INREV RESEARCH & MARKET INFORMATION

INVESTOR UNIVERSE FRANCE SURVEY 2011

INREV

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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.

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The majority of respondents wished their identities to remain anonymous. Of course, those contributing information are not responsible for the views expressed in this report.

EXECUTIVE SUMMARY

This is the fifth report in a series of country studies INREV is conducting to capture the size and composition of the European institutional non-listed real estate universe and the real estate strategies of institutional investors. It follows earlier reports on the UK, Germany, the Netherlands and Sweden.

The aim of this research is to provide estimates of the current and future size and composition of the overall French institutional real estate universe with a particular focus on the non-listed real estate universe. An additional objective is to understand the influences behind the real estate exposures and strategies of French institutions with respect to non-listed real estate vehicles.

The French institutions covered in this survey are insurance companies, providing mainly life, casualty or other insurances, and public and private pension schemes for professional occupations or corporate and public pension funds, which are essentially defined contribution plans in France.

The total assets under management of French institutional investors as of April 2011 are estimated at about €2,300 billion, which is 50% more than the UK institutional investment market (€1,560 billion), around twice the size of the German institutional investment market (€1,100 billion) and the Dutch universe (€1,150 billion) and about five times bigger than the Swedish universe (€480 billion). The French institutional market is relatively large for several reasons. France has a long saving tradition and an early development of collective portfolio management. As a result it is now Europe's largest marketplace for the financial management of European domiciled funds, ahead of Germany and the UK. In the UK for example, relative less money goes into life insurance and pension savings and more into private saving accounts instead.

The current real estate exposure of French institutional investors, at 5.7% of their total assets under management, is the lowest rate of the five countries surveyed by INREV, with the exception of Germany at 5.4%.

Because the French institutional investment universe is the largest of the five countries, the total amount dedicated to real estate by French institutional investors is the largest among the five countries surveyed so far, at €130 billion just ahead of the Dutch allocation to real estate of €122 billion.

The current French real estate universe is dominated by insurance companies that hold around 62% (€80 billion) of the aggregated real estate assets of French institutional investors. The share can be further separated into life insurance companies, worth €67 billion (52% of the total French real estate universe), and other insurance companies, worth €13 billion (or 10% of the total French real estate universe). The real estate exposures of pension schemes account for around 15% (€20 billion) of the total French real estate universe, followed by the Public entities with 9% (€12 billion). Other entities represent about 14% with €18 billion (dominated by charities at roughly €10 billion).

The current 5.7% real estate exposure of French institutional investors is significantly below their target allocation of 8%. If French institutional investors met their full real estate target allocations, an estimated additional €54 billion of capital would flow into real estate.

Domestic investments dominate the real estate portfolios of the sample, accounting for about 92% or €119.5 billion of the real estate assets of the French institutional universe and 5.2% of their total assets. The percentage of domestic investment by French institutional real estate investors is the highest of the five countries surveyed, exceeding the UK at 87%. Non-domestic real estate represents around 8% or €10.5 billion of the real estate allocations and a miniscule share (0.46%) of the multi-asset exposures of the investors participating in the survey. Life insurance companies have a higher than average non-domestic allocation at 10%.

The exposure to non-listed real estate in France at 26% is roughly similar to the other countries surveyed, with Germany at 30%, the UK at 29% and the Netherlands at 34%, although Sweden is far lower with a 10% rate. Of the €130 billion total real estate universe, most is held as direct real estate (€80 billion), followed by non-listed real estate (€34 billion), listed real estate (€8 billion) and others (€8 billion). All real estate investors surveyed can invest in direct real estate and all do so, but only 67% can invest in non-listed real estate vehicles and 60% actually invest in them.

The main reasons of investing in non-listed real estate vehicles are access to expert and specialist management and access to new assets, markets and specific sectors, followed by international diversification. The obstacles of investing in non-listed real estate vehicles are primarily the lack of control, the lack of transparency and the level of the management costs, therefore clearly pointing to the governance of non-listed real estate funds as the main constraint to investing.

The main strategy of French investors remains direct investment in the core style funds invested in office in Paris or in Ile-de-France. Consequently, the non-listed funds sector should benefit from rising interest for more diversified assets and markets.

The prospective assets under management of French investors is encouraging, with an estimated 15% increase in the next three years. In this favourable context, non-listed real estate allocations should rise by a significant 56% from €34 billion to €53 billion in the next three years, mainly driven by life insurance companies that are expected to invest an additional €15 billion. The non-listed share of French investors' real estate investments rises from 26% to 30%.

These numbers should be viewed cautiously because there are several facts that should be taken into account, among others the effect of Solvency II. This was not part of the study survey but was mentioned during interviews as a determining factor. Life insurance companies, the biggest non-listed investors in France, are subjected to this upcoming regulation.

1 INTRODUCTION

1.1 Objectives and concepts

INREV is conducting a series of studies to estimate the current and future size and composition of the European institutional non-listed real estate market and the strategies behind these allocations in the wider real estate universe. This is the fifth report in this series. The first study, on the UK investor universe, was published in March 2010, followed by a second study on the German investor universe in June 2010, a third study on the Dutch investor universe in September 2010 and a fourth on the Swedish investor universe in February 2011.

The goal of this report is to estimate the French institutional market and the allocations French institutional investors are making globally to real estate, the corresponding size of the total institutional real estate universe and specifically the non-listed universe. This study is exclusively focused on French entities or the French subsidiaries of foreign entities, as long as their power to make decisions about asset allocation is based in France. A further aim is to understand the influences behind their real estate asset allocations and the form these investments take, as well as to understand their general strategies towards real estate. Broadly speaking, this survey addresses those funds that institutional investors have responsibility for making multi-asset allocations decisions about.

Although several industry organisations and consultancies have published studies on the real estate exposures of institutional investors in the past (notably of French insurance companies, which are correctly documented), the real estate allocations of other institutional investors, such as pension funds and charities are still under-researched. Furthermore, the studies that have been conducted so far only provide information on the real estate allocations of those investors responding to the associated surveys. This is the reason why this study is the first to analyse the total French institutional real estate and non-listed universe, providing estimates on the size and composition of French institutions' total real estate and in particular non-listed property fund investments and their underlying investment strategies.

The French institutions covered in this survey are primarily insurance companies, mainly life funds (in this survey "life insurance"), but also casualty insurance or others (in this survey "other insurance companies"), public and private pension schemes for professional occupations or corporate and public pension funds, which are essentially defined contribution plans in France (in this survey they fall under the umbrella "the pension schemes"). The French institutional universe has some differences compared to other European countries. For example, there is a typically French public entity that is particularly important in France: the *Caisse des dépôts et consignations (CDC)* and other specialised funds (e.g., dedicated to the dismantling of nuclear plants). These entities are included in this survey and gathered under the generic term of "public entities". Charities are also included; in France these institutions and similar institutions are defined as private-non-profit institutional that serve households, although they are relatively marginal. These entities are discussed in the "other institutions" category.

It should be noted that this survey analyses not only the current non-listed real estate investments of French institutions, but also aims to give forecasts on the future development of the French institutional non-listed property funds market.

For the purpose of this survey, real estate is defined broadly: it includes direct and indirect investments, including joint ventures, infrastructure, mezzanine and debt funds and potentially includes non-trading property companies (SCPI), REITs/listed property companies

(SIIC in France), covered bonds, etc., irrespective of whether such investments are included in investors' real estate allocations or other allocations (e.g. equities and bonds).

The direct real estate portfolio includes direct investments as well as own account funds, joint ventures, club deals and OPCI (*Organismes de Placement Collectif en Immobilier*) which is the French version of UCITS dedicated to real estate. The crucial point is that the investors keep direct control of their investments, either alone or jointly with other investors (even through a special legal entity). This is not a legal but power related decision.

For the purpose of this study, the non-listed real estate universe covers non-listed vehicles/ collective, authorised and unauthorised unit trusts, limited partnerships, separate accounts, investment schemes and funds of funds in real estate; in fact every vehicle in which the power of managing real estate is transferred to a third person, either for the single investor or with other investors. The non-listed real estate universe does not include joint ventures (managed by a third party but in which the investors keep control of the investment management) or listed property companies and REITS, RMS and covered bonds. Securitised or private debt (real estate) and infrastructure constitute the third or last part of the real estate universe.

To summarise, for the purpose of this study the real estate investments is divided into four categories:

- **direct investment** in which the investors keep the control of the investment in real estate.
- **non-listed investments** (collective investment schemes and funds of funds in real estate) in which the investors delegate the investment of the real estate to a third person.
- **listed companies** (the French equivalent of REITS, SIIC (or *Sociétés d'Investissements Immobiliers Cotés*) and similar companies abroad.
- **other investments in real estate**, which include all other vehicles linked to real estate such as SCPI, MBS, covered bonds, private debt and infrastructure.

1.2 Methodology and sample

This study has been conducted by Prof. Dr (Hab) Eric Pichet, FRICS, and follows a similar approach used in the four previous studies.

The institutions covered in this study are those investors making multi-asset allocation decisions to meet a future liability, including pension schemes and insurance company funds. The study also includes the French subsidiaries of foreign insurance companies, but not the foreign subsidiaries of the French insurers. Charities, foundations, endowments and similar types of organisations, as well as private funds, are also included in the definition. The universe of the study is exclusively composed of institutional investors with assets under management of at least €250 million.

The universe excludes the funds the insurance companies manage on behalf of other institutional investors (thereby avoiding double-counting). Generally speaking, this survey addresses those funds that institutional investors have responsibility for making multi-asset allocation decisions about. That is the reason why funds managed on behalf of other institutional and retail and private investors, as well as funds managed on behalf of non-institutional investors and those funds in which the decision to allocate capital to real estate is out of the investors' hands are excluded. Capital of banks and non-financial companies, although sometimes significantly invested in real estate (mainly for their own business), are not covered. By definition, the research relates to the capital of investors rather than that managed by fund managers.

