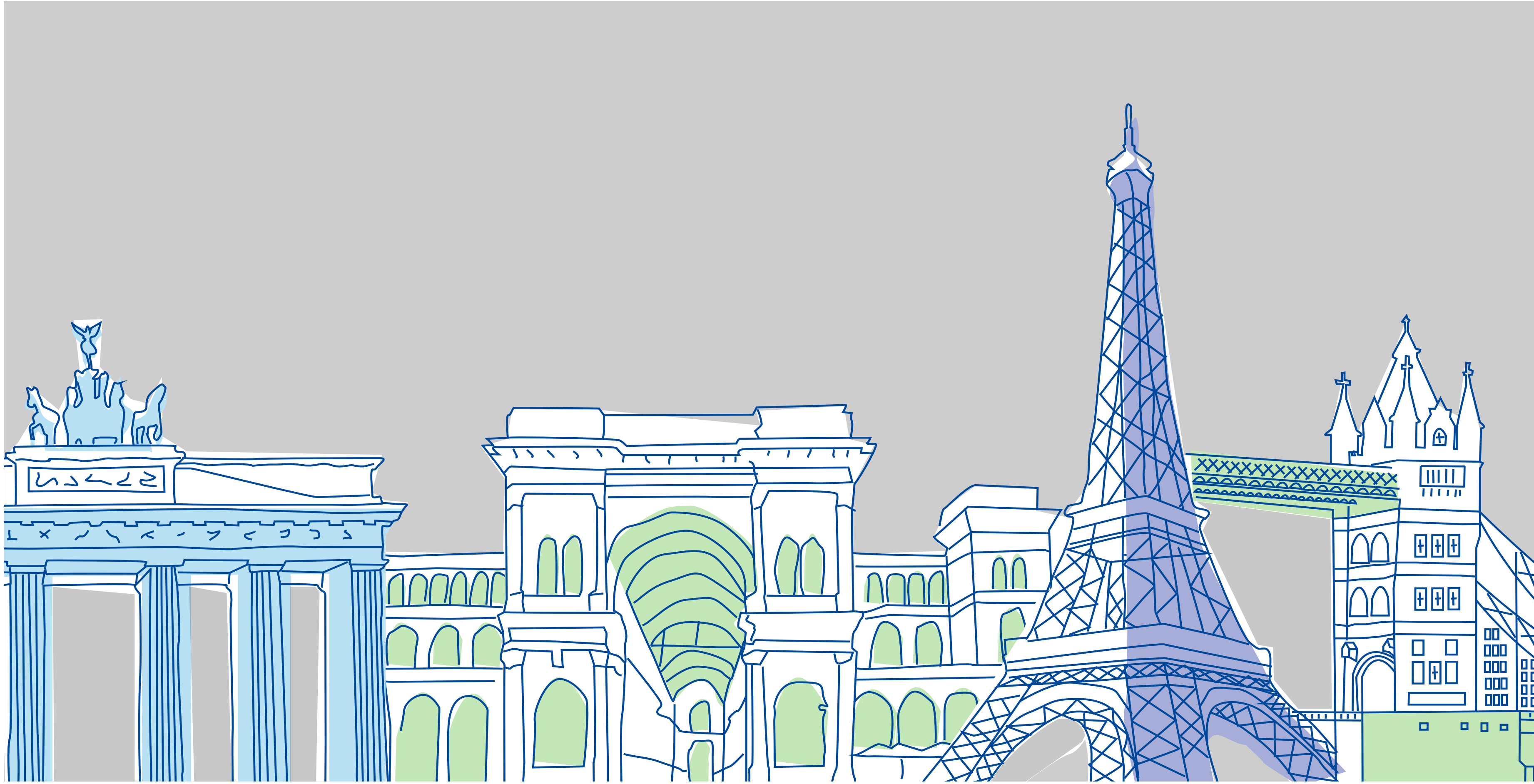

Investment Intentions Survey 2019

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

Executive summary

> The real estate sector is expected to see an influx of €72.4 billion of capital in 2019
> The gap narrows between current and target allocations, 10.0% and 10.4% respectively
> A notable shift towards core and away from opportunity

Capital raised for investment into the global non-listed real estate industry reached a record of €152.3 billion[1] in 2017, following a lull in 2016. Almost everywhere investors remain under-allocated to the sector and intend to further increase their allocations, signaling more capital inflows into the sector.

Respondents to this year's survey indicated plans to place a total of €72.4 billion in new capital in 2019 (€60.7 billion from investors and €11.7 billion from funds of funds). Of the €60.7 billion, 53.6% is expected to come from Europe, 38.1% from North America and 8.3% from Asia Pacific.

Of the €60.7 billion, €37.7 billion is expected to be invested in some type of non-listed real estate vehicle (with the biggest share of that amount again coming from European sources), and of that €23.3 billion is targeting non-listed funds.

While Europe accounts for 53.6% of the sources of planned global capital investments in 2019, it is the destination for only 37.5% of planned investments. This indicates that there will be a net outflow of real estate capital from Europe.

1 Source: ANREV / INREV / NCREIF Capital Raising Survey 2018

The average allocation to real estate currently sits at 10.0%, substantially higher than last year, but still below this year's target allocation of 10.4%.

This year's results show a shift in risk-adjusted return preferences which indicate that investors are taking a more cautious approach at this late stage of the cycle. Though value added remains the most favoured investment style among institutional investors, there has been a notable shift in preferences toward core and away from opportunity.

Expected investment styles show further risk aversion. Regardless of domicile or investor type, investors are indicating that expected investments in 2019 are likely to be into less riskier strategies than those that they currently find most attractive in terms of risk-adjusted performance prospects.

Despite uncertainty surrounding Brexit, the UK remains in the top 3 most favoured investment destinations for 2019, though it has slipped into second place. Funds of funds are even more bullish on the UK naming it as their top destination for investment in 2019.

Germany, last year's third, has moved up two places to take the top spot this year.

The biggest mover was Norway, last year's tenth, which has moved up to take fifth place this year alongside Italy, Spain and Finland.

Similar to previous years, the top four most preferred sectors for this year are the mainstream sectors. Office remains the most preferred, followed by retail, residential and industrial / logistics. However, alternative sectors, such as healthcare and student accommodation, are gaining in popularity.

With the majority of investors intending to either maintain current real estate allocations or further increase them, the most likely route that investors will take to access the European markets are via non-listed real estate funds.

Non-listed real estate funds show the largest expected increase for accessing the European real estate markets. They are followed by joint ventures and club deals and then by directly held real estate.

Access to expert management and the diversification benefits that funds bring are cited as key reasons for investing via these products. On the flip side availability of suitable products has been highlighted as the key deterrent to making investments into European non-listed real estate funds over the last few years. It is not surprising that current market conditions is cited as the second most challenging obstacle this year given the stage of the cycle we are in.

Section 1

Introduction

Introduction

The 2019 ANREV INREV PREA Investment Intentions Survey is the sixth time the three non-profit organisations have cooperated to provide a truly global look at institutional real estate portfolios and intentions for new investments going forward.

The Investment Intentions Survey explores aspirations for investment in the real estate sector over the next two years, with a focus on non-listed real estate funds, and is published once a year in January.

The Investment Intentions Survey was launched in 2007. Since 2014, the survey has had a global reach, as a joint research project between ANREV, INREV and PREA.

This is the first year that the Survey is focused entirely on institutional investors and fund of funds managers. Previously it covered the investment intentions of fund managers too.

This year's sample includes 154 respondents in total: 10 fund of funds managers and 144 investors.

The results of this study are based on data provided directly by investors and fund of funds managers.

Aggregate results are shown only when there is a minimum sample size of three for any category.

ANREV, INREV and PREA do not use publicly available information, and both members and non-members can provide data to the survey.

ANREV, INREV and PREA would like to thank all participants for contributing to the Investment Intentions Survey 2019.

Use
The results of the Investment Intentions Survey may be used for research and information purposes only.

They may not be used for the following:

- To determine the value of a fund
- To determine the value of a financial instrument
- To determine the amount payable under a financial instrument
- To determine the amount payable under a financial contract
- To calculate performance fees
- To define the allocation of a portfolio

It is important to note that the sample size and its composition varies year by year. As such, historical comparison should be treated with caution.

Sample size by investor domicile and investor type

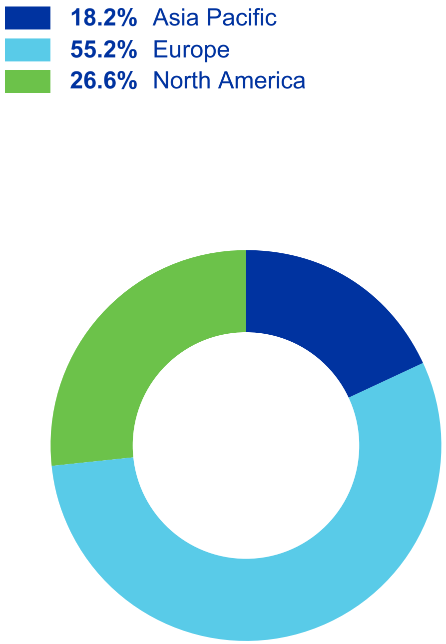
This year's Investment Intentions Survey achieved the highest number of respondents in the history of the survey: 144 institutional investors and 10 fund of funds managers.

Over half of the sample are based in Europe, just over a quarter are based in North America and just less than one fifth are based in Asia Pacific. By number this represents 85 in Europe, 41 in North America and 28 in Asia Pacific.

The two largest groups of investors were pension funds (79) and insurance companies (22). While pension funds represent over half of the sample, insurance companies share was just under 15% of the sample.

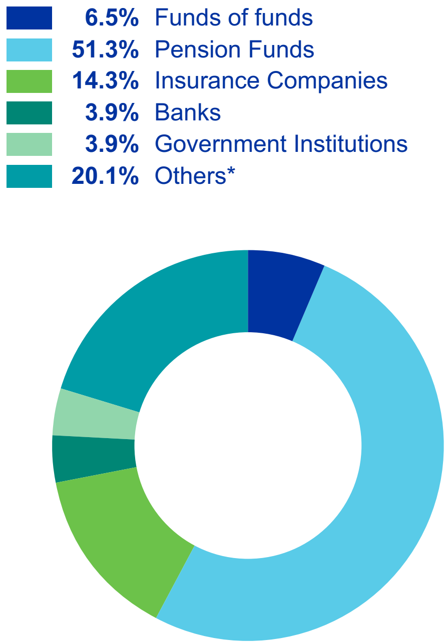
Next were banks, corporations and government institutions with 6 each, followed by endowments and foundations with 5 each.

Figure 1: Sample size by investor domicile



Based on a sample of 154 respondents

Figure 2: Sample size by investor type



Based on a sample of 154 respondents

Others* include corporations, foundations, endowments, family offices, charities, sovereign wealth funds, investment consultants, non-profit organisations, high net worth individuals and other unspecified

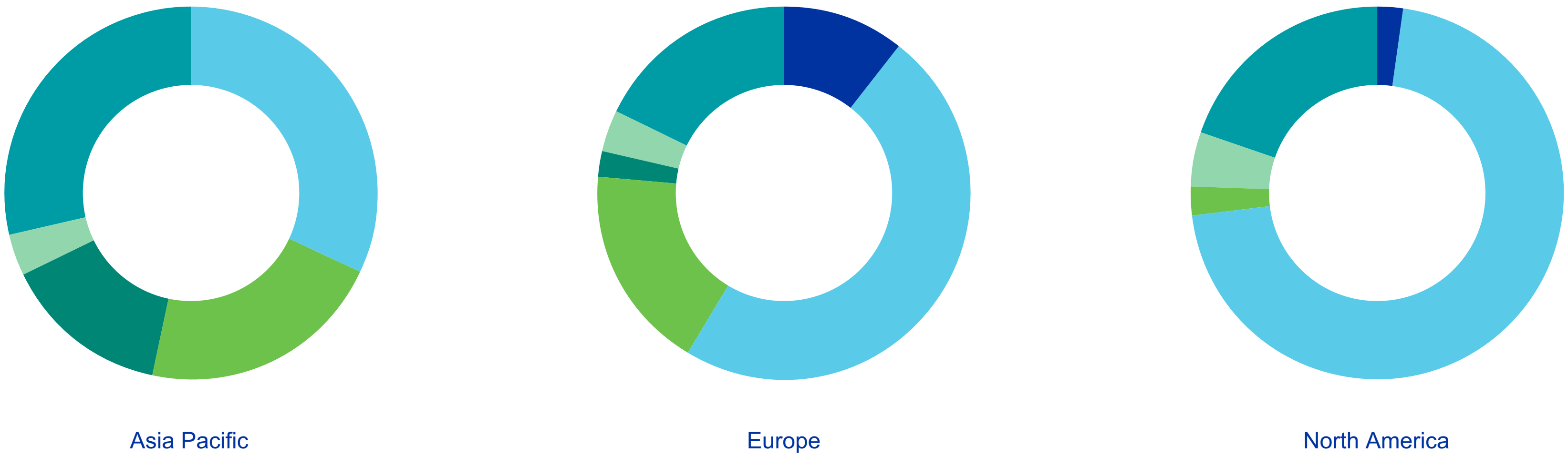
Pension funds dominate the samples across all regions, to a greater extent in North America, where this group represents almost three quarters of the North American sample, and to a lesser extent in Asia Pacific.

Insurance companies were more dominant among investors in Asia Pacific than any of the two other regions.

Meanwhile fund of funds was more prevalent in the sample among European investors.

Figure 3: Sample size by investor domicile and investor type

Investor type	Asia Pacific	Europe	North America
Funds of funds	0.0%	10.6%	2.4%
Pension Funds	32.1%	48.2%	70.7%
Insurance Companies	21.4%	17.6%	2.4%
Banks	14.3%	2.4%	0.0%
Government Institutions	3.6%	3.5%	4.9%
Others*	28.6%	17.6%	19.5%



Based on a sample of 154 respondents

Note: Others* include corporations, foundations, endowments, family offices, charities, sovereign wealth funds, investment consultants, non-profit organisations, high net worth individuals and other unspecified

Section 2

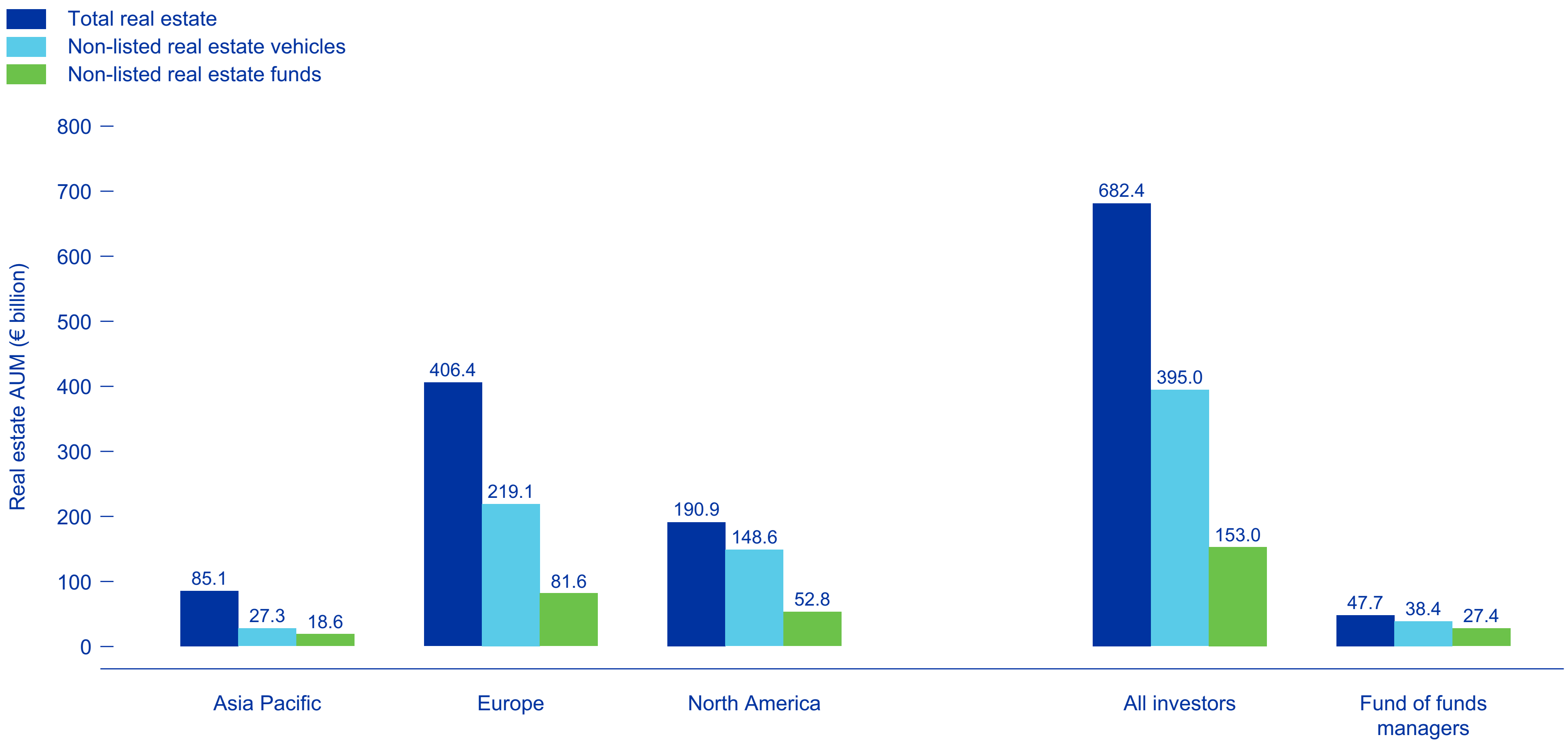
Global real estate allocations and intentions

