Investors continue moving up the risk curve with value added now preferred to core

> Record number of respondents
> Target allocation to real estate of 10.3%, compared with current allocation of 9.4%
> Joint ventures and club deals gain in popularity

The real estate sector is expected to see an influx of capital in 2016 with a minimum 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 being 10.3% compared with an average current allocation of 9.4%.

European investors lead the pack in terms of building up their real estate portfolios with 64.8% of them expecting to increase their real estate allocation over the next two years. Next in terms of optimism are the North American investors, 42.3% of whom expect to increase their allocation, and in third place come Asia Pacific investors, with 39.4% indicating they expect to increase their allocation over the next two years.

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.

In 2016 investors' preferred investment style is value added. The shift towards value added is coming at the expense of both core and opportunity styles, though more from opportunity. In 2015 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%).

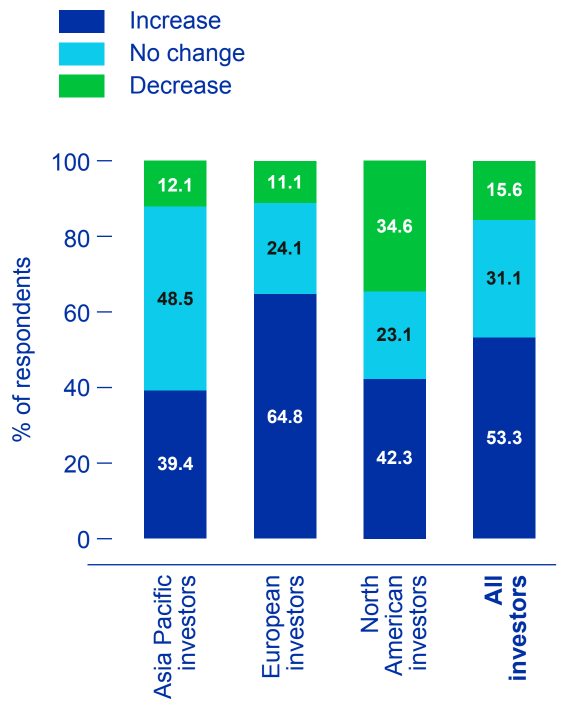
Germany, France and the UK consistently rank as preferred locations for investment into Europe. This is highly reflective of the size, maturity and transparency of these markets which enable investors to access the markets more easily for the risk-adjusted returns they seek.

The top three investment destinations in 2016 are German office, France office and UK office. In 2015 by contrast the top three were German retail, German office and UK office, marking a change of emphasis rather than

Top three investment destinations in Europe

1. GERMANY
2. FRANCE
3. UNITED KINGDOM

Figure 1: Investors' views on development of global real estate portfolio



a radical move away from the three dominant markets.

Over half of investors agree that access to expert management is the primary reason why they invest into non-listed real estate funds. The second most important driver behind using non-listed real estate funds is diversification, whether international diversification of an existing domestic real estate portfolio or diversification within the overall multi-asset portfolio.

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

There are many other areas of interest in this year's survey, such as a comparison between smaller investors (those with less than €500 million of real estate assets under management) and larger investors in terms of what they prefer in non-listed real estate funds.

Other highlights in the full report include most popular countries and sectors, preferred structures and strategy.

For further details contact research@inrev.org

The full report is available to members at inrev.org/library/publications

Figure 2: Expected changes in investors' European real estate allocations over the next two years

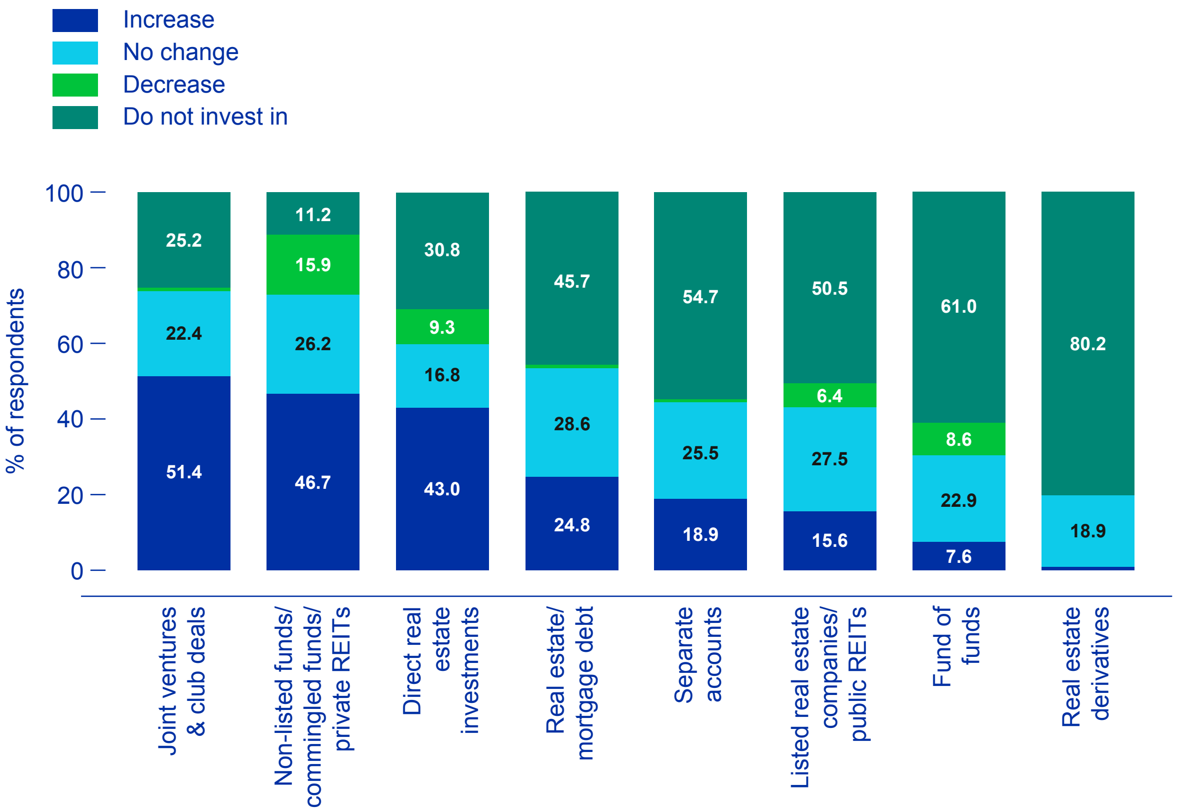


Figure 3: Preferred investment styles by respondent type