The research draws mainly on an on-line survey and face-to-face interviews with representatives of French institutional investors. Additional sources of information were also used to review institutional investor investments and allocations, drawing on their published annual reports and accounts, along with in-depth analysis of several surveys on the exposures of French institutional investors. An analysis of the entire published research in business and economic media was also undertaken to complete the overall picture.

Preliminary universe analysis identified 98 entities that were approached to participate in the survey. A total of 15 French institutional investors provided data through an on-line questionnaire and supplementary face-to-face and telephone interviews. This 'questionnaire sample' comprises seven life insurance companies, two other insurance companies, two pension schemes, two public entities and two other entities (including one charity). The research also draws on 13 interviews with senior institutional investment consultants to provide further information and data on the real estate allocations and strategies of French institutional investors. A detailed review of 10 institutional investors' investments and allocations, drawing on their published annual reports and accounts, was also undertaken. Their insights were particularly helpful. These additional sources were valuable supplements to the interviews and on-line questionnaire, enabling a fine tuning of the universe estimates. The data for this study were collected mainly between March and April 2011.

The 'questionnaire sample' of 15 entities represents approximately €1,100 billion of total assets under management. The added 'full data sample' (the 'questionnaire sample' plus in-depth analyses of annual reports) includes 25 entities with about €1,400 billion of assets under management. The total assets under management of French institutional investors is estimated by this study at about €2,300 billion, which is 50% more than the UK institutional investment market (€1,560 billion), around twice the size of the German institutional investment market (€1,100 billion) and the Dutch universe (€1,150 billion), and about five times bigger than the Swedish universe (€480 billion).

Therefore, the 'questionnaire sample' represents almost 48% of the French institutional universe, and the 'full data sample' about 61% of the French institutional universe.

Section 2 of the report considers the total size (all asset classes) of the French institutional universe, the total size of the French real estate universe and the exposures of French institutional investors to real estate. Section 3 presents the composition of the current real estate exposures and allocations of French institutional investors and derives estimates on estimated figures for the total French real estate universe with the types of real estate allocations and the allocations by type of investors. A detailed analysis of institutions' non-listed real estate targets and allocations is presented in Section 4, breaking down the sample's non-listed portfolios into different investment styles, property sectors, vehicles and areas. Section 5 examines the real estate strategies being adopted by the French institutional investors and the role of non-listed real estate within these strategies, first pointing out the perceived attractions of investing in non-listed investments and, second, describing the obstacles. Third, we study the investment strategies adopted by institutional real estate investors. In section 6 we take a prospective approach and present indicative estimates of the future size and composition of the total real estate universe and of the non-listed real estate universe.

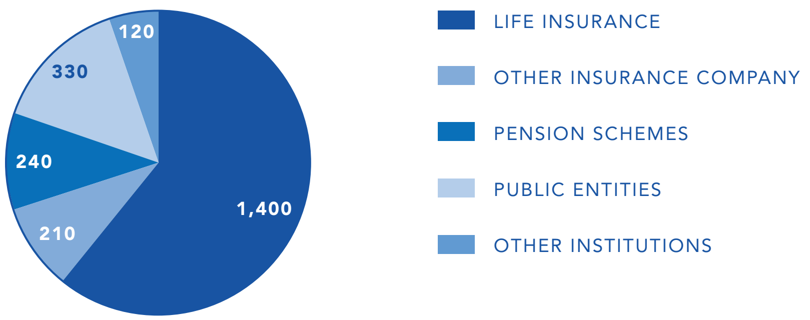
2 THE FRENCH INSTITUTIONAL UNIVERSE

2.1 Total assets of the French institutional investors

The total (all assets) investment universe of the French institutions is approximately €2,300 billion. As Figure 01 shows, the French institutional universe is dominated by insurance funds: life insurance companies (€1,400 billion or 61% of the total amount) together with other insurance companies (€210 billion or 9%) account for almost 70% of the total universe. These are followed by public entities with €330 billion or a 14% share and pension schemes representing around €240 billion or 10% of the universe. A small share is held by other institutional investors (€120 billion or 6%); this group is composed of endowments, foundations, charities and other organisations making multi-asset decisions.

FIGURE 01 / TOTAL FRENCH INSTITUTIONAL ASSETS BY TYPE OF INVESTOR

€ BILLION



2.2 The real estate universe of French institutional investors

As figure 02 illustrates, the French institutional global real estate universe is estimated at €130 billion, of which €34 billion, or 26%, is non-listed. Overall, total real estate exposure accounts for about 5.7% of the institutional universe, with non-listed representing approximately 1.5% of the total institutional universe. The real estate estimate relates to those exposures that are part of institutions' real estate allocations, but are also in listed real estate allocations which are managed either by real estate specialists or by equities (or bonds) experts. For example, French equivalent of REITs (SIIC) can be part of institutions' equity allocations and in that case would be included in the real estate allocation of the listed pocket of real estate universe.

FIGURE 02 / TOTAL FRENCH INSTITUTIONAL ASSETS BY TYPE OF INVESTMENT

€ BILLION

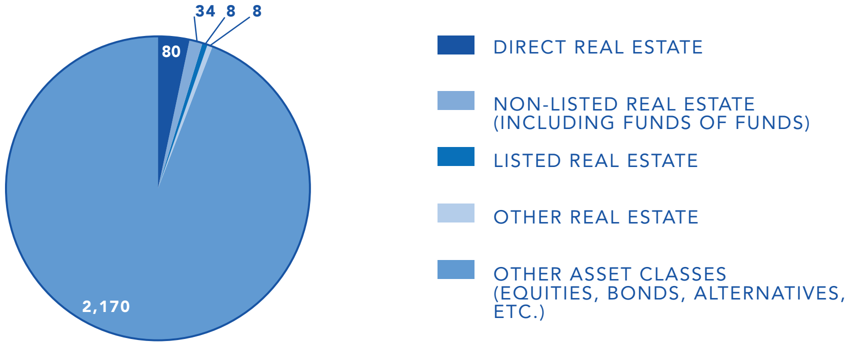
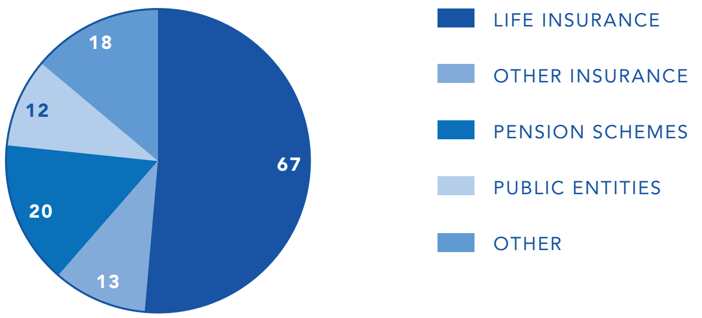


Figure 03 shows that insurance funds dominate the real estate universe accounting for over 62% of the total (€80 billion).This is mainly a reflection of their size because their real estate allocations compared to the other institutional investors are lower. Insurance funds can be split into life insurance companies with an estimated value of €67 billion (52% of the total French real estate universe) and 'other insurance companies', which account for €13 billion or 10% of the total real estate exposure of French institutional investors. The real estate exposures of pension schemes account for around €20 billion (or 15%) of total real estate, followed by the public entities with €12 billion (or 9%). The 'other' category represents about €18 billion or 14%. The real estate investments of all charities, grouped within 'other', are very concentrated (probably 10 charities represent about 90% of the total assets) and are estimated to be €10 billion, implying that the real estate universe of the charities sector alone is 8% of the total real estate universe.

FIGURE 03 / FRENCH INSTITUTIONAL REAL ESTATE BY TYPE OF INVESTOR

€ BILLION

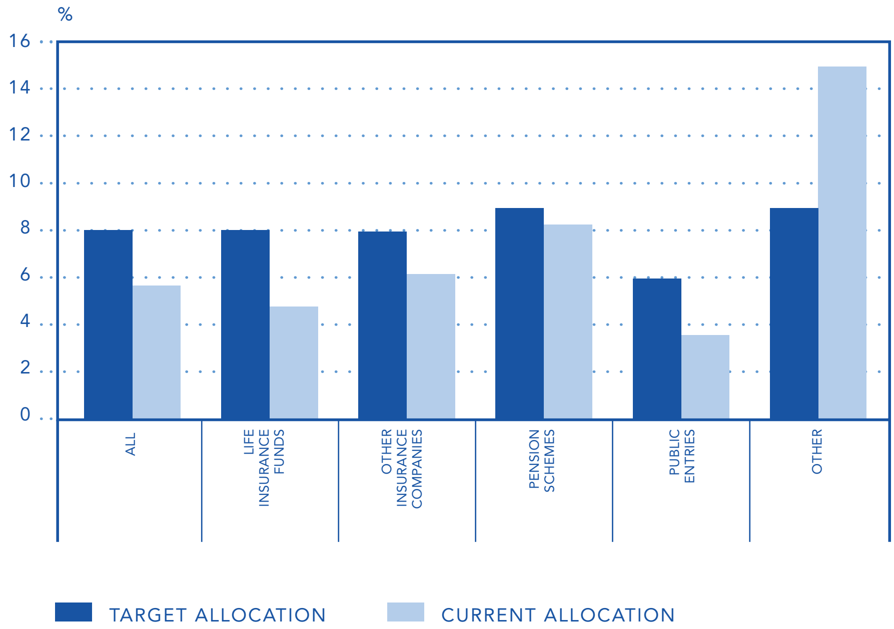


One of the key findings of this study is that life insurance companies have a smaller share of total real estate (52%) than one would expect given their share in the institutional multi-asset universe (60%). In contrast, the real estate investments of other insurance companies (10% of the total) are in line with their rank in the total assets (9%).The reason for this distortion probably lies in the well-known appetite of life insurance companies for government bonds, an appetite which is systematically encouraged (through different means, legal, regulatory, etc.) by the bond issuing French government. We can offer the same explanation for the role of public entities in real estate (9%) compared to their importance in the total assets (14%). On the contrary, the pension schemes' share of the French real estate universe (15%) largely exceeds their share of total assets (10%), which is probably due to the great appetite these investors have for real estate; there are a lot of small pension schemes in France and the ultimate level of decision of asset allocations lies in the hands of representatives of employees and employers who are largely positive toward real estate for cultural reasons.

