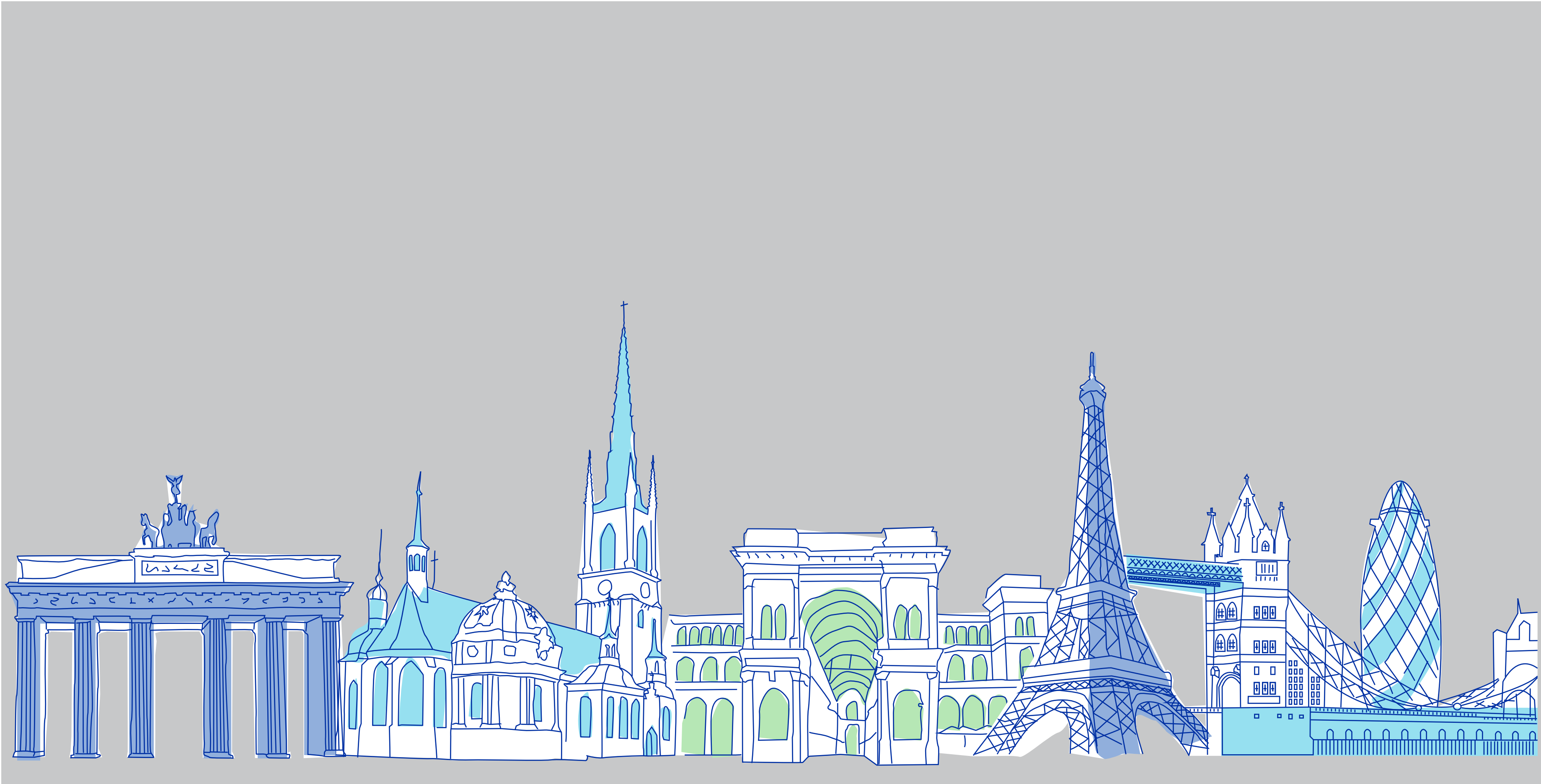

INREV Investment Intentions Survey **2016**

Research

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 vehicles 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 industry.

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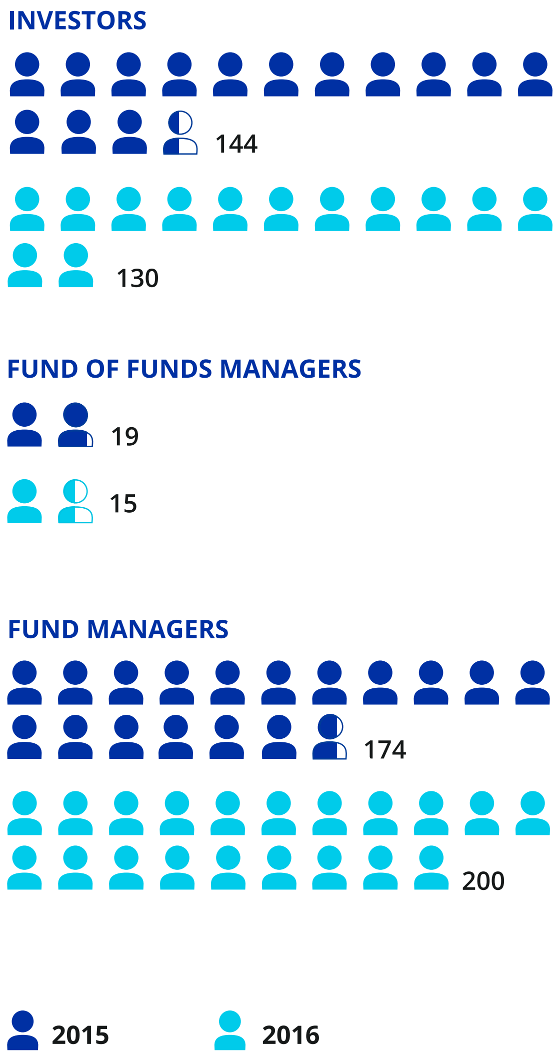
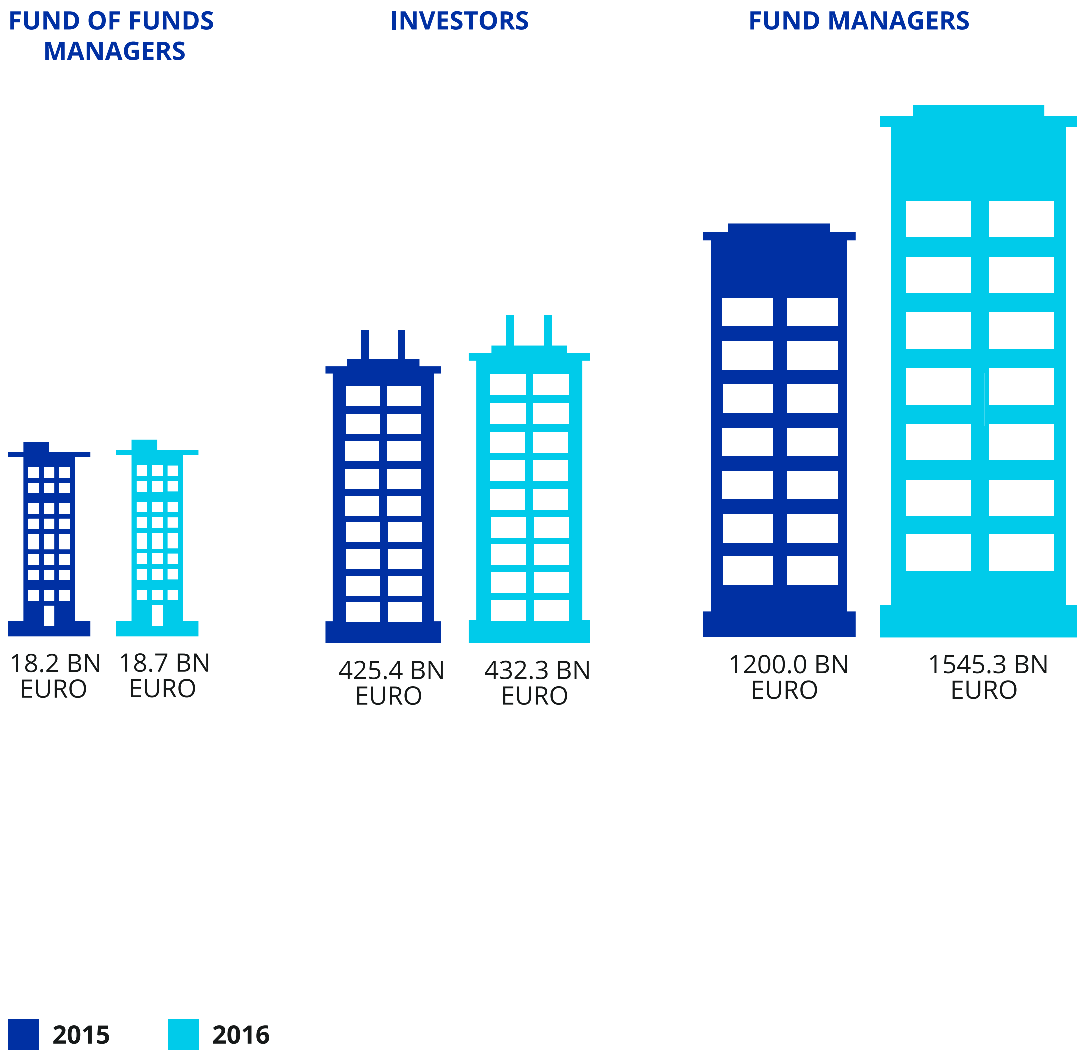
Contents

Key figures

Number of participants



Total real estate assets under management



Domicile of 2016 investor participants

NUMBER OF PARTICIPANTS		REAL ESTATE AUM
NETHERLANDS	10	96.6 BN EUROS
UNITED STATES	27	81.1 BN EUROS
CANADA	9	61.3 BN EUROS
ITALY	6	38.2 BN EUROS
AUSTRALIA	11	30.4 BN EUROS
UNITED KINGDOM	4	20.8 BN EUROS
GERMANY	7	18.9 BN EUROS
FRANCE	3	17.3 BN EUROS

NUMBER OF PARTICIPANTS		REAL ESTATE AUM
KOREA, REPUBLIC OF	7	16.8 BN EUROS
FINLAND	9	11.1 BN EUROS
DENMARK	4	10.0 BN EUROS
SWITZERLAND	9	9.8 BN EUROS
OTHER ASIA PACIFIC	6	6.4 BN EUROS
OTHER EUROPE	3	6.2 BN EUROS
SWEDEN	4	5.7 BN EUROS
JAPAN	11	1.8 BN EUROS

Domicile of 2016 fund manager and fund of funds manager participants

NUMBER OF PARTICIPANTS		REAL ESTATE AUM
UNITED STATES	36	537.7 BN EUROS
UNITED KINGDOM	32	216.4 BN EUROS
GERMANY	21	197.8 BN EUROS
OTHER ASIA PACIFIC	36	140.8 BN EUROS
AUSTRALIA	20	105.5 BN EUROS
SWITZERLAND	5	94.3 BN EUROS

NUMBER OF PARTICIPANTS		REAL ESTATE AUM
FRANCE	5	81.2 BN EUROS
OTHER EUROPE	14	46.2 BN EUROS
JAPAN	14	42.2 BN EUROS
NETHERLANDS	15	39.1 BN EUROS
CANADA	3	36.9 BN EUROS
KOREA, REPUBLIC OF	5	14.5 BN EUROS
SWEDEN	5	6.4 BN EUROS
DENMARK	4	5.2 BN EUROS

Executive summary

Are we there yet?

- Almost €50 billion targets real estate in 2016
- Joint ventures, club deals and non-listed funds are the preferred routes to market
- Target allocation to real estate of 10.3%, up from current allocation of 9.4%

The real estate sector is expected to see an influx of capital in 2016 with a total of €48 billion approximately earmarked for investment into global real estate. On balance investors across the globe intend to further increase their portfolio weightings to the sector, with the average target allocation to real estate of 10.3% compared with an average current allocation of 9.4%.

Within Europe, the top investment destinations are German office, France office and UK office. In 2015 by contrast the top three were German retail, German office and UK office. On a country/sector level, London office tops the charts followed by Paris office and Berlin office.

> ‘Value added preferred ahead of core and opportunity’

The most popular investment destinations outside of France, Germany and the UK are the Netherlands, Belgium and Finland.

In terms of investment style, value added is ahead of core, with opportunity being placed the third of the three. This is a change from 2015, when core and value added were given equal ranking.

In terms of access routes to real estate, joint ventures and club deals are ranked first, followed by non-listed real estate funds in second place and direct investments in third. In 2015 the preferred route to market was non-listed real estate funds, with joint ventures and club deals being ranked second and direct investments third.

Investors have a strong preference for large funds over small funds, for seeded pools over blind pools and for co-investors of similar company type. Respondents as a whole have a notable preference for closed end structures as opposed to open end, for discretionary over non-discretionary mandates and for investing alongside investors who are similar in terms of their domicile.

Top three investment destinations in Europe

1. GERMANY
2. FRANCE
3. UK

Diversification is the most important factor driving real estate allocations generally. The main benefit of investing in non-listed real estate funds specifically is the access to expert management.

In current market conditions, investors see fund managers faced with several difficulties, most prominent being the ability to achieve target returns. Despite the wave of regulatory changes (such as Solvency II and AIFMD) neither investors nor fund managers themselves consider regulatory issues to be a challenging obstacle for fund managers. However, fund of funds managers do consider regulatory issues to be an obstacle.

Section 1

Introduction

Introduction

The Investment Intentions Survey 2016 explores the aspirations for investment into the real estate sector over the next two years with a focus on non-listed real estate funds. For the third year running the survey has a global reach as a joint research project between ANREV, INREV and PREA.

The results are based on an online survey that was carried out from October to November 2015. Respondents include members of various industry associations as well as other market participants active in the real estate sector.

This year's survey attracted a record number of responses, 345 in total, compared with 337 last year. This year's respondents comprise 130 investors (2015: 144), 200 fund managers (2015: 174) and 15 fund of funds managers (2015:19), with 160 from Europe (2015: 168), 110 from Asia Pacific (2015: 82) and 75 from North America (2015: 87). Responses from all participants are taken into consideration in Section 2.

'The survey attracted 345 responses, a record number'

The report is set out as follows: Section 2 explores global real estate allocations, providing insight into investment trends across Europe, Asia Pacific and North America. This is a common section that can also be found in the ANREV and PREA Investment Intentions 2016 reports.

From Section 3 onwards the report focuses on investment into the European real estate markets. Section 3 looks at preferred investment styles and Section 4 focuses on preferred investment destinations and sectors in Europe. In Section 5 the focus moves to expected investment trends to access Europe and in Section 6 the topic is preferred structures for non-listed real estate funds. The final section is Section 7 which covers the pros and cons of non-listed real estate funds.

In those sections that focus on the European real estate market, the analysis is based on the responses of those investors, fund of funds managers and fund managers who are already invested in, or intend to invest in Europe. The survey sample here comprises 113 investors, 15 fund of funds managers and 138 fund managers. (In 2015 the corresponding figures were 131 investors, 19 fund of funds managers and 117 fund managers).

The Appendix to the report includes a section on back-testing analysis carried out by Real Capital Analytics. This compares the 2015 INREV Investment Intentions Survey results with real estate investment transactions in 2015.

The sample under analysis varies from year to year depending on the composition of respondents; therefore year on year comparisons should be treated with an element of caution.

In general results are reported on an equally weighted basis where all responses are given the same weight. Where it is appropriate results are weighted according to the size of total market value of real estate assets under management, which enables a comparison between larger and smaller investors. Therefore, all graphs and data are equally weighted unless specified otherwise.

ANREV, INREV and PREA would like to thank respondents for participating in the Investment Intentions Survey 2016.

Section 2

Expectations for global real estate allocations

Expectations for global real estate allocations

In the years since the global financial crisis, real estate investors have enjoyed a rebound in values and strong returns in most major markets globally. Now, more than five years into recovery, investors' minds are naturally beginning to question which stage of the real estate cycle we are in, and what strategies will prove most effective going forward. This, then, is a most opportune time to present the results of this latest Investment Intentions Survey. This Section, common to the separate reports prepared by the three sponsoring associations, ANREV, INREV, and PREA, explores investment intentions on a global basis.

To begin, we examine what attracts investors to real estate as an asset class. Figure 1 shows that, as in past surveys, diversification is the most important factor driving real estate allocations, followed closely by income return, the ability to enhance returns, and risk-adjusted performance. The inflation hedging ability of real estate is less often stated as a primary motivation compared to the other reasons. It can be seen in Figure 2 that fund of funds managers place different emphasis on real estate's characteristics than do other investors; fund of funds managers tend to put even less emphasis on inflation hedging, and slightly more on the return enhancing and risk-adjusted performance aspects of real estate. In asking fund managers what they believe drives investor interest in real estate, we find that manager beliefs are generally in line with actual investor responses although fund managers rate income return more highly than diversification and believe it to be somewhat more important to investors than it actually is.

Figure 1: Reasons to invest in real estate

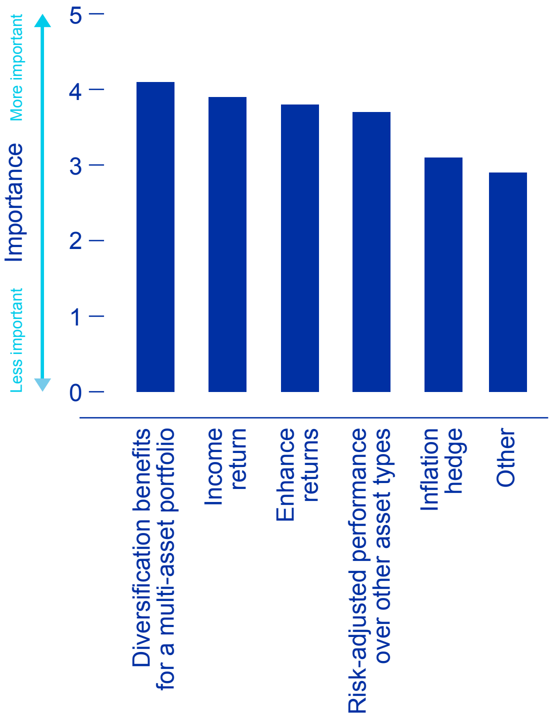
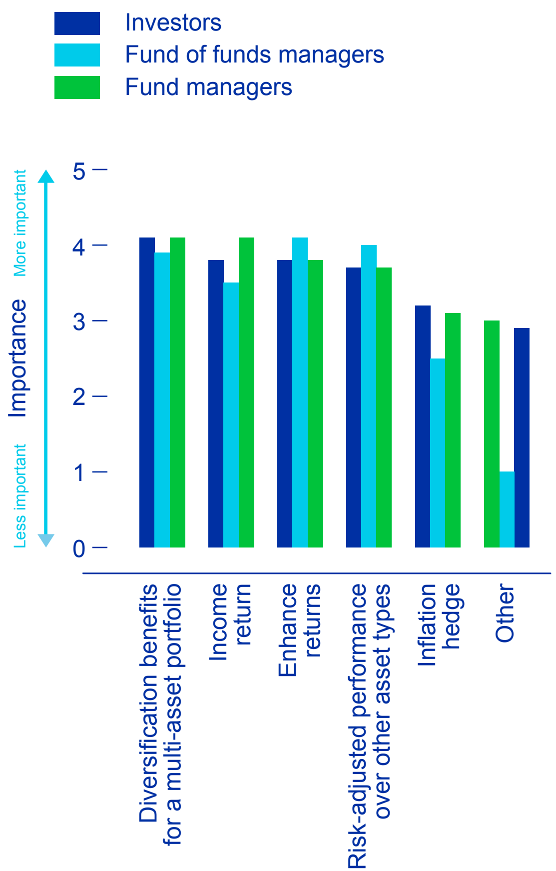


Figure 2: Reasons to invest in real estate by respondent type



To explore whether investors from different regions view real estate differently, Figure 3 presents the reasons for investing in real estate broken down by domicile of the investor. The dominance of diversification as the top attraction to real estate is global and holds for investors from all regions. In general, investors from North America and the Asia Pacific region appear to be similar in their view of the attractions of real estate. European based investors, however, do differ in some respects: they place a higher emphasis on income return and lower emphasis on inflation hedging compared to investors from other regions. European investors also place significantly higher emphasis on “other” reasons for investing in real estate. While there are some differences between European and non-European investors, there is broad similarity across regions in rating the reasons to invest in real estate; despite this we observe wide differences in average real estate allocations across countries (Figure 4).

