Non-listed real estate funds back on top as the preferred route to market

> A minimum of €52.6 billion is earmarked for investment into global real estate in 2017
> Allocations are set to grow from 10.0% currently to a target of 11.5%
> UK and France are joint top investment destinations in Europe

This year's survey was carried out against a backdrop of unprecedented global economic and geopolitical uncertainty, including the UK's exit from the European Union and Trump's potential candidacy for US presidency.

Despite this, investors are optimistic about the prospects for real estate with the diversification benefits of the sector continuing to draw in capital. Overall, more than half of the investor participants plan to increase their global real estate allocations over the next two years. On average current allocations are expected to move from 10.0% to an average target allocation of 11.5%.

'Value added is preferred ahead of core for the second year running'

In 2017 a minimum of €52.6 billion is expected to be invested into real estate, this is an increase of €4.9 billion compared to 2016 (€47.7 billion).

The US market is expected to attract the lion's share of this investment (40.9%), followed by Europe (36.4%) and then Asia Pacific (18.0%). The Americas ex US has been a growing investment destination in recent years with investors indicating that they expect to further increase investment to this region. In 2017 4.8% of the €52.6 billion is expected to be invested there.

The three main European economies, UK, France and Germany, continue to dominate as top investment destinations within Europe. Germany, last year's number one, is no longer seen as the most preferred investment market for investors in 2017. This year it is the UK and France that share the top spot. The Netherlands and Spain follow Germany to occupy fourth and fifth places respectively. While the Netherlands has retained its fourth position from last year Spain has increased its appeal to investors with a huge jump from ninth place to fifth this year.

Sector wise, it is the office sector that is most preferred by investors in 2017. Office is followed by retail in second and industrial /

Top three investment destinations in Europe

UNITED KINGDOM | FRANCE | GERMANY

Figure 1: Investors' expected destination for real estate investments in 2017 (total: €52.6 billion)

18.0%	Asia Pacific
36.4%	Europe
40.9%	US
4.8%	Americas ex US
0.0%	Africa

Note: based on a sample of 104 investors logistics in third. Residential takes the fourth spot and student accommodation follows in fifth.

When looking at country / sector combinations it is German office, France office and Germany retail, in that order, that are ranked as the top three investment markets among investors. On a city / sector level all respondents rank Berlin office in first place, Paris office in second and Frankfurt office in third. London office, previously ranked first, has dropped to fourth place this year. It is possible that respondents are more cautious towards this market due to Brexit.

When it comes to risk and return prospects investors have indicated that value added would be their preferred investment style for investing in Europe in 2017, with almost half (48.7%) indicating so. Core is next with 40.8% of investors indicating that they consider this style most attractive in risk and return terms, followed by opportunity (10.5%). This is the second year running that value added is preferred ahead of core. The increased preference for core and value added comes at the expense of opportunity.

In terms of how to access the European real estate markets non-listed real estate funds are considered the preferred route to market with 42.3% of investors expecting to increase their allocation to funds. Joint ventures and club deals, last year's preferred vehicle type, is in second place. Separate accounts, last year's fourth, is the third most preferred route to market in 2017. On a value weighted basis joint ventures and club deals are in first place indicating that larger investors have a preference for using this vehicle structure.

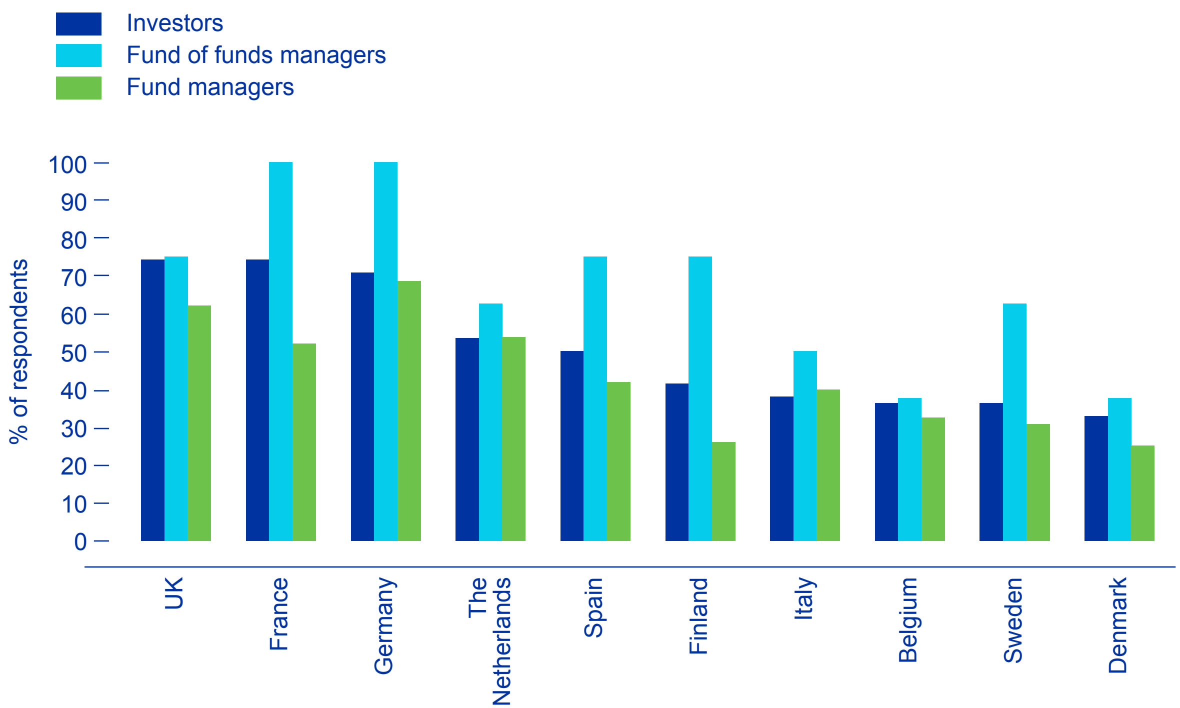
It is the access to expert management that investors consider as the main benefit of investing into non-listed real estate funds.

Although, in current market conditions, investors see fund managers faced with several difficulties, most prominent being the ability to achieve target returns as well as the availability of suitable product.

For further details contact research@inrev.org

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

Figure 2: Ten most preferred locations for 2017



Note: based on a sample of 174: 58 investors, 8 fund of funds managers and 108 fund managers