Figure 04 presents investors' allocations to real estate. On average, French institutional investors have 5.7% of their portfolios invested in real estate and a significantly higher target allocation of 8% (+40% of actual allocation). This deviation is normal in the French institutional investor universe and is not expected to be totally filled in the near future.

The 'other' institutional investors have a high exposure to real estate, well above their targets. This can be explained by the fact that charities often receive legacies from individuals of which a large percentage is often residential real estate. The aim of these entities is usually not to hold these assets, unless renting the property is profitable. Moreover, a large percentage of religious entities (congregations) own real estate assets, not always in use and not for rent, but with large landscape in the heart of the main French cities. The reason why these entities wish to dramatically decrease the proportion of their real estate investment allocations is that the incoming assets to their portfolio mainly have been real estate and not cash.

FIGURE 04 / ALLOCATION TO REAL ESTATE



The results show that insurance companies (both life insurance and other insurance companies) currently have about the same target which is perfectly in line with the average target of 8%, so their allocations at 4.8% and 6.2%, respectively, are both significantly under their targets. Pension schemes targets are slightly higher at 9%, with a current allocation that is relatively similar. Public entity targets have been below the average, but at 6% are still above real allocations (3.5%). Partly due to the reasons described above, 'others' are the only category with a higher actual allocation than target which is already above overall average.

Some insurance companies said they had no allocation to real estate, although it is likely that they have exposure to it through their equity investments (SIIC in France).

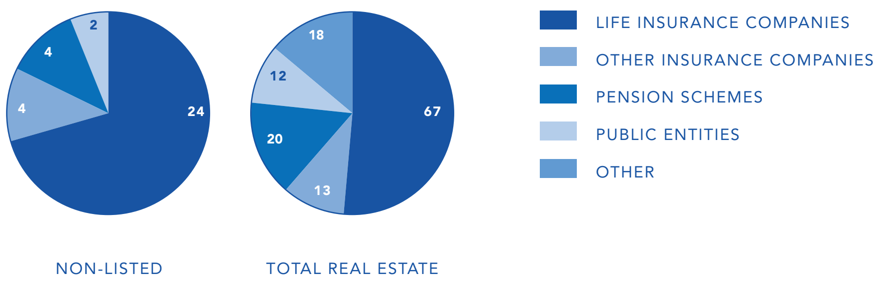
2.3 The non-listed real estate universe of French institutional investors

The total non-listed real estate investments of French institutional investors are estimated at €34 billion.

As shown in Figure 05, life insurance companies are the largest investor category in non-listed real estate vehicles with €24 billion accounting for 74% of the total. Other insurance companies and pension schemes are almost equally represented holding €4 billion or 10% of the total investment in non-listed real estate. Public entities represent a small part of this universe, holding €2 billion of non-listed real estate investment or 6%. Others, including charities are practically absent in the non-listed real estate universe.

FIGURE 05 / FRENCH INSTITUTIONAL INVESTOR NON-LISTED VS. TOTAL REAL ESTATE

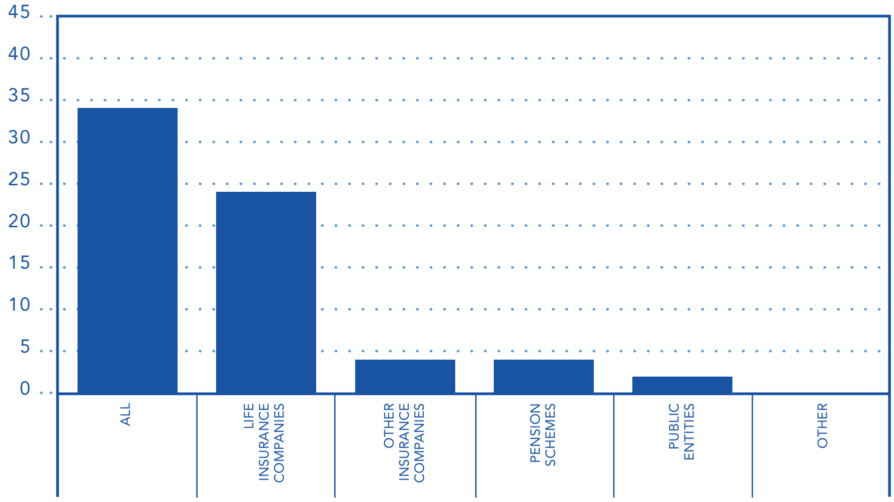
€ BILLION



The life funds with €24 billion account for almost 71% of non-listed investments. This partly reflects their weight in the real estate universe, but they have some exposure to specialised non-listed vehicles.

FIGURE 06 / NON-LISTED REAL ESTATE UNIVERSE BY TYPE OF INVESTOR

€ BILLION



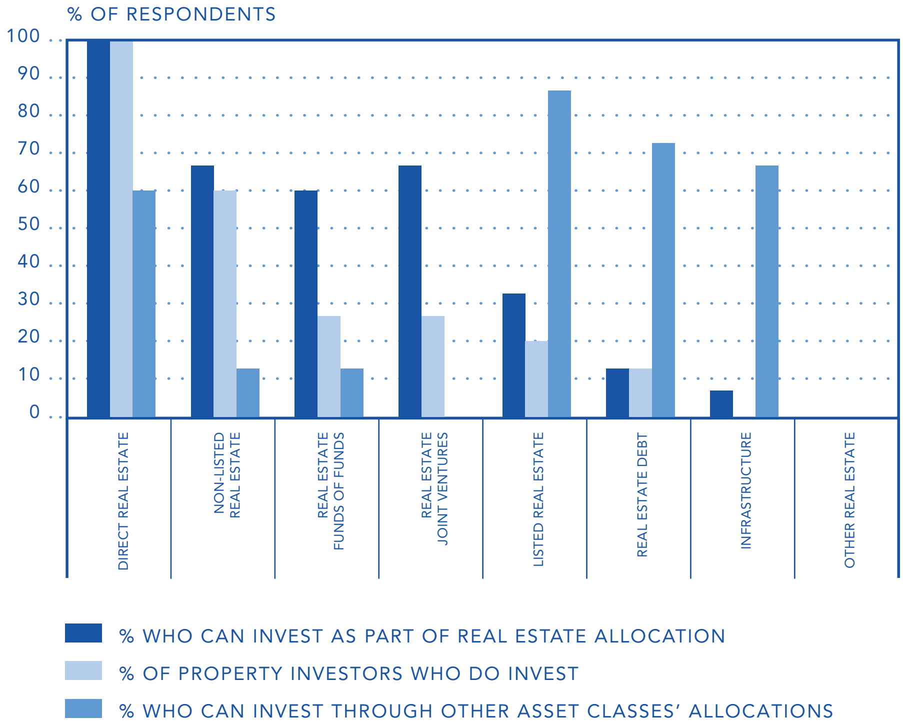
3 REAL ESTATE EXPOSURE

3.1 Type of real estate investments

Respondents to the survey were asked about their different type of real estate investments: first, whether they can invest in real estate in general either directly or indirectly; second, whether they do invest in real estate; and third, whether they can invest in real estate through other asset class allocations (typically bonds or equities).

In general, investors answered that restrictions on different categories of investments were stipulated by statutory provisions or by internal reasons such as institutions' individual investment policies. We should also mention that the real estate managers are usually separate from the bonds and equities department. Listed real estate is often managed in another part of the asset allocations (87% of respondents), typically by the equities department and real estate debt, which includes covered bonds (73% of respondents), typically by the bonds department.

FIGURE 07 / REAL ESTATE INVESTMENTS THROUGH REAL ESTATE OR OTHER ALLOCATIONS



All real estate investors can and do invest in direct real estate, but only 67% can invest in non-listed real estate vehicles and only 60% actually do invest in them. The few who do not were in the process of doing so in the short term as a result of a recent switch from direct to non-listed.

Although a majority, two-thirds of French institutional investors have the ability to invest via a joint-venture (JV), few French institutional investors make their real estate investments through JVs (27%). The current allocation to JVs does not reflect an increased appetite for this method. There has been more focus on JVs since the financial crisis, however, investors have invested little since then and therefore the allocation is still small.

Sixty percent of respondents can invest in real estate funds of funds, but only 27% actually do so. A large majority (87% of the respondents) could invest in listed real estate funds but not in the real estate allocation (only 33% of the respondents). They invest, in fact, from their equity allocations, but respondents generally have difficulties disclosing information about other asset classes.

Real estate debt is permitted by only a few investors within their real estate allocations (13%). It typically falls between the real estate and fixed income teams (87%). Some investors said that they might have exposure to real estate debt through a fund of funds, or via an opportunity fund with a broader mandate. Infrastructure is permitted in a few cases but is considered a new investment frontier (7% can invest within the real estate allocation but none do), but for two-thirds of the respondents, these allocations lie elsewhere. The majority of respondents that do not have allocations to infrastructure are reconsidering this position.