Figure 3: Reasons to invest in real estate by investor domicile

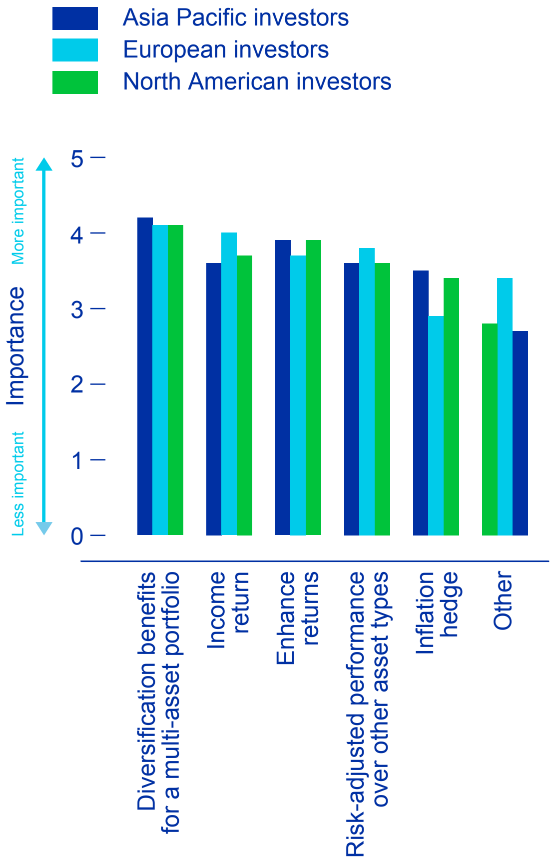
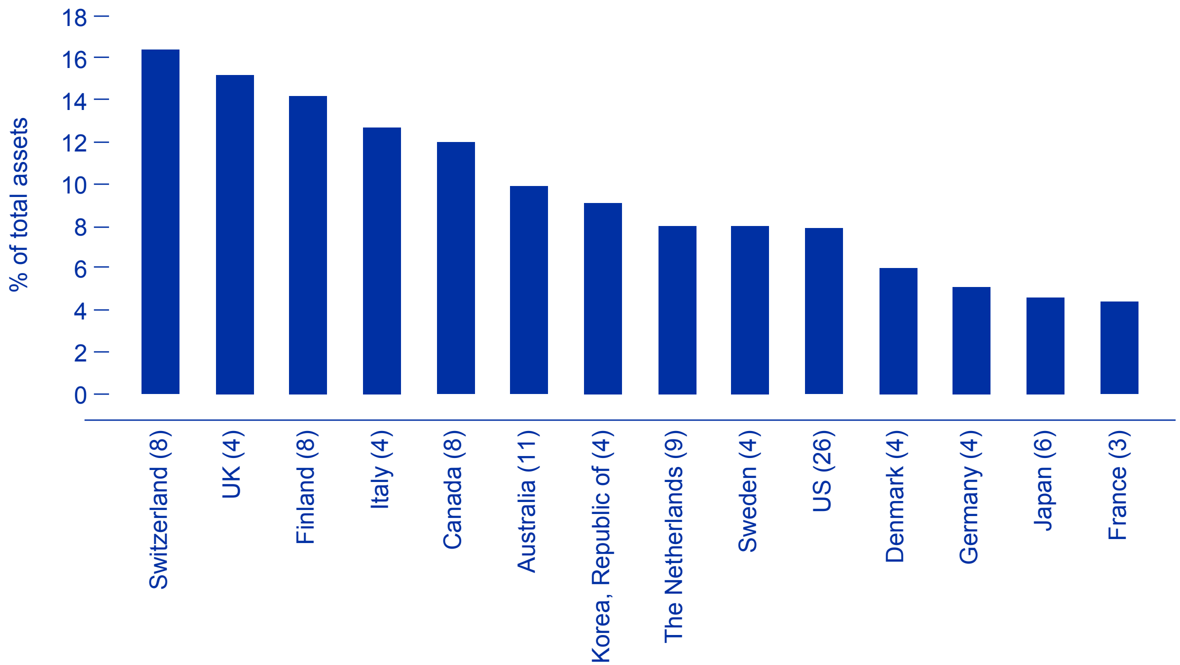


Figure 4: Investors’ average real estate allocation by country

Note: investor numbers in parentheses



Turning from underlying reasons to actual real estate investment, Figure 5 shows that on an equally-weighted basis the average investor is targeting an allocation of 10.3% to real estate within the next two years, 90 basis points (bps) above current allocations. However, these numbers hide inter-regional differences. North American based investors are currently, on average, only slightly below target, whereas European investors are currently 100 bps below target despite having the highest average current allocations across the regions. Asia Pacific based investors are the furthest below target with current allocations being 160 bps below their 9.8% target.

There are also differences in allocations across type of institutional investor. As seen in Figure 6, insurance companies have lower current and target allocations than do pension funds and other institutional investors. However, insurance companies on a global basis are significantly under target, with a target real estate allocation of 6.9% and an average current allocation of only 5.9%. Conversely, pension funds have the highest current and target allocations, but are only slightly under target. Other institutional investors have the largest underweighting to real estate, with the target 170 bps above current allocations.

Figure 5: Investors' current and target real estate allocations

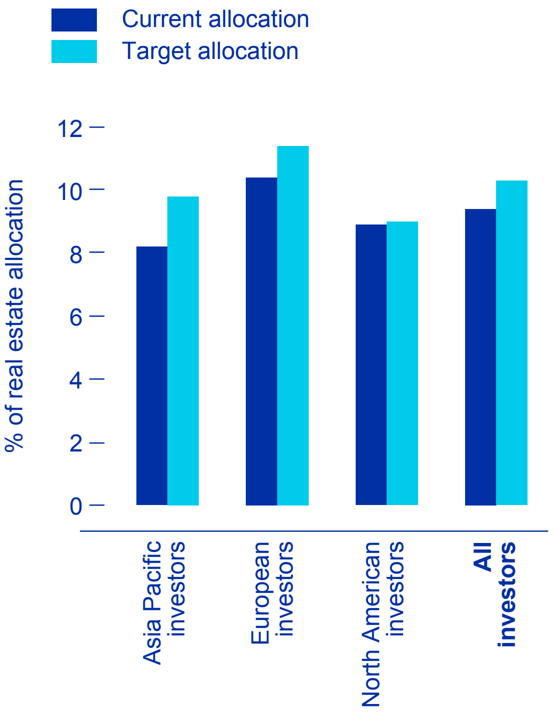
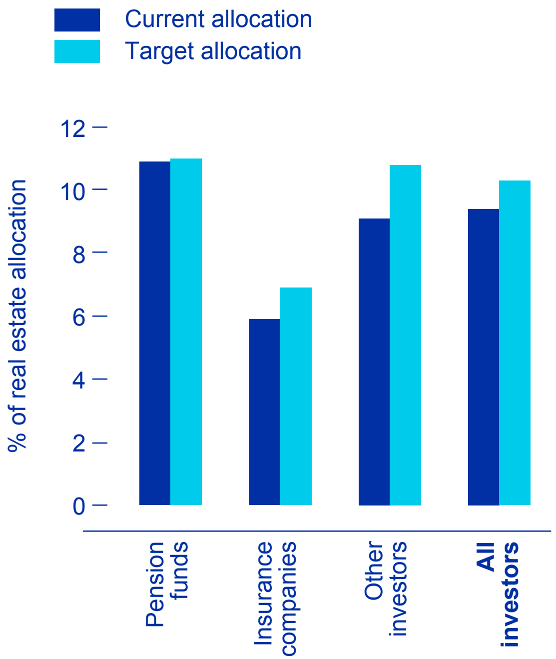


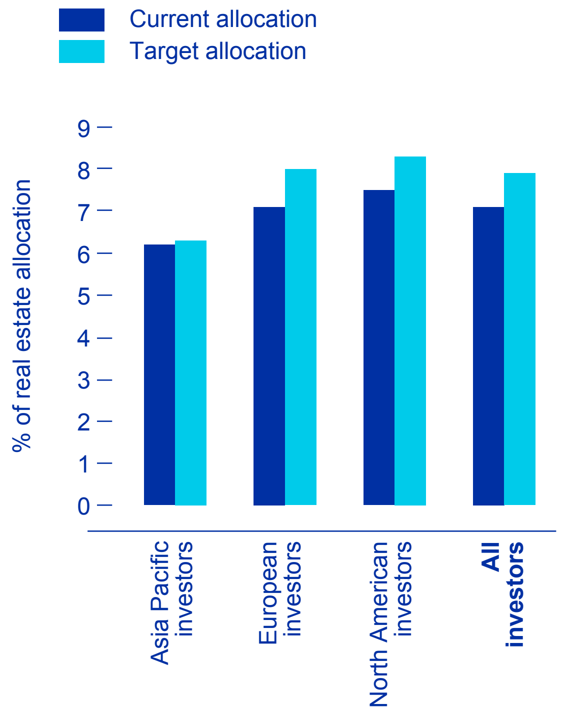
Figure 6: Current and target allocations by investor type



While the previous Figure presented the allocations picture for the average investor, they did not account for the weight of capital coming from larger investors: Figure 7 presents investors' current and target allocations weighted by total real estate assets under management and is therefore more appropriate when thinking about the amount of capital targeting real estate globally. The weighted average allocations are all lower than the equally-weighted equivalents, indicating that the larger investors participating in the survey tend to have lower percentage allocations to real estate than smaller investors. As shown in the Figure, the weighted average current allocation to real estate is 7.1%, which is 80 bps below the weighted average target.

Again, there are significant inter-regional variations, and the inter-regional differences are quite different when examined on a weighted basis. When weighted by total assets, Asia Pacific based investors are very close to target, while North American and European investors are under target. Overall, the current and target allocations indicate that there is still the potential for significant capital inflows to real estate globally.

Figure 7: Expectations for real estate allocations (weighted)



This is reinforced by the fact that more than half of investors reported that they expect their target real estate allocation to increase over the next two years (Figure 8). There are differences across regions in this finding, with almost two-thirds of European investors expecting their real estate target to be increased. At the other end of the spectrum, only 42.3% of North American investors expect to see increased targets while 35% expect to see their target allocation decrease. However, when weighting responses by total real estate assets under management a much different picture emerges (Figure 9). On a weighted basis, the proportion expecting an increase in real estate target increases dramatically for North America and Asia Pacific, with a large majority in both regions expecting an increase on a weighted basis. Together, Figures 8 and 9 imply most European investors expect an increase in target and that the larger North American and Asia Pacific based investors also foresee increasing targets for their real estate allocations.

Figure 8: Investors' views on development of global real estate portfolio

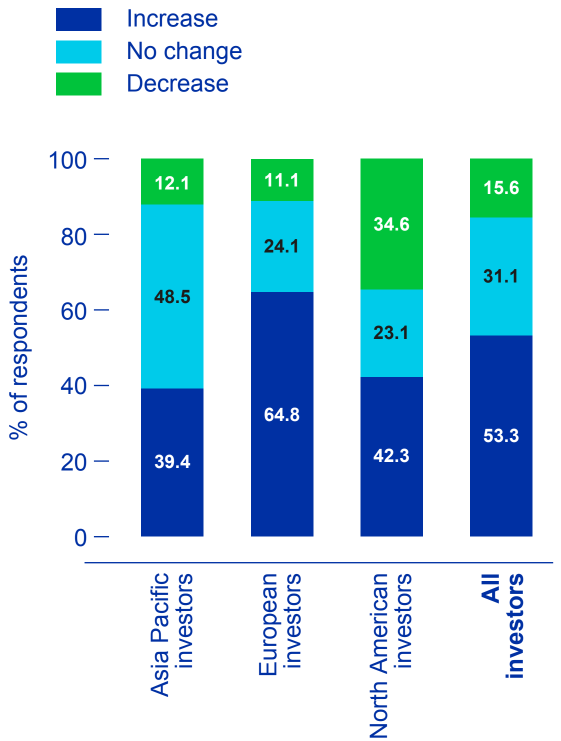
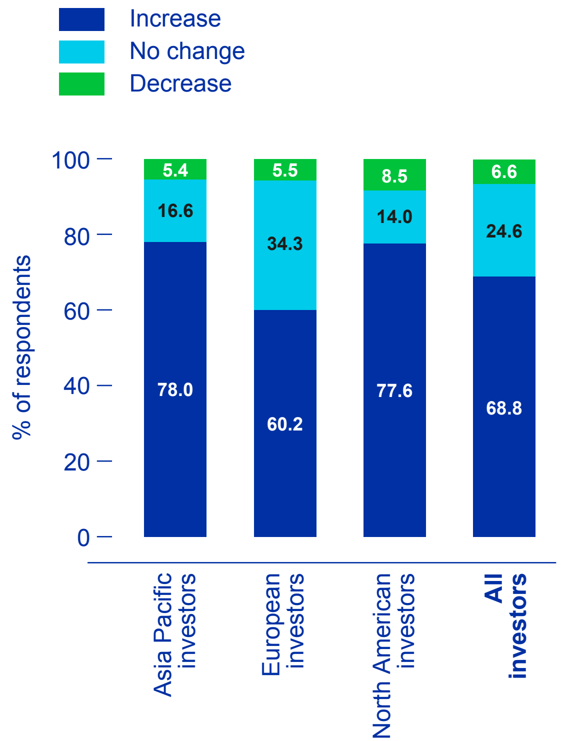


Figure 9: Investors' views on development of global real estate portfolio (weighted)



Overall, investors responding to this year's survey expect to invest €47.7 billion in real estate in 2016, with approximately two-fifths of that coming from each of Europe and North America, and one-fifth from Asia Pacific (Figure 10). As seen in Figure 11, 41.9% of that capital is expected to be invested in Europe, 35.5% in the US, 17% in Asia Pacific, and 5.6% in the Americas (ex US). Expected investment locations for fund of funds managers in 2016 differ from other investors, as shown in Figure 12. Fund of funds managers expect to invest somewhat more in Europe, and less in the US.

Figure 10: Expected amount to be invested in real estate in 2016 by investor domicile (total: €47.7 billion)

20.3%	Asia Pacific investors
41.6%	European investors
38.0%	North American investors

Figure 11: Investors' expected destination for real estate investments in 2016 (total: €47.7 billion)

16.9%	Asia Pacific
41.9%	Europe
35.5%	US
5.6%	Americas ex US
0.0%	Other

Figure 12: Fund of fund managers' expected destination for real estate investment in 2016 (total: €5.9 billion)

18.0%	Asia Pacific
59.3%	Europe
20.2%	US
2.2%	Americas ex US
0.3%	Other

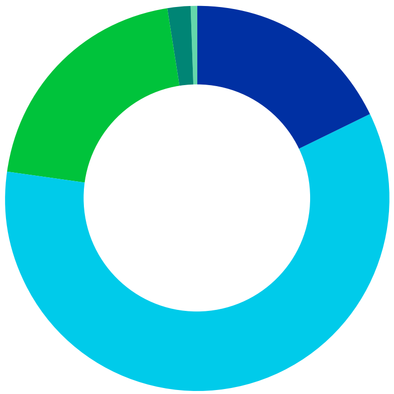


Figure 13 shows the expected destination for capital in 2016 by the home region of the investor. While investors from all regions show a home bias, their own region being expected to receive the largest proportion of capital, it is apparent that investors from Asia Pacific are more interested in increasing their international diversification than are their counterparts in other parts of the world. Approximately one-quarter of Asia Pacific investment capital in 2016 is destined for each of the US and Europe, and less than half is expected to be invested in Asia Pacific. Conversely, 72.1% of European capital is targeting real estate investments in Europe. For North American investors 60.2% of capital deployed in 2016 is expected to be invested in the US and a further 12.7% in the rest of the Americas (including Canada). These expectations for investment in 2016 can be compared to investors' current allocations across regions (Figure 14). These two figures together indicate that investors from the Asia Pacific region intend to increase global diversification by lowering their allocation to their home region.

Figure 13: Investors' expected destination for real estate investment in 2016 by domicile

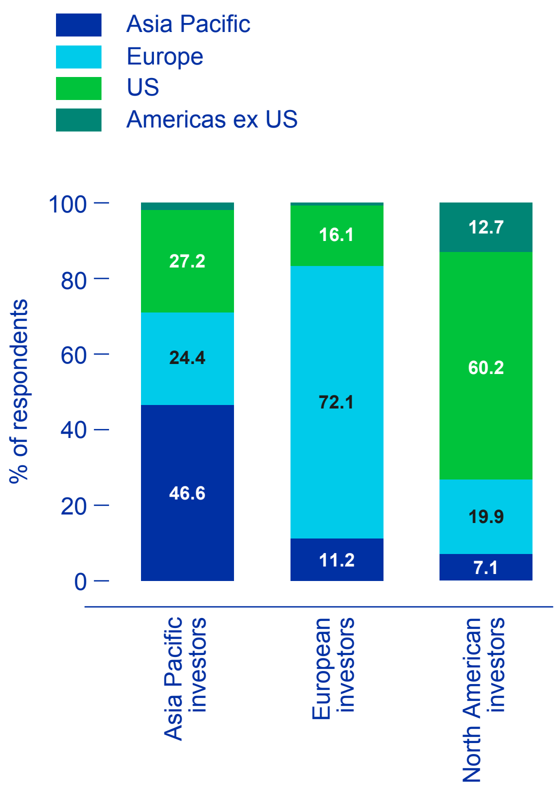
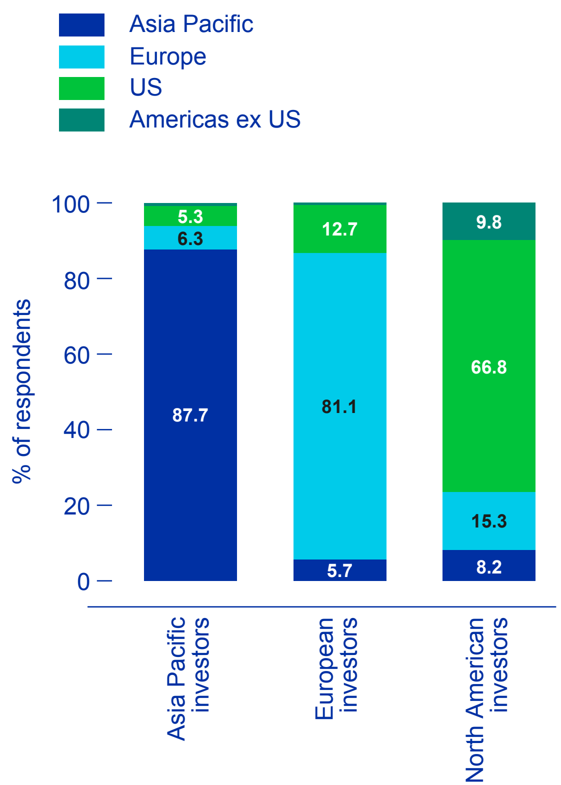
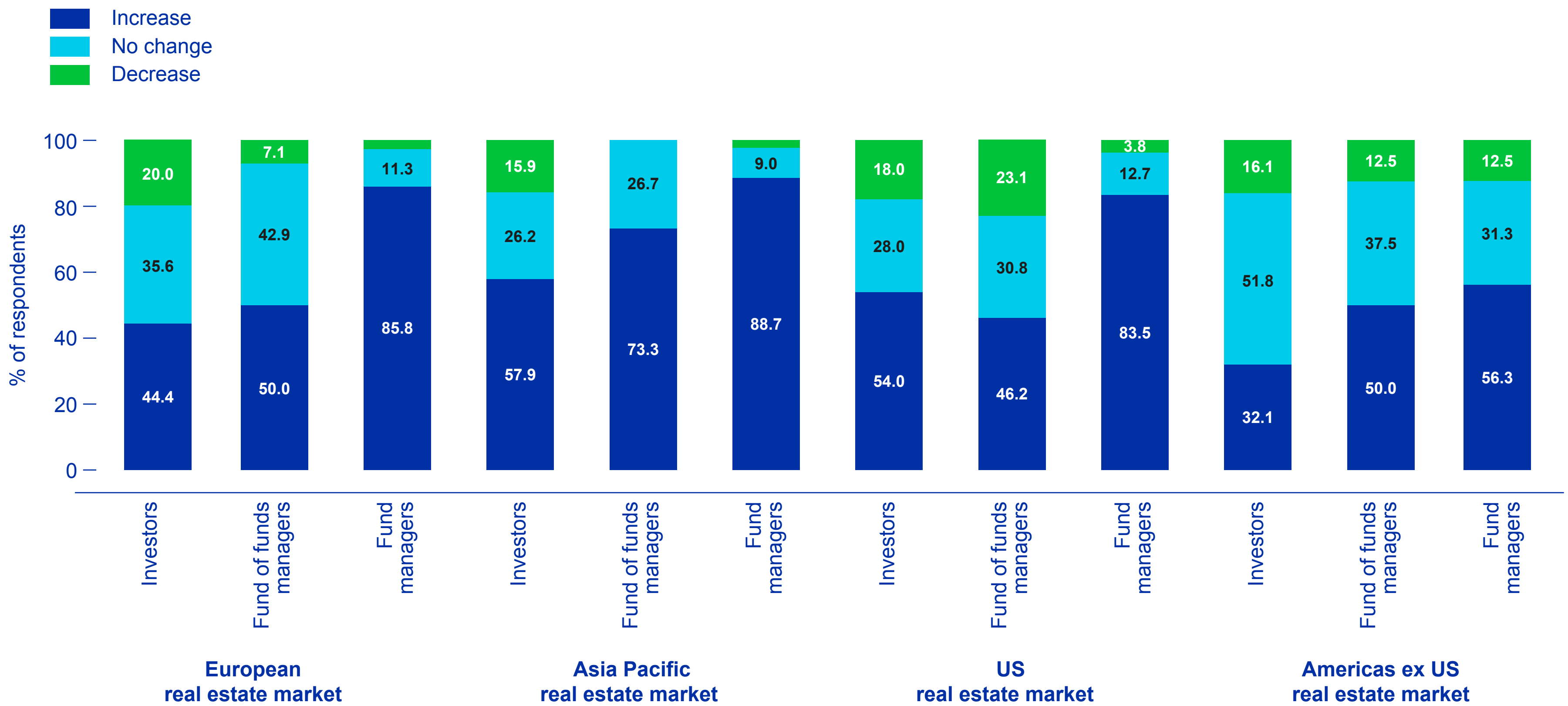


Figure 14: Investors' current regional allocations by domicile



The lower interest in Asia Pacific as a destination for capital among European and North American investors, and the tilt way from their home market by Asia Pacific based investors, is consistent with the results shown in Figure 15. That Figure shows that, other than the Americas ex US, Asia Pacific has the lowest proportion of investors expecting to increase allocations to that region over the next two years, and the highest proportion expecting to decrease allocations. Americas ex US is, however, the least preferred region among investors, with only one-third expecting an increase in allocations to that region over the next two years. Fund of funds managers, again, are somewhat different with the US market being the least preferred (46.2% of fund of funds managers expect to increase allocations to the US, while 23.1% expect to decrease). Fund of funds managers are also very interested in the European market with 73.3% expecting allocations to Europe to increase over the next two years, and none of the respondents are expecting a decrease. Finally, fund managers, asked about the expected development of their assets under management by region over the next two years, were globally optimistic with a majority expecting an increase in AUM in all regions. It is interesting to note, however, that only 56.3% of fund managers expected to increase their AUM in the Americas ex US region, far less than the other regions globally.