Current value of global assets

This year saw a tremendous response from the investor community with institutional investors with more than €682.4 billion of real estate assets under management (AUM) responding, as well as fund of fund managers with a further €47.7 billion of real estate AUM. Note that these figures represent minimums as not all respondents provided AUM data, so overall the survey provides a very wide and deep picture of global institutional real estate portfolios and investment plans. Also note that of the total invested in real estate by institutional investors, €395.0 billion is held within non-listed real estate vehicles (a general term covering funds, separate accounts, joint ventures, club deals, etc.) and, of that, more than €153.0 billion is held in non-listed funds (a subset of vehicles).

This section takes a global view, looking at the full sample of survey participants, and discusses their current and target allocations to real estate, including allocations by style, sector and geography within real estate, their intentions for deployment of capital in 2019, as well as their motivations for investing in real estate in the first place.

Figure 4: Real estate AUM of the sample (€ billion)



Based on a sample of 135 respondents

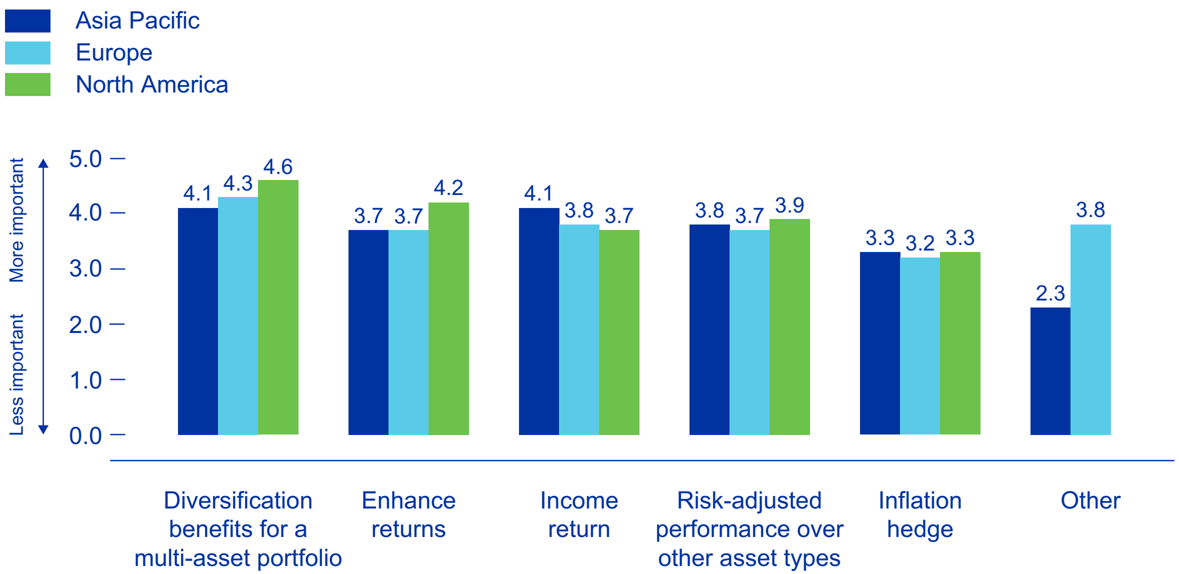
The appeal of real estate

With such a large amount of capital allocated to real estate, it is important to understand the underlying characteristics that make the asset class so appealing to investors. The ability of real estate to diversify the overall, multi-asset class portfolio is ranked as the most important characteristic, followed by its ability to enhance returns, the provision of income, and real estate's risk adjusted performance. The ability to hedge inflation is ranked somewhat lower than the other characteristics as an attraction.

For investors from different regions, there is broad agreement that diversification is the most important characteristic of real estate as an asset class, although for investors from Asia Pacific that characteristic ties with the income return as most important. North American investors rank enhancement of returns as slightly more important than investors from other regions. It is also interesting to note that 'other' reasons to invest in real estate, those beyond the traditional arguments for the asset class, are rated as quite important by European investors, less important by Asia Pacific based investors, and not at all important by those from North America.

Figure 5: Reasons to invest in real estate by respondent type

Figure 6: Reasons to invest in real estate by investor domicile



Based on a sample of 142 respondents

Current and target allocations to real estate

The average allocation to real estate for institutional investors globally is 10.0% of total assets. This is up significantly from last year (8.9%) whereas the average target allocation of 10.4% has risen only 20 basis points (bps) from last year. Hence, institutional investors appear to have been putting capital to work over the last year but are now getting closer to their target allocation on average. Looking across regions, the highest average allocations (both current and target) are found among European investors, with the smallest among Asia Pacific based investors. Investors from all three regions are below target with the largest difference being in North America where investors are 90 bps below target.

When allocations are weighted by total assets under management (AUM), substantially different results emerge. When weighted by total AUM, current and target allocations globally are 5.7% and 6.5%, respectively. For European investors allocations are much lower when weighted by AUM, indicating that smaller European investors tend to have larger percentage allocations to real estate than do larger European institutions. In contrast, when weighted by AUM North American allocations to real estate are higher, indicating that larger North American investors have larger real estate allocations. When weighted, Asia Pacific investors' real estate allocations are actually 40 bps above target.

Figure 7: Current and target allocations to real estate (equally weighted)

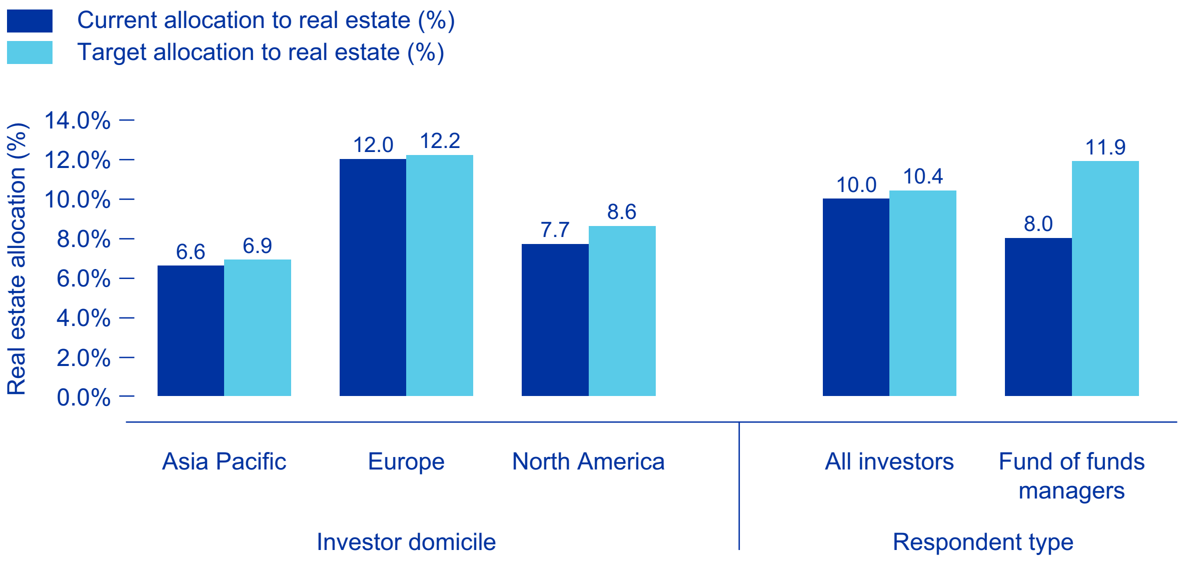
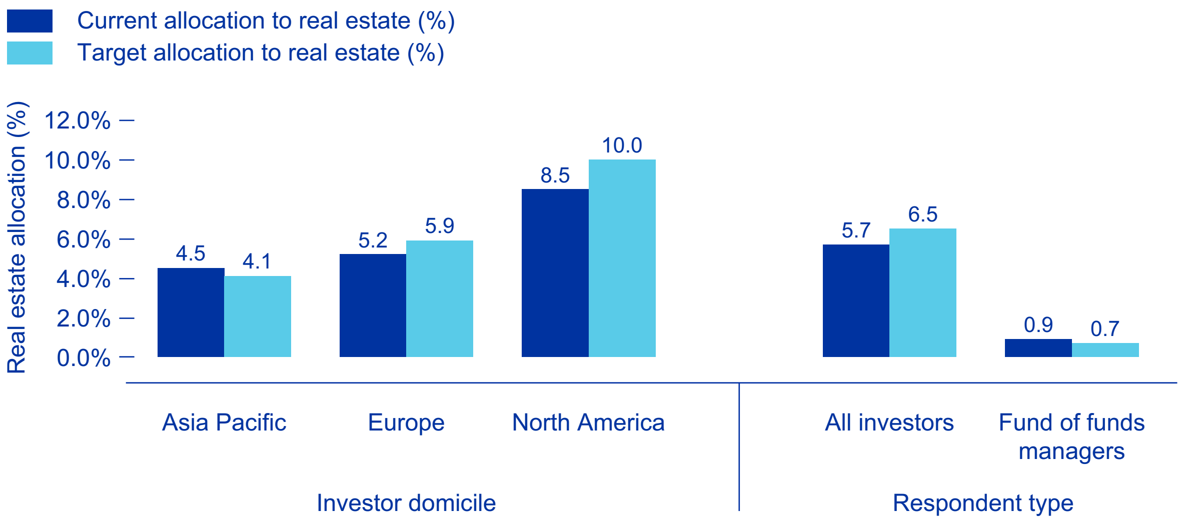


Figure 8: Current and target allocations to real estate (weighted by total AUM)



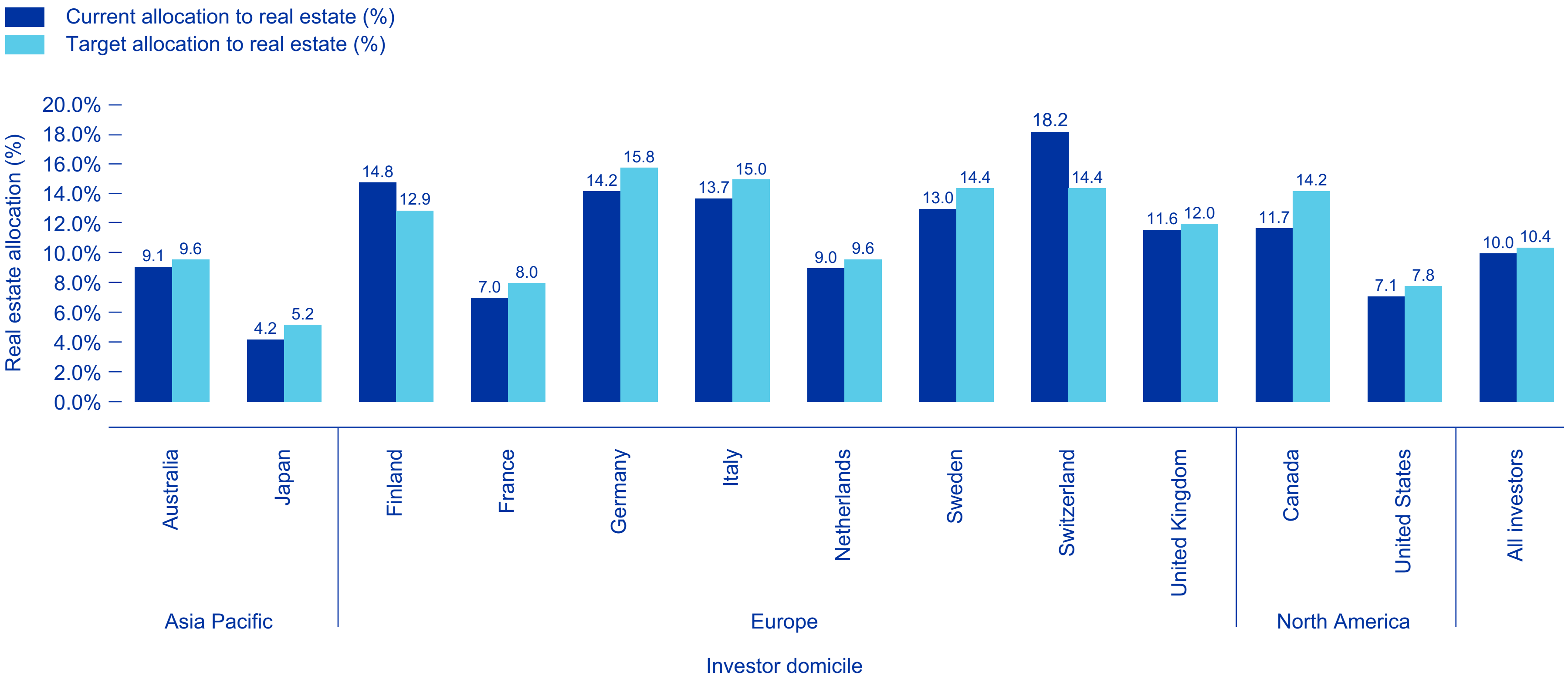
Based on a sample of 123 respondents

Current and target allocations to real estate by investor domicile and investor type

As well as regional variation, average allocations also vary substantially by specific home country and by type of investor. Investors in Switzerland have the highest current allocations, followed by investors from Finland, Germany, and Italy.

Investors in Switzerland and Finland are, however, considerably above target on average. Investors from Canada, while having a considerable 11.7% of their assets in real estate, are 250 bps below their target for real estate and hence one should expect further real estate investment from that area in the future.

