Investor confidence to translate into increased allocations

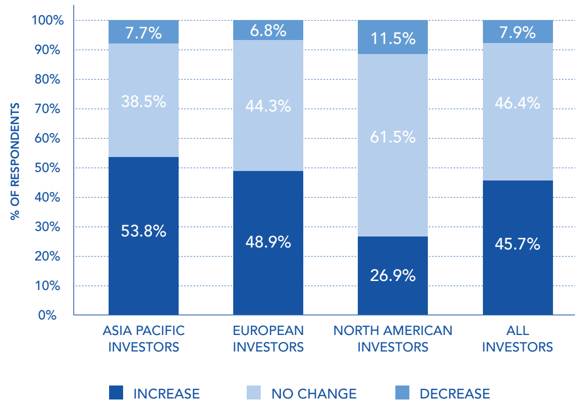
- Average real estate allocations to rise from 9.5% to 10.3%
- Funds gain ground but mainly for smaller investors
- Spain resurgent but Western Europe still dominates

RESEARCH

Investors' confidence in the non-listed sector is growing, according to the results of the INREV Investment Intentions Survey 2014. This confidence is reflected in both the global allocations to real estate by investors, attitudes to risk, as well as diversification across a range of products.

On average investors expect to increase allocations to real estate from 9.5% to 10.3% of their overall investment portfolios. Asia Pacific investors are leading the growth as they continue to build up their real estate portfolios with 53.8% expecting to increase their allocations over the next two years (Figure 1).

FIGURE 1: INVESTORS' VIEWS ON DEVELOPMENT OF GLOBAL REAL ESTATE PORTFOLIO

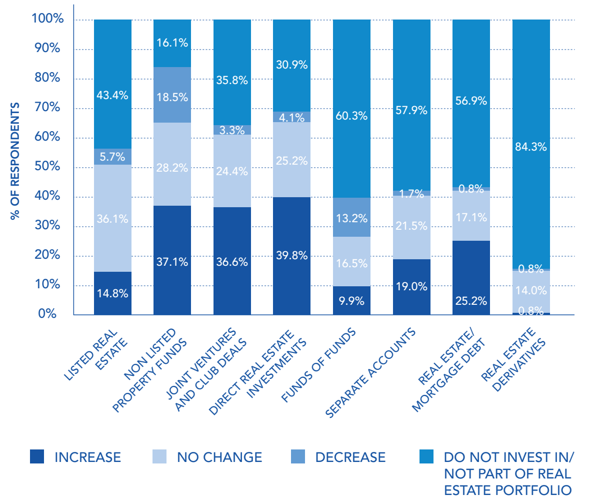


European investors also have an optimistic outlook on the market, with 48.9% of respondents saying they expect to increase their allocations. There is more caution among North American investors as only 26.9% plan to do the same while the majority, at 61.5%, not expecting allocations to change.

In total, investor respondents to the survey intend to invest €34.9 billion into real estate globally in 2014. Investors are being attracted to real estate by more stable economic conditions and a weak correlation with bond and equity markets. This was borne out in the survey findings, with diversification benefits cited by investors and fund of funds managers as the top reason to invest in real estate, scoring an average importance rating of 4.2 out of 5, up from 3.9 last year.

Within Europe, the survey results reflect the continuing trend for joint ventures and club deals, although interest levels have now passed their peak. Over a third of investors, at 36.6%, expect to increase allocations to these products. (Figure 2). This compares with 47.4% in 2013. The results show that larger investors tend to dedicate more investments towards such products. Also direct real estate investments remain popular with 39.8% expecting to increase their allocations.

FIGURE 2: EXPECTED CHANGE IN INVESTORS' EUROPEAN ALLOCATIONS OVER THE NEXT TWO YEARS



However, debt will be a popular investment target over the next two years. Overall, 25.2% of investors expect to increase their allocations to real estate and mortgage debt, with large investors in particular looking to increase their exposure to debt markets. And fund managers of all sizes continue to launch real estate debt products.

Expected increases in allocations to non-listed property funds in 2014 remain in line with 2013 results, at 37.1% compared with 37.3%. However, the net balance has improved as 18.5% of respondents expect to reduce their allocation to non-listed property funds this year, compared with 30.5% last year. Further analysis shows that it is mainly smaller investors that intend to increase allocations to funds, which has reversed the trend of the previous three years.

The responses continue to suggest a general division between larger and smaller investors in their product preferences with larger investors looking at club deals and joint ventures while smaller investors remaining committed to funds.

Fund of funds managers expect to reduce their allocation to non-listed property funds, which is their traditional investment product. Going forward, 60% will increase their allocations to joint ventures and club deals. In the same way that funds of funds have given smaller investors access to property funds, this aggregation is now being used to take part in joint ventures and club deals.

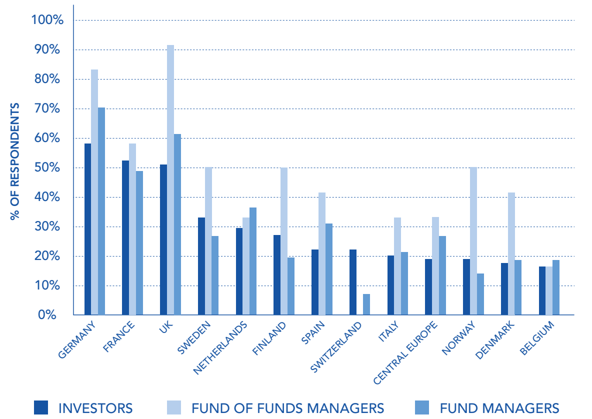
OTHER KEY HIGHLIGHTS

- Allocation and style preferences by investor domicile
- Preferred fund structures and strategy
- Consultants' views on the UK market
- Backtesting investment intentions 2013

For the first time since the launch of this survey, the availability of suitable products emerged as the main reason not to invest into European non-listed property funds for 55.6% of investors. This moves the focus away from alignment of interest with the fund manager, which has been a major issue in the industry since the crisis. Liquidity is one of the top three obstacles for investors, also for the first time.

Style preferences are consistent with last year's results, with just over half of investors continuing to prefer core funds. Further analysis shows that larger investors and fund of funds managers have more appetite for risk, and consider value added as the most interesting style today. There are changes to the locations that investors would like to gain exposure to in 2014, with a continued focus on Germany and the UK (Figure 3). France has returned to the top of the rankings in second place for investors while there is reduced interest in the Nordic region.

FIGURE 3: PREFERRED INVESTMENT LOCATIONS FOR 2014



Outside of the core markets, Spain, recognised as the most popular of the 'club Med' economies, looks set to be making a comeback. According to the survey, 41.7% of fund of funds managers, 31.3% of fund managers and 22.6% of investors expect to invest there this year.

When sector is brought into the equation, UK offices is the most popular country and sector combination preferred by 45% of investors. This is followed by French offices with 44% of investors and German offices, which is preferred by 43% of investors.

The full report is available to members at www.inrev.org
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