Figure 15: Expected changes to real estate allocations by region over the next two years



Section 3

Preferred investment styles

Preferred investment styles

Starting from this section, the report focuses on investment into the European real estate markets only. This section explores the investment style preferences of investors and fund of funds managers. To provide an additional perspective fund managers were asked to comment on the style preferences of their investors.

Respondents were asked for their views on the attractiveness, in risk/return terms, of the three main investing styles in the five main regions, and to indicate which styles they intended investing in, on a region by region basis. For example, Europe - Value Added is a regional/style pairing which respondents could select. Fund managers were asked to comment on behalf of their investors. The wording of the first question was 'in terms of risk-adjusted performance prospects, which investment style do you find most attractive at the moment?' The second question was 'in which investment style do you expect to invest in 2016?' For fund managers the equivalent question was slightly reworded to be: 'in which investment styles do you expect your investors to invest this year?'

In 2016 investors' preferred investment style is value added, with almost half (46.8%) indicating that they consider it attractive in risk/return terms.

For investors, the shift towards value added is coming at the expense of both core and opportunity styles, though more from opportunity. In last year's survey investors indicated their preferences to be evenly split between core and value added (41.1% each) and opportunity (17.8%). In the 2016 survey the corresponding numbers are core (39.4%), value added (46.8) and opportunity (13.8%), indicating that the increased preference for value added is largely though not exclusively matched by a reduced preference for opportunity.

It is noticeable that fund of funds managers have a much higher regard for opportunity (21.4%) than investors (13.8%). Fund managers' perception of their investors is that they view opportunity (9.4%) lower down the rankings.

Investors' preferred investment styles shift continually, and no two years look identical.

Figure 16: Preferred investment styles by respondent type

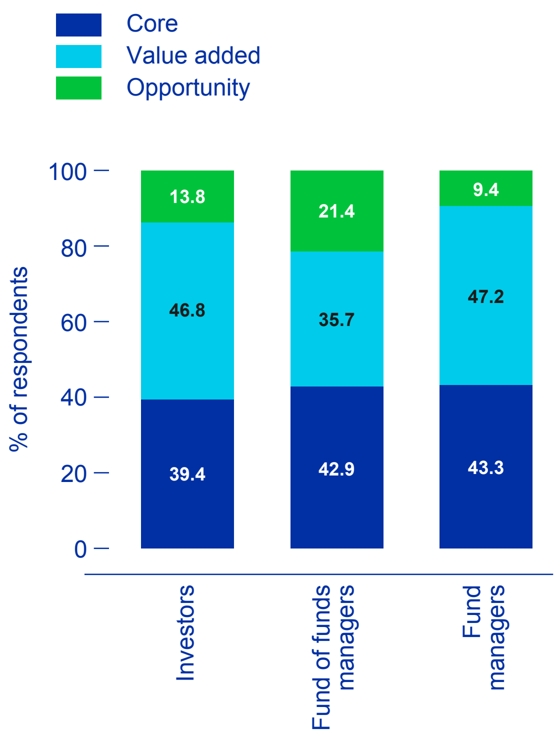
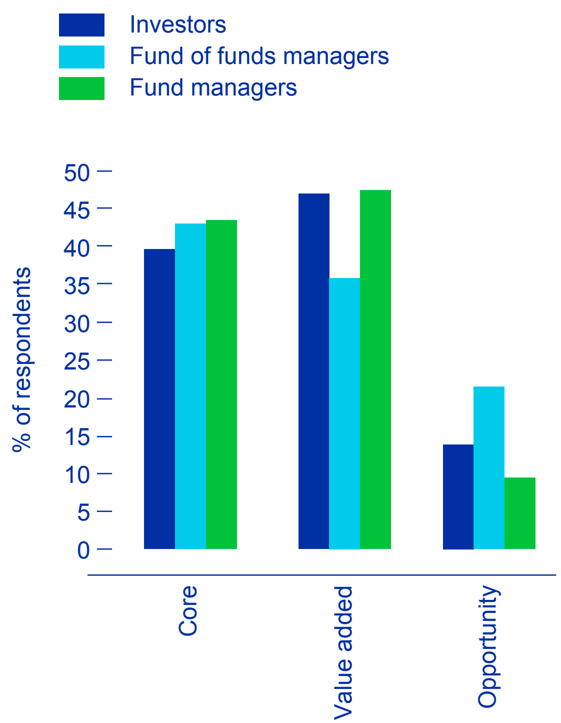
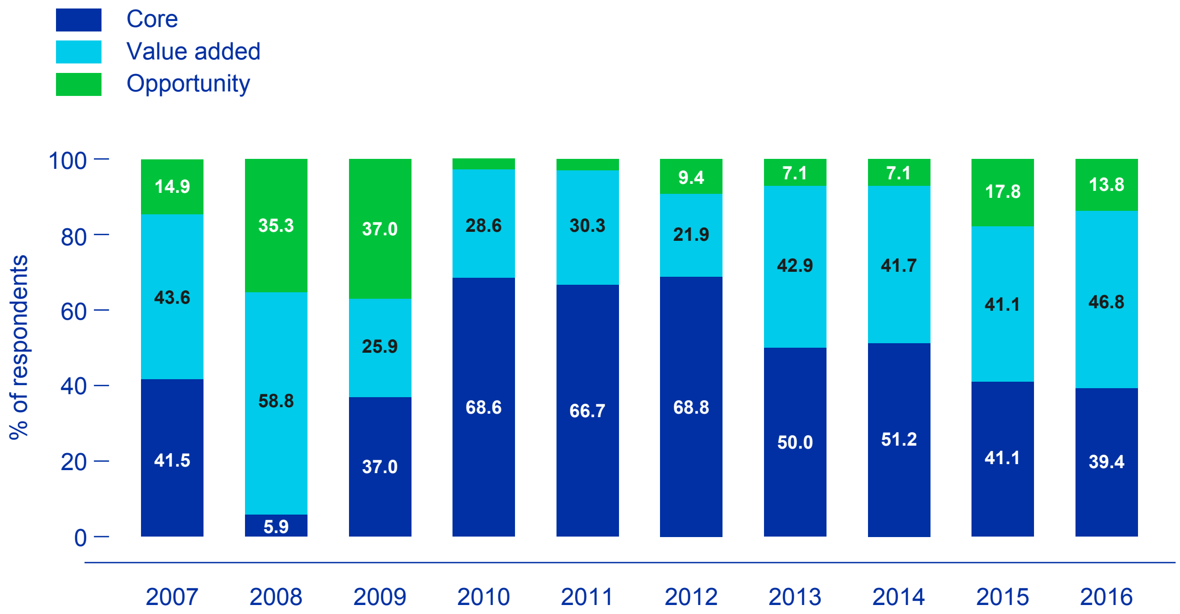


Figure 17: Investment style preferences in 2016



Since last year there has been a move towards value added, accompanied by a minor shift out of core and a more sizeable shift out of opportunity. Core is now at its lowest level since 2009, and value added is now at its second highest point (the highest being in 2008) in the ten years since the survey started.

Figure 18: Investment style preferences 2007 - 2016

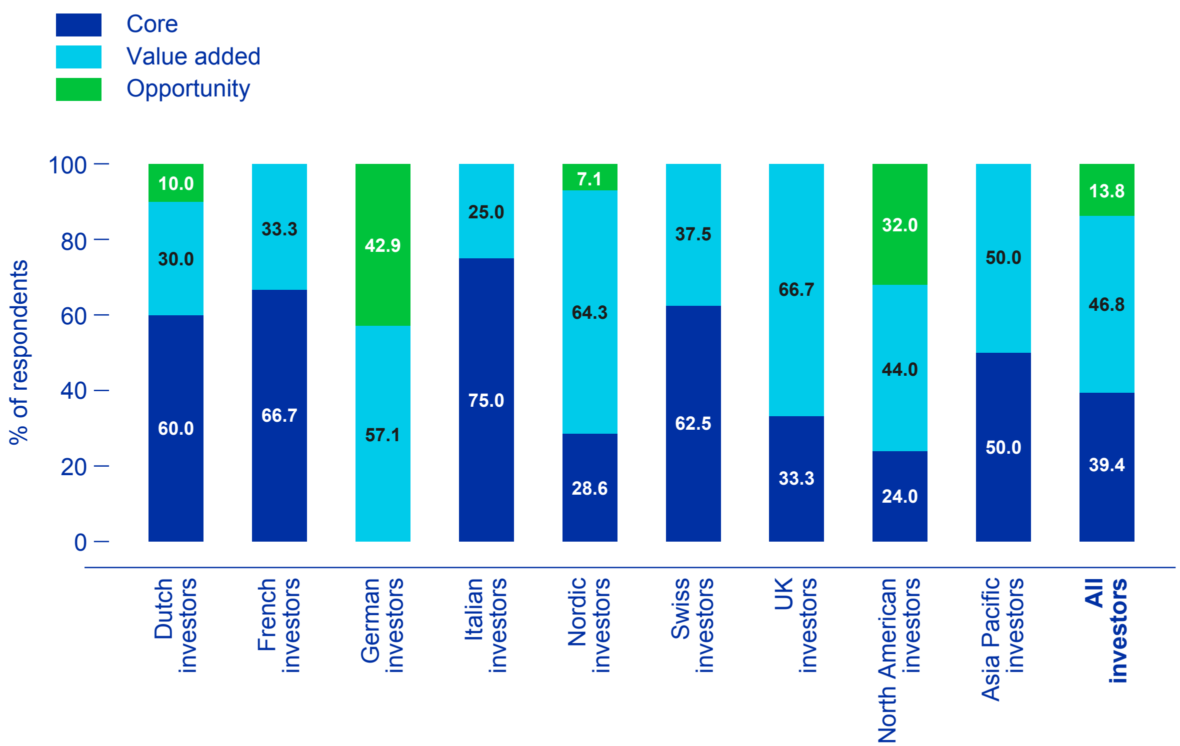


There are significant variations across investor domicile in terms of how they view the attractiveness of risk-adjusted performance. For example, there is a strong preference for core in Italy (75.0%), France (66.7%) and Switzerland (62.5%). Value added investments are favoured most in the UK (66.7%), the Nordics (64.3%) and Germany (57.1%).

None of the investors based in Germany indicate a preference for core strategies, with more than half of them naming value added as their preferred investment style, and the remaining opting for opportunity.

Opportunity is chosen as the style with the best risk-adjusted prospects in only half of the countries, while value added is mentioned by respondents from all domiciles. With the exception of Germany, core is chosen by respondents from every domicile. The limited popularity of opportunity and the widespread popularity of value added reinforce the trend away from opportunity and into value added.

Figure 19: Investors' views on risk-adjusted performance prospects by investor domicile in 2016



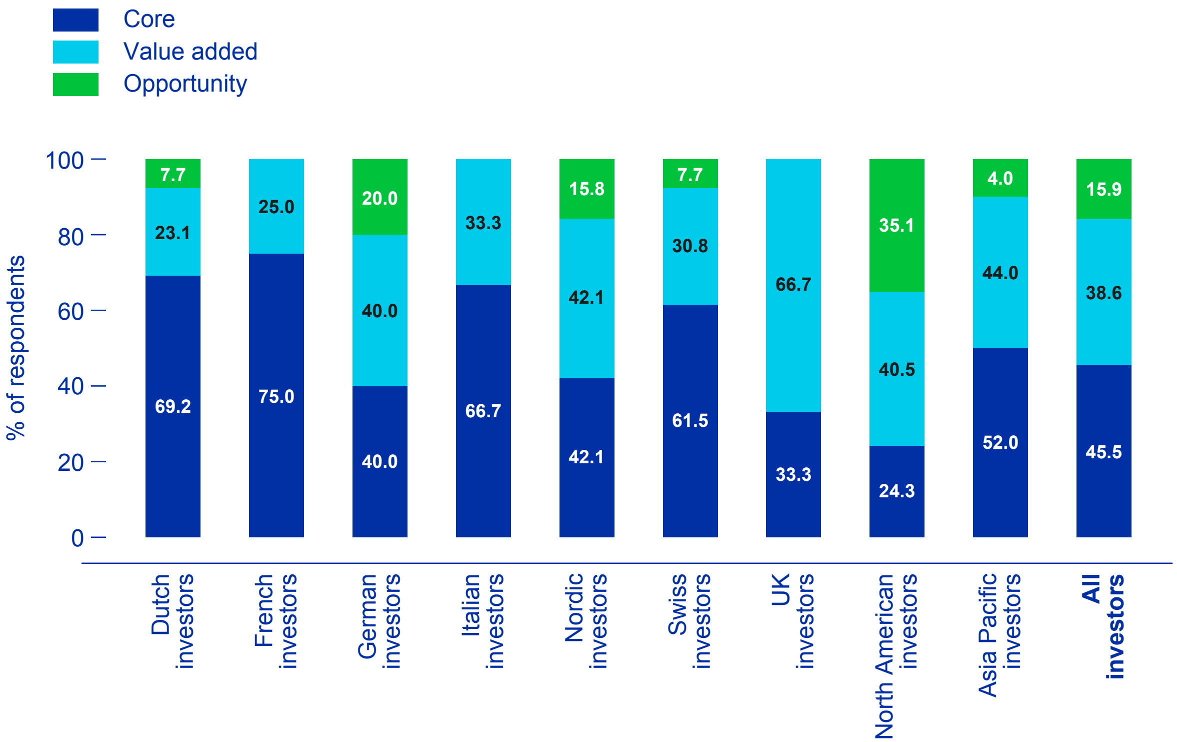
'Style preferences – widespread popularity for value added'

When asked about the styles that they expect to invest in in 2016 a slightly different picture emerges. In seven out of ten domiciles opportunity is mentioned as a style that investors plan to invest in, while just five consider that style attractive in risk/return terms. It seems that Swiss and Asia Pacific investors may not find opportunity the most attractive for prospective risk-adjusted returns but they do intend to invest in that style.

German investors indicate that they will invest in core, even though they expect value added and opportunity styles to be more attractive in terms of risk and return. French and Nordic investors also showed a marked difference between the styles they find most attractive and the styles they expect to invest in.

For investors taken as a group, the difference between views on where the best risk-return prospects lie and where investors expect to invest is noticeable. For core, 39.4% see it as attractive but 45.5% expect to invest in that style. For value added, 46.8% see it as attractive but 38.6% expect to invest in that style. For opportunity, 13.8% see it as attractive but 15.9% expect to invest in that style.

Figure 20: Investment styles that investors plan to invest in this year by investor domicile



Section 4

Preferred investment destinations and sectors in Europe

Preferred investment destinations and sectors in Europe

This section focuses on the desired investment destinations for 2015.

Respondents were asked to indicate their target countries and sectors, and they were able to select more than one choice. For the first time respondents were able to select key cities within a country rather than the country overall. For example, this year's respondents were able to select UK - London and UK - other cities, rather than just the UK.

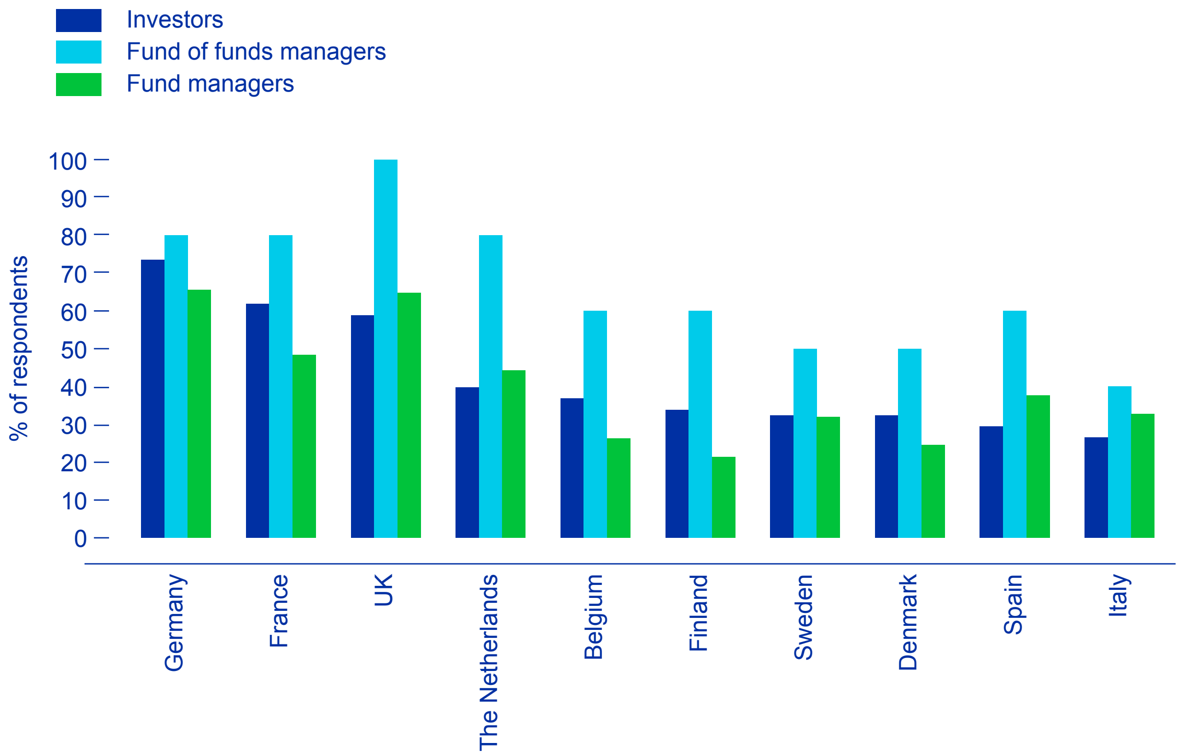
Germany, France and the UK consistently rank as preferred locations for investment into Europe. This is highly reflective of the size, maturity and transparency of these markets which enable investors to access the markets more easily for the risk-adjusted returns they seek.

For investors, Germany retains its number one position with 73.5% of them indicating an intention to invest there in 2016. France is in second place, with 61.8% of investors indicating an intention to invest there. The UK is in third place, attracting 58.8% of investors.

No other country was nominated as an investment destination by over 50% of the investors, the nearest one being the Netherlands with 39.7% followed by Belgium with 36.8%. The next three countries are Nordic nations: Finland (33.8%), Sweden (32.4%) and Denmark (32.4%). The top ten conduces two southern European markets, Spain (29.4%) and Italy (26.5%) being eighth and tenth respectively.

For fund of funds managers the picture is quite different. The UK is in first place, attracting 100% of fund of funds managers. Germany, France and the Netherlands are in joint second place, with 80% of fund of funds managers indicating an intention to invest there in 2016. The next most popular countries are Belgium, Finland and Spain (60% for each), followed by the Nordic pair of Sweden and Denmark (50% each) and then Italy (40%).

Figure 21: Ten most preferred locations for 2016

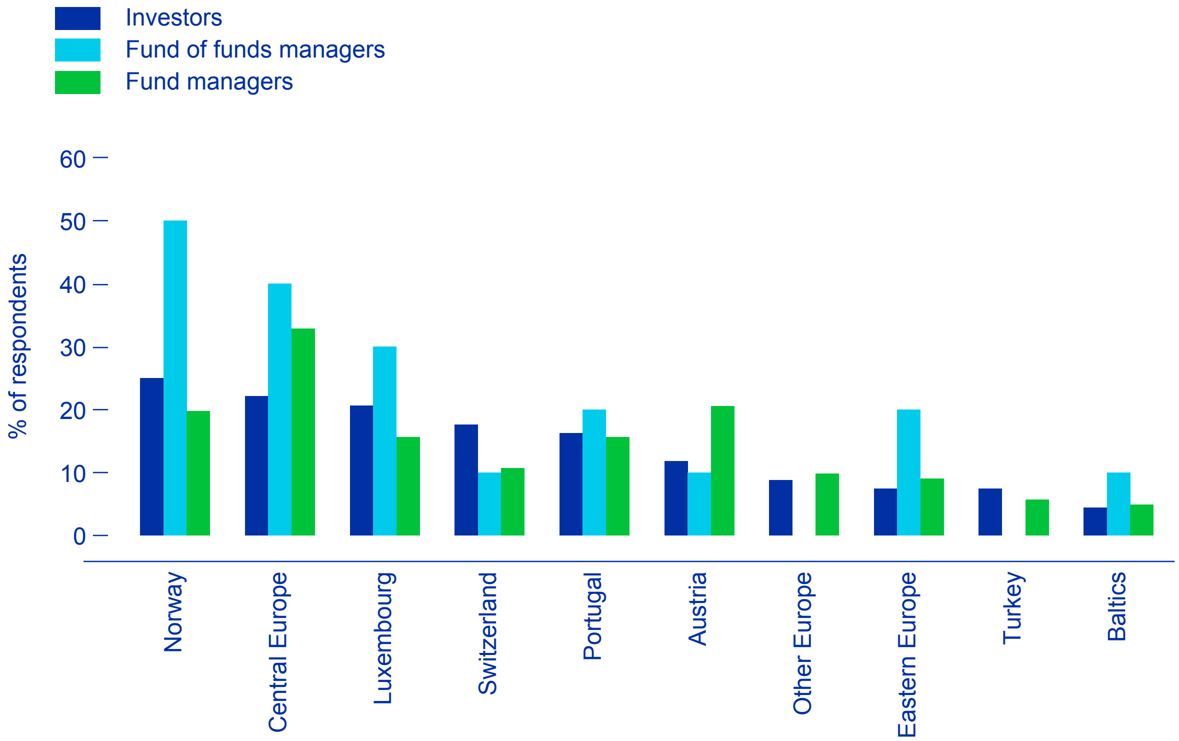


For fund managers the situation is different again. Like investors, their first choice is Germany with 65.6% indicating an intention to invest there in 2016. Unlike investors, however, their second choice is the UK (64.8%), which slightly lags Germany. France is in third place (48.4%). Netherlands is next most popular for fund managers (44.3%), and the southern European pairing of Spain (37.7%) and Italy (32.8%) are next. For fund managers the next four countries in descending order of preference are Sweden (32.0%), Belgium (26.2%), Denmark (24.6%) and Finland (21.3%).

