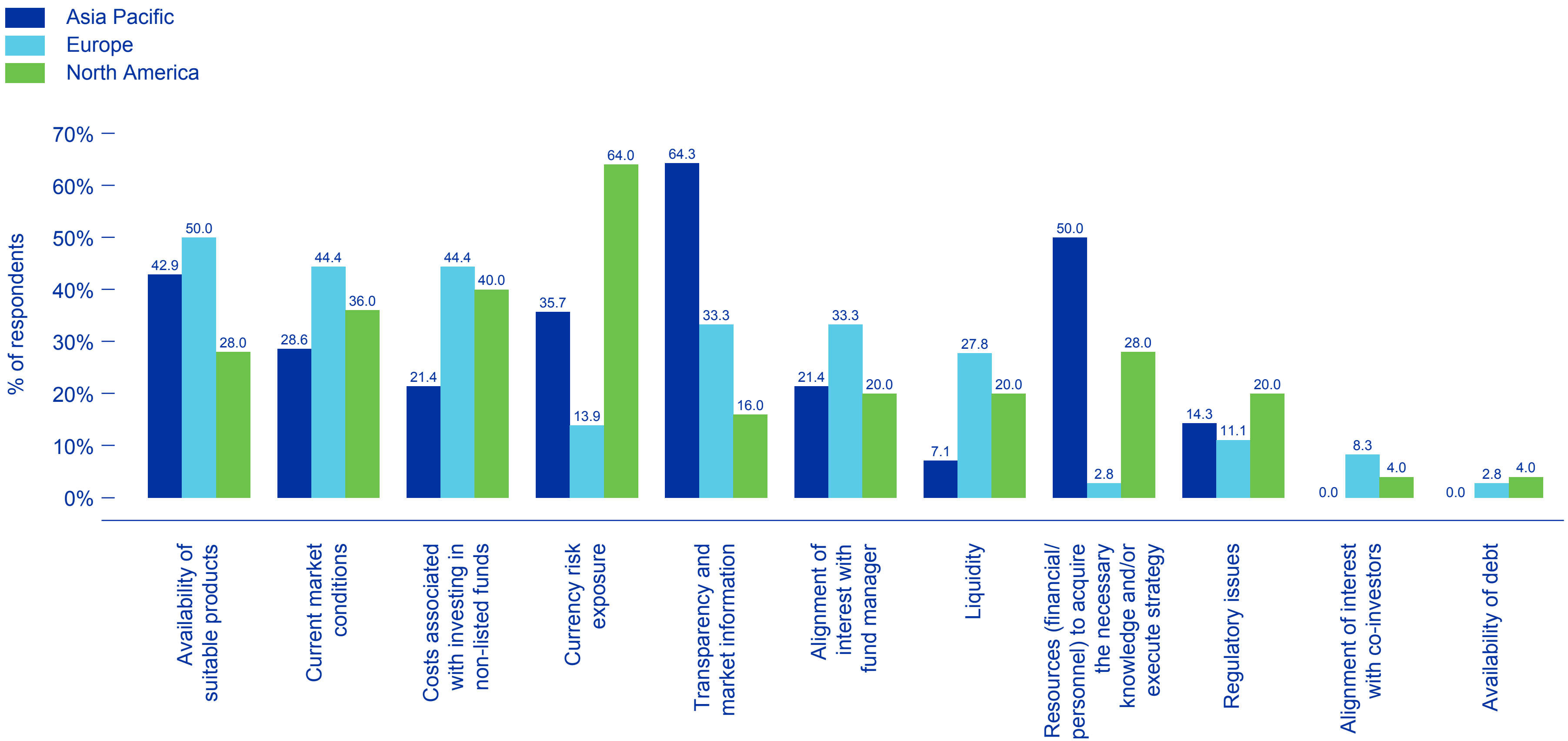
Based on a sample of 90 respondents

Analysed by domicile, Asia Pacific investors identify transparency and market information as the main challenge when investing in European non-listed funds, followed by the resources (financial/personnel) needed to acquire the necessary knowledge and/or for executing their strategy in second place, and the availability of suitable product third.

European investors, on the other hand, cite the availability of suitable products as the biggest challenge, with current market conditions and the cost associated with investing in non-listed funds in second place, followed by transparency and market information, and alignment of interest with the fund manager, jointly in third place.

As in previous years, North American investors note currency risk exposure as their main obstacle when investing in European non-listed real estate funds, followed by the cost associated with investing in non-listed funds in second place and current market conditions third.

Figure 59: Most challenging obstacles when investing in non-listed real estate funds by investor domicile



Based on a sample of 75 respondents

Appendix 1

Participants

Participants

Addvalue Capital GmbH
AFIAA Real Estate Investment AG
AIMCo
Alaska Electrical Pension Fund
Alecta
Allianz Real Estate
Almazara
Altamar Real Estate
Altis Investment Management
AMP Capital
Anthos Fund & Asset Management
APG Asset Management
ASR
AXA IM Real Assets
BEI Capital
Blue Sky Group
Boston Foundation
Bouwinvest REIM
BVK
Canada Post Pension Plan
CBRE Global Investment Partners
Colorado PERA
DBJ Asset Management
DELA
DTZ Investors
Elo Mutual Pension Insurance Company
ERS of Texas
First State Super
Fondation Chagnon
Franklin Templeton Investments
Generali Real Estate
Helaba Invest
HESTA
Hostplus
Keskinäinen työeläkevakutuusyhtiö Varma
LaSalle Global Partner Solutions
LGT Capital Partners
Living Properties Limited
Mandatum Life
MEAG Munich ERGO Asset Management
Mizuho
MN Services N.V.
New Mexico State Investment Council
NN Group
North Carolina Retirement systems
Nova Scotia Pension Services Corporation
NYS Teachers' Retirement System
OPTrust
Oregon Public Employees Retirement Fund
Oxford Properties Group
Pentegra
PGGM
PNWAM
PUBLICA
QuadReal Property Group
SBI Life Insurance Co., Ltd
State Board of Administration of Florida
State of Michigan Retirement System
Stichting Pensioenfonds PGB
Stichting Pensioenfonds Vopak
Sweco Capital Consultants
Swiss Life
Syntrus Achmea Real Estate & Finance
Teacher Retirement System of Texas
Teachers' Retirement Allowances Fund
Texas Christian University
Texas Permanent School Fund (SBOE)
The Henry Smith Charity
UBS
UTIMCO
Ventura County Employees' Retirement Association
Vestcor Inc.
VFMC
Virginia Retirement System
Zurich Insurance

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