FIGURE 08 / TYPES OF REAL ESTATE EXPOSURE

€ BILLION

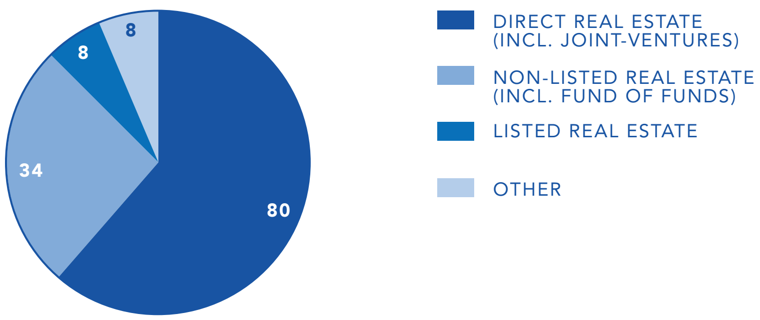


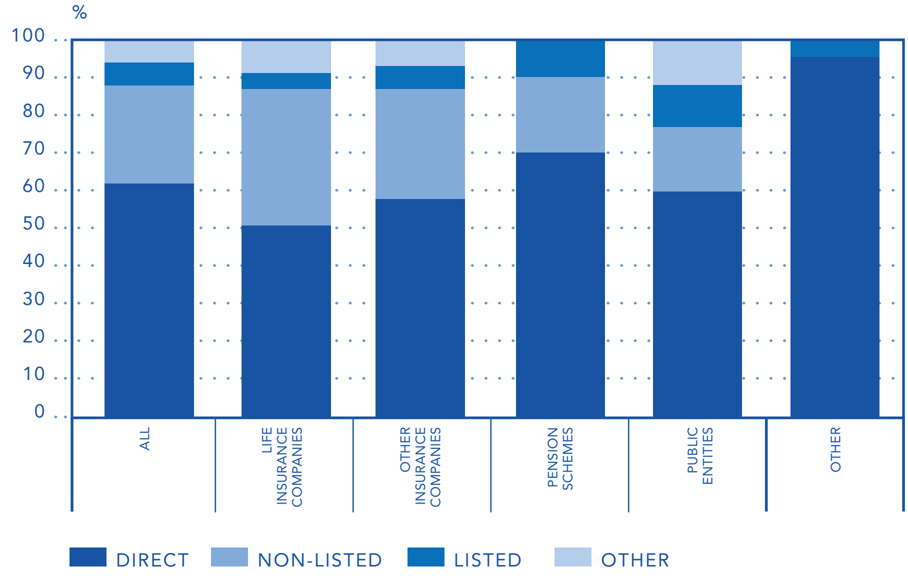
Figure 08 shows that the total real estate universe is €130 billion, with the main shares held as direct real estate (€80 billion), non-listed funds (€34 billion), listed real estate (€8 billion) and other real estate (€8 billion). The responses to the survey have been reweighted and augmented with further research using data from all information resources (e.g. annual reports, previous surveys and expert interviews) to estimate the size and composition of the total real estate investments of French institutions, which are illustrated in Figure 08.

All respondents invested in direct real estate; consequently direct allocation represents the major part of the total real estate exposure. Large pension funds and insurance companies are the biggest direct investors. When investing directly, French investors tend to make it either a substantial part or all of their portfolios.

3.2 Current real estate exposures by type of institutional investor

Figure 09 (page 14) shows that direct real estate plays a major role in the portfolios of the universe of investors, accounting for almost 62% of total real estate. Interestingly, the extreme exception is 'others' (including the charities) that mostly invested in direct assets, not at all in non-listed real estate funds, and only a small part in listed companies.

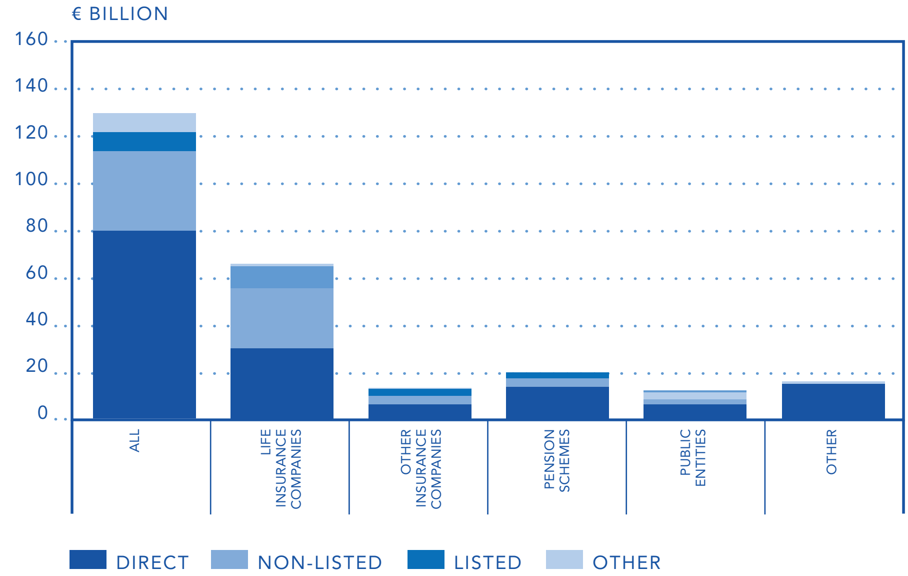
FIGURE 09 / DISTRIBUTION OF REAL ESTATE IN THE UNIVERSE BY TYPE



This result is deemed to be representative for the total institutional universe. According to further research and the interviews with investors and experts, non-listed real estate vehicles account for approximately 26% of the property portfolios of French institutional investors.

Figure 10 shows the total size of real estate investments of French institutional investors.

FIGURE 10 / REAL ESTATE UNIVERSE EXPOSURE BY TYPE



This re-emphasises the conclusion that life insurance companies have the largest real estate holdings of all investor groups. Life insurance companies hold 52% of French institutional real estate, the majority of which is invested in direct property. As indicated before, pension schemes for professional occupations only hold a small share of total real estate assets of French institutional investors.

The figure shows that the real estate universe is dominated by insurance companies,

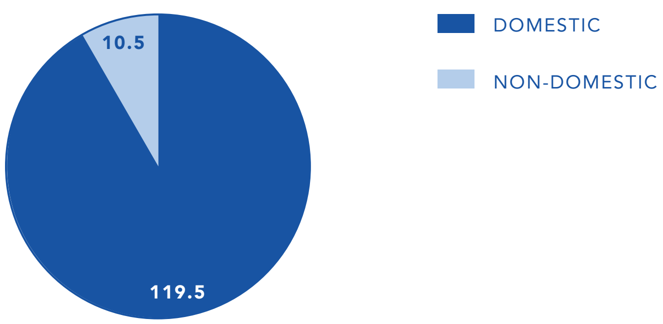
Insurance funds typically have a large direct portfolio, although respondents' portfolios range from zero to 100% of direct real estate exposure. Some insurance funds are in the process of, or already have, ring-fenced some or all of their portfolios and might open them up to other investors. This means that they do not dispose of their assets but rather create a fund and possibly seek third-party investors to invest alongside them. The rationale behind this differs between insurance funds. It can be to bring the actual allocations in line with the target allocations, or to leverage off their expertise in direct real estate in their domestic market. They then sell shares in the portfolio but keep the portfolio and asset management. In all cases, French institutions are reluctant to let go entirely of their real estate portfolio. Overall French institutions choose a predominantly direct approach for their real estate investments. Non-listed property funds, joint ventures and other forms of real estate rather serve as supplements to the direct portfolio.

3.3 Non-domestic real estate exposures

Figure 11 shows that domestic investments significantly dominate the real estate portfolios, accounting for about 92% or €119.5 billion of the real assets of the French institutional universe and 5.2% of their total assets. Non-domestic real estate represents around 8% or €10.5 billion of the real estate allocations and less than 0.5% of the multi-asset exposures of the investors participating in the survey.

FIGURE 11 / NON-DOMESTIC AND FRENCH REAL ESTATE

€ BILLION

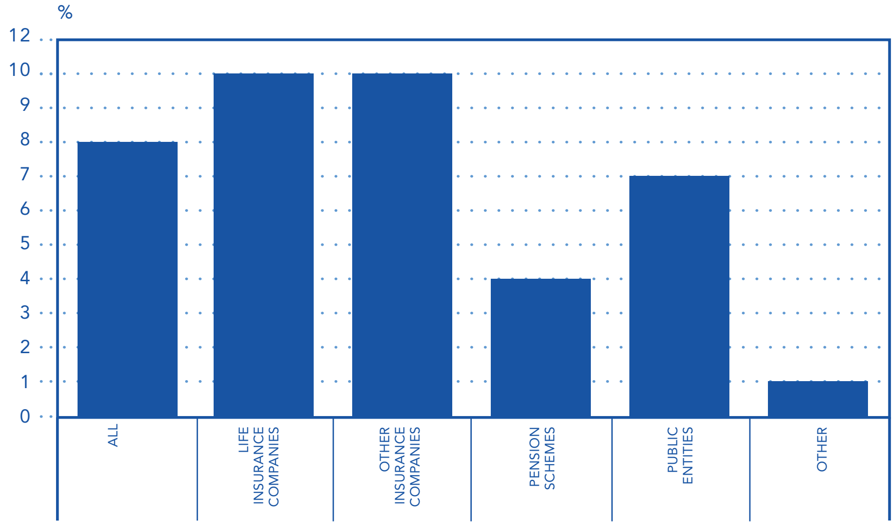


Non-domestic investments are mainly made through non-listed or listed real estate.

French investors have a strong preference to invest domestically. A similar picture was seen in the UK (87%) and in Sweden (80%). German investors are much more internationally oriented (only 65% in their domestic market), and The Netherlands are the least domestic-oriented country of our five studied countries.

Figure 12 (page 16) details the proportion of real estate invested non-domestically for the various types of investors. This again shows that all types of institutional investors represent a relatively small proportion (8% in aggregate) of their real estate allocations invested non-domestically.

FIGURE 12 / NON-DOMESTIC REAL ESTATE EXPOSURE



Three categories have exceptionally low exposure to non-domestic markets: 'others' are practically exclusively invested in France (only 1% abroad), public entities invest no more than 7% abroad (€1 billion) and pension schemes invest about 4% overseas (€1 billion), but these three categories total 38% of the total amount of the French real estate universe. Moreover, for these investors access to the foreign markets is overwhelmingly through the listed sector.