At the other end the scale, the list of less favoured locations for investors starts with Norway (with 25% of investors indicating they would invest there in 2016) before moving through Central Europe[1], Luxembourg, Switzerland, Portugal and Austria. The two least favoured locations for investors are Turkey and the Baltics[2].

Compared to investors, fund of funds managers have a higher regard for Portugal and Eastern European[3], while fund managers have a higher regard for Central Europe and Austria.

Figure 22: Ten least preferred locations for 2016

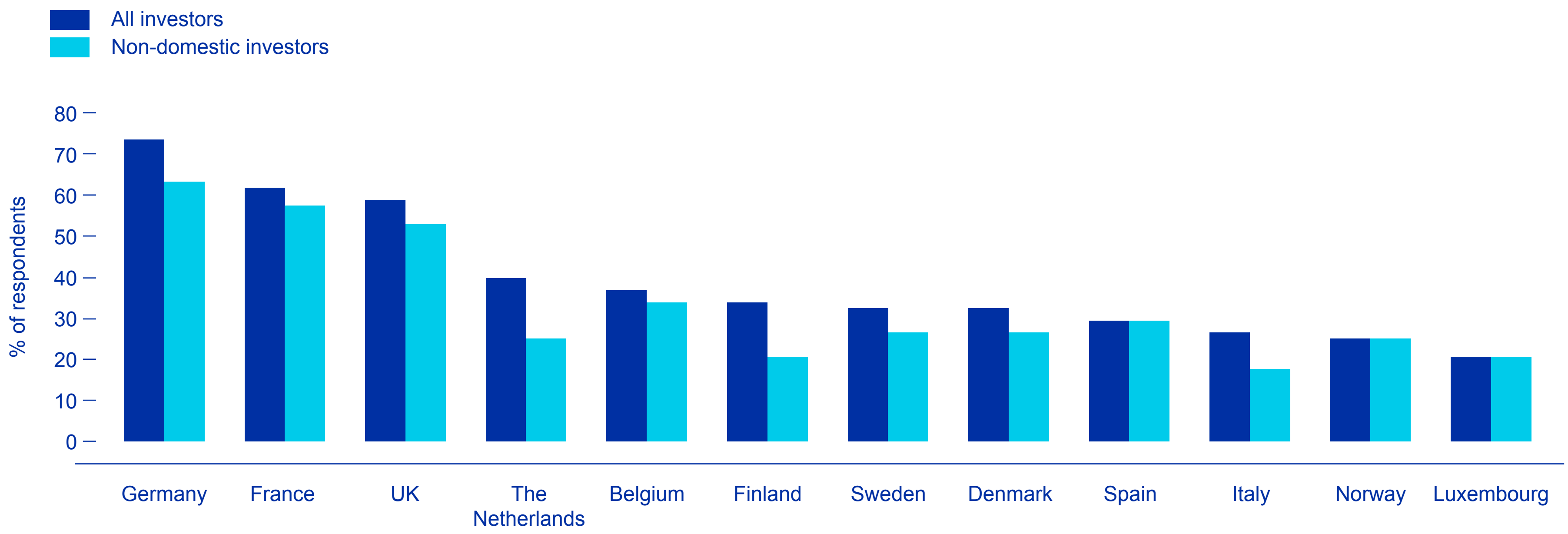


[1] Central Europe comprises Czech Republic, Poland, Hungary, Slovakia and Slovenia
[2] Baltics comprises Latvia, Lithuania and Estonia
[3] Eastern Europe comprises Romania, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Kosovo, Macedonia, Albania, Bulgaria, Russia and Ukraine

The majority of investors tend to invest in their domestic markets before other markets so to remove the effect of home bias the study looks at the differences in preferences between non-domestic investors and all investors.

The big three national markets of Germany, France and the UK are popular with both domestic and non-domestic investors. The same is true of Belgium, Spain, Norway and Luxembourg. There is some indication of domestic bias in the Netherlands, Finland and Italy, based on the evidence that non-domestic investors are noticeably less keen on those markets than investors as a whole.

Figure 23: Preferred investment locations for 2016 - comparison of non-domestic and all investors

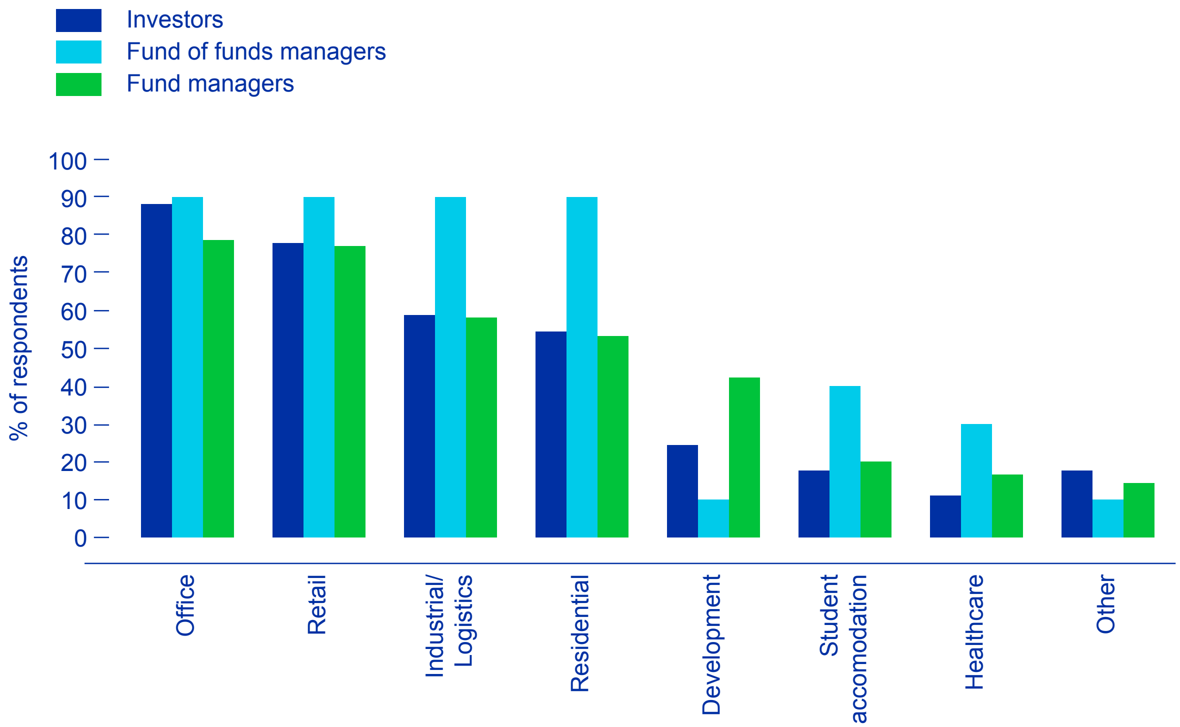


In terms of sectors, for investors the office sector is preferred, with 88.2% expecting to invest there in 2016. Retail is next (77.9%), followed by industrial/logistics (58.8%) and residential (54.4%). Developments are ranked in fifth place (29.4%). The last three slots belong to healthcare (19.1%), student accommodation (14.7%) and other (14.7%).

For fund of funds managers, the top four sectors of office, retail, industrial/logistics and residential are given the same ranking, with 90% of fund of funds managers indicating that they expect to invest in those sectors in 2016. Student accommodation and healthcare are next in line (40% and 30% respectively), while the categories of development and other get the lowest scores.

Fund managers and investors are generally similar in terms of their sector preferences, although fund managers are more enthusiastic about development and student accommodation.

Figure 24: Preferred sectors in 2016 for all respondents

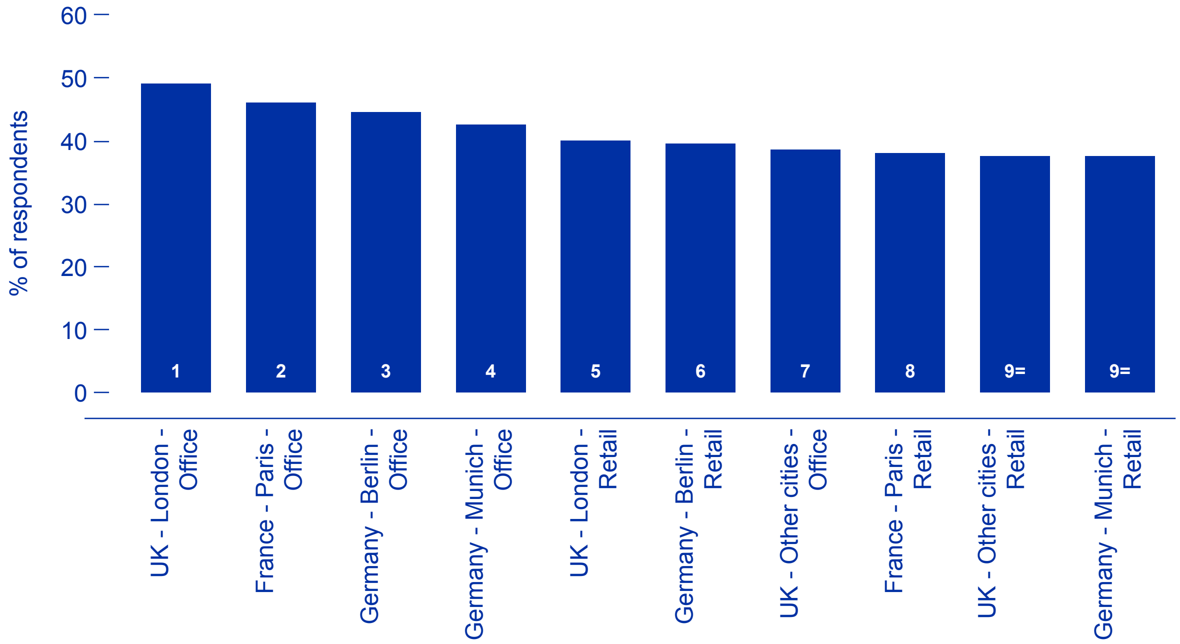


In this year's survey respondents were asked for the first time to distinguish between London and other cities within the UK, and between Paris and other cities within France. For Germany respondents were asked to distinguish between the Big Six cities (Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, and Munich) and other cities. In each case the "other cities" category is less highly regarded, but the gap between Paris and other French cities is much bigger than the comparable gap in the UK or Germany.

While London, Paris and large German cities always rank highly, there is considerable year on year change among the other destinations. For example, the Netherlands has risen by four places (from 8th in 2015 to 4th place for 2016) and Central Europe has fallen five places since 2015 (dropping from 7th place to 12th place).

The top twenty destinations in Europe are dominated by these three countries; in fact, German, UK and French office, retail, industrial/logistics and residential sectors account for eighteen out of twenty of the top slots, the other two being UK cities other than London (in joint 11th and 19th places). However, for investors only the picture differs. Germany - Office (55.9%) comes at the top, followed by France - Office (51.5%) and then UK - Office (50.0%) country/sector combination. In 2015 the top three were German retail, German offices and UK offices.

Figure 25: Preferred city and sector combinations in 2016 for all respondents



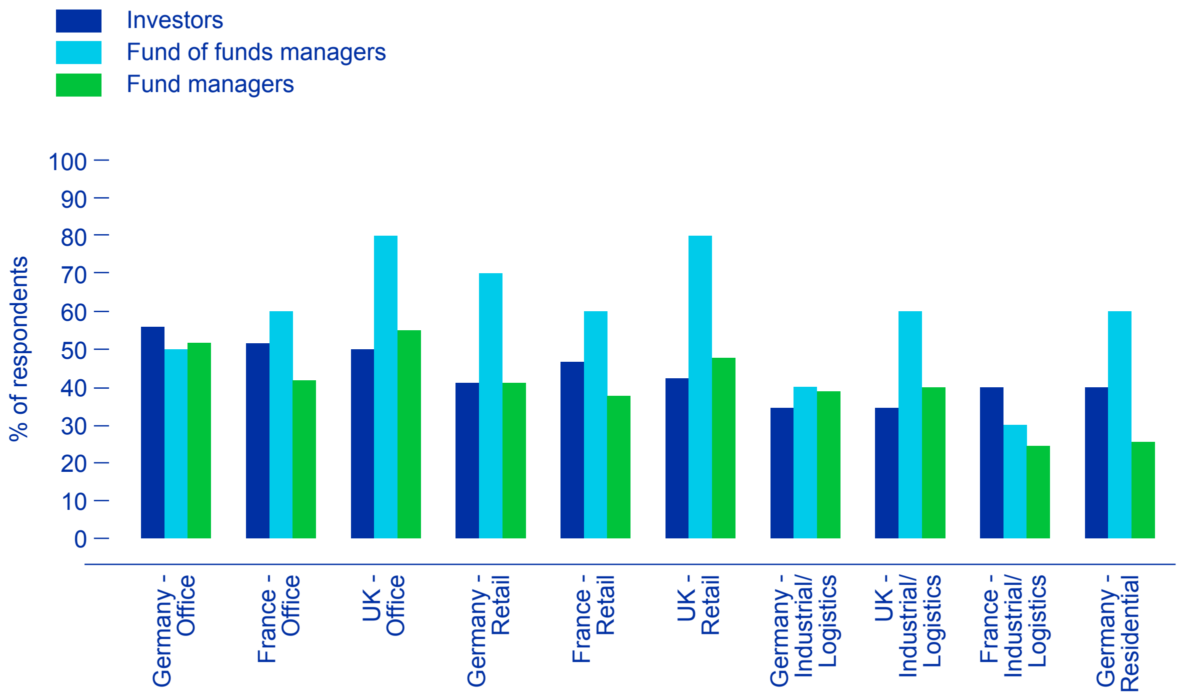
For investors German retail is in fourth place, followed by French retail in fifth place and UK retail in sixth place. The next three positions are taken by the industrial/logistics sector in the Big Three countries, and in tenth place comes German residential. There is a certain symmetry in investors' preferences: the top three are all office, and all get weightings of between 50% and 60%; the next three are all retail and they get weightings of between 40% and 50%; and the next group of three preferences are all in the industrial/logistics sector, and all get weightings of between 30% and 40%.

For fund of funds managers London is the favourite: London - Office and London - Retail get the highest score, at 80%. German retail at 70% is in third place for this group of respondents, and then four destinations are tied at weightings of 60%, these being: France - Office; France - Retail; UK - Industrials/ Logistics; German - Residential. Following these are Germany - Office at 50%; Germany - Industrials/Logistics at 40% and France - Industrials/Logistics at 30%.

'Office sector takes top three slots, just like in 2014'

For fund managers the pattern is slightly different again. UK - Office is on top, with 54.9%, followed by Germany - Office at 51.6%. UK - Retail is third, with 46.7%, followed closely in fourth place by Germany - Retail at 45.1%. France - Office with 41.8% is in fifth position. France - Retail is next with 37.7% and then in seventh there is UK - Industrials/Logistics with 36.9%. Germany - Industrials/Logistics is in eight position with 32.8%, leaving the last two positions in the top ten to France - Industrials/Logistics and Germany - Residential with 25.4% and 20.5% respectively.

Figure 26: Country and sector preferences for 2016 by respondent type



Between 2009 and 2016 France, Germany and the UK have generally dominated investor investment strategies, consistently ranking in the top three most preferred investment markets, the exception being in 2012 and 2013 when Nordic retail and offices appeared in the top three targeted markets.

Office and retail remain the two dominant sectors, with industrial/logistics and residential usually being in third and fourth place respectively. (One exception to the dominance of industrials/logistics over residential is Switzerland, where residential is preferred).

Table 1: Investors' top three preferred sector/ location combinations 2009 - 2016

	First	Second	Third
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

Section 5

Expected investment trends to access Europe

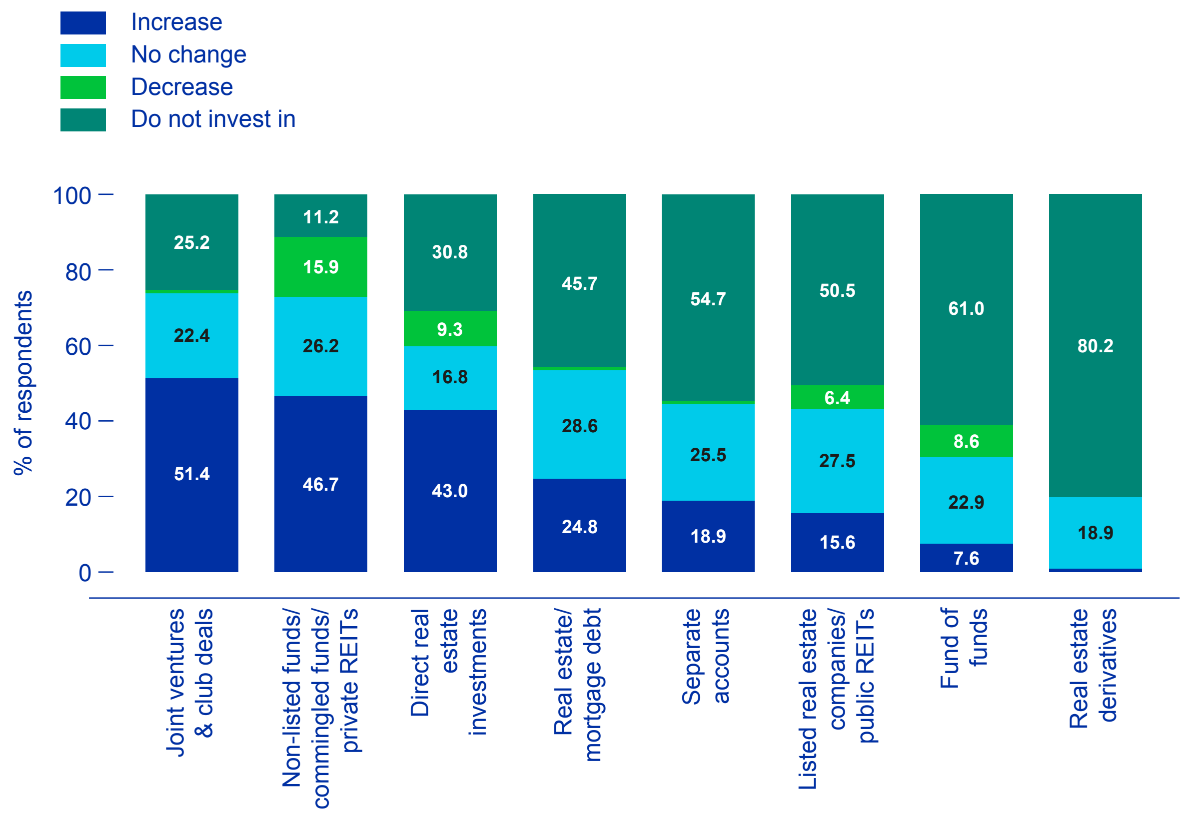
Expected investment trends to access Europe

This section explores the preferred route for investors and fund of funds managers to access European markets in 2016.

Investors were asked: ‘for each region, how do you expect your real estate allocation to develop over the next two years by type of product?’ Fund managers were asked for their perception of the same issue, with this question: ‘for each region, how do you expect your investors’ real estate allocation to develop over the next two years by type of product?’

An influx of capital into European real estate is expected in 2016. The most popular route into European markets is joint ventures and club deals, where 51.4% expect the allocation to increase, 0.9% expect a decrease, 22.4% expect to maintain the current allocation and 25.2% do not currently invest in this product.

Figure 27: Expected changes in investors’ European real estate allocations over the next two years



When the same analysis is performed on a value-weighted[4] basis the equivalent percentages for joint ventures and club deals is as follows: 64.1% expect allocation to increase, 1.3% expect a decrease, 16.4% expect to maintain the current allocation and 18.3% do not currently invest in joint ventures and club deals. This indicates that it is the larger investors that intend to increase their allocation to this vehicle type more so than the smaller investors.

The second most popular route is non-listed real estate funds, where 46.7% expect allocation to funds to increase, 15.9% expect a decrease, 26.2% expect to maintain the current allocation and 11.2% do not currently invest in non-listed real estate funds. On a weighted basis there is a big shift in the equivalent percentages, which are as follows: 32.0% expect the allocation to funds to increase, 39.5% expect a decrease, 20.7% expect to maintain the current allocation and 11.4% do not currently invest in non-listed real estate funds. This indicates that larger investors intend to decrease allocation to funds significantly more so than smaller investors.