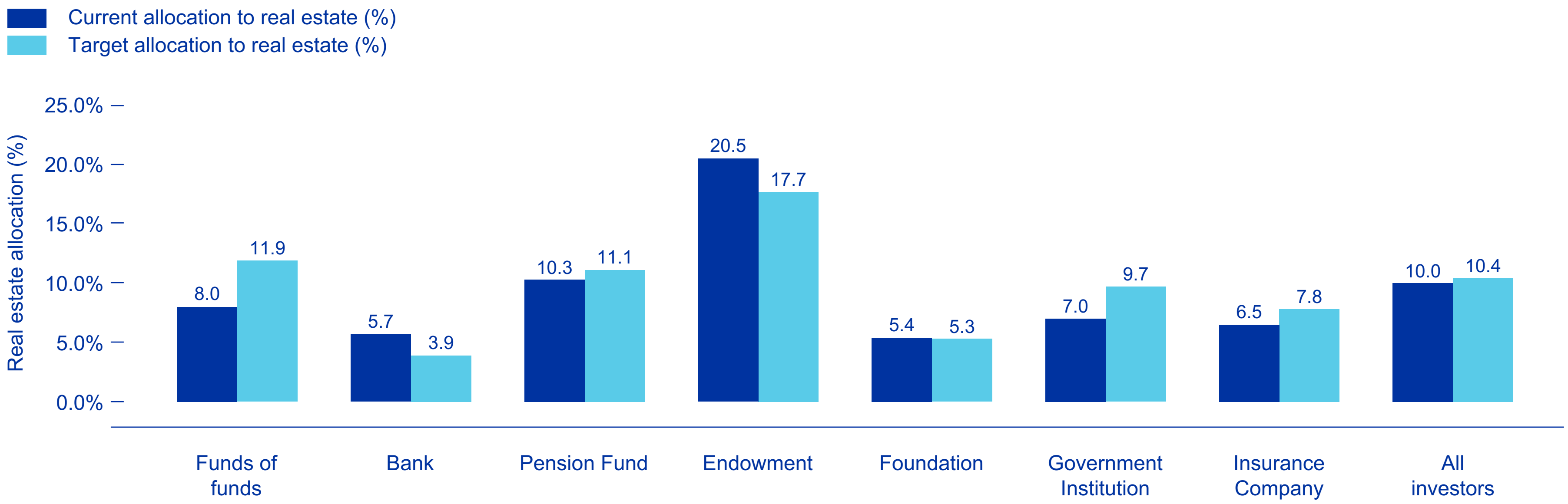
Figure 9: Current and target allocations to real estate by investor domicile



Based on a sample of 118 investors

Looking at type of institutional investors, endowment funds have the highest allocations (both current and target), although on average they are currently above target. Pension funds have the second highest current and target allocation, while funds of funds are furthest below target.

Figure 10: Current and target allocations to real estate by investor type



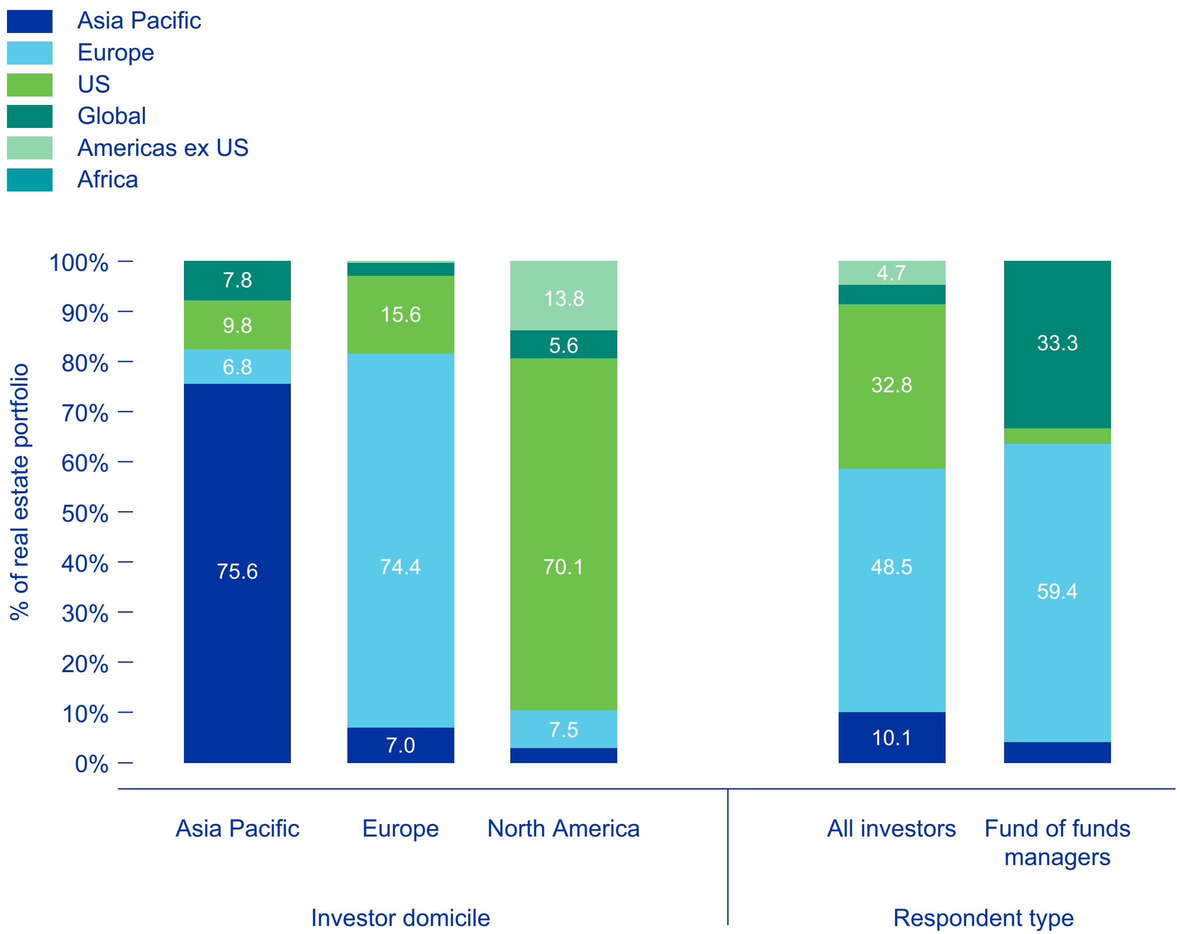
Based on a sample of 118 respondents

Allocations within real estate portfolios

The survey also asked about the allocation of real estate capital across global regions. Across all institutional investors, Europe has the largest share of current investments at 48.5%, followed by the US at 32.8%. Asia Pacific constitutes a smaller portion of institutional real estate investments at only 10.1% of global real estate investments. Note also that 3.9% of investments are in the form of global investments, which cannot be allocated to one specific region.

There is substantial variation in regional allocation depending on the home of the investor. It is evident that investors from all regions continue to have significant home bias in their portfolios, with investors holding the majority of real estate assets in their home region. The US accounts for the largest allocations outside their home region for both European (15.6% of the portfolio) and Asia Pacific (9.8%) investors. For North American based investors, the Americas ex US accounts for the largest allocation outside the US, but this can be largely explained by the holdings of the large Canadian investors in their own market.

Figure 11: Current allocations to real estate by regional strategy

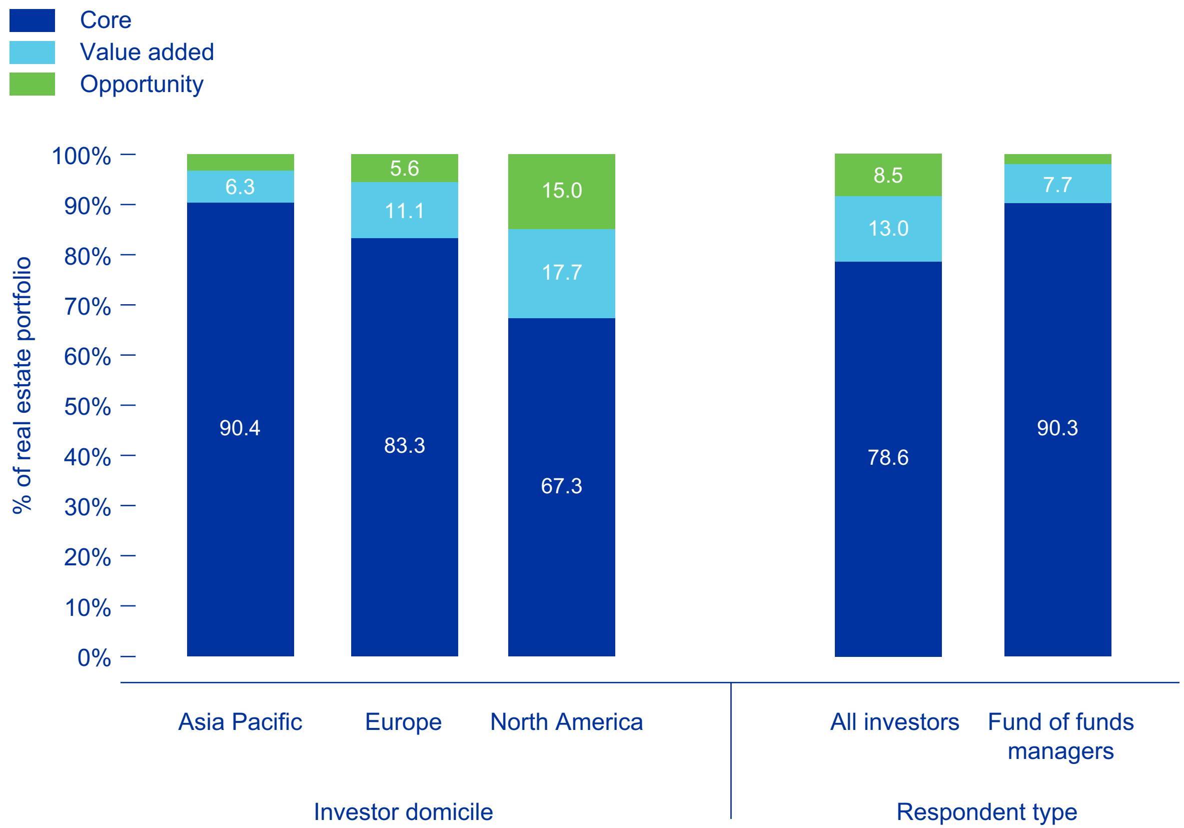


Based on a sample of 103 respondents

Allocations within real estate portfolios by style strategy and investor type

Looking at current investments by style, core real estate continues to dominate the portfolios of institutional investors. Worldwide, across the entire sample, 78.6% of institutional investors' real estate assets are classified as core, with 13.0% being value added and 8.5% opportunity. The proportions do vary, however, depending on the region in which the investor is based (although core remains the most popular style in all cases) - 67.3% of North American institutions' investments are core, compared to 90.4% and 83.3% for Asia Pacific and European based investors, respectively.

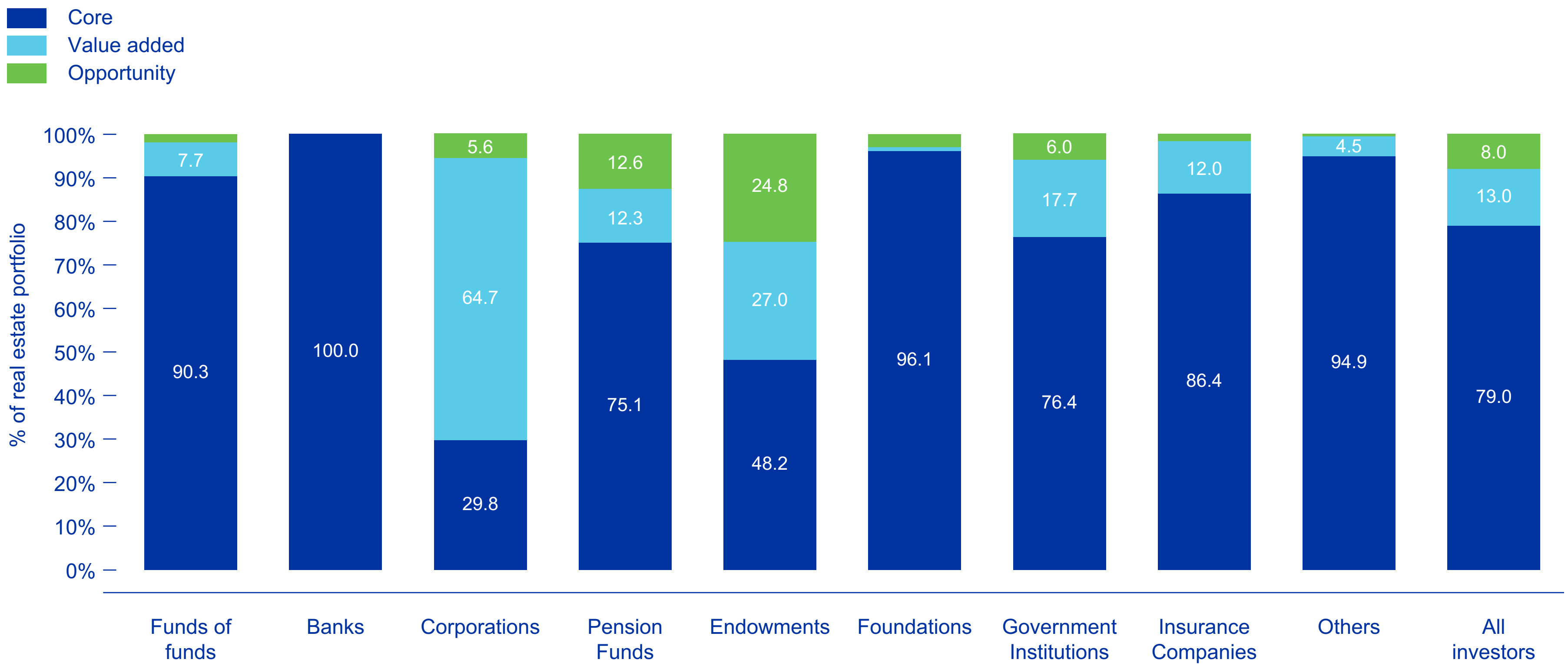
Figure 12: Current allocations to real estate by style strategy



Based on a sample of 120 respondents

Comparing different types of institutional investor, core dominates the current portfolio for all types except corporations for which value add is the largest allocation. Opportunity style investments are most popular with endowments (24.8% of the portfolio) and pension funds (12.6%).

Figure 13: Current allocations to real estate by style strategy and investor type



Based on a sample of 120 respondents

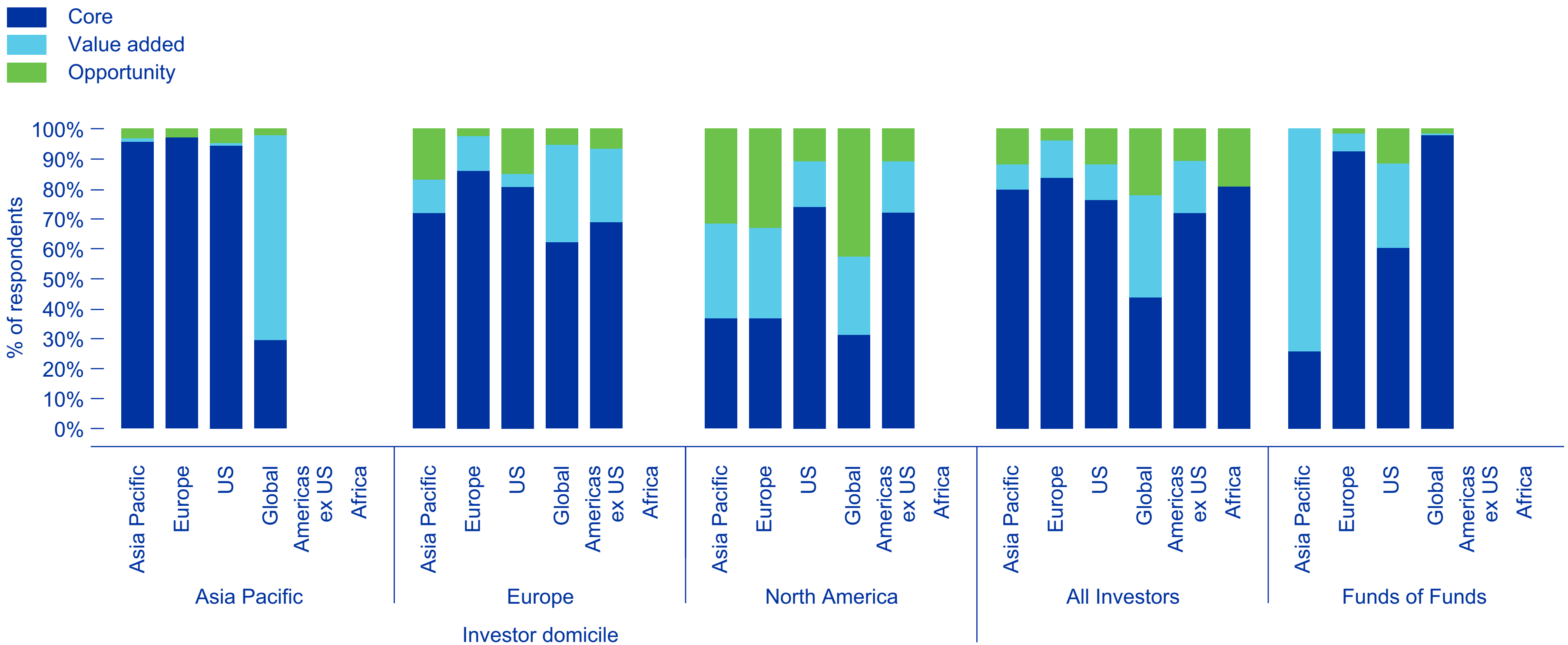
Allocations within real estate portfolios by regional and style strategies

The survey also shows that there is a difference in preferred strategy depending on the region in which the assets are held. Looking across all institutional investors globally, core constitutes the majority of current investments within every region with the exception of global investments (defined as investments for which less than 90% of gross asset value is held within one region).