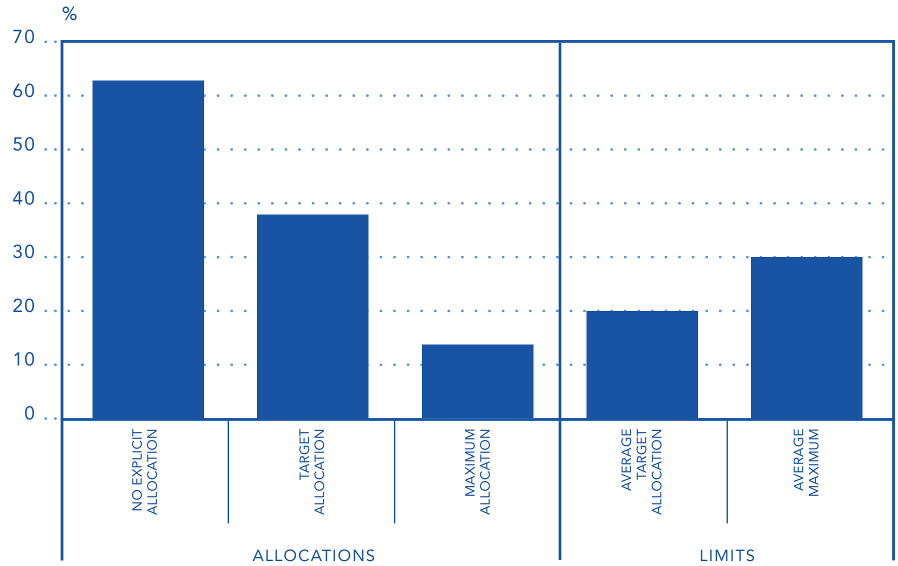
The life insurance companies invest about 10% (€7 billion) of their assets abroad and the other insurance companies about 10% (€1.3 billion). For the insurance companies, the listed sector is also the principal route, with some alternatives such as non-listed and joint ventures.

4 THE NON-LISTED REAL ESTATE UNIVERSE

4.1 Targets and maximum allocations on non-listed investments

One third of the 'questionnaire sample' that invest in non-listed real estate have an explicit allocation or a target for this part of their portfolio. Those with no target or maximum allocation often have an informal understanding of what the limits are. Some of these investors said they do not differentiate among non-listed, direct or other types. Instead, they differentiate by sectors and regions, regardless how these targets are met.

FIGURE 13 / ALLOCATIONS TO AND LIMITS ON NON-LISTED REAL ESTATE INVESTMENTS

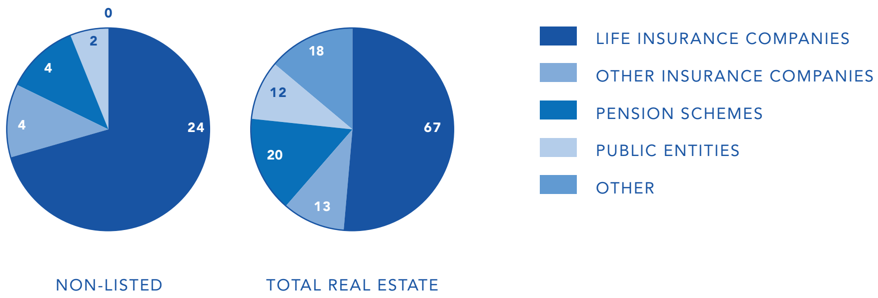


These results need to be correctly interpreted. According to the interviews with investors and experts, it seems that all the respondents have a target allocation to non-listed real estate. This can be agreed and written in a mandate (37%), as reflected in Figure 13, or it can be a preference or an informal allocation (63%).

Figure 14 illustrates how, relative to the overall real estate universe, insurance funds are over-represented in the non-listed universe. Insurance funds are responsible for 62% of the real estate universe but 82% of the non-listed universe. In particular, life insurance companies represent 52% of the total French real estate universe, but 71% of the non-listed real estate universe, while the other insurance companies represent 11% of the total real estate exposure of French institutional investors and about the same (12%) exposure to non-listed real estate.

FIGURE 14 / EXPOSURES TO REAL ESTATE UNIVERSE BY TYPE

€ BILLION



Big institutions have their own staff and should have the resources to run a direct portfolio, while smaller investors with less staff should be interested in non-listed investments as the best approach. In fact, however, larger institutions use more options and are actually more capable of seizing the opportunities of non-listed real estate. Smaller institutions are still interested mainly in owning direct real estate. Although the minimum amount needed for acquiring a whole building in Paris at about €30 million is easy to reach, the non-listed route will probably still be the main alternative.

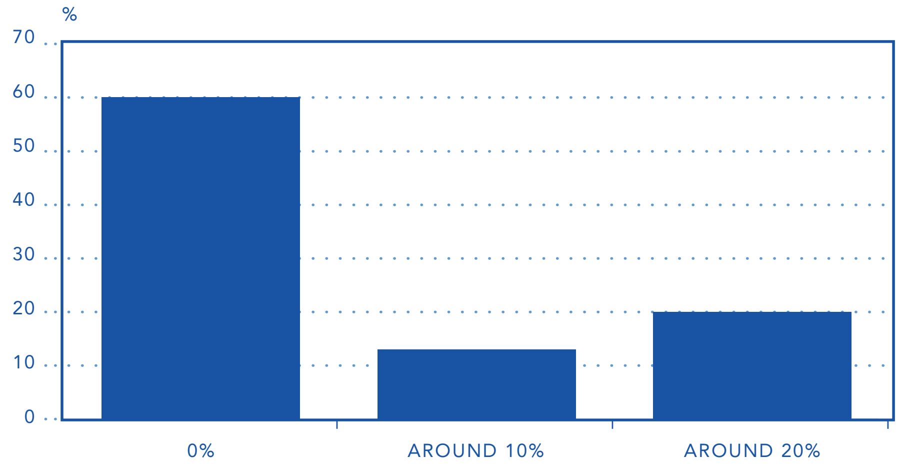
Pension schemes represent only 12% of the non-listed real estate universe, which is below their importance in the total real estate universe (15%). The reason probably lies in the fact that there are several small pension schemes in France and each of them is managed by representatives of employers and employees who are traditionally very cautious and reluctant to follow a new way of investing and prefer "to see the building they directly build and manage".

4.2 Variations in exposures to non-listed universe

French institutional investors have on average 26% of their real estate portfolios allocated to non-listed real estate vehicles.

Respondents to the survey use different ways to invest in real estate. None of the French institutional investors in our questionnaire sample had an exclusively indirect exposure to real estate (as seems to be the case in the Netherlands and in the UK). Similar to the English universe, subsequent checks and interviews with investment consultants confirm that a predominantly direct approach to real estate investing is the most commonly used model among French institutions. There is a strong concentration of non-listed real estate exposure. Across the questionnaire sample, Figure 16 indicates that a majority of respondents have no exposure at all to non-listed (60%), 13% have about 10% of their real estate in non-listed vehicles, and 20% hold about 20%.

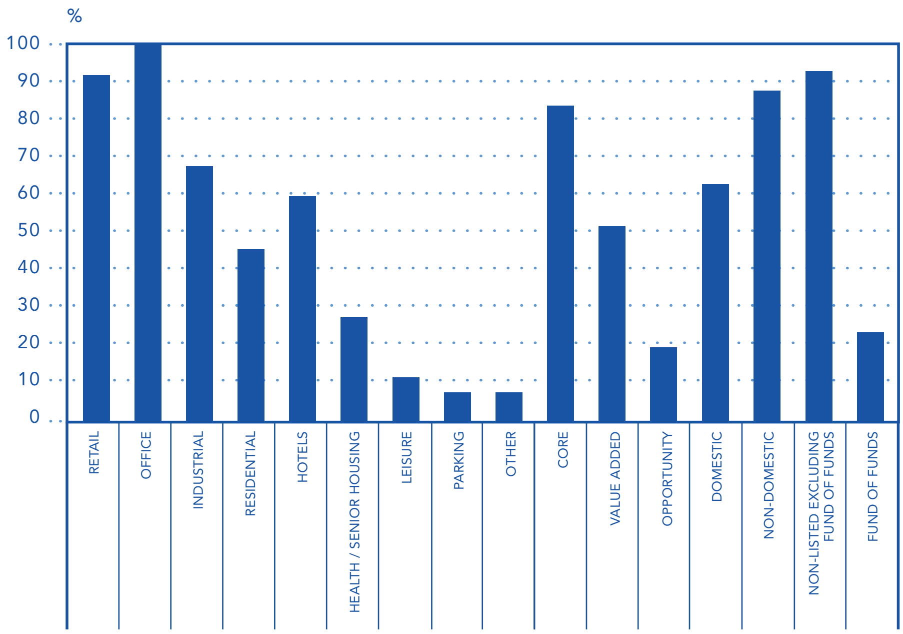
FIGURE 15 / FREQUENCY DISTRIBUTION OF NON-LISTED EXPOSURES TO REAL ESTATE OF DIRECT INVESTORS IN THE SAMPLE



4.3 Types of exposure to non-listed vehicles

Figure 16 illustrates that most investors in non-listed funds are invested in the five core sectors: office, retail, industrial, hotels and residential. All non-listed investor respondents have exposure to office.