> ‘The popularity of certain routes to investment can ebb and flow with market cycles’

The third most popular route is direct investment, where 43.0% expect allocation to direct real estate investments to increase, 9.3% expect a decrease, 16.8% expect to maintain the current allocation and 30.8% do not currently invest in direct real estate investments. Weighted equivalent percentages are as follows: 49.7% expect allocation to direct real estate investments to increase, 5.1% expect decrease and 6.5% expect to maintain the current allocation while 38.7% do not currently invest in direct real estate investments. These figures indicate that larger investors are more favourable to increasing allocation to direct investment in real estate than smaller investors.

The picture that emerges from the comparison is as follows: larger investors intend to decrease their allocations to non-listed real estate funds in favour of joint ventures and club deals and direct investment.

Real estate debt is the fourth most popular route, where 24.8% expect allocation to real estate debt to increase, 1.0% expect a decrease and 28.6% expect to maintain the current allocation while 45.7% do not currently invest in real estate debt. The equivalent percentages on a weighted basis are as follows: 22.5% expect allocation to real estate debt to increase, 24.9% expect to maintain the current allocation and 52.6% do not currently invest in real estate debt. No-one expects a decrease

Separate accounts are the fifth most popular, with 18.9% expecting allocation to separate accounts to increase, 0.9% expecting a decrease, 25.5% expect to maintain the current allocation and 54.7% do not currently invest in separate accounts. The equivalent weighted percentages are as follows: 25.3% expect allocation to separate accounts to increase, 2.2% expect a decrease, 24.8% expect to maintain the current allocation and 47.7% do not currently invest in separate accounts. So large investors are more inclined to invest in these structures and they are more inclined to increase their allocations too.

The next most popular route is listed real estate, where 15.6% expect allocation to listed to increase, 6.4% expect a decrease, 27.5% expect to maintain the current allocation and 50.5% do not currently invest in listed. The equivalent weighted percentages are as follows: 10.2% expect the allocation to listed to increase, 3.7% expect a decrease, 37.7% expect to maintain the current allocation and 48.4% do not currently invest in listed.

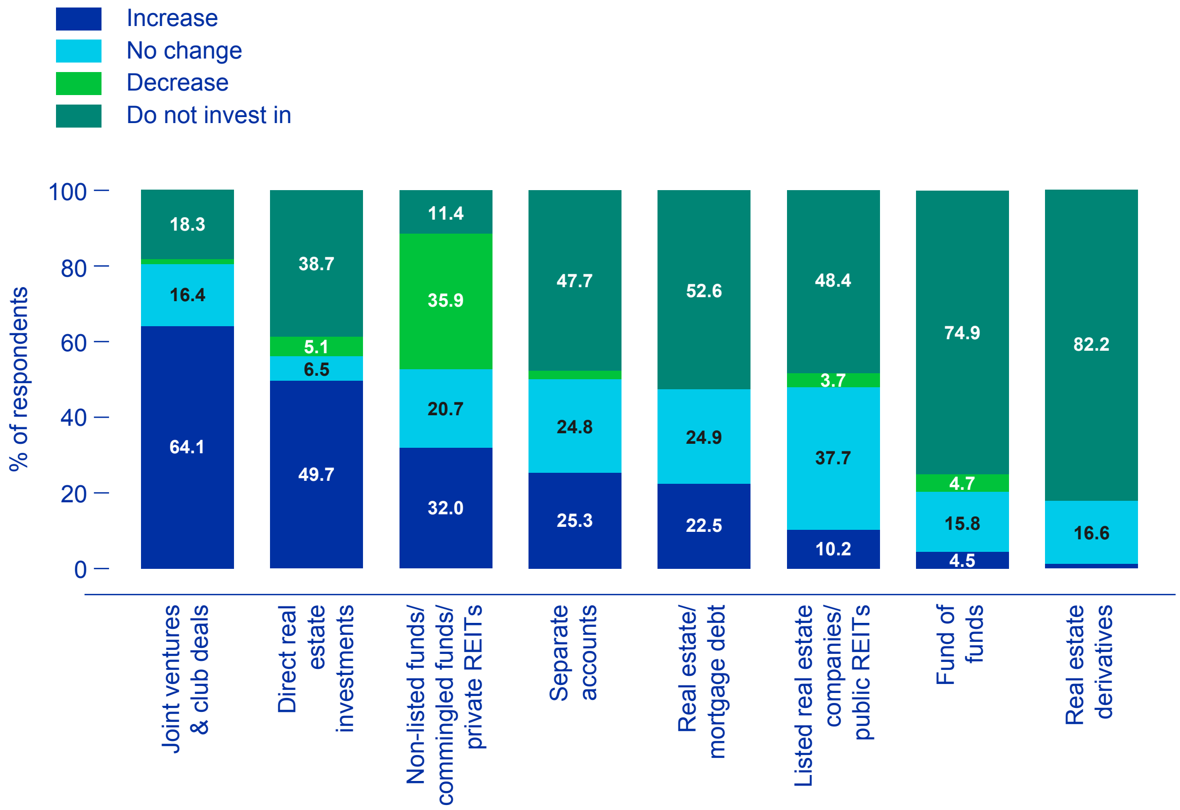
Funds of funds is the seventh most popular route, where 7.6% expect allocation to funds of funds to increase, 8.6% expect a decrease, 22.9% expect to maintain the current allocation and 61.0% do not currently invest in fund of funds. On a weighted basis the equivalent percentages are as follows: 4.5% expect allocation to fund of funds to increase, 3.7% expect a decrease, 15.8% expect to maintain the current allocation and 74.9% do not currently invest in funds of funds. Smaller investors are more likely than larger investors to use funds of funds structures, and they are more likely to see an increase in allocation.

[4] Weighted by the value of total real estate assets under management

Finally, derivatives is the least popular access route where 0.9% expect allocation to real estate derivatives to increase, none expect to decrease, 18.9% expect to maintain the current allocation and 80.2% do not currently invest in real estate derivatives.

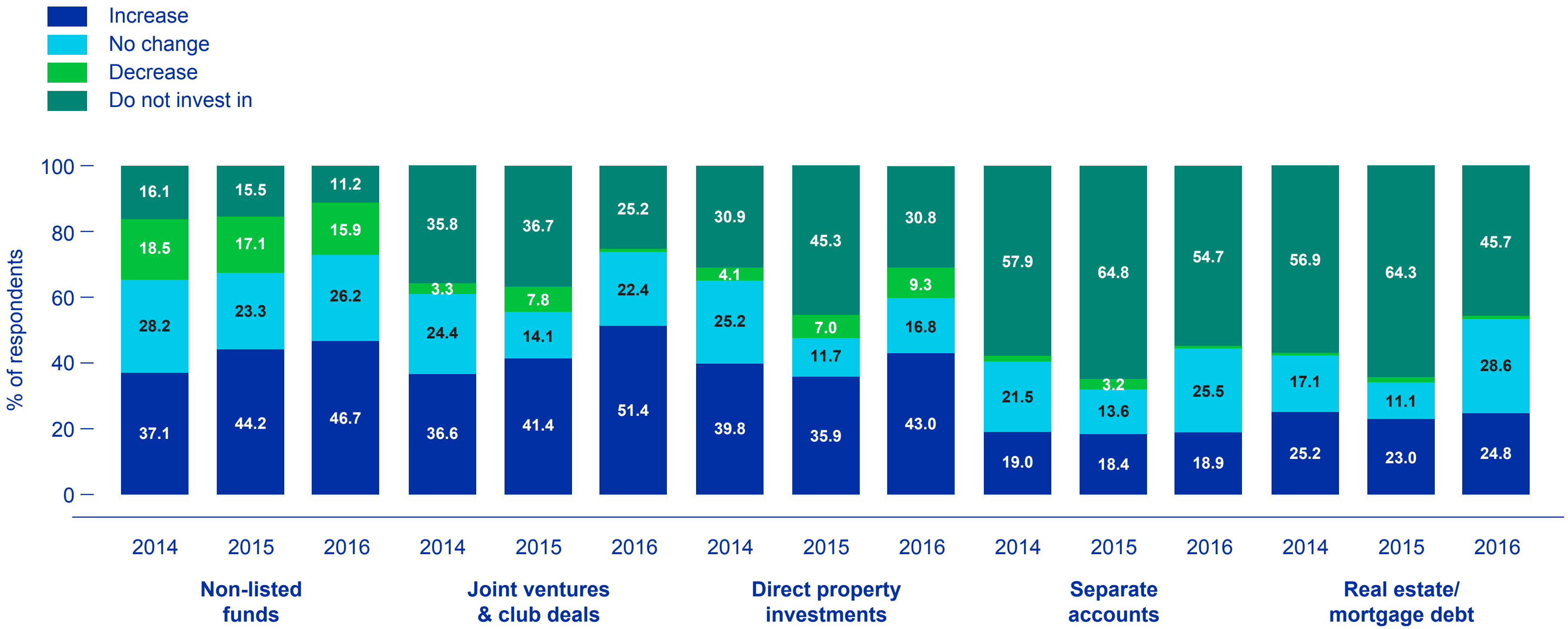
On a value-weighted basis the equivalent percentages are as follows: 1.3% expect allocation to real estate derivatives to increase, none expect to decrease, 16.6% expect to maintain the current allocation and 82.2% do not currently invest in real estate derivatives.

Figure 28: Expected changes in investors' European real estate allocations over the next two years (weighted)



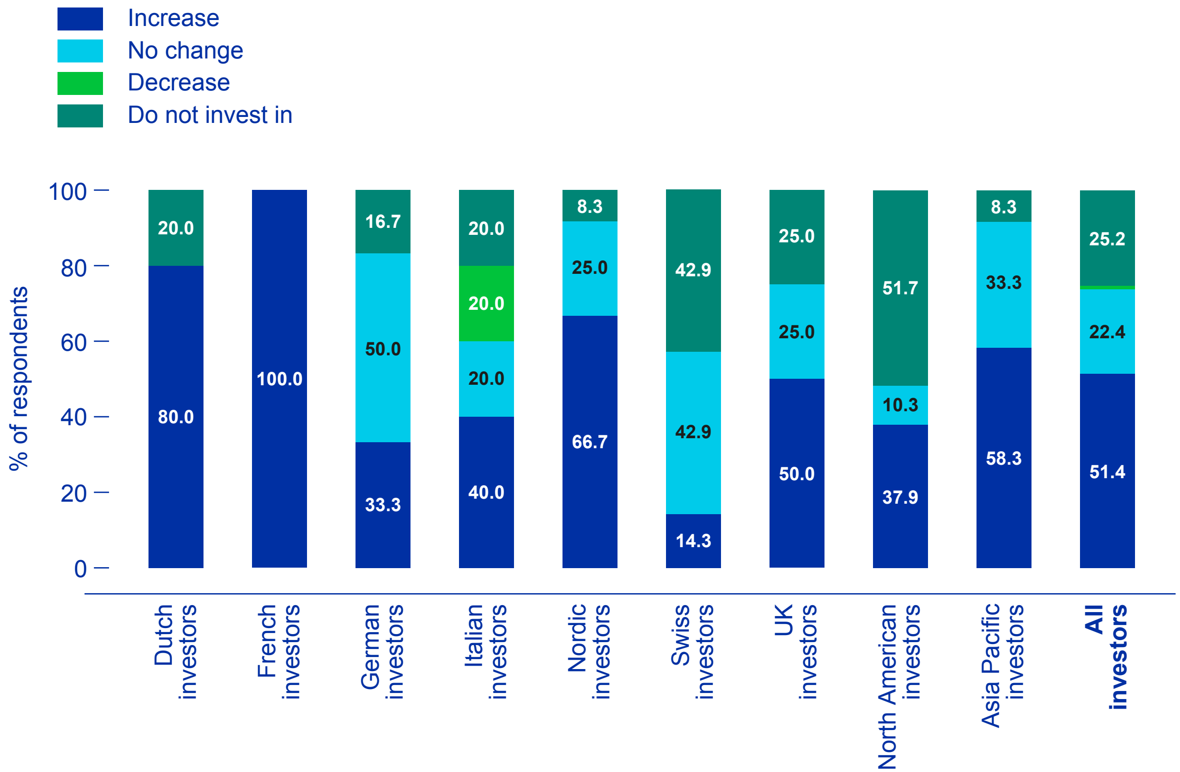
The proportion of investors using non-listed funds has risen in the period 2014 to 2016 from 83.9% to 88.8%. The same can be said for joint ventures and club deals, rising from 64.2% to 74.8%, while the proportion of investors using real estate/mortgage debt has risen from 43.1% to 54.3%. Meanwhile the proportion of investors using direct investment and separate accounts has been largely stable over the period.

Figure 29: Expected changes in investors' European real estate allocations 2014 - 2016



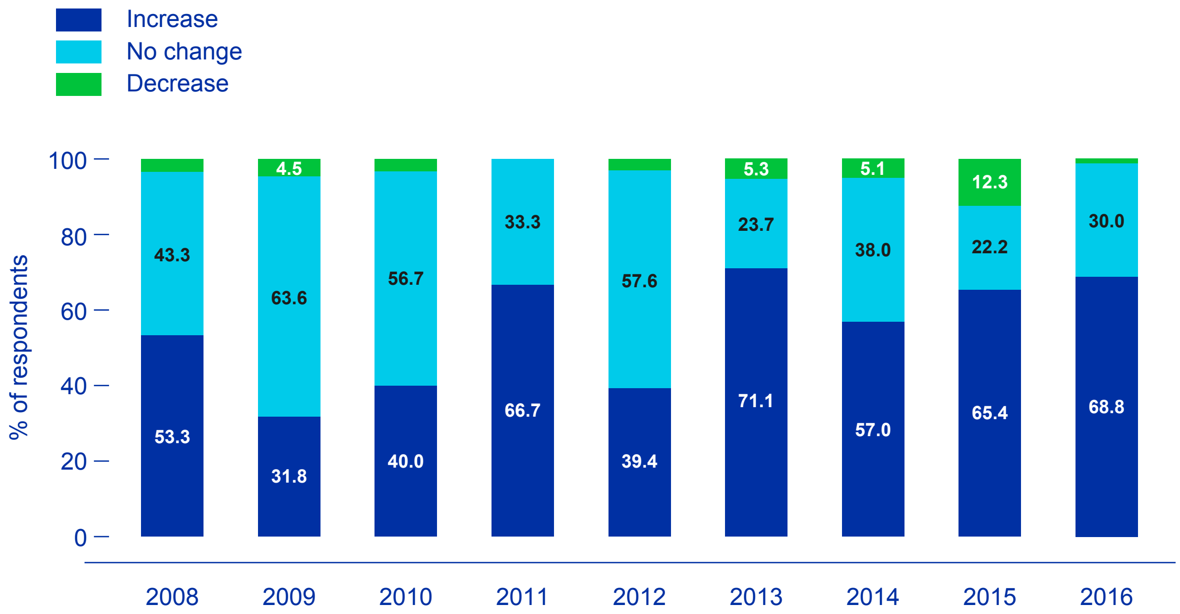
Dutch, French and Nordic investors have the highest conviction that their allocation to joint ventures & club deals will increase. Italian investors on the other hand expect a decreased allocation.

Figure 30: Expected changes in investors' joint ventures and club deals allocations over the next two years by investor domicile



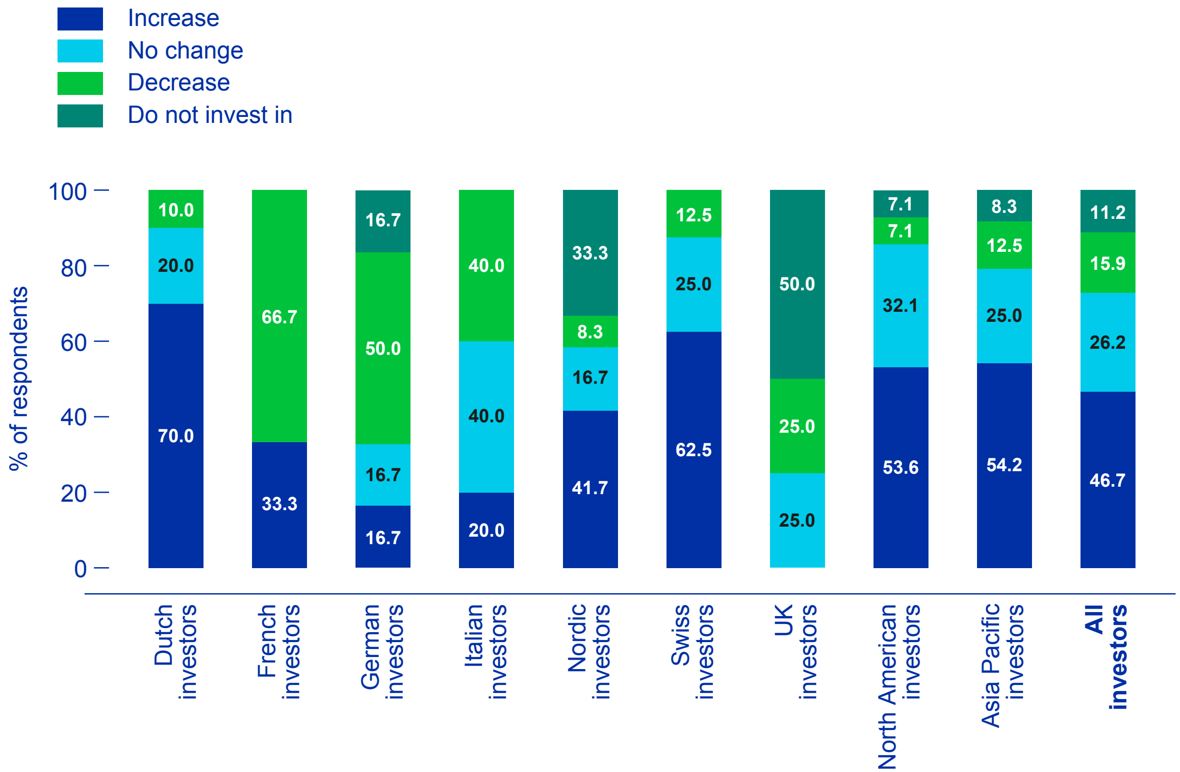
Over the period 2008 to 2016 there has been considerable movement in the investors' expectations for joint ventures and club deals. Of those that invest in these structures, the percentage expecting a decrease has breached the 10% figure on only one occasion (2015). The percentage expecting an increase has varied from a low of 31.8% in 2009 to a high of 71.1% in 2013, which is not too far from this year's figure of 68.8%. The percentage expecting no change has moved in a wide range, from a low of 22.2% in 2015 to a high of 57.6% in 2012.

Figure 31: Expected changes in investors' allocations to joint ventures and club deals 2008 - 2016



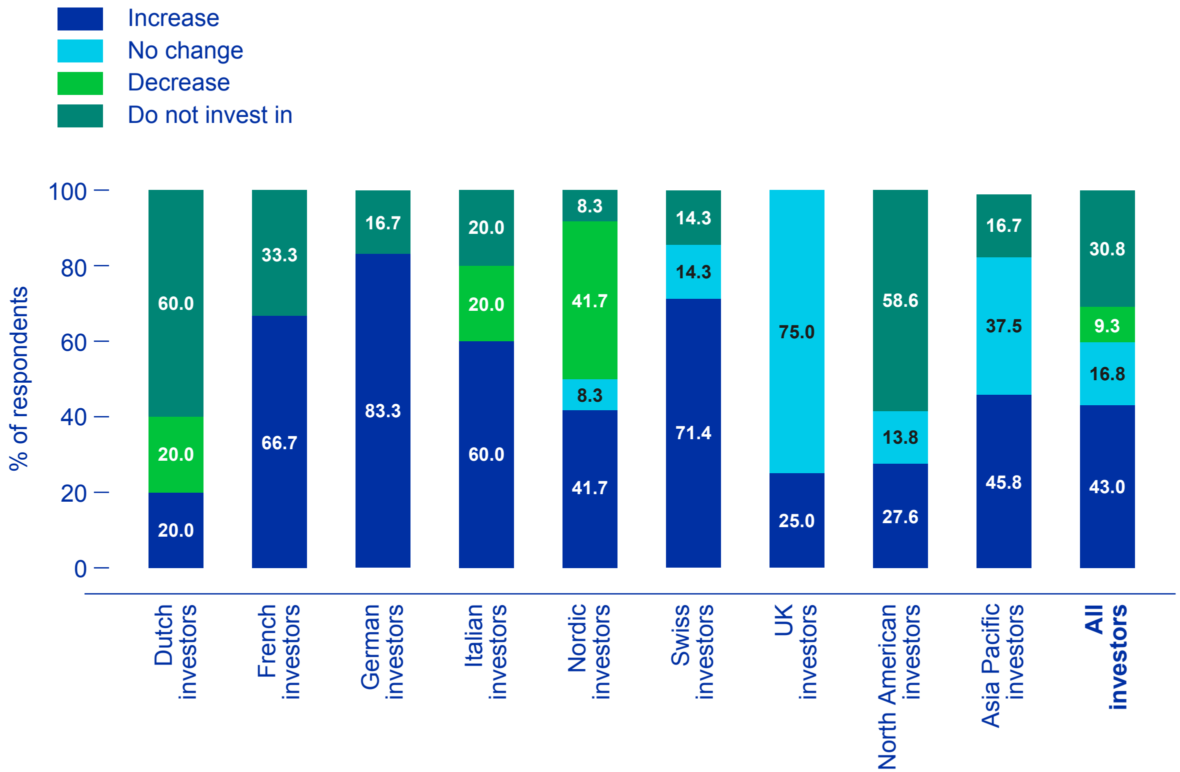
Dutch, Swiss and Asia Pacific investors have the highest conviction that their allocations to non-listed real estate funds will increase.

