Investors seek low risk products and 'safe' countries as economic woes drive market

➤ Core is the preferred fund style for the third year running

➤ Northern Europe selected over Southern Europe for allocations

➤ German retail tops the location/sector choice

➤ UK and France fall out of favour with investors

RESEARCH

Investors are demonstrating their aversion to risk in the latest Investment Intentions Survey as they continue to opt for core products and target the perceived safety of the Northern European markets.

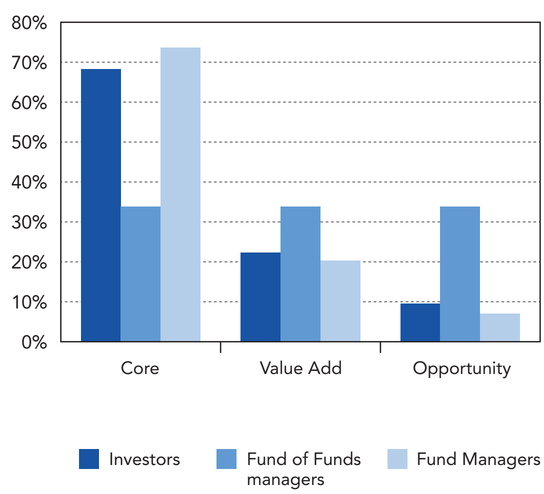
This eighth annual survey, which gauges the sentiments of industry players in the European non-listed property funds market and identifies investment trends for the coming year, found that investors' concerns about the Euro crisis were a strong driver in their choice of location and appetite for risk.

This can be clearly seen with 69% of investors selecting core as their preferred fund style for 2012, cementing the trend to lower risk/return profiles which began two years ago as the financial crisis shifted their strategies away from value added and opportunity funds. This is reinforced by the fact that over 50% of the investors expect to increase their allocations to core funds over the next two years.

This year, however, there were some emergent signs of investors preparing to capitalise on the market conditions. Interest for opportunity funds increased to 10% this year, up from 3% in 2010. When it came to allocations, close to half of investors were also expecting to increase their allocations to value added in the coming two years. This is despite the fact that only 22% indicated value added as their preferred style.

Investors also showed their lower appetite for risk through their preferred country/sector combinations for 2012. German retail was the most favoured choice by investors in terms of future performance prospects. This is

INVESTORS' PREFERRED FUND STYLE AND FUND MANAGERS' PERCEPTION OF INVESTORS' PREFERRED FUND STYLE



the same as 2011 but investors' preferences for German retail is now even more pronounced with 64% selecting this option compared with 36% last year. This interest in the German market could be related to the Euro crisis as the country is seen as one of the most stable markets.

The Nordic market has also increased in popularity and Nordic retail now takes second place in the country/sector rankings after being picked by almost 50% of investors compared to close to 25% last year. In addition, Nordic offices is now investors' third most preferred sector/location and the most favoured office market for investors.

In contrast, markets that are perceived as riskier have moved down the rankings. The French office sector was in second place last year with 33% of investors. This year, it dropped to number six as it was selected by 12% of investors. This could be a result of the uncertainties surrounding France as it recently lost its triple A status as a result of French banks' relatively high allocations to Southern Europe.

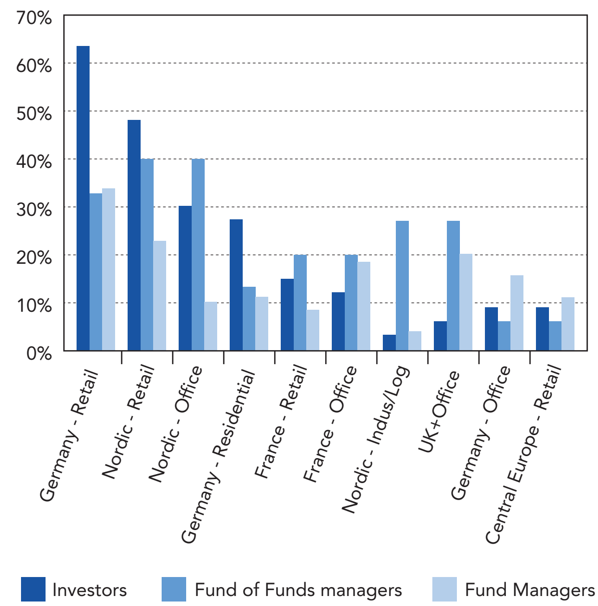
There is also a decreasing appetite to invest in the UK market. In 2011 the UK market was still well represented with UK office, retail and diversified still included in the top 10. This year only UK office made the top 10 and it is preferred by only 6% of the investors.

The results on how investors are expected to allocate by region within Europe in the next two years also confirm investor preferences for lower risk markets. These show

OTHER KEY HIGHLIGHTS

- ➤ Joint ventures are the most favoured products among investors in Europe but allocations to non-listed property funds remain strong.
- ➤ Market conditions is the main barrier to invest in non-listed property funds as alignment of interest takes a back seat.
- ➤ Around 41% of investors and 50% of fund of funds managers said they are likely or very likely to make an investment in real estate debt funds compared with 23% a year ago.
- ➤ All respondents see access to expert management as a main attraction for the sector.
- ➤ Fund managers highlight regulatory issues as a main concern but are confident that it is not holding back new investments.

PREFERRED LOCATION/
SECTOR COMBINATIONS FOR 2012



a substantial difference between Southern and Northern Europe. Investors expect to increase their allocations to the UK, France, Germany and Nordics. Most popular are the German and Nordic markets with 71% of the investors expecting to make increased allocations. These results seem to be in line with the overall desire of investors to invest in low risk and strong countries within Europe.

A decrease in allocations is expected for Spain, Portugal and Italy. Portugal is most out of favour with investors with more than half expecting to decrease their allocations. This is slightly lower for Italy and Spain at 42%. These results clearly show the effect of the Euro crisis on real estate investments within Europe.

Allocations for non-listed property funds investing outside Europe have also grown with almost 60% of investors expecting to increase their allocations. This could also be an outcome of the current Euro crisis, which might result in more investors looking for real estate opportunities outside Europe.

At a market level, 63% of investors see the ability for fund managers to raise capital remains the biggest obstacle for them during 2012. Investors are also very concerned about a fund manager's ability to secure financing and to achieve target returns, which were cited by 59% and 56% respectively.

The survey attracted 121 respondents, which comprised 33 investors, 16 fund of funds managers and 72 fund managers.

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