

Funds in line to benefit from growing allocations to real estate

- ▶ Allocations to non-listed property funds expected to grow by 39.2%
- ▶ Real estate allocations are between 5.4% and 11.9% across the seven countries
- ▶ Insurance industry dominates the German, Swedish, French and Italian real estate markets while the pension industry dominates in the UK, the Netherlands and Finland
- ▶ Investors tend to use non-listed real estate funds as a tool for international diversification

The results of the Investor Universe Comparison Study show that non-listed property funds will play an important role as investors' real estate allocations grow across Europe.

The study, which brings together information on the investor universes of seven European countries, shows that real estate allocations will grow by 27%. German investors will lead this expansion with allocations expected to grow 43.9% followed by France at 37.7% as well as strong increases from the UK and Sweden.

A closer look at the type of investors reveals that German insurance industry presents the largest increase in allocation to real estate with 59.4% while the German pension industry exposes the largest decrease with 5.4%.

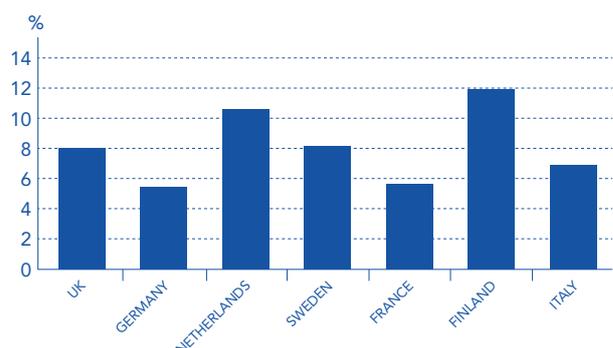
As part of this growth, non-listed real estate funds are estimated to grow by 39.2%. Italian investors estimate growth of 81.1% in the coming three years, although they currently have a small base from which to grow. French investors are also very positive and expect a

55.9% increase while Dutch investors expect growth of 29.8%.

The 218 investors included in this sample represent more than €3,569 billion assets under management (AUM). The sample's €340.9 billion allocation to real estate represents an average of 68.9% of the total real estate allocation in these seven countries

Although the size of the institutional markets differs, the average proportion allocated to real estate is 8.1%.

FIGURE 01: REAL ESTATE AS PART OF TOTAL AUM%



The allocation falls within a small range between 5.4% and 11.9% of the total AUM with Germany holding the lowest allocation and Finland the highest (Figure 01).

Overall, the pension fund industry is the investor group with proportionally higher real estate allocations of 10.7% followed by the insurance industry at 7.7%. However, there is no uniform pattern across Europe. The insurance industry dominates the German, Swedish, French and Italian real estate markets while the pension industry leads in the UK, the Netherlands and Finland. Interestingly enough, larger investors in each of the countries allocate the smaller portion of their investments to real estate.

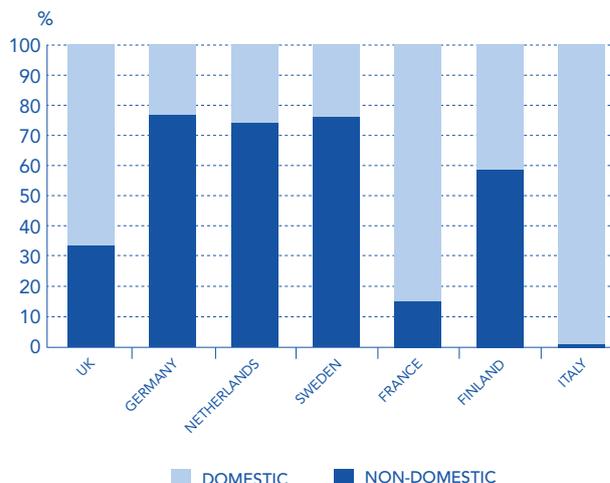
There is still a clear preference from the vast majority of investors for direct investment. The pension industry in the Netherlands is the only investor group which does not allocate the majority of its real estate directly. Instead, 43.4% of its investments are through non-listed property funds. This constitutes the largest investment of non-listed property funds undertaken by a single investor group in the overall sample.

Non-listed real estate funds are the second most preferred form of real estate investment, among the seven countries, accounting for an average of over a quarter of the total investment in real estate. Dutch and Italian investors set the higher benchmark with an average 34.2% while Swedish investors allocate the lowest portion at 9.7%.

Hence, even though the focus is on direct investments, a growing interest in non-listed real estate funds could also signal a further commitment to non-domestic investment. The results show that investors have a tendency to use non-listed real estate funds as a tool for international diversification. This is particularly the case for German, Dutch, Swedish and Finnish investors, which

hold more than half of their non-listed property fund investments abroad (Figure 02). Therefore, as future growth is linked to non-listed real estate funds, it is also likely to be an increase in non-domestic investment.

FIGURE 02: NON-LISTED INVESTMENT BY DOMICILE



The current preference for direct real estate investment means there is a consequent focus on domestic investment. The majority of countries allocate less than one third of their overall real estate investment non-domestically. The exception to this are the Netherlands where more than half of the investments are non-domestic.

Of the non-domestic investment in real estate, more than 30% is non-listed real estate allocations in all countries. Despite the domestic investment tendency, non-domestic real estate investment is largely non-listed. While Finland only invests 11.9% of its real estate abroad, 89.3% of this investment is non-listed. In the UK and Germany over 70% and 60% of the non-domestic investments are non-listed.

In terms of style the majority of countries share the largest exposure to a core strategy with the exception of the UK which is more exposed to value added. In terms of sector, retail and office are the preferred choice although Italian investors appear to prefer office and residential.

Although investors share concerns regarding drawbacks of non-listed real estate funds, they are compensated by the access to expert and specialist management as well as access to new markets, sectors and international markets.

OTHER KEY HIGHLIGHTS

- ▶ Dutch insurance and pension industry allocate almost identical portions of their portfolio to real estate
- ▶ Italy remains a domestic market
- ▶ Insurance industry dominates the funds sector in Germany, France and Italy
- ▶ Lack of control still one of the greatest challenges for funds

The full report is available to members at www.inrev.org
For further information contact: casper.hesp@inrev.org