Global investments held by investors are less than half core and are more oriented towards the higher risk investment strategies, although this difference is less acute amongst European based investors. The vast majority of Asia Pacific investors' real estate assets are core whether held in Asia Pacific, Europe, or the US. However, 68.2% of global investments held by Asia Pacific investors are value-add.

European investors hold the majority of real estate assets in core in all regions of the world, whereas North American investors prefer core in the Americas, but in regions outside the Americas the majority of their capital is placed in higher risk strategies.

Figure 14: Current allocations to real estate by regional and style strategies

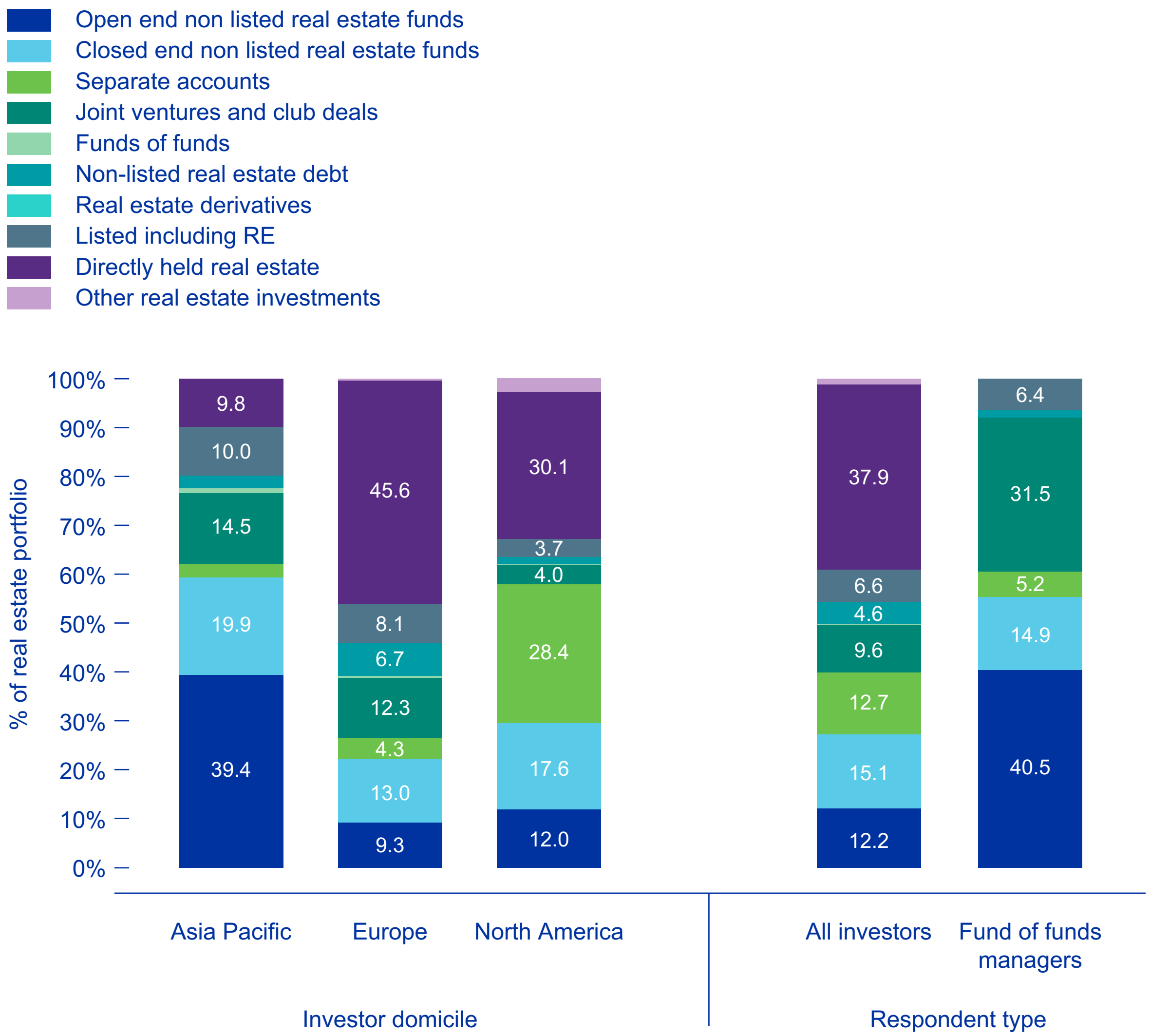


Based on a sample of 130 respondents

Allocations within real estate portfolios by vehicle type

The survey shows that there are differences in how investors from different regions actually access real estate investments in terms of the investment vehicle used. While 39.4% of Asia Pacific investors' real estate assets are held in open end funds, this vehicle is much less popular with European (9.3%) and North American (12.0%) investors. Real estate assets held directly by the investor is most popular amongst investors from Europe, accounting for 45.6% of their portfolios. For North American investors 30.1% of real estate investments are held directly, followed closely by separate accounts which make up 28.4% of North American investor portfolios.

Figure 15: Current allocations to real estate by vehicle type



Based on a sample of 120 respondents

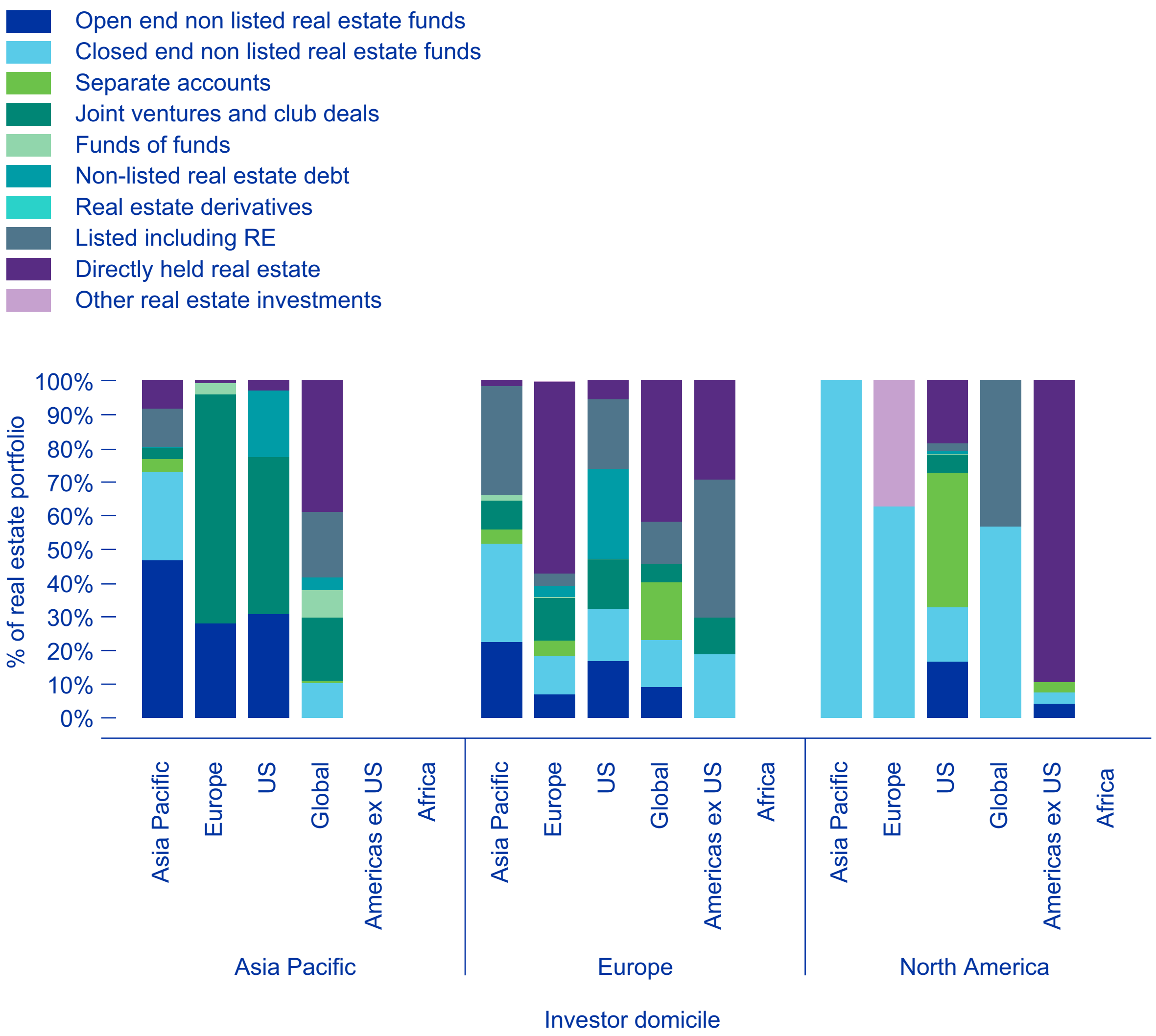
Allocation within real estate portfolios by regional strategy and vehicle type

Looking at investment vehicles for real estate capital, there are also differences across investor domiciles depending on the region in which the capital is invested. For Asia Pacific investors the most popular vehicle for investing in their home region is the open end fund. However, JVs and club deals account for a larger share of Asia Pacific based investors' investments in Europe and the US.

For European investors, the majority (56.7%) of investments in their home region are held directly, but direct holdings account for a very small percentage of European investment in Asia Pacific and the US. In Asia Pacific, European investors prefer listed real estate securities and closed end funds, while in the US they prefer listed securities and non-listed debt investments.

North American investors' portfolios outside the US are dominated by closed end fund investments (with the exception of Americas ex US for which direct investments dominate, largely because of direct holdings of Canadian investors in their home market). For investments in the US, North American investors' most popular vehicle is separate accounts which are 39.9% of their US portfolios.

Figure 16: Current allocations to real estate by regional strategy and vehicle type



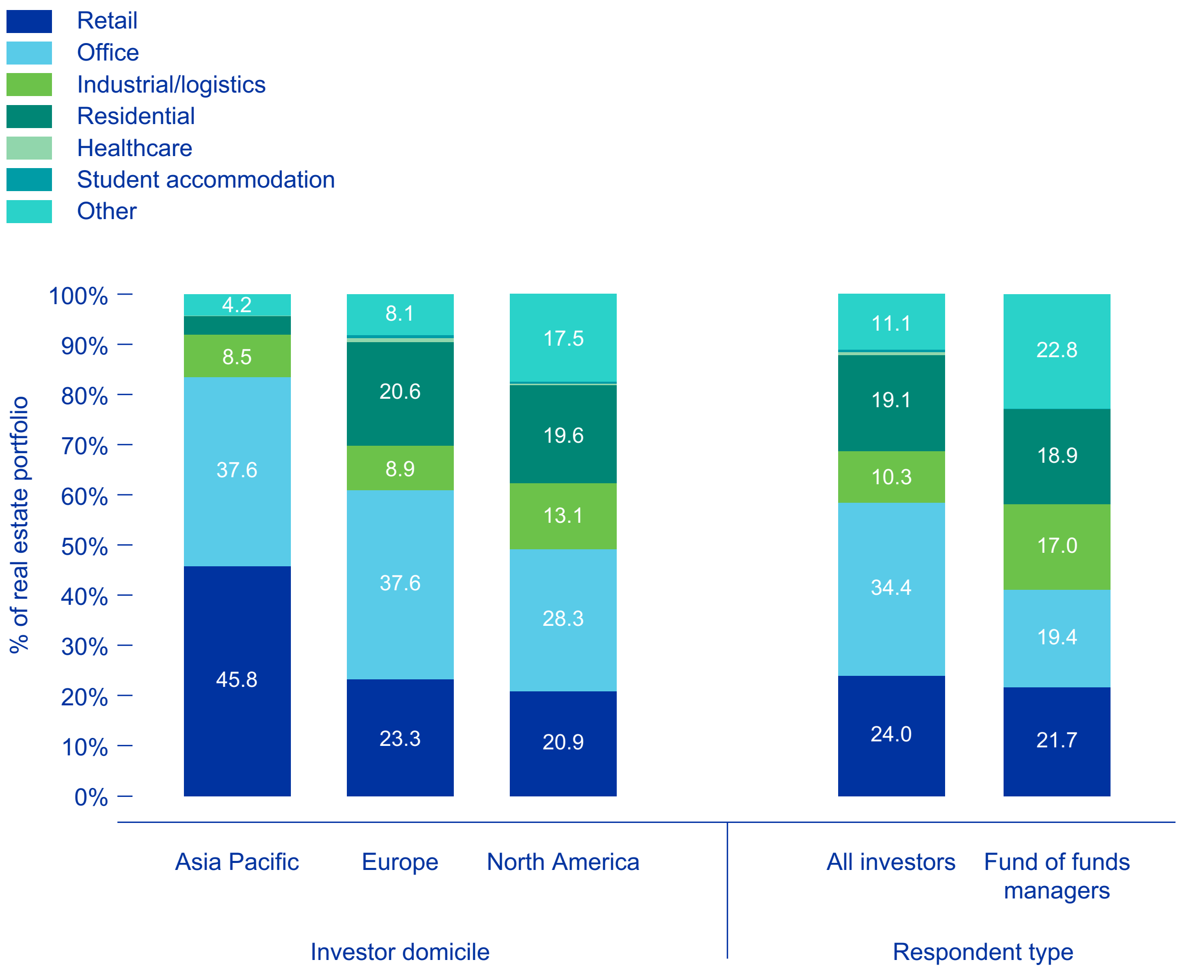
Based on a sample of 116 respondents

Allocations within real estate portfolios by sector strategy and investor type

The overall allocations by sector for institutional investors show that the largest allocation among the four traditional property types is to office, at 34.4% of the real estate portfolio. This is followed by retail (24.0%), residential (19.1%) and industrial (10.3%). While these four traditional institutional property types continue to form the basis of most portfolios and constitute the great majority of assets held, the 'other' category has continued to grow in importance and now accounts for 11.1% of institutional real estate portfolios.

Retail is the largest allocation in real estate portfolios of Asia Pacific investors, unlike both European and North American investors for whom office is their largest sector allocation. It is interesting that 'other' accounts for a much larger share of North American investors' real estate portfolios (17.5%) than it does in the portfolios of European or Asia Pacific investors.