FIGURE 16 / TYPES OF NON-LISTED INVESTMENTS



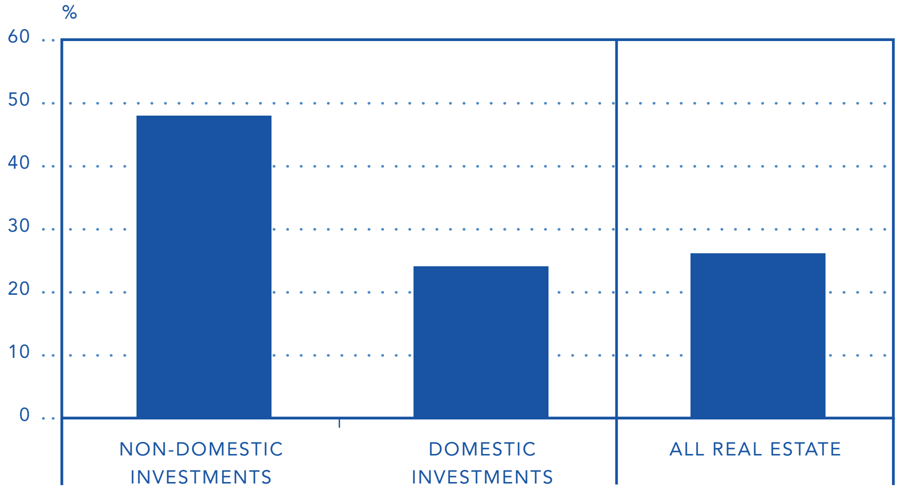
Core investments were the most frequent choice with 84% of the respondents having these types of investments. This is followed by 52% with value added investments and 20% with opportunity investments. Almost all non-listed investors, (88%), have non-domestic exposure, and only 62% of non-listed investors have domestic exposure. The vast majority of non-domestic investments are made through non-listed vehicles.

Only 24% of investors invested through funds of funds.

Figure 17 (page 22) shows that, of the domestic investments around 26% is invested in non-listed vehicles, which is about the same ratio as for the non-listed investments. The major contribution to domestic investments comes from direct investments, which are 65% of all domestic investments.

French investors mainly use two main ways of investing non-domestically: non-listed or listed. Of the non-domestic real estate exposure, 48% is invested via non-listed vehicles, and 41% is invested via listed vehicles. A very small percentage of the non-domestic investments are direct.

FIGURE 17 / NON-LISTED EXPOSURE IN DOMESTIC AND NON-DOMESTIC VEHICLES

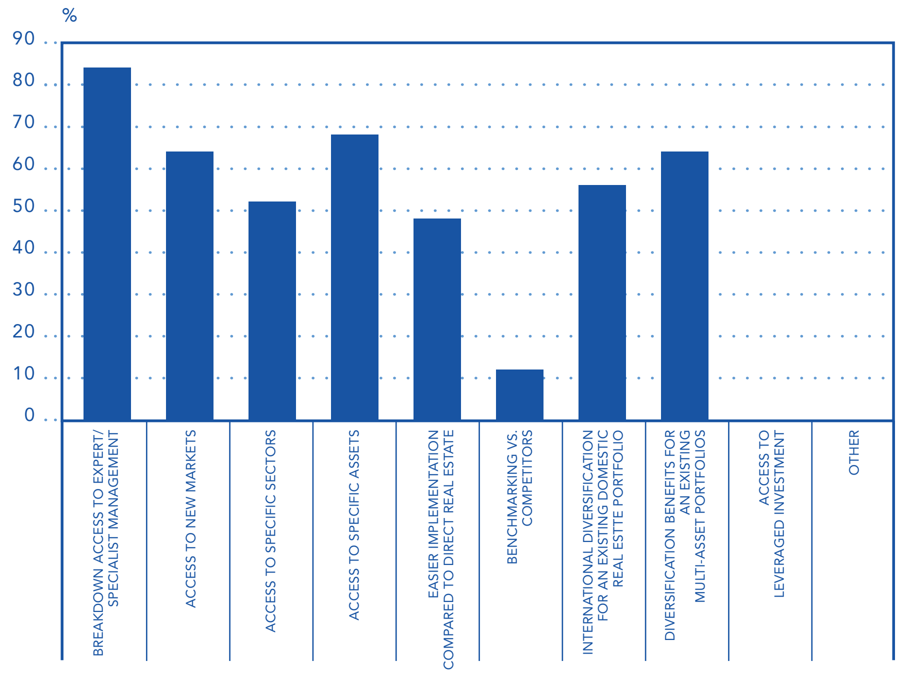


5 PROS AND CONS AND STRATEGIES OF INVESTING IN NON-LISTED REAL ESTATE VEHICLES

5.1 The attraction of investing in non-listed real estate vehicles

Investors with an allocation to non-listed real estate vehicles were asked to list the three most important reasons for investing in this type of real estate asset class, regardless whether they currently hold non-listed real estate investments.

FIGURE 18 / REASONS FOR INVESTING IN NON-LISTED REAL ESTATE



As Figure 18 shows, the primary motive for using non-listed real estate vehicles is the access to expert and specialist management (84%). There are three main reasons for investing in non-listed real estate: the first is the possibility of investing in specific new assets (68%), new markets for the institutional investors (64%), and specific sectors (52%); the second reason is diversification benefits for multi-asset portfolio (64%), the third reason is the international diversification (56%), which confirms that non-listed funds are often used when investing abroad or in markets or sectors that the investor is less familiar with, and when an investor wants to invest with a local expert fund manager.

Almost half (48%) of respondents to the on-line survey consider non-listed property funds to be easier to implement than direct estate investments. The interviews revealed that this was perceived to be of particular importance for non-domestic investments. Investors said that the non-listed route allowed them to gain external expert management without building up their own structures, expertise and resources abroad.

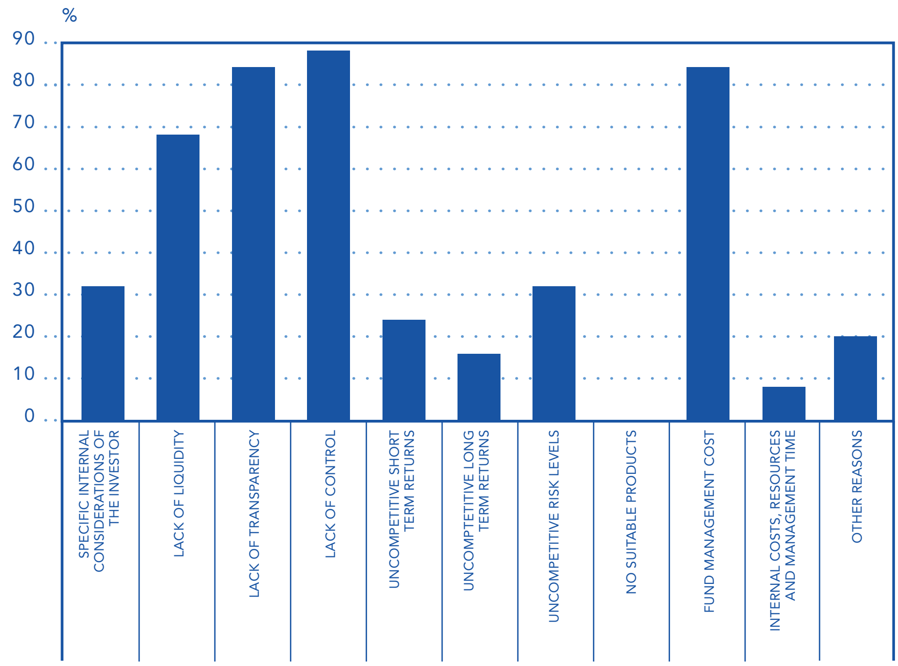
The French legal and regulatory framework restricts insurance companies in their use of leverage with respect to any business that is not related to the insurance business.

Consequently some French insurance companies are restricted in their use of leverage in direct real estate investments. None of the respondents invests in non-listed to get access to leveraged portfolios.

French investors are interested in the non-listed route internationally, and to a lesser extent for their domestic exposures. There is no significant difference in the reasons why to invest in non-listed by size of investor. Some mentioned that non-listed investments removed the need to build up costly in-house expertise, which would be otherwise required to obtain exposure to certain out-of-reach sectors.

5.2 The obstacles of investing in non-listed real estate vehicles

FIGURE 19 / THE OBSTACLES OF INVESTING IN NON-LISTED REAL ESTATE VEHICLES



An important proportion of institutional investors have no exposure to non-listed investments despite having real estate investments. Figure 19 gives the main obstacles about investing in the non-listed real estate route.

Three main concerns are apparent from the above figure: the lack of control (88%), the lack of transparency (84%) and the management costs (84%). Two main concerns (not mentioned in the questionnaire) also seem to be taken into consideration: the future impact of Solvency II for the insurance companies and the risk linked to the potential leverage used in this industry.

For a closer look at the obstacles, we can divided the French institutional attitude towards non-listed real estate into two categories: those who are currently opposed to using non-listed real estate vehicles, which can be estimated at about 60% of investors, and those who are open to using non-listed real estate (whether they presently use it or not). Those who are currently opposed to using non-listed real estate are divided into those who are fundamentally opposed (about 40% of the total universe) and those whose recent experiences in the field were not conclusive (about 20% of the total universe). So we can distinguish three categories of attitudes towards the use of non-listed real estate vehicles.

Those with fundamental concerns cited the weak control and influence of the investors over non-listed funds, especially compared to joint-ventures and club deals, the illiquidity of the funds, the management costs, and the lack of transparency. In their views the industry of non-listed real estate has important work to do to gain greater transparency and better governance. Interestingly, several investors insist on the fact that investing in non-listed estate vehicles has never been discussed inside their institution.

Those whose recent experiences in the field were not conclusive and who are currently hostile to using non-listed estate vehicles also cite the lack of control and management costs as the main obstacles, and the mismatch between the returns and the risks in the industry. For them, the use of joint-ventures and club deals seems much better in terms of good governance and control.

Those who are currently invested in non-listed real estate also raise some concerns, especially the lack of control and the fund management costs.