Figure 32: Expected changes in investors' non-listed real estate funds allocations over the next two years by investor domicile



German, Swiss and French investors have the highest conviction that their allocations to direct real estate will increase.

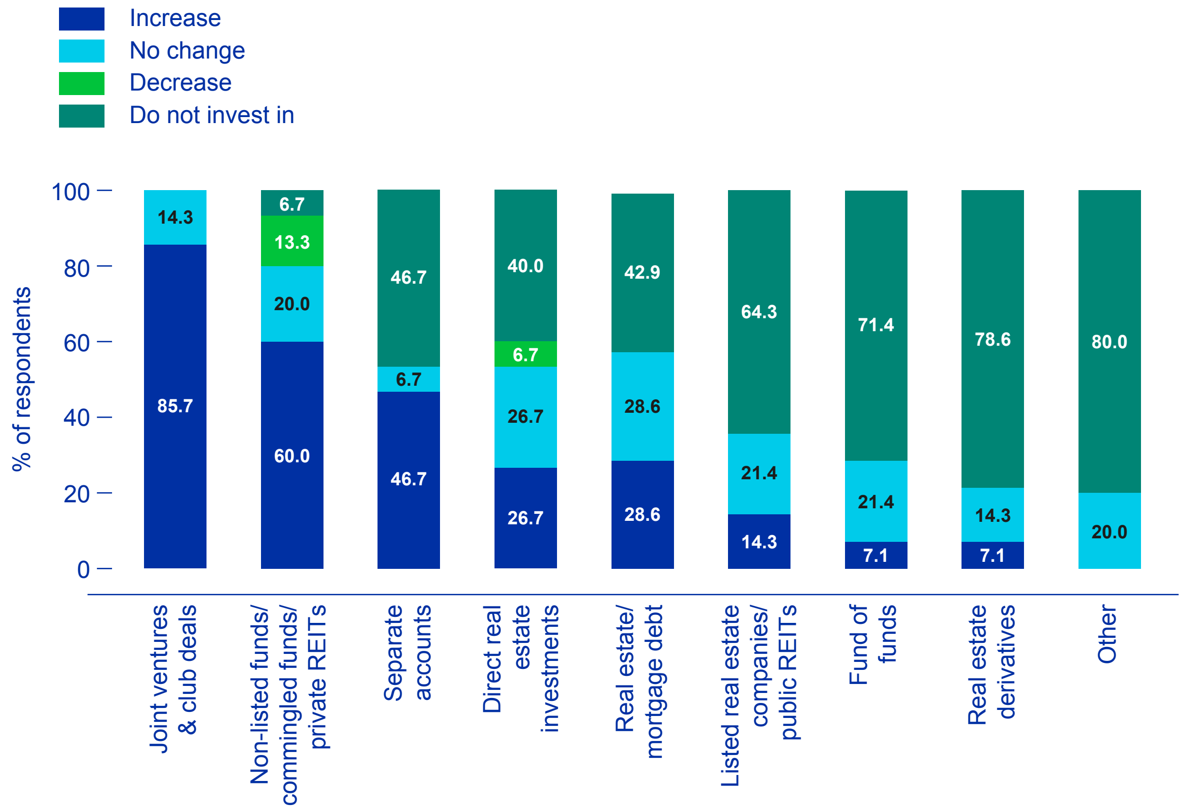
Figure 33: Expected changes in investors' direct real estate allocations over the next two years by investor domicile



Fund of funds managers and fund managers access the European real estate markets in a slightly different way to investors.

Traditionally, fund of funds managers have accessed the European market via non-listed real estate funds; however, since 2015 there has been a shift towards other routes, notably joint ventures & club deals and separate accounts. For fund of funds managers joint ventures & club deals are expected to grow, as indicated by 85.7% of respondents (in 2015 the corresponding figure was 57.9%) and separate accounts are expected to grow also, as indicated by 46.7% (in 2015 the corresponding figure was 52.6%). Over the next two years 60% of fund of funds managers indicated an intention to increase exposure to non-listed real estate funds (in 2015 the corresponding figure was 42.1%).

Figure 34: Expected changes in fund of funds managers' European real estate allocations over the next two years



The fund managers' views on their investors preferred routes to European real estate are broadly similar to those indicated by investors.

Joint ventures and club deals rank in first place with 74.2% of fund managers believing their investors will increase allocation here and a further 26.6% indicating that they expect investors to maintain allocations.

Non-listed real estate funds feature next with 71.0% of fund managers believing their investors will increase their allocations and a further 24.2% indicating that they expect to maintain allocations.

Separate accounts are in third place with 66.1% of fund managers believing their investors will increase their allocations and a further 33.1% indicating that they expect to maintain allocations.

Direct real estate investment are next in fourth place, with 60.2% of fund managers believing their investors will increase their allocations and a further 35.0% indicating that they expect to maintain allocations.

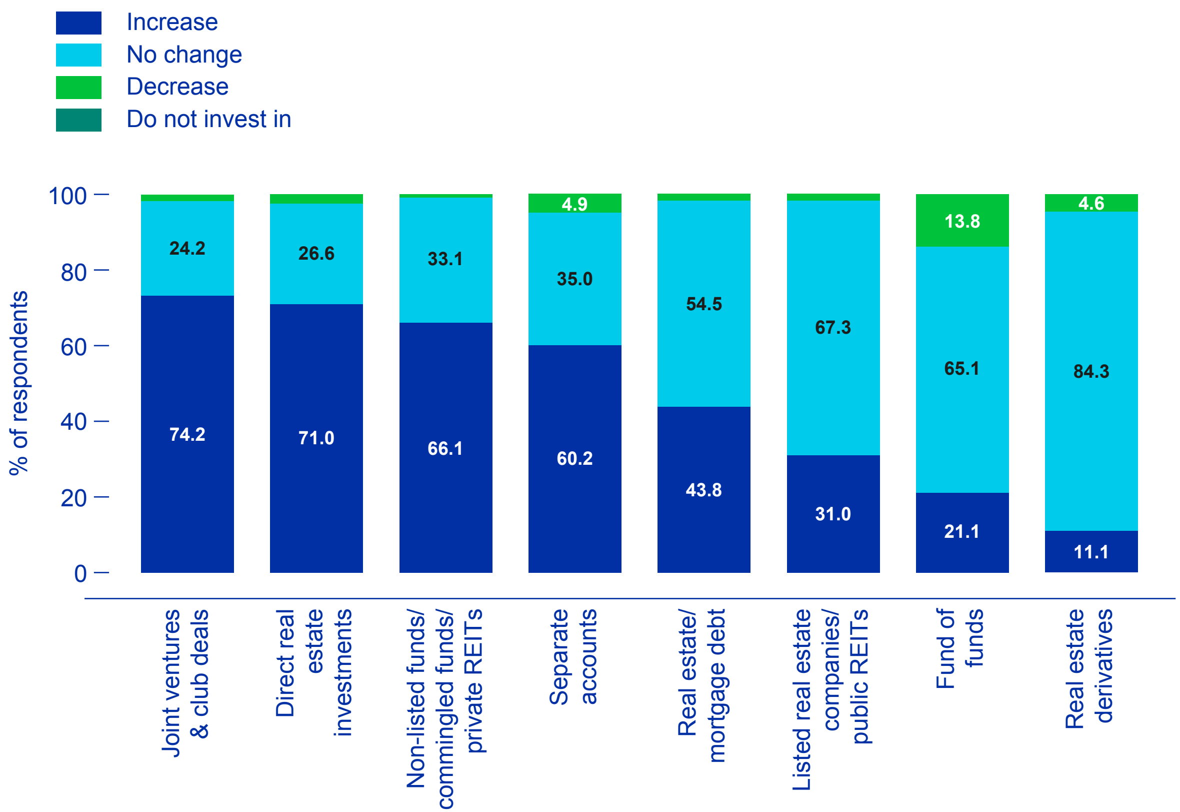
Real estate/mortgage debt is ranked fifth, with 43.8% of fund managers believing their investors will increase the allocation and a further 54.5% indicating that they expect to maintain allocations.

Fund of funds comes second last, with 21.1% of fund managers believing their investors will increase the allocation and a further 65.1% indicating that they expect to maintain allocations.

Real estate derivatives are last, with 11.1% of fund managers believing their investors will increase the allocation and a further 85.3% indicating that they expect to maintain allocations.

Comparing how investors expect their real estate allocation to develop over the next two years by type of product with fund managers' perceptions of the same issue is interesting. When the two sets of data are adjusted to reflect the fact that fund managers do not answer 'do not invest', it seems that fund managers have a good understanding of the investors' preferences for these four routes to market: joint ventures and club deals; direct real estate investments; fund of funds and real estate/mortgage debt. Fund managers tended to over-estimate the investors' tendency to increase allocations to non-listed real estate funds, to separate accounts and to real estate derivatives.

Figure 35: Expected changes in fund managers' perception of their investors' European real estate allocations over the next two years



Section 6

Preferred structures for non-listed real estate funds

Preferred structures for non-listed real estate funds

This section explores the preferences of investors and fund of funds managers regarding the structure of their investments in non-listed real estate funds. The section also explores fund managers' perceptions of the preferences of investors and fund of funds managers.

Respondents were asked to specify whether they are not invested in, invested in, or intending to invest in non-listed real estate funds, for each of the major five regions. (Fund managers are asked a slightly different question - they are asked whether they are not managing, currently managing or intending to manage assets in those same regions). They were then asked: 'for each region, what do you prefer for the majority of your non-listed real estate fund investments?'

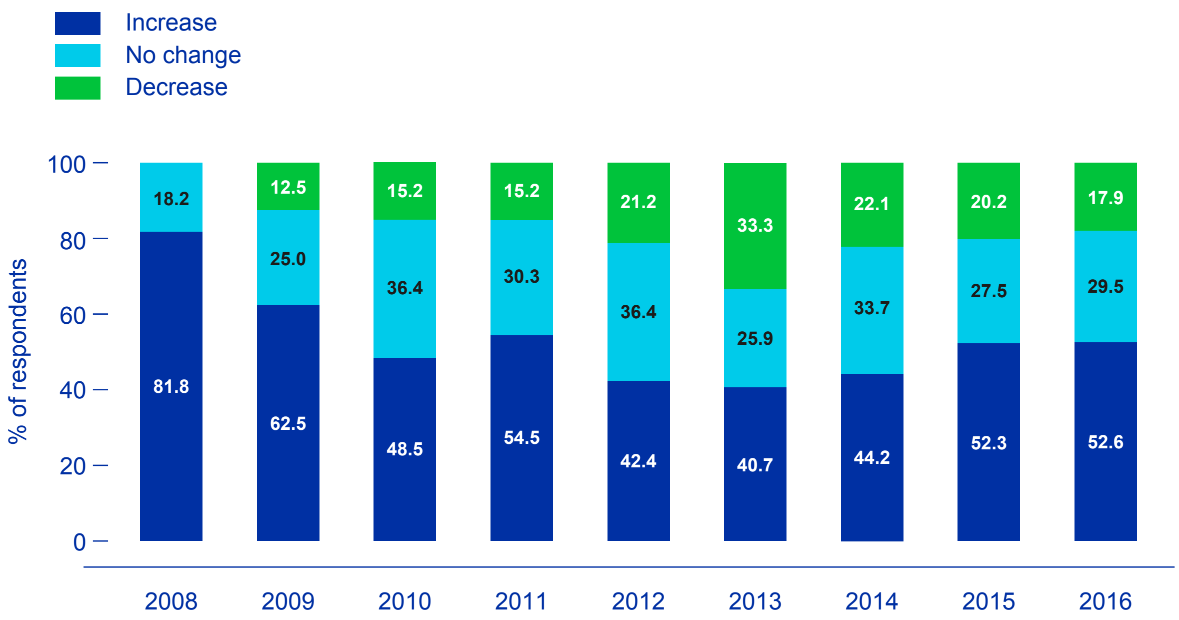
Respondents were also asked to identify where the bulk of their non-listed real estate fund investments would be held, using these categories:

- Single country or multi-country
- Single sector or multi-sector
- Closed end or open end
- Blind pool or seeded pool
- Discretionary or non-discretionary
- Regulated or non-regulated
- Small pool of investors (<7) or large pool of investors (≥7)
- Small GAV (<500m) or large GAV (≥500m)
- Investors similar or dissimilar in terms of domicile
- Investors similar or dissimilar by company type

Respondents had to indicate one or the other - there was no neutral option available.

Before examining preferences among those using non-listed real estate funds it is worth looking at how expected allocations to such funds have changed over time. Over the period 2008 to 2016 there has been considerable movement in the investors' expected allocations to non-listed funds. The percentage expecting a decrease has varied between a high of 33.4% in 2013 to a low of 0.0% in 2008. The percentage expecting an increase has varied from a low of 40.7% in 2013 to a high of 81.8% in 2008. The percentage expecting no change has moved in a range between 18.2% in 2008 to twin peaks of 36.4% in both 2010 and 2012.

Figure 36: Expected change in investors' allocations to non-listed funds 2008 - 2016



In the rest of this section a distinction is drawn between various degrees of preference.

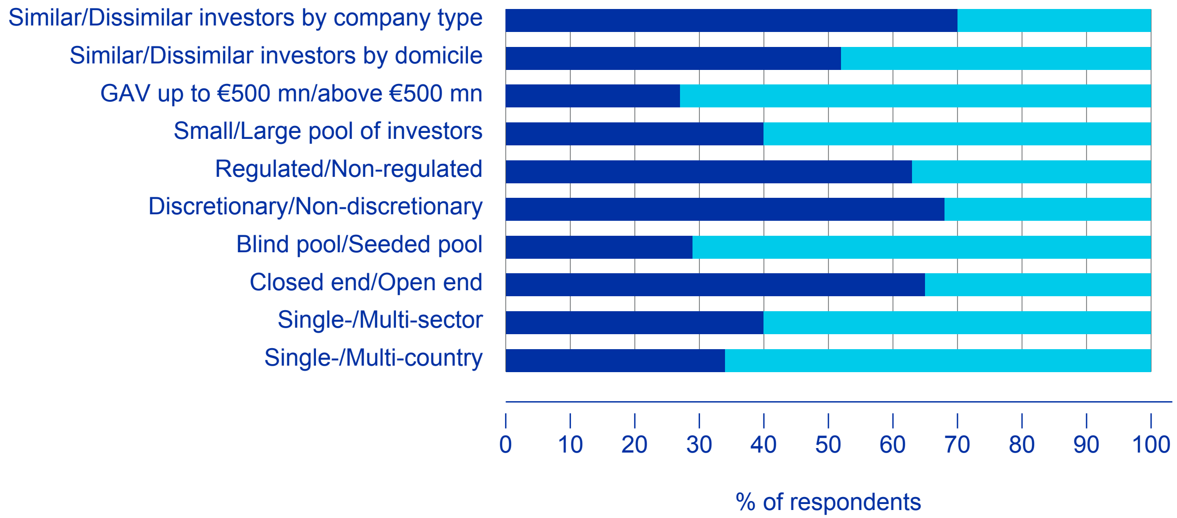
A very strong preference is indicated by weightings of over 80%. A strong preference is indicated by weightings of 70% to 79%. A notable preference is indicated by weightings of 60% to 69%. A mild preference is indicated by weightings of 50% to 59%.

Regarding the preferences of different groups, investors have a strong preference for large funds over small funds, for seeded pools over blind pools and for co-investors who are of similar company type.

Investors have a notable preference for closed end structures as opposed to open end, as well as favouring discretionary over non-discretionary. There is also a notable preference for multi-country funds over single country funds and for large pools of co-investors rather than small pools. Investors have a notable preference for regulated over non-regulated funds.

Investors have a mild preference for multi-sector over single sector funds and to invest alongside investors from similar domiciles.

Figure 37: Investors' preferred features of non-listed real estate funds



Fund of funds managers have a very strong preference for regulated over non-regulated funds and a very strong preference for co-investors of similar company type. They also have a very strong preference to invest alongside investors of similar company type.

Fund of funds managers have five strong preferences, as follows: for single country over multi-country; for single sector over multi-sector; for discretionary over non-discretionary; for small funds over large funds and to invest alongside investors who are similar in terms of domicile.

Fund of funds managers have a notable preference for closed end structures over open end and to invest with a small pool of investors rather than a large pool. Fund of funds managers have no mild preferences.

Unsurprisingly, fund of funds managers like single sector and single country funds which tend to facilitate portfolio construction more than multi-sector and multi-country funds.

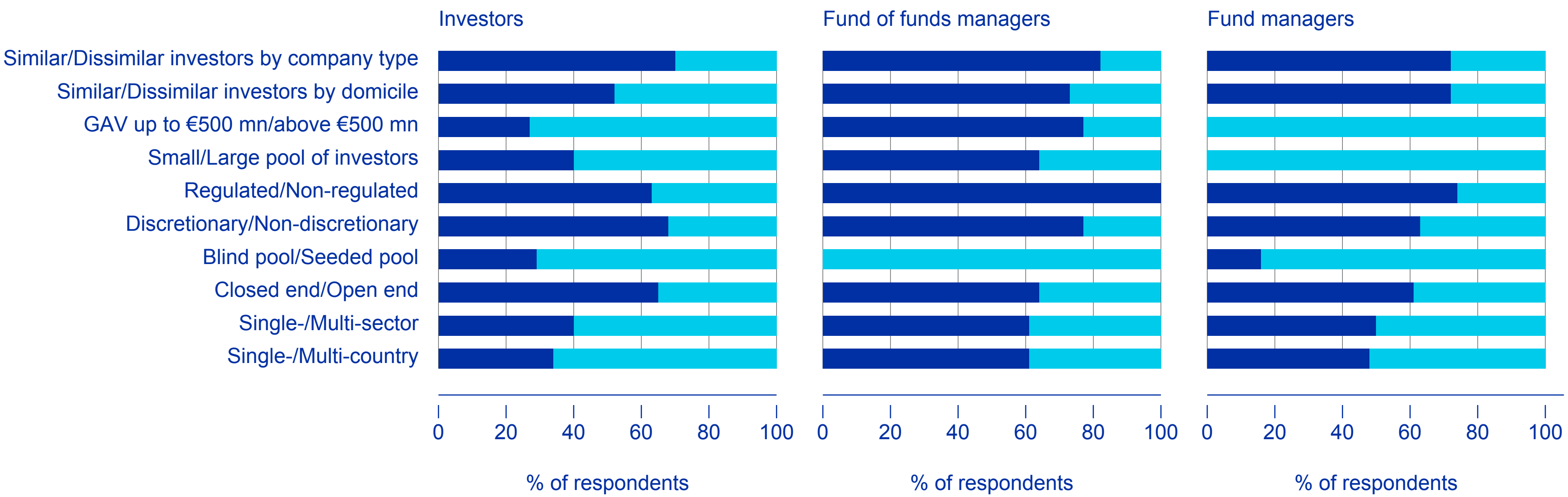
Fund managers believe investors have three very strong preferences, namely, for large investor pools over small ones; for large funds over small ones; and for seeded pools over blind pools.

Fund managers believe investors have three strong preferences: for regulated over non-regulated; for investing alongside investors who are similar in terms of domicile and company type.

Fund managers believe that institutional investors have notable preferences in two areas: for closed end over open end and for discretionary over non-discretionary. Fund managers believe investors have a mild preference for multi-country over single country funds. Fund managers believe that investors have no preference between single sector and multi-sector funds.

The fund managers as a group have a generally good sense of where investors' preferences lie, although they have much stronger views on their investors' preferences for certain characteristics such as the size of the fund and the pool of investors, where they strongly believe that investors favour larger funds and to invest with a large pool of investors.

Figure 38: All respondents' instead preferred features of non-listed real estate funds

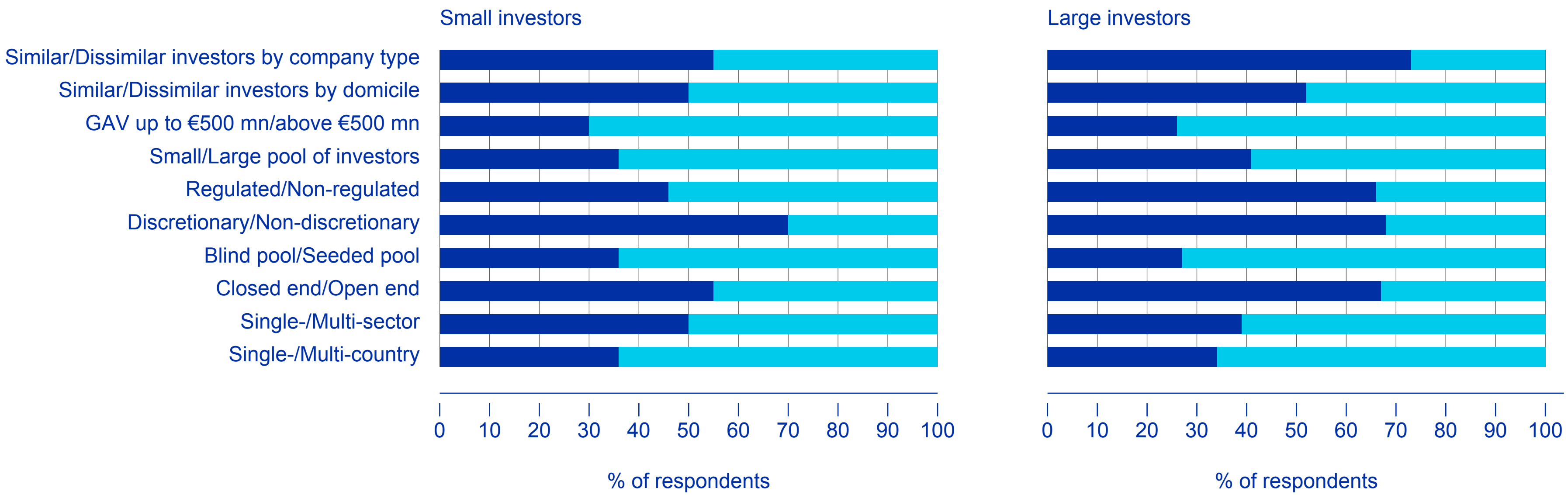


There are four noteworthy differences between smaller investors (those with less than €500 million of real estate assets under management) and larger investors (all others).