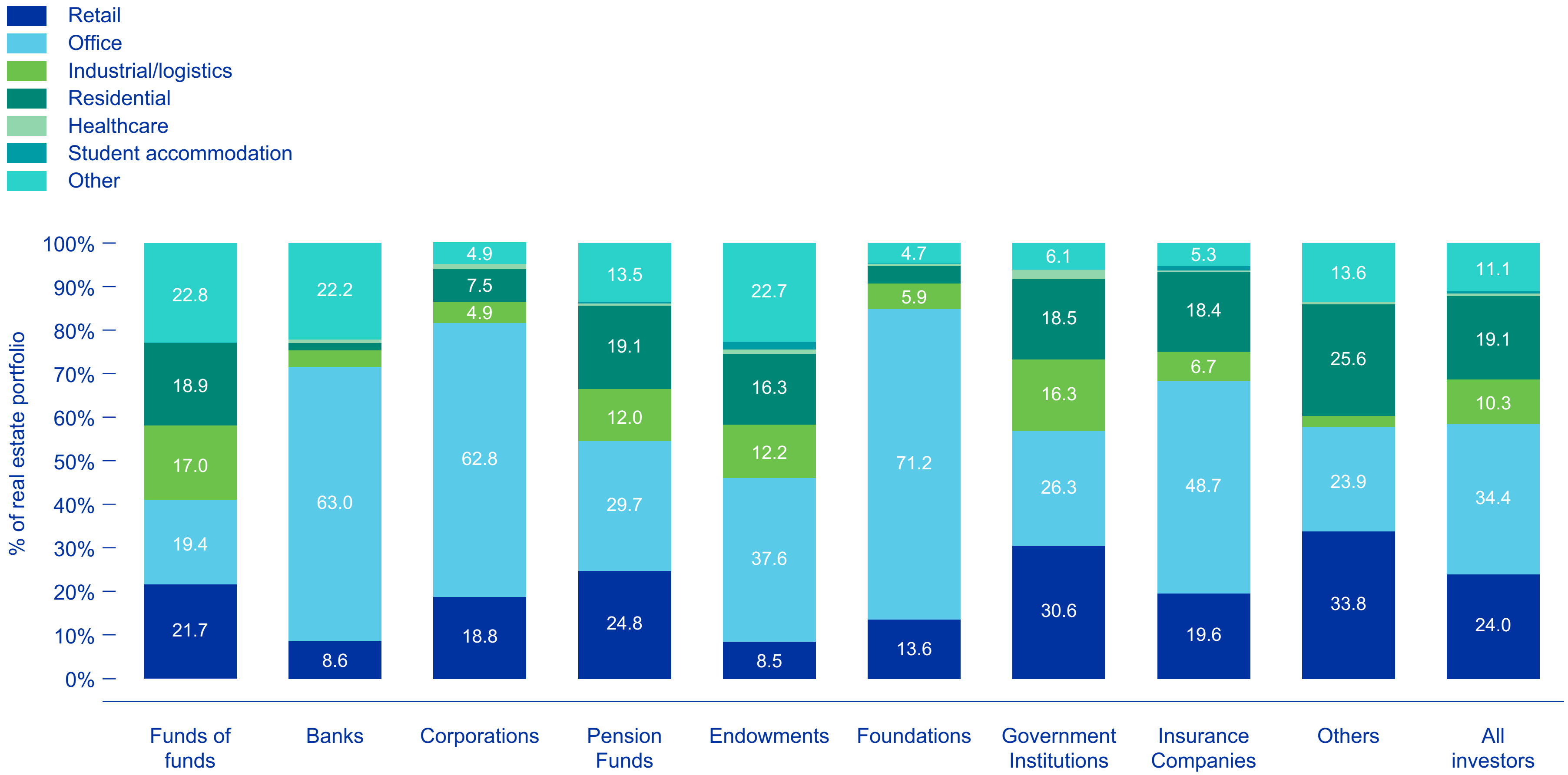
Figure 17: Current allocations to real estate by sector



Based on a sample of 120 respondents

Looking at different types of institutional investor, family offices and foundations tend to emphasise office more, while endowments and banks (and fund of funds) have the greatest allocation to ‘other’ amongst the types of investors examined

Figure 18: Current allocations to real estate by sector strategy and investor type

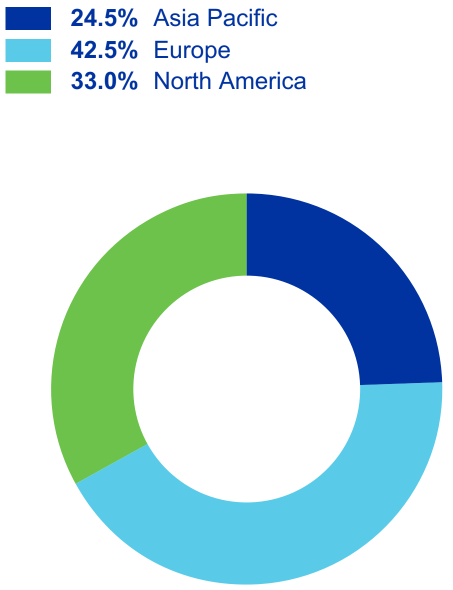


Based on a sample of 111 respondents

Allocations within real estate portfolios to development

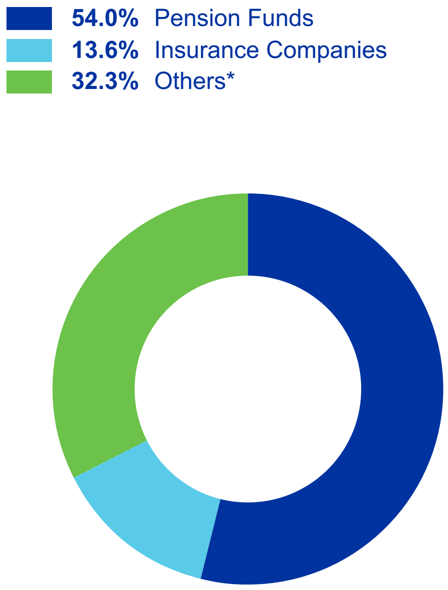
Finally, development projects continue to be an important part of institutional investor portfolios globally. Respondents to the survey reported a total of € 20.9 billion worth of development projects currently underway, with 42.5% of that amount attributable to investors from Europe, 33.0% to North American investors, and 24.5% to investors from Asia Pacific. Above half (54.0%) of reported development projects were held by pension funds.

Figure 19: Value of properties under development by investor domicile (€20.9 billion)



Based on a sample of 46 respondents

Figure 20: Value of properties under development by investor type (€20.9 billion)



Based on a sample of 47 respondents

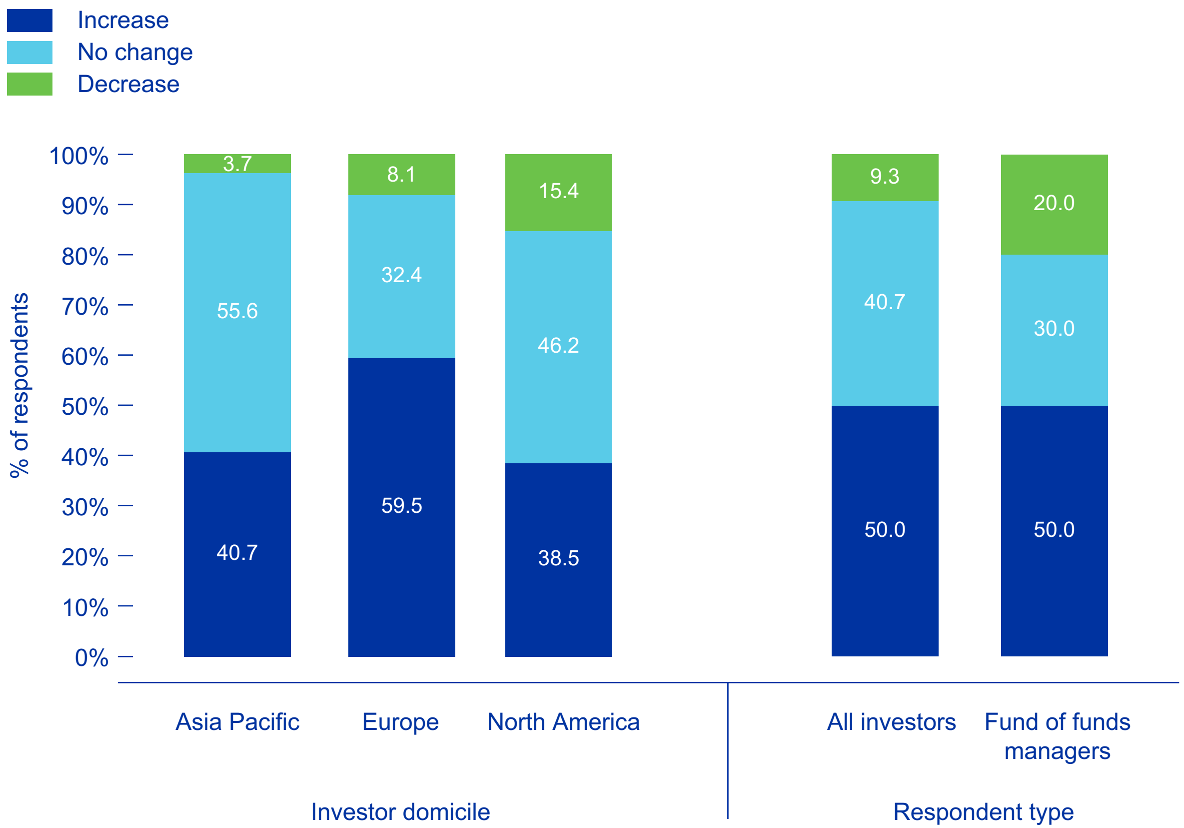
Note: Others* include corporations, foundations, endowments, family offices, charities, sovereign wealth funds, investment consultants, non-profit organisations, high net worth individuals and other unspecified

Looking forward – investment intentions for the future

While they are currently getting closer to their target allocations on average, institutional investors remain broadly bullish about real estate investment going forward with 50.0% of respondents indicating they expect their real estate allocation to increase over the next two years, while 40.7% expect the allocation to remain the same, and only 9.3% expect a decrease.

Investors based in North America are the least bullish with only 38.5% expecting an increased allocation and 15.4% expecting a decrease.

Figure 21: Expected changes in global real estate allocations over the next two years (equally weighted)

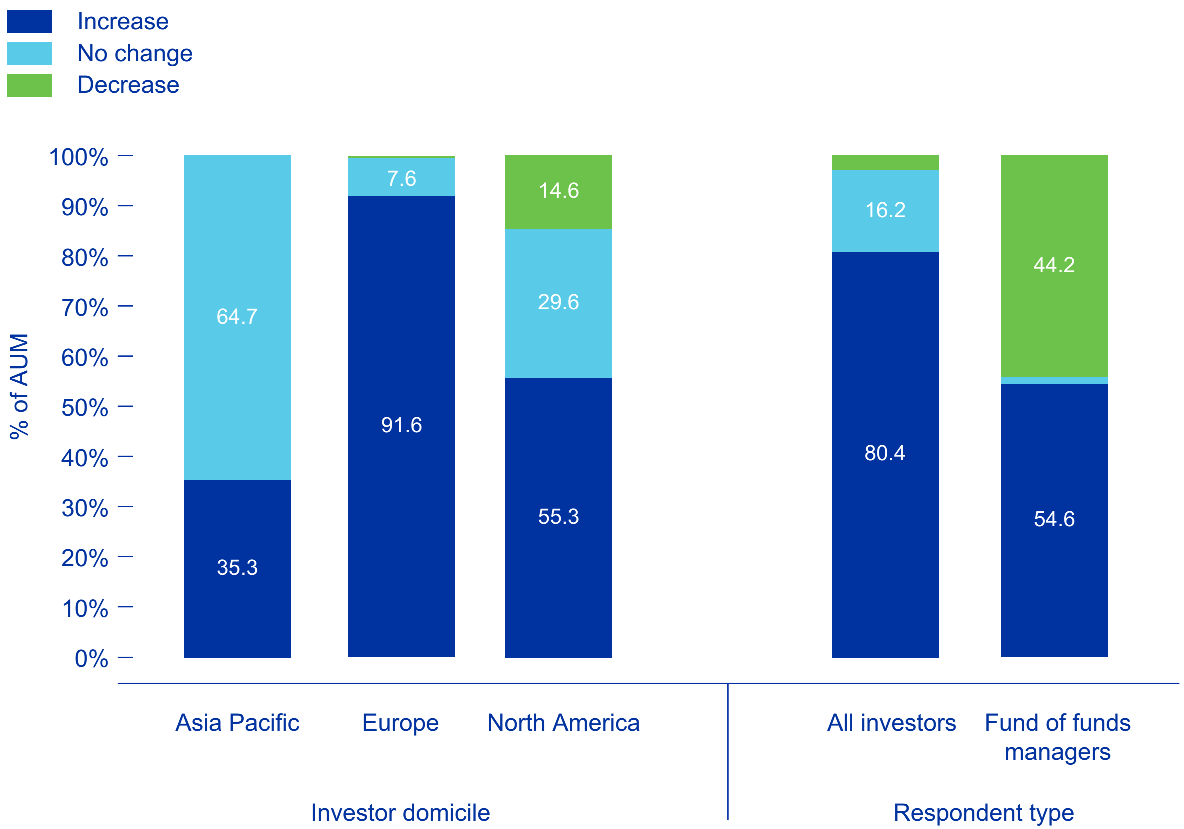


Based on a sample of 140 respondents

Weighting the responses by real estate AUM reveals even more bullish expectations, with 80.4% of investors by AUM expecting an increased real estate allocation and only 3.0% by AUM expecting a decrease.

The greatest percentage of AUM expecting a decrease in allocation is again amongst North American investors (14.6% of AUM expects a decrease) while the bulk of European real estate capital (91.6%) expects increased allocations. Overall, the results indicate that the largest real estate investors, especially European ones, are especially likely to expect their real estate allocations to increase over the next two years.

Figure 22: Expected changes in global real estate allocation over the next two years (weighted by AUM)



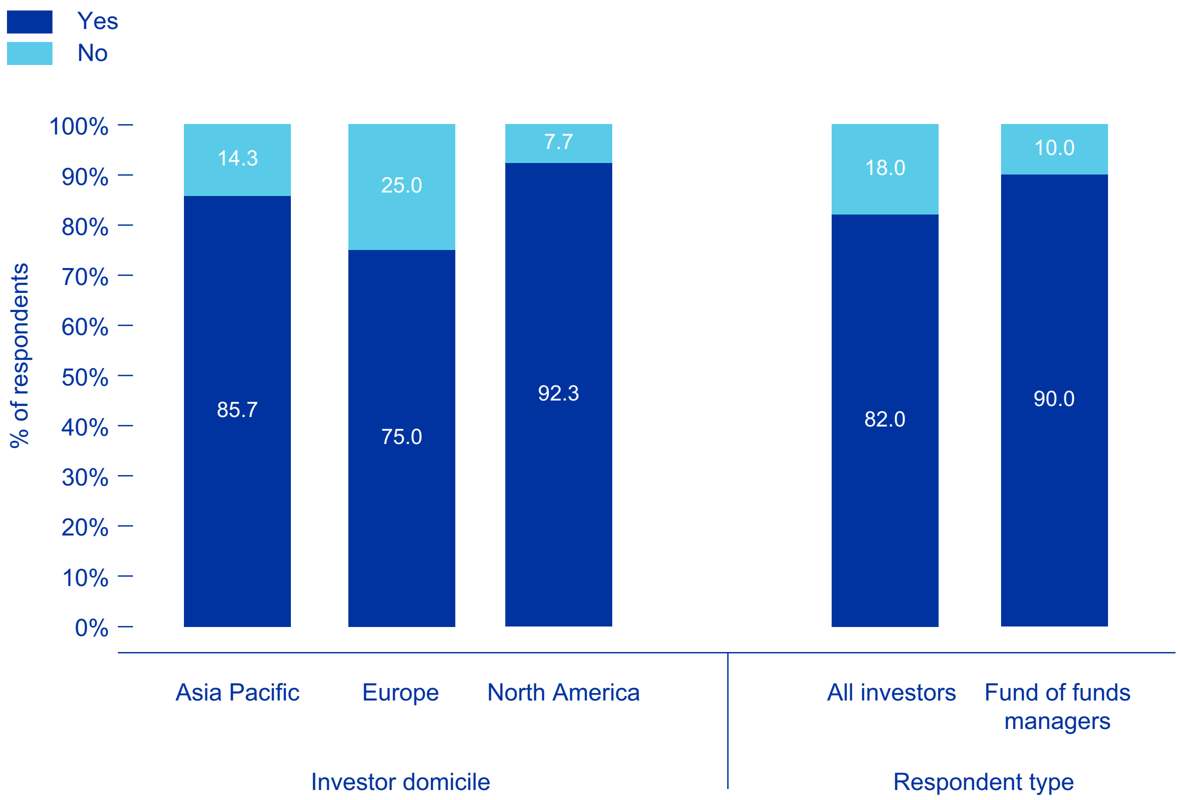
Based on a sample of 140 respondents

Intentions to deploy capital in 2019

Asked more specifically whether they intended to deploy new capital this year (2019), 82.0% of institutional investors globally replied yes. This ranged from 75.0% of European investors intending to deploy capital this year to 92.3% of North American investors.