Moreover, for all investors, the crisis seems have changed the perception of the French institutional investors and many explained that it has become clear in the last few years that non-listed investments require more attention than previously thought. It is also apparent that the downturn exposed previously unrecognised high levels of manager risk in non-listed exposures and a misalignment of interests, not only between fund managers and investors, but also with co-investors. Such factors had probably led in the recent past to a lowering of exposure to non-listed vehicles, in favour of direct and joint ventures. Several investors are still expressing a preference to invest directly in sectors previously perceived to be out-of-reach or where the expertise to invest directly had been thought to be lacking; and joint ventures are now being recognised as an alternative to non-listed exposures.

5.3 Investment strategies

The responses to the survey and the interviews reveal a number of different real estate strategies. The majority of respondents pursue a predominantly direct investment approach. The larger institutions generally have their own teams of analysts and investment managers to select the real estate and the smaller ones are still in the French mode of investing directly mainly in Paris and mainly in office.

Almost all of the participating investors follow a predominantly direct core strategy. When it comes to real estate investment, respondents offered a number of reasons for the high proportion of direct property holdings. Most prefer having control over investments and do also prefer the core strategies. Value added and opportunistic-style investments are less common. French institutional investors are interested in learning about and studying non-listed real estate investments and are aware of the potential of this sector. This is reflected for example by the large number of investors considering access to expert management to be one of the major benefits of non-listed real estate vehicles. However, these investments only serve as supplements to a core domestic investment strategy. The pension schemes of those responded to the survey reflected a purely direct, domestic approach to real estate investment. The responses to the survey and the interviews showed that the lack of control is considered to be an obstacle of non-listed investments, followed by internal reasons and the absence of knowledge of the process, a lack of transparency and also insufficient governance.

For the French institutional investors, a direct real estate approach is systematically first studied. This means that the preferred option is to invest in directly held real estate. Only if a desired product market combination is not achievable through direct investments is an alternative route an option. The majority of the large insurance funds follow this strategy. Most of the investments made with this direct real estate approach are investors with a low risk profile. This is mainly for reasons of control and lower management costs. The French real estate market has been shown to be a stable market relative to other countries and the real estate sector has proved to be a good diversifier for other asset classes. Note that in 2011 the Ile de France is the leading real estate market in Europe for office (ahead of London) with a great diversity of users, contrary to London, which is huge financial sector and therefore sensitive to the recent financial crisis. Another explanation for the larger direct domestic portfolios is historic reasons. Investors who have built their direct real estate portfolios and the expertise to manage them prefer to keep them.

The second alternative approach is to have a substantial domestic direct portfolio in combination with a non-domestic non-listed portfolio. Ten percent of the respondents apply this strategy, mainly the large pension funds. Higher risk products (value added and opportunity) are permitted for the international investments through non-listed funds.

As shown in Figure 16 of section 4.3, the respondents favour five core sectors for investing in non-listed real estate: office (100%), retail (92%), industrial (68%), hotels (60%) and residential 46%, and do not use the non-listed real estate route to venture into more risky businesses.

Many investors said they shied away from listed real estate because of its volatility. In a portfolio that is built up mainly with non-listed vehicles, the typical strategy is to have 70% to 75% core diversified, 25% value added and sometimes some opportunity added in.

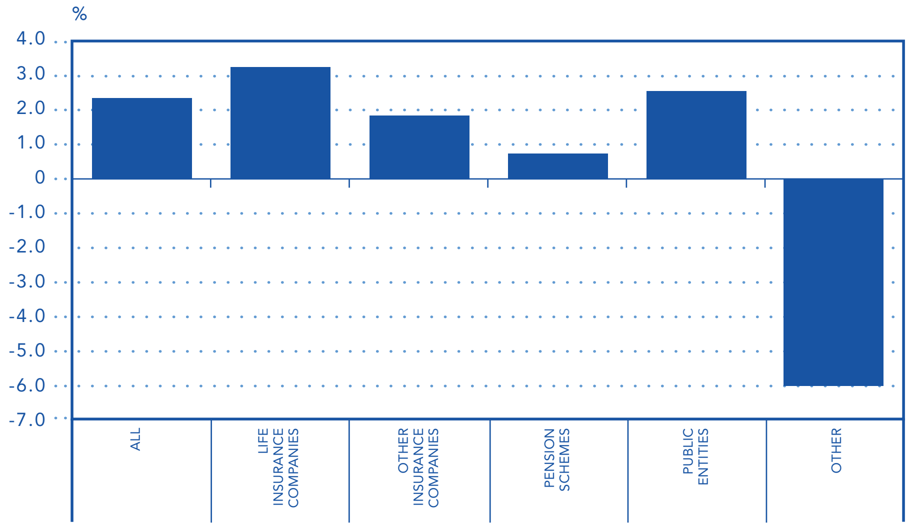
6 THE PROSPECTIVE REAL ESTATE AND NON-LISTED UNIVERSE

6.1 Prospective changes in real estate exposures and allocations

Figure 20 shows the difference between current exposures and the target allocations to real estate of the different investors. The information is presented on a weighted basis. A positive percentage means that the fund is currently underexposed to real estate.

Overall, the current exposures of all real estate investors in the sample are below targets by 2.3% (the current target is 8% and the current exposure 5.7%). Insurance companies are the most underexposed, and are under-allocated to real estate by three percentage points (5% vs. 8%), which means huge potential compared to the current real estate demand of €42 billion. Others, mainly due to the charities within this category, are the only investor group that is over-weight to real estate by a large margin of 6%.

FIGURE 20 / DIFFERENCE BETWEEN CURRENT EXPOSURE AND TARGET ALLOCATIONS TO REAL ESTATE

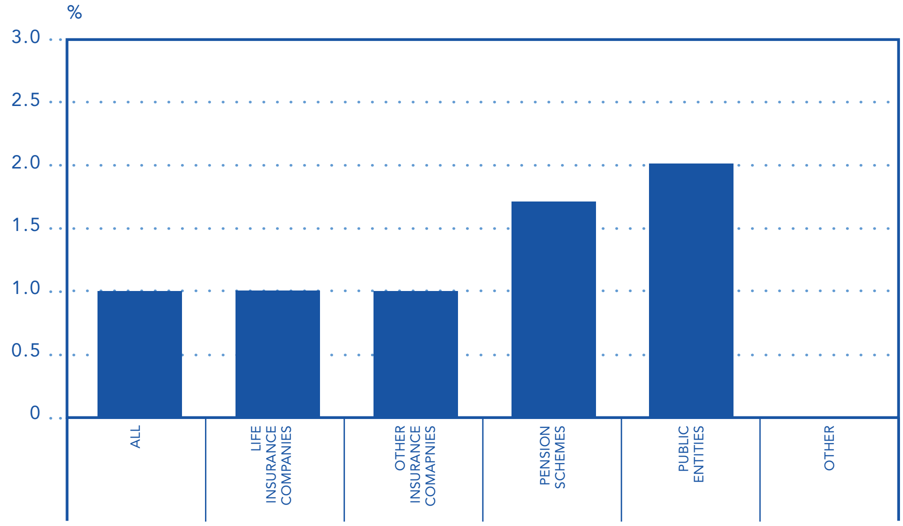


NOTE: A POSITIVE PERCENTAGE MEANS THAT THE FUND IS CURRENTLY UNDER-EXPOSED TO REAL ESTATE

There were several factors behind these differences:

- In recent years, investments have been halted due to the financial crisis.
- During the financial crisis, share prices suffered more, which resulted in relative allocations to real estate increasing (the denominator effect).
- The recent rally of stock prices helped mitigate the denominator effect.
- In recent years, commitments have not been made because of a lack of attractive opportunities for the funds. This argument can partly be offset by money not being recycled into funds, especially value added and opportunity funds, due to worsening market conditions for asset disposals.
- Some investors have recently increased their target allocations to real estate.

FIGURE 21 / EXPECTED CHANGE IN TARGET ALLOCATION TO REAL ESTATE IN THREE YEARS



Looking ahead to the next three years, Figure 21 illustrates the changes in target real estate allocations. Although 'others' want to maintain their asset allocations to real estate (0%), the remaining categories of investors envision a modest rise in their target allocations (1% for insurance companies and 1.7% for pension schemes). This is the result of two opposite tendencies: the first is the awareness that target allocations are slightly too low according to theoretical research (which regularly advises a 15% target investment in real estate) and the effects of the new constraints of Solvency II for insurance companies.

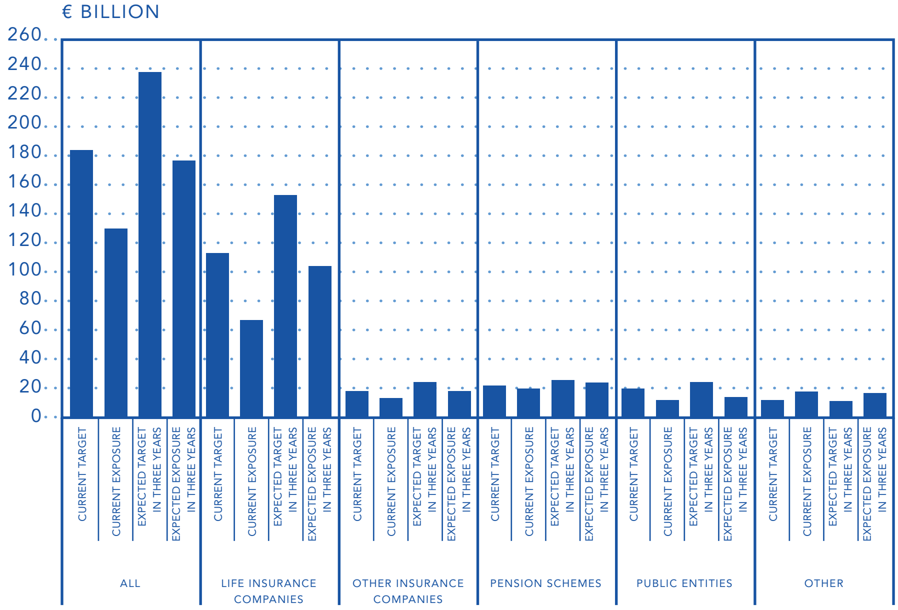
The main trigger for the prospective growth in the next three years is the estimate of the growth of assets under management of the funds. The growth of assets under management in the next three years is expected to be 15%, resulting in an increase to €2.645 trillion. In addition, French institutional investors are also expected to slightly increase their target allocations to real estate, as seen in Figure 21, so that the institutional real estate universe will grow by more than 36%, from €130 billion to €177 billion or 6.7% of the total investment universe in three years. The increase from the current target to the target in three years' time is expected to be 83% due to increased assets under management and 17% due to increased real estate allocations.