Smaller investors have a mild preference for non-regulated funds, whereas large investors have a notable preference for regulated ones. Smaller investors have a mild preference to invest alongside investors from similar domiciles whereas larger investors have a strong preference for this same feature.

Smaller investors are indifferent between single sector and multi sector funds whereas large investors have a notable preference for multi sector. Smaller investors have a mild preference for closed end funds whereas large investors have a notable preference for the same feature.

Figure 39: Investors' preferred features of non-listed real estate funds: smaller vs. larger investors



Section 7

Pros and cons of non-listed real estate funds

Pros and cons of non-listed real estate funds

This section explores the main reasons for and against investing in non-listed real estate funds, and takes a closer look at the challenges facing fund managers. Respondents were expected to answer questions from their own perspective and also from the perspective of others.

For this section investors and fund of funds managers who invest in or who intend on investing in non-listed real estate funds were asked why they invested in non-listed real estate funds, by ticking up to three responses from 11 potential responses. Investors and fund of funds managers were also asked to identify their most challenging obstacles, again by ticking up to three responses from 11 potential answers. Finally, investors and fund of funds managers were asked to identify the most challenging obstacles for fund managers, by ticking up to three responses from 10 potential answers. Fund managers were asked to identify the most important factors driving institutional investors when investing in non-listed real estate funds, by ticking up to three responses from the 11 potential responses. Fund managers were also asked to identify the most challenging obstacles facing institutional investors, again by ticking up to three from the 11 potential responses. Finally, fund managers were asked to identify the most challenging obstacles for themselves as fund managers, by ticking up to three responses from 10 potential responses.

Main reasons to invest

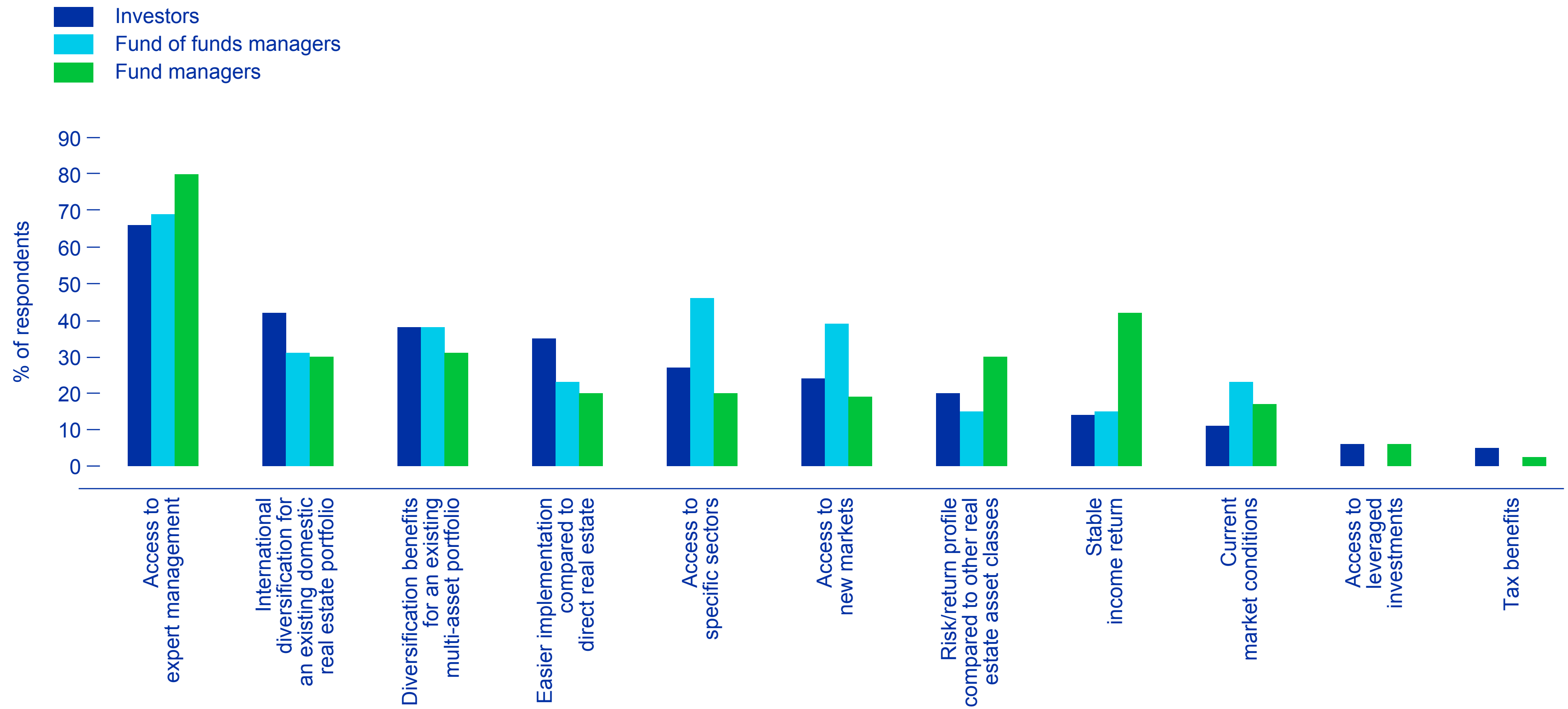
1. EXPERT MANAGEMENT
2. INTERNATIONAL DIVERSIFICATION
3. DIVERSIFICATION BENEFITS

Investors (65.5%) and fund of funds managers (69.2%) agree that access to expert management is the top reason why investors and fund of funds managers invest into non-listed real estate funds.

The two groups do not agree on the second factor. International diversification benefits for an existing domestic real estate portfolio is the second most important reason for investors; however, for fund of funds managers the second most important factor is access to specific sectors. For investors diversification of a multi-asset portfolio is ranked number three, while for fund of funds managers the third most important slot is evenly split between two factors: diversification of a multi-asset portfolio and access to new markets.

Fund managers were asked to identify the most important factors driving institutional investors when investing in non-listed real estate funds, and ranked access to expert management as being number one (79.5%) with number two being stable income (41.9%). The third ranked factor is diversification benefits for an existing multi-asset portfolio (30.8%).

Figure 40: Reasons to invest in non-listed real estate funds



So investors, fund of funds managers and fund managers are largely agreed on the first and third most important factors, but their views diverge when it comes to the second most important factor.

On the opposite end of the importance scale, investors believe that the three least important factors are current market conditions (10.7%), access to leveraged investments (6.0%) and tax breaks (4.8%), in that order. Fund of funds managers agree that tax benefits (none) and access to leveraged investments (none) are unimportant. In the third least important slot they rank stable income return and risk/return profile compared to other real estate asset classes equally.

For fund of funds managers the relatively low emphasis on stable income return and the high emphasis on gaining access to specific sectors and markets may reflect the fact that fund of funds managers tends to focus on higher risk strategies that are constructed using funds with narrowly focused mandates. Only 15.4% of fund of funds managers mentioned stable income as being important when considering investing in non-listed real estate funds.

Fund managers agree with investors on the relative unimportance of current market conditions, access to leveraged investments and tax breaks, which somewhat reflects the long term view that institutional investors take when investing into real estate.

Overall, it seems that fund managers have a very good understanding of the factors that drive institutional investors when investing in non-listed real estate funds.

Main obstacles to invest

1. ALIGNMENT OF INTEREST
2. AVAILABILITY OF SUITABLE PRODUCTS
3. ASSOCIATED COST

Turning to obstacles, in 2016 the main obstacles facing investors when investing in non-listed real estate funds are alignment of interest with fund manager (41.9%), availability of suitable products (36.0%) and costs associated with investing (36.0%), the last two being jointly ranked no. 2.

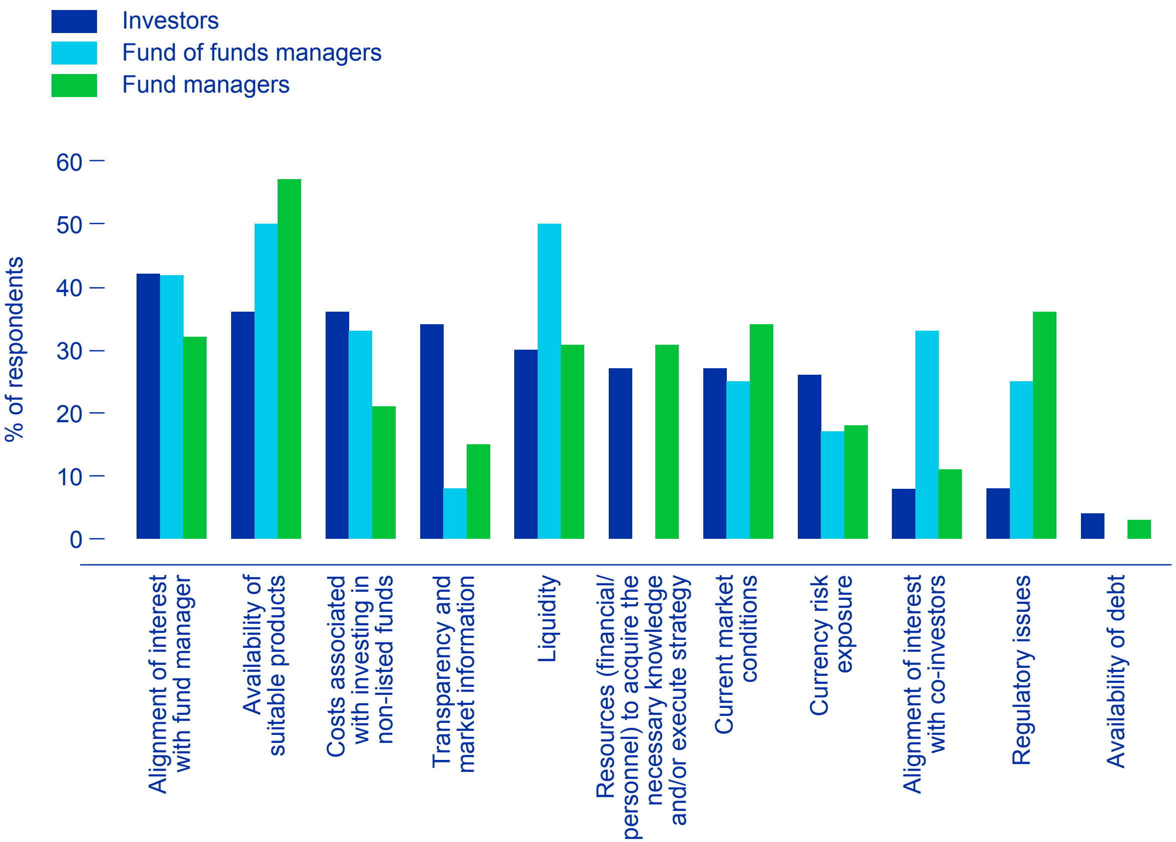
Fund of funds managers agree with investors that alignment of interest with fund manager and availability of suitable products are both in the top three obstacles. However, fund of funds managers also place liquidity (50.0%) in the top three (ranked no.2) and they exclude costs (33.3%) from the top three obstacles.

The second and third most important factors for institutional investors are, according to fund managers, regulatory issues and current market conditions. So fund managers and investors are not closely aligned in their views of the most challenging obstacles facing investors investing in non-listed real estate funds.

There has been a change of emphasis for investors since the 2015 survey. Last year the top three obstacles for investors in order of importance were alignment of interest with fund managers, liquidity and costs. This year it is alignment of interest with fund manager, availability of suitable products and costs associated with investing. Liquidity is therefore less of a concern than before. For fund of funds managers, the key considerations are availability of suitable products and liquidity (50% of respondents) following alignment of interest with fund manager (41.7%).This is unchanged since 2015.

At the other end of the scale, nobody sees availability of debt as an obstacle. This was in stark contrast to the period during the credit crisis, 2010 - 2012, when these appeared in the list of top three major challenges for fund managers. Alignment of interest with other investors is not a concern for investors or for fund managers, but it is for fund of funds managers.

Figure 41: Most challenging obstacles facing investors in non-listed real estate funds



Looking back over the last ten years at the obstacles facing investors, certain patterns can be observed. Alignment of interest with fund manager is an enduring favourite, appearing every year bar one. Availability of suitable products regularly takes the second slot - in fact, in seven out of ten surveys it has appeared there. Transparency (five mentions over the period) and costs (four mentions over the period) are also recurring items in the table of obstacles.

Despite the difficulties that lack of liquidity can cause investors in individual cases, liquidity is listed only twice over the last ten years and never as the number one obstacle.

Table 2: Obstacles facing investors in non-listed real estate funds 2007 - 2016

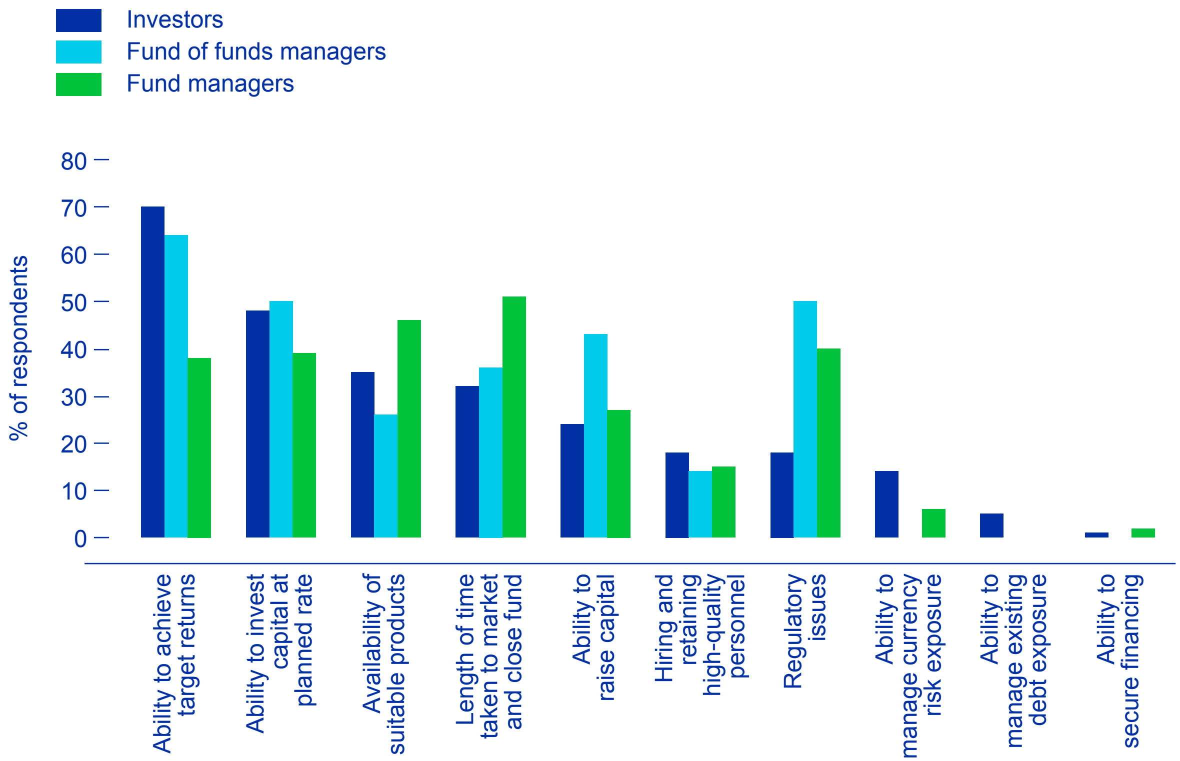
	Reasons not to invest		
	Number 1	Number 2	Number 3
2016	Alignment of interest with fund manager	Availability of suitable products	Costs associated with investing in non-listed real estate funds
2015	Alignment of interest with fund manager	Liquidity	Cost associated with investing in non-listed real estate funds
2014	Availability of suitable products	Alignment of interest with fund manager	Liquidity
2013	Alignment of interest with fund manager	Availability of suitable products	Cost associated with investing in funds
2012	Market conditions	Availability of suitable products	Alignment of interest with fund manager
2011	Alignment of interest with fund manager	Availability of suitable products	Transparency and market information of non-listed funds
2010	Alignment of interest with fund manager	Availability of suitable products	Transparency and market information of non-listed funds
2009	Market conditions	Alignment of interest with fund manager	Transparency and market information of non-listed funds
2008	Transparency and market information of non-listed funds	Availability of suitable products	Alignment of interest with fund manager
2007	Transparency and market information of non-listed funds	Availability of suitable products	Cost associated with investing in funds

Turning to the obstacles facing fund managers, investors consider that the most challenging obstacles for fund managers are the ability to achieve target returns (70.2%), the ability to invest capital at the planned rate (47.6%) and availability of suitable products (34.5%).

Fund of funds managers consider that the most challenging are the ability to achieve target returns (64.3%), ability to invest capital at planned rate and regulatory issues (both 50%).

Fund managers themselves indicate that the length of time taken to market and close fund (50.9%), as well as availability of suitable products (46.4%) and regulatory issues (40.2%) are the main obstacles within the non-listed funds industry.

Figure 42: Most challenging obstacles for fund managers



Looking back at the most challenging obstacles for fund managers over the period 2010 to 2016 the following pattern can be seen: ability to raise capital has been ranked within the top three on five occasions and the ability to achieve target returns four times. Availability of suitable product three times, the same frequency as length of time taken to market and close fund. The other three obstacles (ability to secure financing, to manage debt exposure and to invest capital at planned rate) get two mentions each.

Two factors, ability to achieve target returns and the ability to raise capital, are dominant in two senses: they are mentioned more frequently than anything else; they have taken the number 1 position since 2010, to the exclusion of all other obstacles.

Table 3: Most challenging obstacles for fund managers 2010 - 2016

	Most challenging obstacles		
	Number 1	Number 2	Number 3
2016	Ability to achieve target returns	Ability to invest capital at planned rate	Availability of suitable products
2015	Ability to achieve target returns	Ability to invest capital at planned rate	Availability of suitable products
2014	Ability to achieve target returns	Ability to raise capital	Availability of suitable products
2013	Ability to raise capital	Ability to achieve target returns	Length of time taken to market and close fund
2012	Ability to raise capital	Ability the secure financing	Length of time taken to market and close fund
2011	Ability to raise capital	Length of time taken to market and close fund	Ability to manage existing debt exposure
2010	Ability to raise capital	Ability to secure financing	Ability to manage existing debt exposure

Appendix 1

Intentions vs reality: RCA backtesting analysis of the INREV Investment Intentions Survey 2015

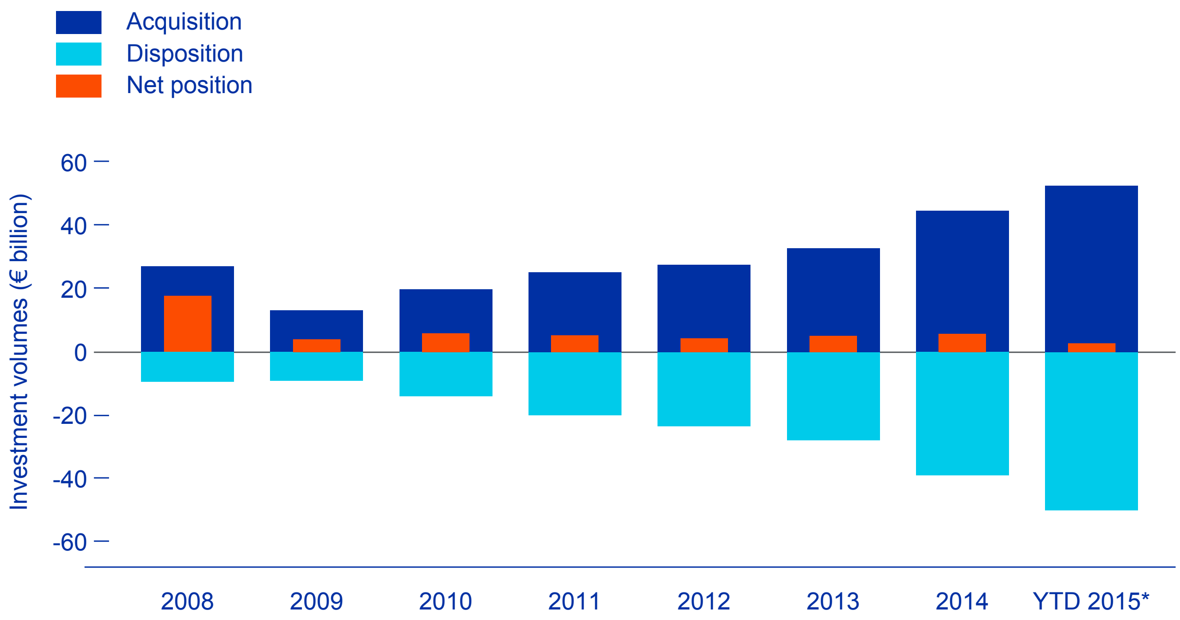
Intentions vs reality: RCA backtesting analysis of the INREV Investment Intentions Survey 2015

Good intentions, difficult markets

For the third year Real Capital Analytics (RCA) has back-tested the results of the INREV Investment Intention Survey. The latest analysis compares the 2015 INREV report (respondents surveyed in November 2014 about their investment intentions for 2015) with transaction activity recorded by RCA during 2015. As with previous back-testing analysis RCA has only been able to examine the activity of fund managers as it is a challenge to track the placement of capital by investors in funds.