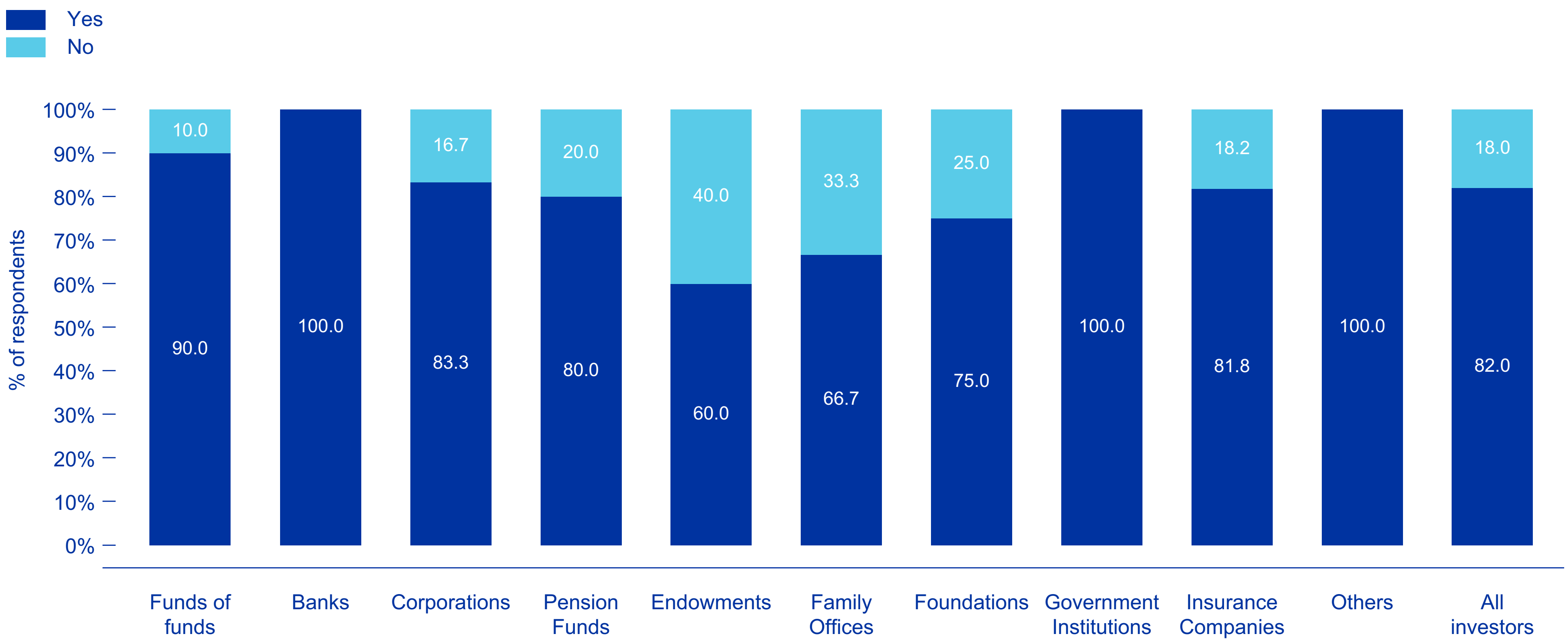
By institutional investor type, the majority of investors of all types reported indicated an intention to invest capital this year, with 100% of responding banks and government institutions indicating so.

Figure 23: Expectations to make investments into real estate in 2019



Based on a sample of 139 respondents

Figure 24: Expectations to make investments into real estate in 2019



Based on a sample of 139 respondents

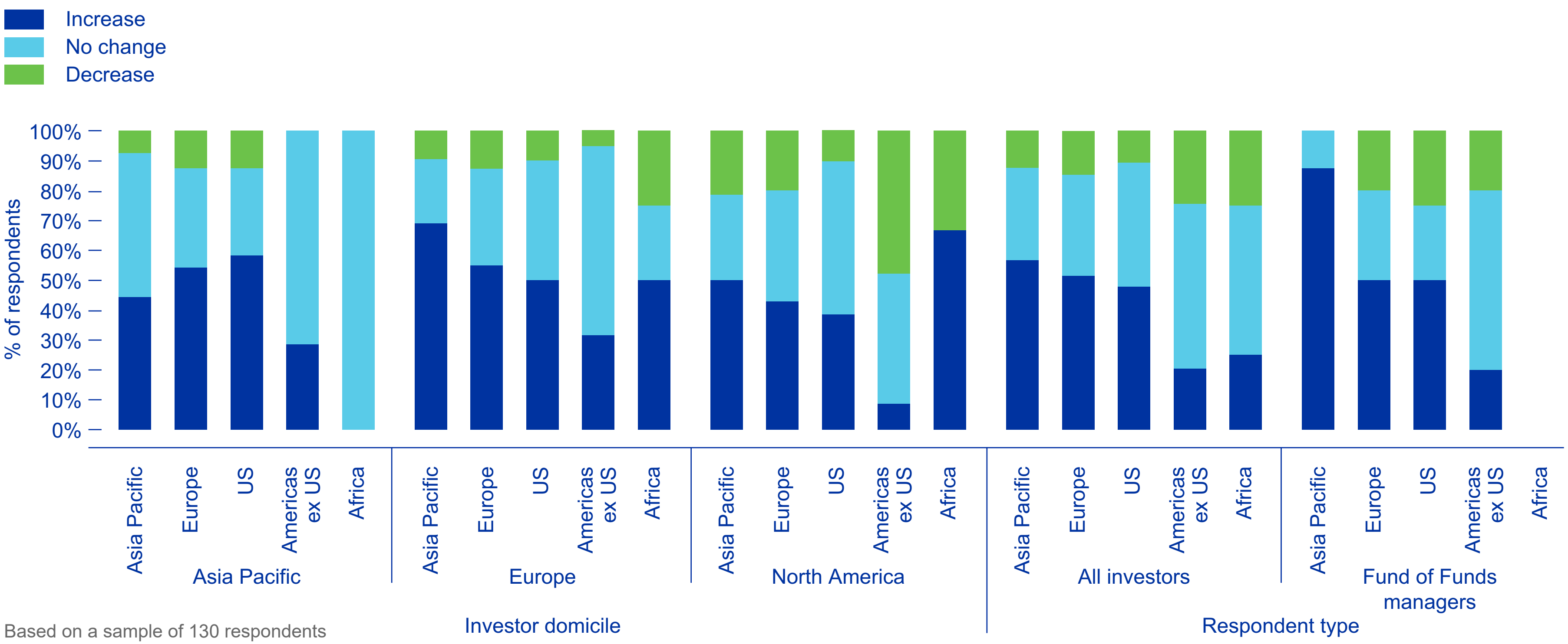
Intentions to deploy capital in 2019 by regional strategy and investor domicile

Asked about regional allocations, 56.7% of institutional investors globally expect to increase their allocation to Asia Pacific over the next two years, while only 12.4% expect their Asia Pacific allocation to decrease. The proportion of investors expecting to increase their allocations to Europe and the US are somewhat lower (51.5% and 47.8%, respectively) but are generally in the same range broadly speaking.

However, the Americas ex US continues to be the least popular destination for new capital with only 20.4% of investors expecting their allocation to this region to increase and 24.5% expecting to decrease their allocation. Expectations of future regional allocations vary by investor domicile. For European based investors, Asia Pacific is the region with the greatest proportion expecting an increased allocation (69.0% of European investors expect their Asia Pacific allocation to increase over the next two years).

For North American investors Asia Pacific is also the region with the highest proportion expecting of increased allocation. However, amongst North American institutions only 50.0% expect an increase in their Asia Pacific allocation while 21.4% expect a decrease. Asia Pacific investors are somewhat different in that the region with the highest proportion of investors expecting an increased allocation is the US at 58.3% of Asia Pacific investors.

Figure 25: Intention to invest in real estate by region over the next two years



Based on a sample of 130 respondents

Capital investment expected in 2019

Institutional investors responding to this year's survey indicated plans to place a total of €60.7 billion in new capital in 2019. Of this, 53.6% is expected to come from Europe, 38.1% from North America, and only 8.3% from Asia Pacific.

Of the €60.7 billion, €36.8 billion is expected to be invested in some type of non-listed real estate vehicle (with the biggest share of that amount again coming from European sources), and of that €23.3 billion is targeting non-listed, commingled funds.

A further €11.7 billion is earmarked by funds of funds for investment into real estate in 2019.

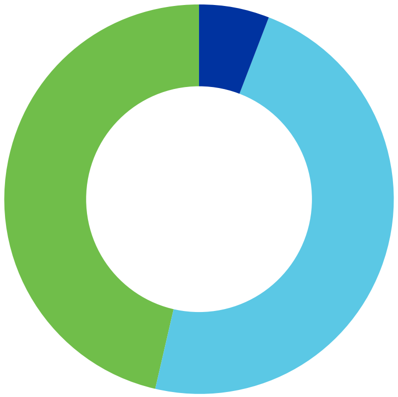
Figure 26: Capital expected to be invested into real estate in 2019 by investor domicile (€ 60.7 billion)

8.3% Asia Pacific
53.6% Europe
38.1% North America

Based on a sample of 94 respondents

Figure 27: Capital expected to be invested into non-listed real estate in 2019 by investor domicile (€ 36.8 billion)

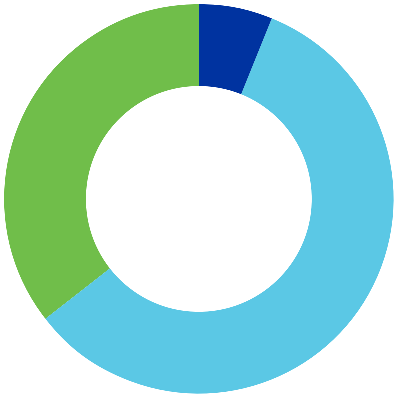
5.9% Asia Pacific
47.7% Europe
46.3% North America



Based on a sample of 94 respondents

Figure 28: Capital expected to be invested into non-listed real estate funds in 2019 by investor domicile (€ 23.3 billion)

6.2% Asia Pacific
58.5% Europe
35.3% North America



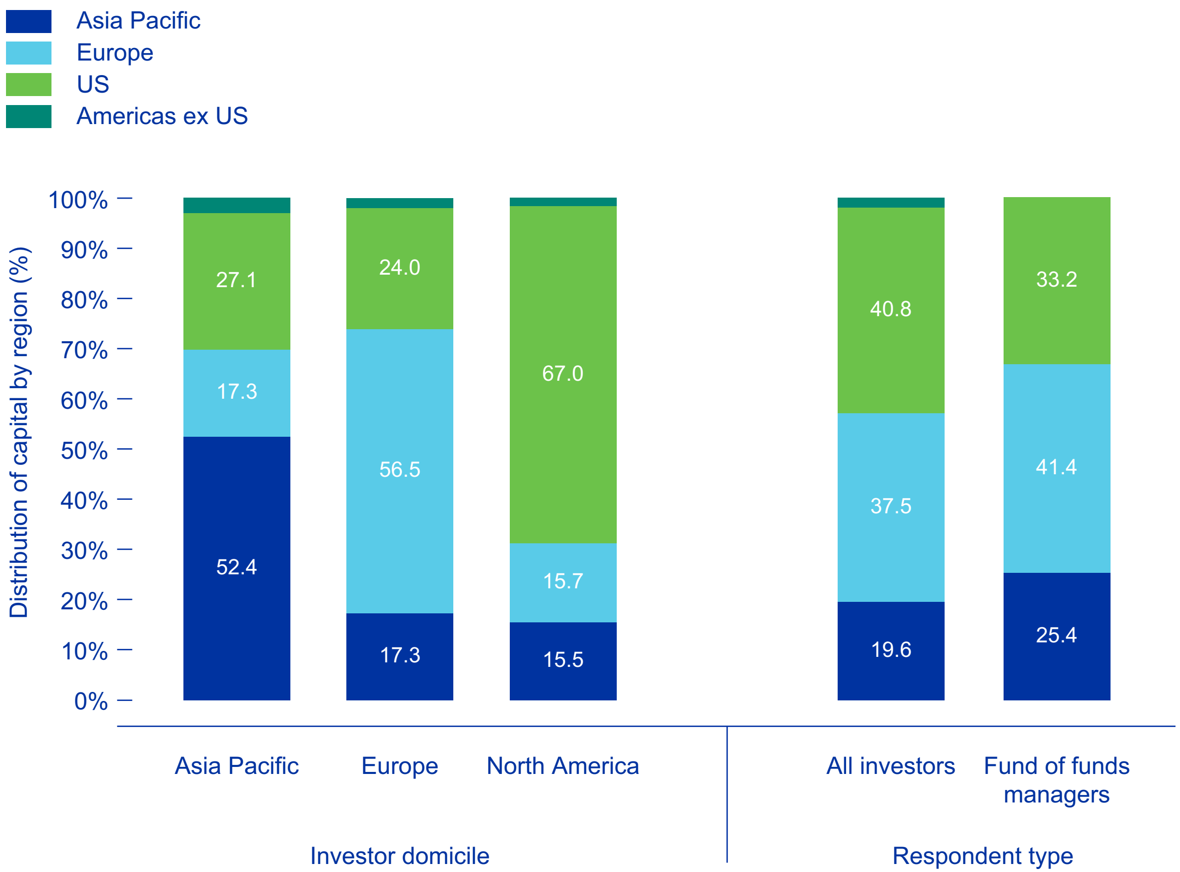
Based on a sample of 94 respondents

Capital investment expected in 2019

Looking at the planned regional destinations for capital to be deployed in 2019 shows that investors retain a home bias for new investments just as they do in their current portfolios. For North American investors 67.0% of capital planned on being invested this year is destined for the US, while 56.5% of European capital to be deployed is targeting Europe, and the largest portion of new capital (52.4%) to be deployed by Asia Pacific investors is targeting Asia Pacific.

While it was shown previously that only 8.3% of planned 2019 capital deployments are coming from Asia Pacific, that region is the destination for 19.6% of planned investments overall this year. This indicates that there will continue to be a net inflow of real estate capital into the Asia Pacific markets. Conversely, while Europe accounts for 53.6% of the sources of planned global capital investments in 2019, it is the destination for only 37.5% of planned investments.

Figure 29: Capital expected to be invested into real estate in 2019 geographically



Based on a sample of 78 respondents

Section 3

Preferred investment styles into Europe

Preferred investment styles

From this point onwards the report focuses only on investment into European real estate markets. Therefore, the sample includes only those that are currently invested in Europe or intend to invest in Europe over the next two years.

Of the total sample of 154, 93 are currently invested in Europe and a further 26 are intending to invest in Europe. Collectively they represent a minimum of €317.4 billion in real estate AUM, and an intention to invest a minimum of €27.3 billion into Europe in 2019.