Theoretically, the prospective target of the French institutional investors should be €238 billion (9% of €2.645 trillion) or an additional €108 billion on the current exposure. In theory, the two main drivers should increase the rate of real estate growth of French Institutional Investors. First, exposures to real estate are currently below targets by 2.3%, resulting in a potential demand of around €54 billion in 2011 increasing to €82 billion within three years taking into account the increase in total assets under management. Second, investors expect to increase their target allocations from a current average of 8% to 9% in three years, resulting in an additional €26 billion of real estate investments. Nevertheless the gap between the target of investors and their actual allocations is particularly stable in the time, so it is not probable that it will be filled in the next three years. Therefore, it seems reasonable to estimate that the real estate allocation will grow from 5.7% to 6.7% equalling only €47 billion within three years, which reflects the actual allocation, and not increase by €108 billion.

Figure 22 summarises the expected target and actual exposure to real estate in Euro billion.

All types of investors should see their exposures rise, except the "others" group, which will go in the opposite direction, mainly because charities have a permanent goal of reducing their real estate investments. This is because their income comes mainly from real estate (legacy and more) and they need to reduce these assets.

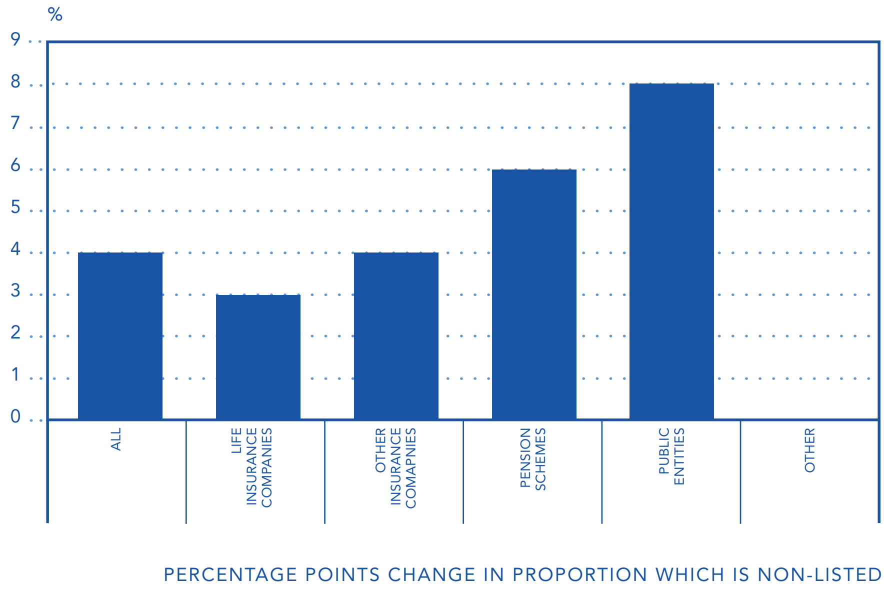
FIGURE 22 / CURRENT AND EXPECTED EXPOSURES TO REAL ESTATE



6.2 Prospective changes in exposure to non-listed real estate

Investors in the survey were asked how much they expected the proportion of non-listed in their real estate portfolios to change over the next three years. The responses are summarised in Figure 23: the non-listed share of the total real estate universe is expected to increase from the current 26% to 30%, provided that investors will have sufficient liquidity to reach their allocation targets.

FIGURE 23 / EXPECTED CHANGES IN THE NON-LISTED PROPORTION OF REAL ESTATE



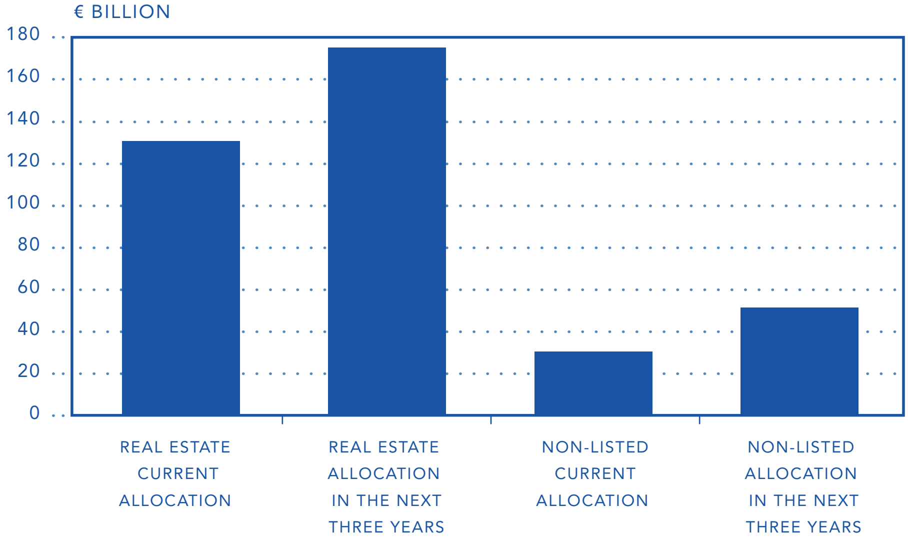
The majority of the life insurance companies participating in the survey plan to increase the share of non-listed vehicles in their real estate while about one-third of the responding life and other insurance companies have not yet made future allocation plans with respect to their non-listed real estate investments.

Drawing from the interviews and supplementary desktop research, these figures have been re-weighted to estimate the future size of the total non-listed real estate of French institutional investors.

Some investors with a limited allocation to non-listed will increase their allocations, and investors with larger direct portfolios are faced with pressure to gradually convert their holdings into non-listed real estate, although the timing of doing so is not clear. Some of those investors will open their existing portfolios to other investors.

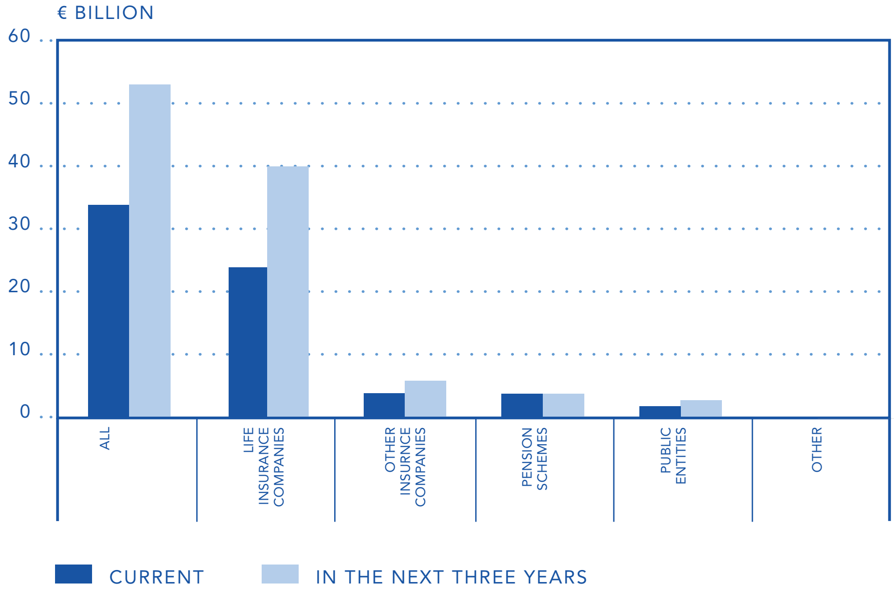
Figure 24 (page 30) shows that, overall, in three years, the non-listed real estate universe, with a current total size of €34 billion, is expected to grow by €19 billion to €53 billion, which is an increase of 56%.

FIGURE 24 / NON-LISTED UNIVERSE CURRENTLY AND EXPECTED IN THREE YEARS



The current real estate allocations of all institutional investors total €130 billion. This figure is expected to grow by 36% to €177 billion in three years. Non-listed investments currently amount to €34 billion. In three years this amount is expected to grow much more, in fact by approximately 56% to €53 billion. This means that real estate that is invested through non-listed vehicles will grow by €19 billion in three years, increasing its share of real estate investments from 26% to 30%.

FIGURE 25 / THE NON-LISTED UNIVERSE NOW AND IN THREE YEARS, SPLIT BETWEEN DIFFERENT GROUPS OF INVESTORS



Broken down by type of investor, the figure above shows that all types of investors will increase their non-listed allocations over the next three years. Life insurance companies and other insurance companies should be the main drivers, with an additional flow into the non-listed real estate universe of respectively €16 billion and €2 billion (which is 50% more for the other insurance companies). Note that these numbers should be viewed cautiously because there are several effects that should be taken into account. Indeed, commitments to non-listed investments should come before they are realised and several commitments made in recent years have largely not been realised or have not yet been invested. Additionally, money from funds that should have been recycled did not materialise yet. Moreover, the relative degree of each effect is not clear, as investment periods of funds are being extended, and strategies are being changed.

To summarise, we can identify three main reasons for the substantial growth in non-listed investments from French institutional investors: the total assets under their management will increase by roughly 15%; the target allocation to real estate will increase in three years, from the current 5.7% to 6.7%, being aware of the fact that the gap between the target of investors and their actual allocations is particularly stable over time, and the non-listed share of the total real estate universe will increase from 26% to 30%.

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