The fund managers responding to the 2015 INREV survey spent €52.8 billion on European real estate year-to-date (YTD) 2015[5]. This reflects 21% of overall European investment activity YTD 2015, as recorded by RCA. The same group of managers sold €50.1 billion during the same period, meaning a net €2.7 billion was invested (Figure 1). Of managers surveyed, 60% were net buyers during 2015 with the rest remaining either inactive or net sellers. Responding manager acquisition activity was up 18% on 2014 and dispositions were up 28% on the same period. The net investment of €2.7 billion was the lowest level recorded across this group of managers since 2007.

Figure 1: Historical activity of 2015 INREV Survey respondents



*Real Capital Analytics as at 21.12.2015

[5] Due to INREV publication requirements, Real Capital Analytics analysis is run as at 21.12.2015 so may exclude some deals closed between 21.12.2015 and 31.12.2015

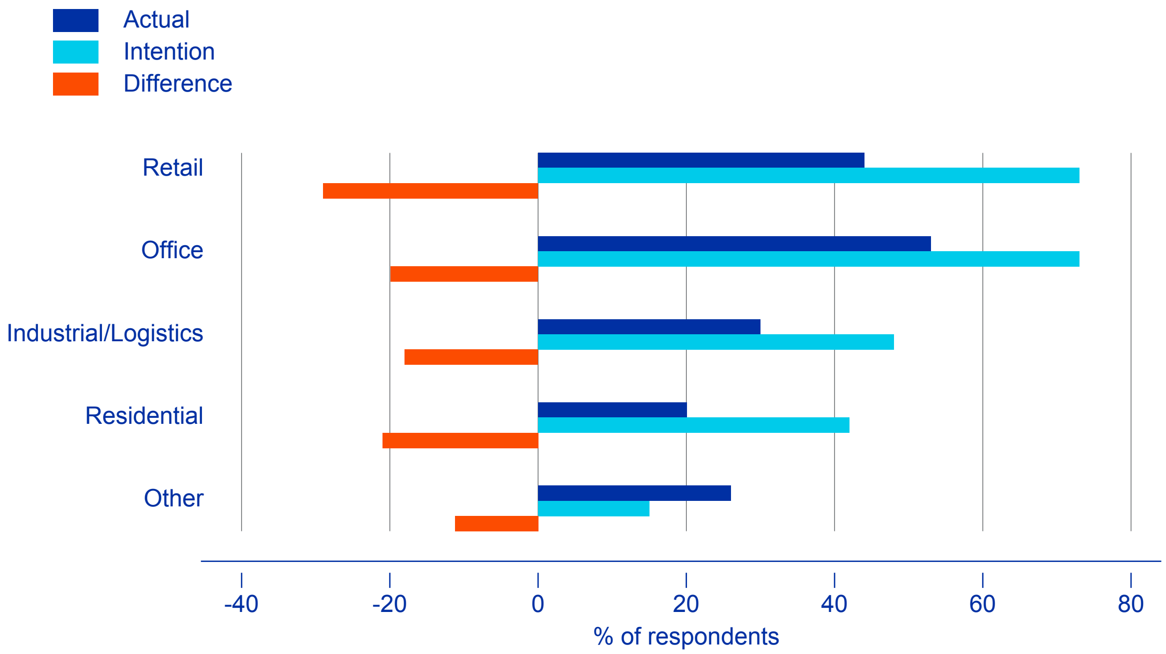
Survey fund manager respondents were asked questions about their 2015 sector and country investment intentions. The following two sections look to compare respondent intentions to their realised and measurable activity by RCA.

Sector analysis

Analysis of sector investments made during 2015 shows how difficult it has been for fund managers to realise their original allocation intentions for the year. At the start of the year, 73% of managers questioned thought they would invest into the retail and office sectors, 48% thought they would invest into industrial, while 43% were focused on the residential sector. Just 15% were focused on 'other' assets.

RCA analysis indicates that just 44% of managers managed to place capital into the retail sector (Figure 2). This was the largest difference between intention and actual recorded, at 29%. Only 53% of managers were able to invest into offices, 30% into industrial and 20% into residential. However, more managers invested into 'other' than originally expected, with 26% able to find assets and acquire in this sector. Most other investments were hotels. Across the sectors the average shortfall, excluding other was 22%.

Figure 2: Intention vs. actual, sectors 2015



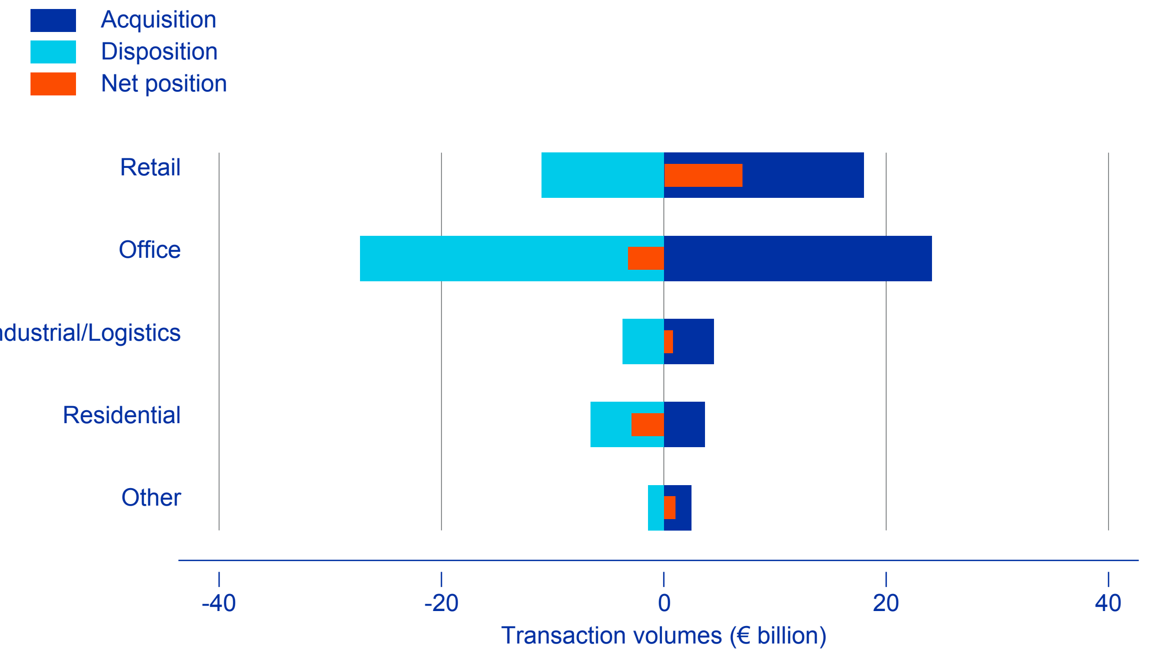
Source: Real Capital Analytics as at 21.12.2015

Figure 3 shows that managers were able to take advantage of some of the demand for real estate and were net sellers in the office and residential sectors, presumably making returns for their investors. In the retail, industrial and other sectors they were net buyers.

The difficulty in achieving intended allocations reflects the amount of domestic, intra-regional and global capital chasing real estate across Europe. In the industrial sector, for instance, there have been a number of competing pan-European logistic platform builders (not included as survey respondents) that have perhaps pushed pricing beyond levels that would allow many fund managers to achieve required returns.

The overall shape of intentions by sector versus actual is similar, with retail and office being the top markets and industrial in third place. For the second year running (in comparison with 2014 analysis) the other sector is significantly larger than expected. It is understood that the 2016 Investment Intention Survey seeks to look at the other sector in more detail.

Figure 3: Transaction volumes



Source: Real Capital Analytics as at 21.12.2015

Country analysis

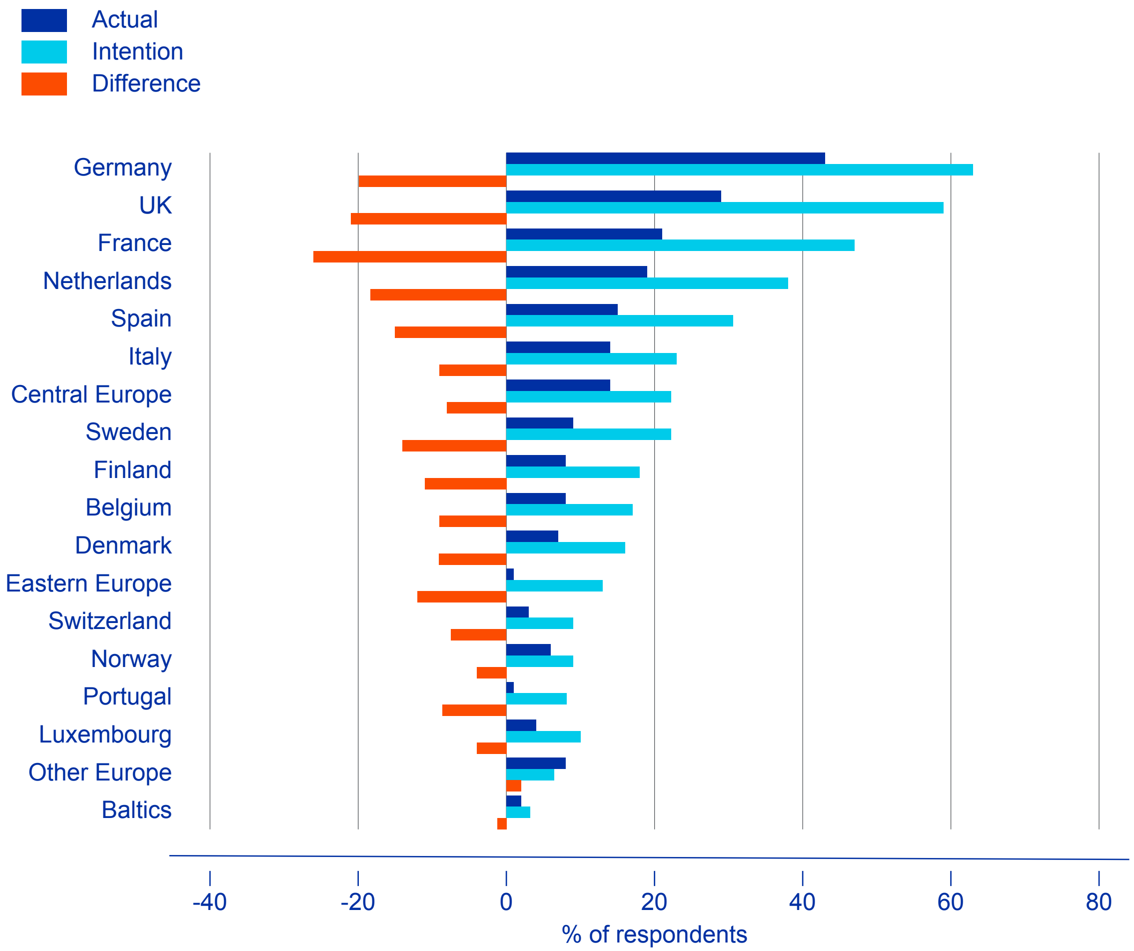
Respondents were also asked their intention by country. Overall, the differences between intention and actual were closer, with the average difference being 11%. The pattern of responses generally matched actual investment - with Germany, the UK and France being most popular.

However, there are some significant differences at the country level. The largest difference was recorded for France, where 47% of respondents intended to invest, while only 21% managed to place capital YTD 2015. In the UK and Germany the difference was around 20%, reflecting the difficulty of placing capital in these in-demand countries.

There were no single countries where actual realised investment level exceeded the original intentions - and 4% of fund managers had suggested they would invest in Turkey, while RCA recorded no YTD 2015 direct investment in Turkey by the responding managers.

The only grouping that recorded a positive difference was 'other Europe'; however, this might be largely due to the inclusion of Austria in this category, a country not included as a stand-alone option in the original survey.

Figure 4: Intention vs. actual, countries 2015



Source: Real Capital Analytics as at 21.12.2015

Overall, 63% of the responding participants were active in only their own domestic market during 2015, but down from 73% in 2014. The last time this group reached as low was in 2007 when 61% were active only domestically, increasing to 81% in 2012. Across the responding survey participants it is notable that they have begun to rapidly increase their pan-European activities.

Analysing the same set of fund managers over the last nine years, in 2007 and 2008 (the last peak cycle) twelve fund managers were investing in more than 5 countries (Figure 5). It dipped down to just a handful of pan-European managers in 2009 - 2012, but has risen to fifteen managers who are investing across more than 5 countries during 2015. Six managers were active in 8 or more countries during 2015.

This movement cross-border could indicate managers are more confident about European real estate markets; or are struggling to find opportunities in keenly priced markets for the weight of capital they have to invest; or both.

Key findings summary

- 73% of respondents bought new assets during 2015, with 60% of respondents also being net buyers. Total new acquisitions was €52.8 billion.

- 72% of respondents sold €50.1 billion of assets during 2015.

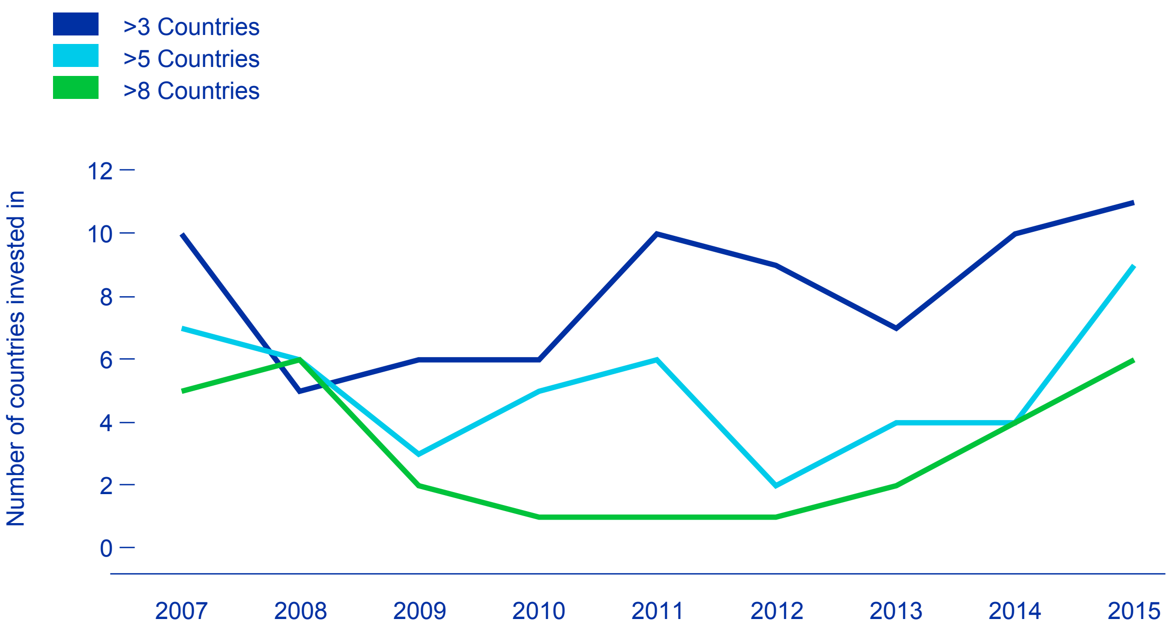
- The 2015 cohort of survey respondents have been positive net investors for the past 9 years, though 2015's €2.7 billion of net investment is the lowest level on record.

- On average, realised sector allocations fell 22% short of original intentions. Retail is the most difficult sector for investors to meet their targets.

- On average, realised country allocations fell 11% short of original intentions. The most developed markets of France, Germany and the UK are the most difficult for investors to meet intentions.

The survey respondents have increased their pan-European activity in 2015, with 37% investing in more than 3 countries

Figure 5: Number of countries invested



Source: Real Capital Analytics as at 21.12.2015

Appendix 2

List of respondents

List of respondents

The following is a list of investors, fund of funds managers and fund managers that have participated in this year's survey and gave permission for their company names to be published:

Aberdeen Asset Management
AEP Investment Management Pte Ltd
AEW Capital Management, L.P.
Aktia Life Insurance Ltd
Alberta Investment Management Corporation
Alma Property Partners
Altan Capital
Altera Vastgoed NV
ALTIS PROPERTY PARTNERS
American Real Estate Partners, LLC
American Realty Advisors
Amvest
Aozora Bank
APG Asset Management
ARA Asset Management
Areim AB
Art-Invest Real Estate Funds GmbH
ASR Real Estate Investment Management
ATP Real Estate
Aviva Investors
BEI Capital
Belgacom Pension Fund
Bentall Kennedy (US) LP
BEOS AG
Blue Sky Group
BNP Paribas Real Estate Italy
Bouwfonds Investment Management
Brookfield Asset Management
CAERUS Debt Investments AG
California Public Employees' Retirement System
Canada Post Corporation Registered Pension Plan
CapRidge Partners, LLC
CBRE Global Investment Partners
CBRE Global Investors
Century Bridge Capital
Challenger Ltd
Charter Hall Group
China Orient Summit Capital Co., Ltd
CITIC Capital Holdings Ltd
Citygate
Clarion Partners
Colorado PERA
Cordea Savills
Cording Real Estate Group
Corestate Capital AG
Cornerstone Real Estate Advisers
CorVal Partners
Credit Suisse
Cromwell Corporation Limited
Daido Life
Deka Immobilien / WestInvest
Deutsche Asset & Wealth Management
DEXUS Property Group
DNB Livsforsikring
DTZ Investment Management
Dymon Asia Capital
Dynasty Investments
ECE Real Estate Partners
EG Funds Management Pty Ltd
Elo
Energy Super
Europa Capital LLP
Everstone capital
F&C REIT Asset Management
FASC
Fidelity
Fondazione ENPAM
Fosun Property Holdings
FPA Multifamily
Franklin Templeton Investments
FREO Group
GastroSocial Pension Fund

Gaw Capital Partners
Global Logistic Properties
GPT Group (The)
Grontmij Capital Consultants BV
Guidance Investments Sdn Bhd
Hana Asset Management
Hannover Leasing Investment GmbH
Harrison Street Real Estate Capital
Helaba Invest
HESTA Super Fund
Hodes Weill & Associates
Horizon Development Management LLC
Hostplus
Hunter REIM
Hyun Dai Asset Management
ICG-Longbow
IDERA Capital Management
IGIS Asset Management
ImmoFinRE Group
InfraRed Capital Partners
Invesco Real Estate
IPUT plc
IVG Institutional Funds GmbH
Jensen Group
JGS Property
JPMorgan Asset Management
KaiLongRei Project Investment Consulting (Hong Kong)
Kempen & Co
Kenedix Inc.
Kesko Pension Fund
Keva
KGAL Investment Management GmbH & Co. KG
La Francaise Group
LaSalle Investment Management
LBA Realty
Legal and General
LEM Capital
Lend Lease Investment Management
Los Angeles County Employees Retirement Assoc.
Lothbury Investment Management Limited
Lowe Enterprises Investors
Madison International Realty
Manulife Financial / John Hancock
Manulife Life Insurance Company
Mayfair Capital
MEAG
Metro Properties
Metropolitan Real Estate Equity Management LLC
Mirae Asset
Mitsubishi UFJ Trust and Banking Corporation
Mitsui Fudosan Investment Advisors
National Real Estate Advisors, LLC
New York Life Investment Management
Niam AB
NN Group
Northern Horizon Capital
Nova Scotia Pension Services Corporation
Novion Property Group
OFI REIM
Orchard Street Investment Management
Oregon Public Employees Retirement Fund
Orion Partners
Oxford Properties Group
PAG
Palmer Capital
Pamfleet Asset Management (HK) Limited
PATRIZIA Immobilien AG
Penwood Real Estate Investment Management, LLC
PFA Pension
PGGM
Poste Vita SpA
Pradera
PROJECT Investment AG
Prologis
Proprium Capital Partners
Qualitas Property Partners

Quantum Immobilien KVG mbH
R+V Lebensversicherung
Redevco
Rockspring Property Investment Managers LLP
Rynda Property Investors LLP
Sarofim Realty Advisors Co.
Silk Road Property Partners
Sirius Capital Partners
Sonae Sierra
Sparinvest Property Investors A/S
Standard Life Investments
Storebrand Fastigheter AB
Sumitomo Mitsui Banking Corporation
Sung Dam
Sunsuper
Syntrus Achmea Real Estate & Finance
Teacher Retirement System of Texas
TFI PZU SA
The Boston Foundation
The Crown Estate
The New York City Office of the Comptroller
Threestones Capital Management
TIAA-CREF and TH Real Estate
Tokio Marine Property Investment Management
Tokyo Tatemono Investment Advisors
Tokyu Land Capital Management
Treasure Capital Asia
Tristan Capital Partners
UBS Global Asset Management
UBS Global Real Estate - Multi-Managers
Union Investment Institutional Property GmbH
Unipol
UniSuper
UNITE
United States Steel & Carnegie Pension Fund
Univest Company
UPS Investments
Utah Retirement Systems
UTIMCO
Valad Europe
Valtion Eläkerahasto (VER)
Varma Mutual Pension Insurance Company
Versicherungskammer Bayern
Victorian Funds Management Corporation
Virginia Retirement System
Warburg - Henderson KAG
Western National Group
White Peak Real Estate

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