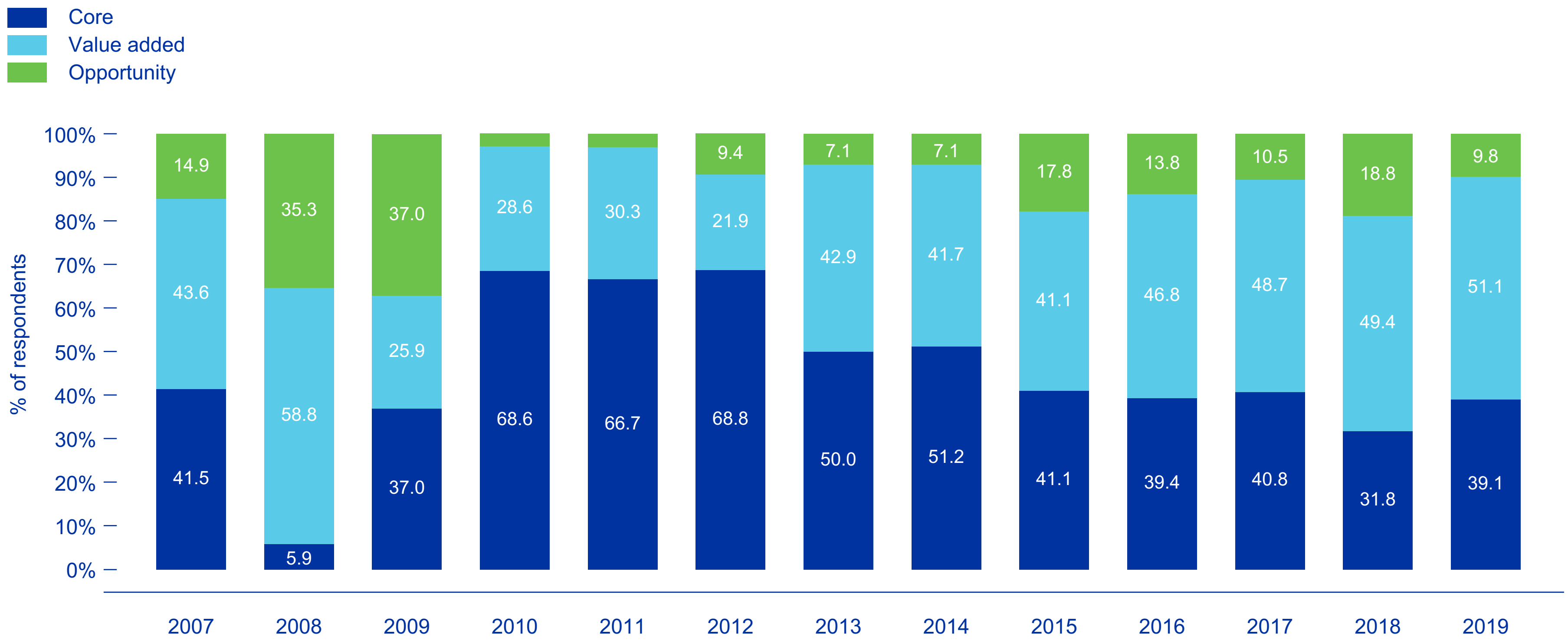
This year's results show a shift in risk-adjusted return preferences which indicate that investors are taking a more cautious approach at this late stage of the cycle.

Since 2012 there has been a steady shift away from core towards value added and opportunity type investments. This year has seen a slight shift in the opposite direction, towards core and away from opportunity, though value added remains the most favoured investment style among investors.

Over half of investors indicated that that they consider value added most attractive in terms of risk and return, this is slightly higher than previously. Similarly, more investors this year consider core to be most attractive in terms of risk-adjusted return prospects than previously.

The largest difference was seen in opportunity. Those that indicated that they find opportunity most attractive fell to 9.8%, down from 18.8% previously.

Figure 30: Investment style preferences 2007 to 2019



Based on a sample of 92 respondents. Note: The preferred investment style relates to the style that investors currently find most attractive in terms of risk-adjusted performance prospects

Preferred and expected investment styles by investor domicile

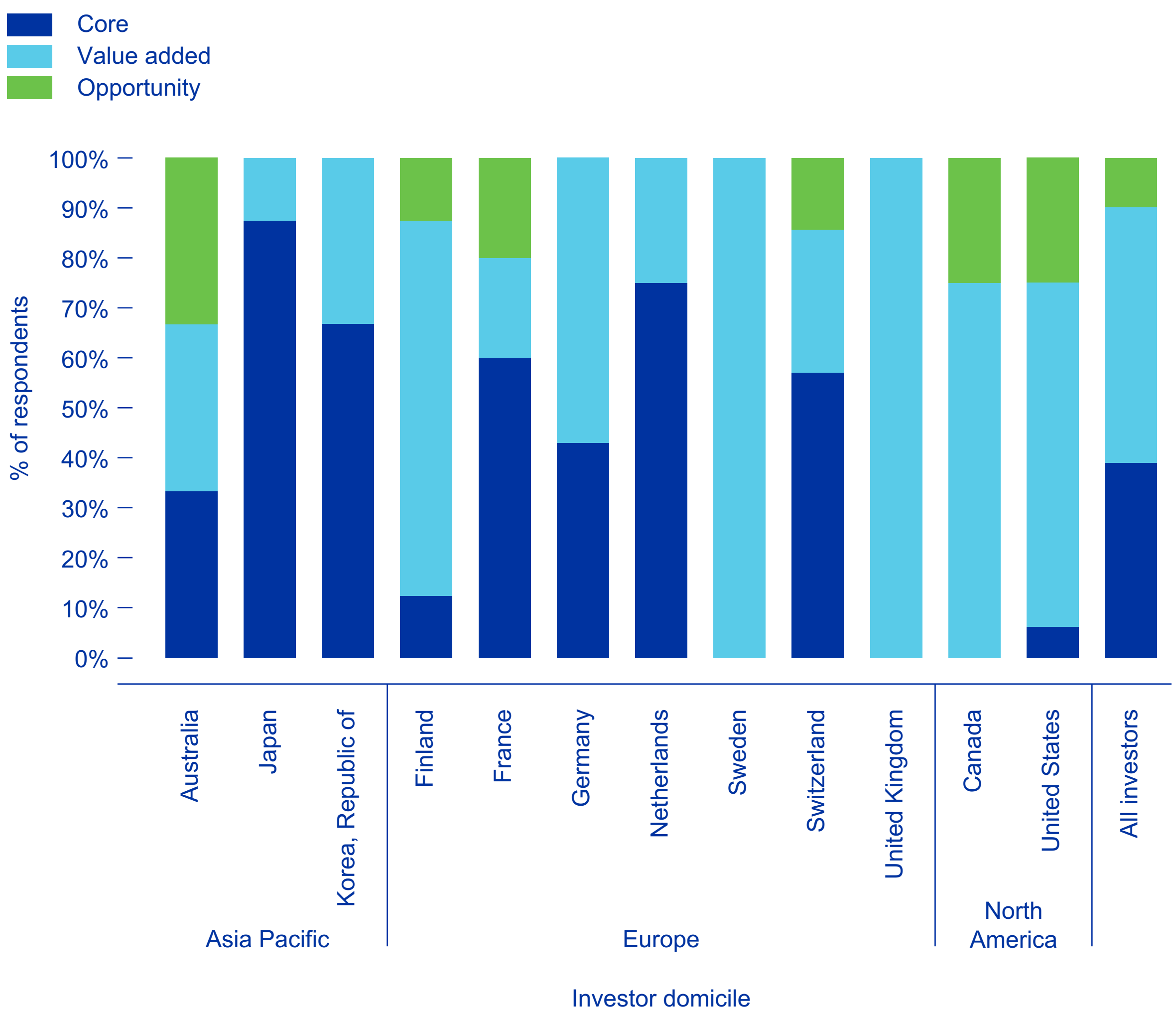
When looking across investor domiciles, there is a clear preference for core among Asia Pacific investors, but a higher risk-adjusted return preference for investors of other regions, especially those based in North America.

Among the European investors there are significant variations across investor domiciles in terms of how they view the attractiveness of risk-adjusted performance. For example, there is a strong preference for core among Dutch, French and Swiss investors. Value added investments are favoured most by those based in Finland, Sweden and the UK, while opportunity is mentioned only by Finnish, French and Swiss investors.

Both Canadian and US investors show a clear preference for value added with some also indicating a preference for opportunity. In Asia Pacific, investors based in Japan or Korea have a stronger preference for core than those in Australia.

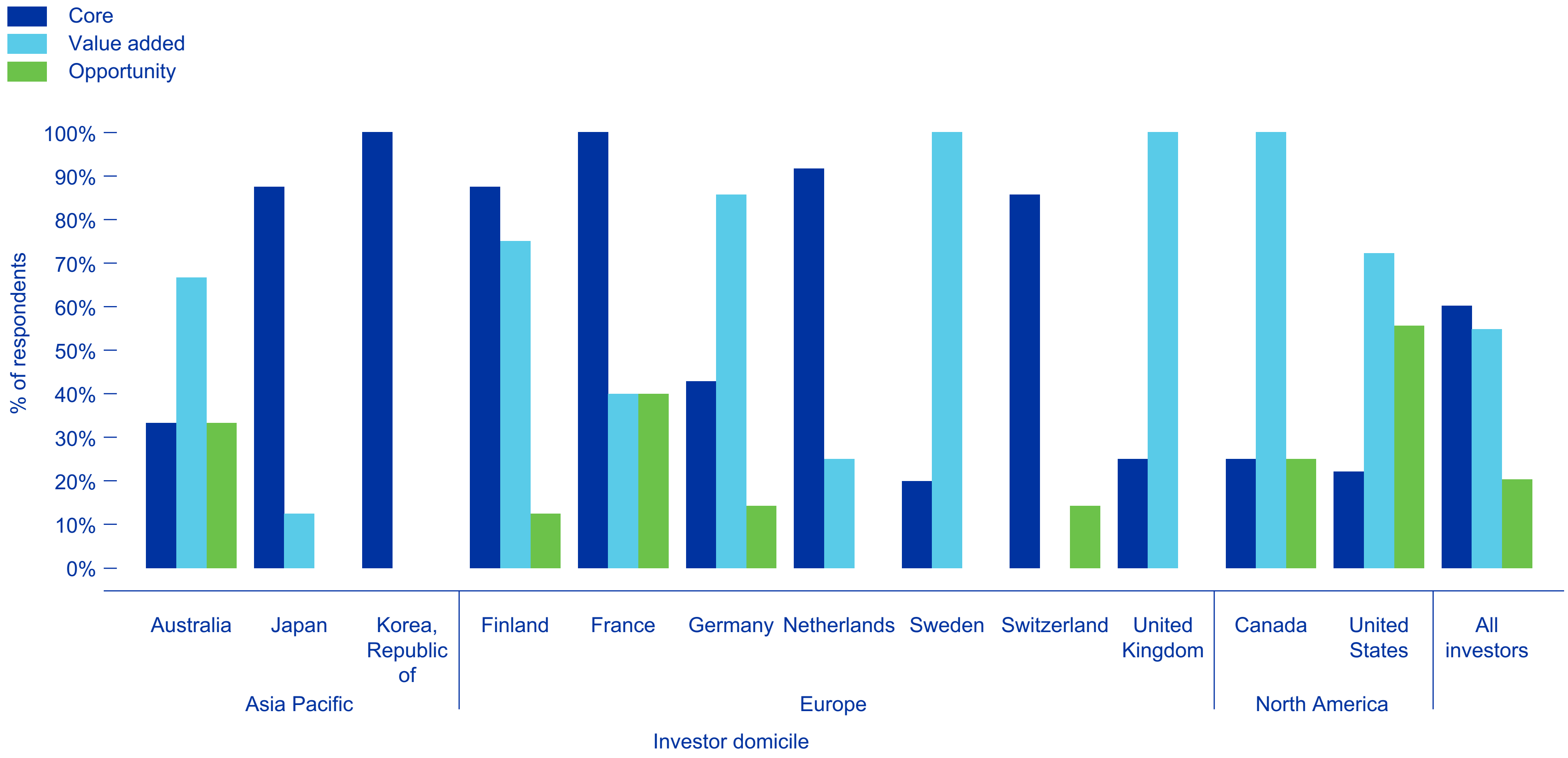
However, expected investments in 2019 are likely to be into less riskier strategies as investors across all domiciles have indicated that they intend to invest mostly into core and value added with some investments in opportunity.

Figure 31: Preferred investment styles by investor domicile



Based on a sample of 92 respondents. Note: The preferred investment style relates to the style that investors currently find most attractive in terms of risk-adjusted performance prospects and the expected investment style relates to the style that investors expect to invest in in 2019. The first is a single choice question and the second is multiple choice

Figure 32: Expected investment styles by investor domicile



Based on a sample of 93 respondents

Preferred and expected investment styles by investor type

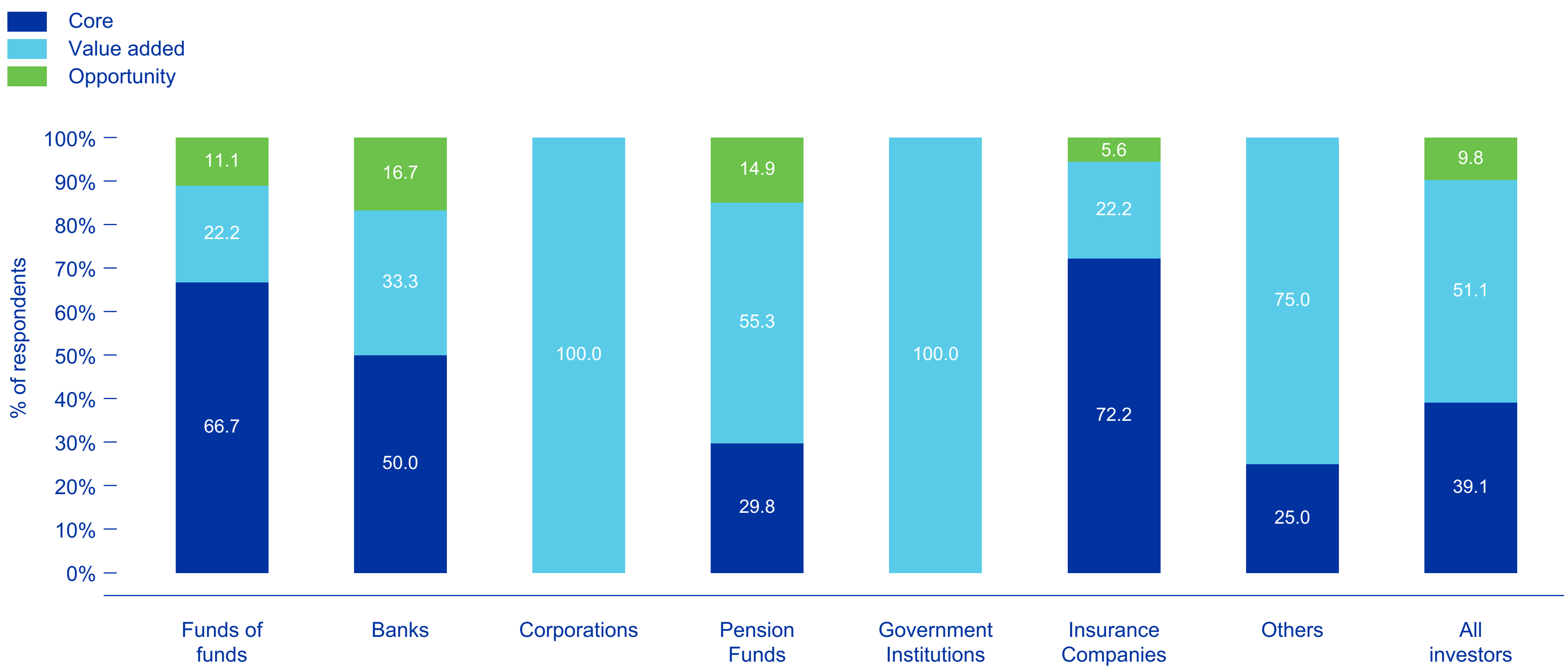
Analysis by investor type shows that there are clear differences in what investors regard as most attractive in terms of risk-adjusted performance prospects.

The two largest groups of investors are pension funds and insurance companies. While pension funds consider value added as most attractive for risk-adjusted return strategies, insurance companies consider core to be most attractive in this regard.

Corporations and governments institutions regard value added as having the most attractive risk and return prospects, while funds of funds and banks favour core.

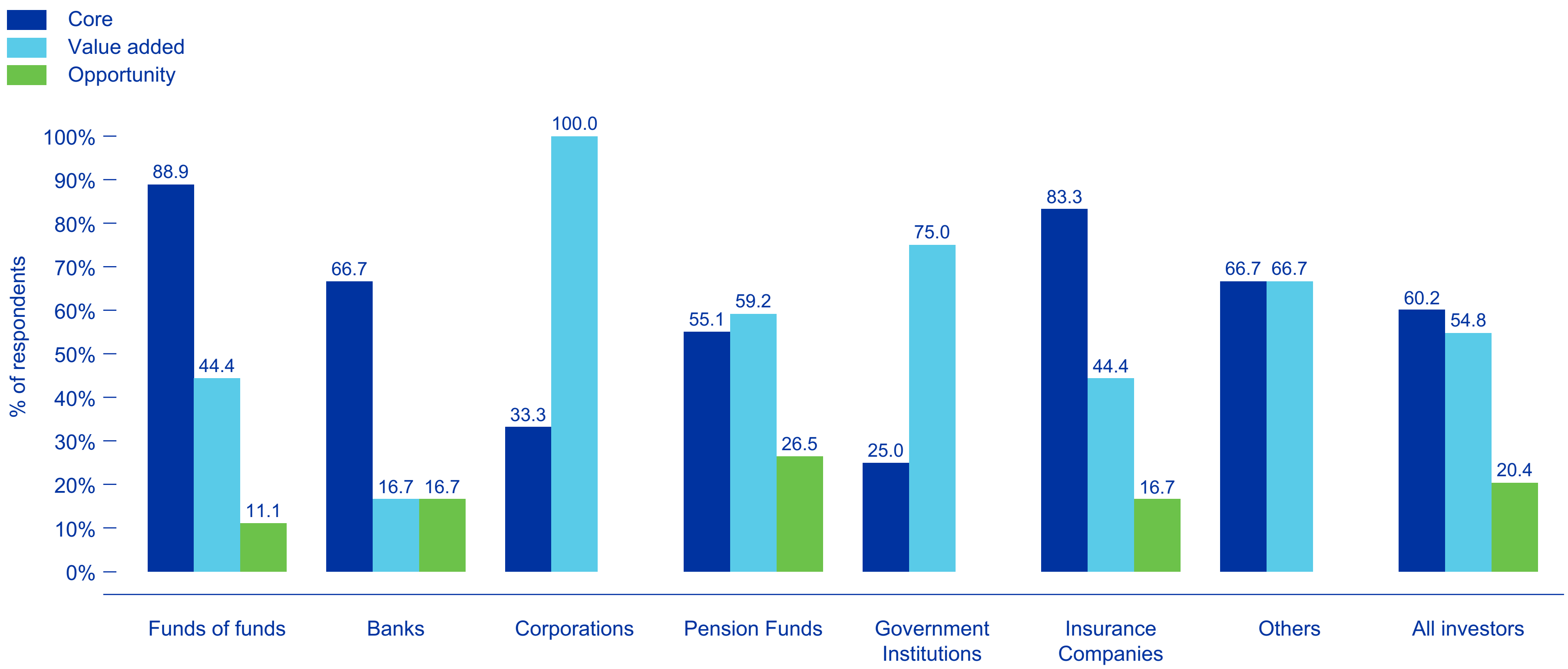
When comparing expected investments in 2019 with preferred investment strategies, it is interesting to note that across all investor types a more cautious approach seems to be indicated. More investors intend to invest into less riskier strategies than their preferences indicate.

Figure 33: Preferred investment styles by investor type



Based on a sample of 92 investors. Note: The preferred investment style relates to the style that investors currently find most attractive in terms of risk-adjusted performance prospects and the expected investment style relates to the style that investors expect to invest in in 2019. The first is a single choice question and the second is multiple choice

Figure 34: Expected investment styles by investor type



Based on a sample of 93 respondents

Section 4

Preferred investment destinations in Europe

Preferred country by respondent type and investor domicile

The UK, France and Germany remain the top three investment destinations for investors investing into Europe. This is a clear reflection of the size, maturity and transparency of these markets. However, the UK, which was last year's number one, has slipped into second place. While Germany has moved up two places from third to take the top spot this year.

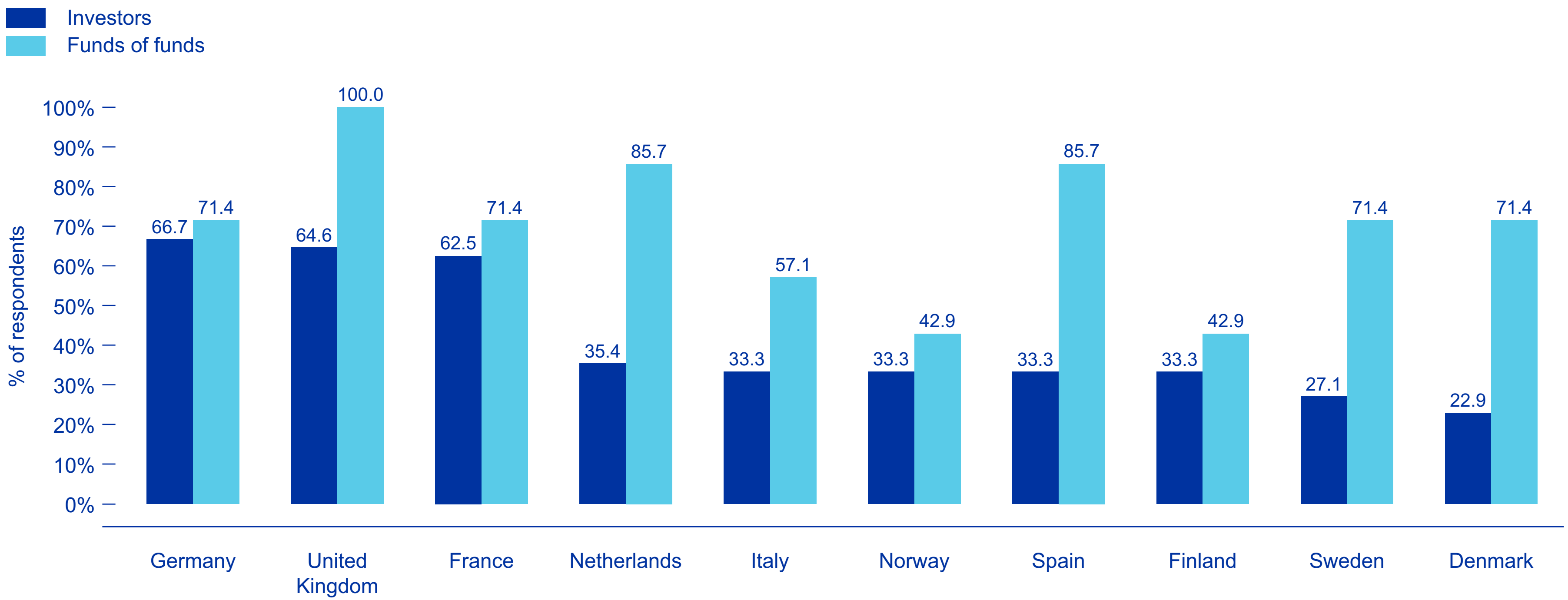
For funds of funds the top destination is the UK, followed by Netherlands and Spain in joint second and Germany, France, Sweden and Denmark in joint third.

Asia Pacific and North American investors have a clear preference for the more mature and liquid markets of Europe – the UK, Germany and France. While Asia Pacific investors rank all three equally as their top choice, France slips slightly behind Germany and the UK for North American investors.

Even though European investors also indicate these top three markets as their most preferred, other markets do not lag as far behind for these investors as they do for their regional peers.

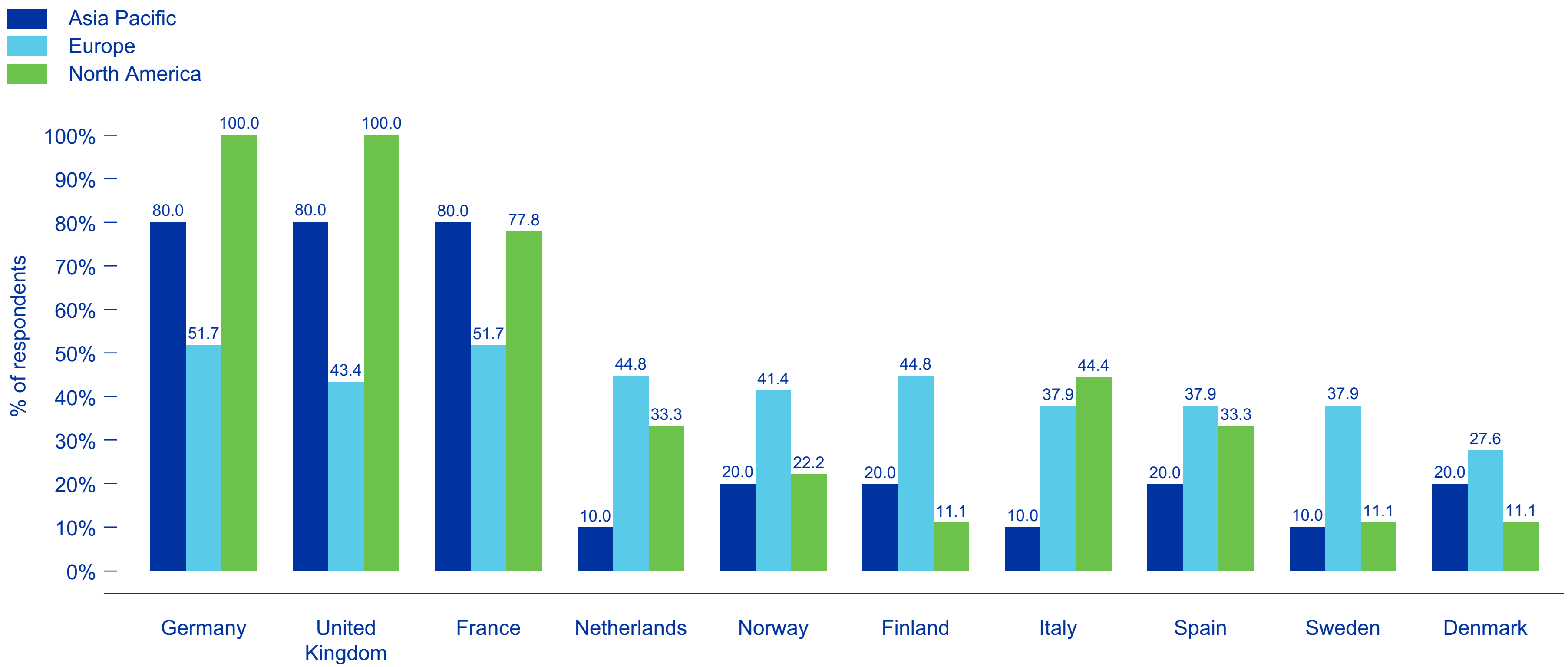
The rankings of the top ten most preferred locations show some notable changes to the previous year. The biggest mover was Norway, which was last year's tenth, and has shifted up to take fifth place this year alongside Italy, Spain and Finland.

Figure 35: Top ten most preferred locations for 2019 by respondent type



Based on a sample of 55 respondents. Note: The preferred investment country relates to the location that investors expect to invest in in 2019. This is a multiple choice question

Figure 36: Top ten most preferred locations for 2019 by investor domicile



Based on a sample of 55 respondents

Preferred sectors by respondent type and investor domicile

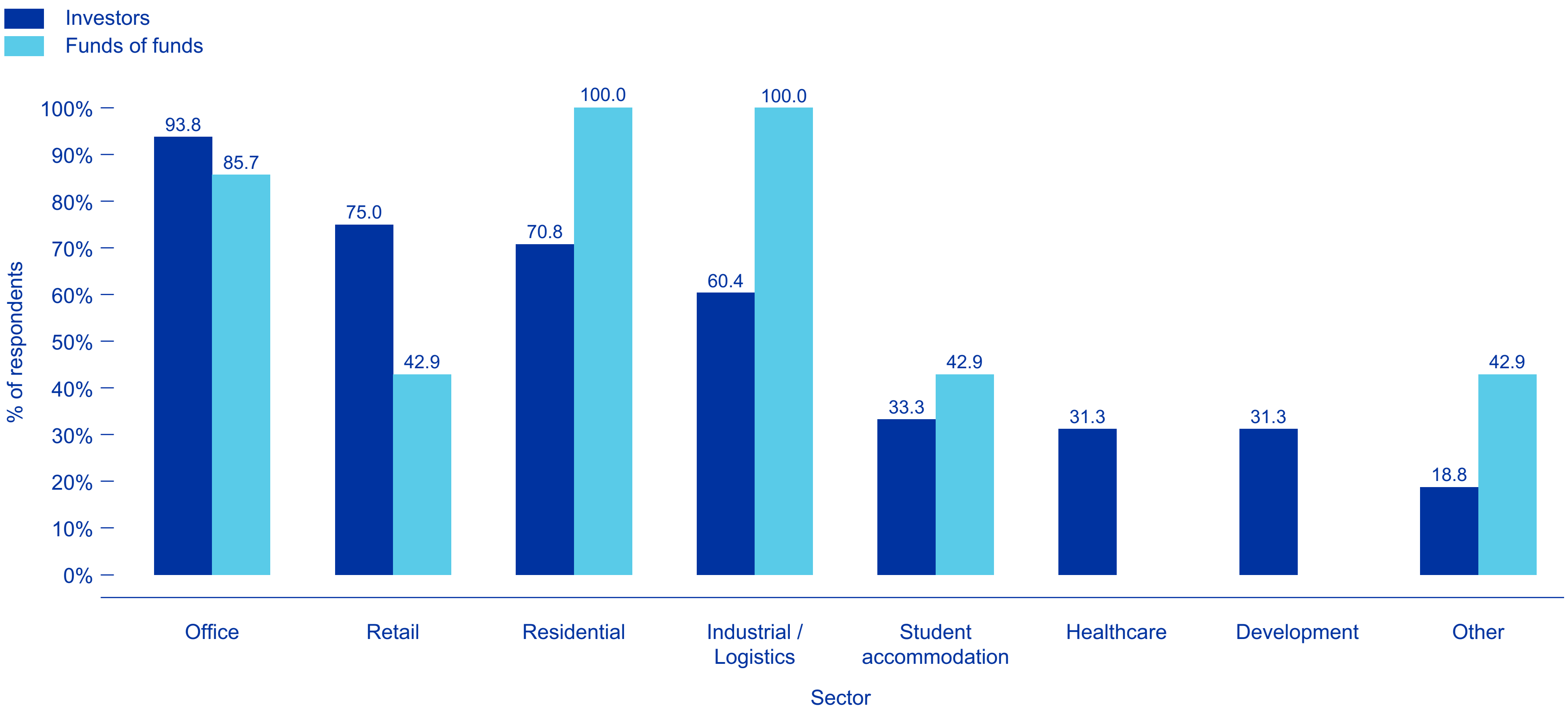
The top four most preferred sectors for this year are consistent with last year's.

Office remains the most preferred sector for investors, followed by retail, residential and industrial / logistics.

Funds of funds show different preferences. Residential and industrial / logistics ties in first place, office is in second place and retail and student accommodation are ranked equally in third place.

Office are ranked first for Asia Pacific investors with residential coming in second place. Next is retail followed by industrial / logistics. For North American investors office and retail share the top spot, with industrial / logistics coming second and residential third.

Figure 37: Most preferred sectors for 2019 by respondent type

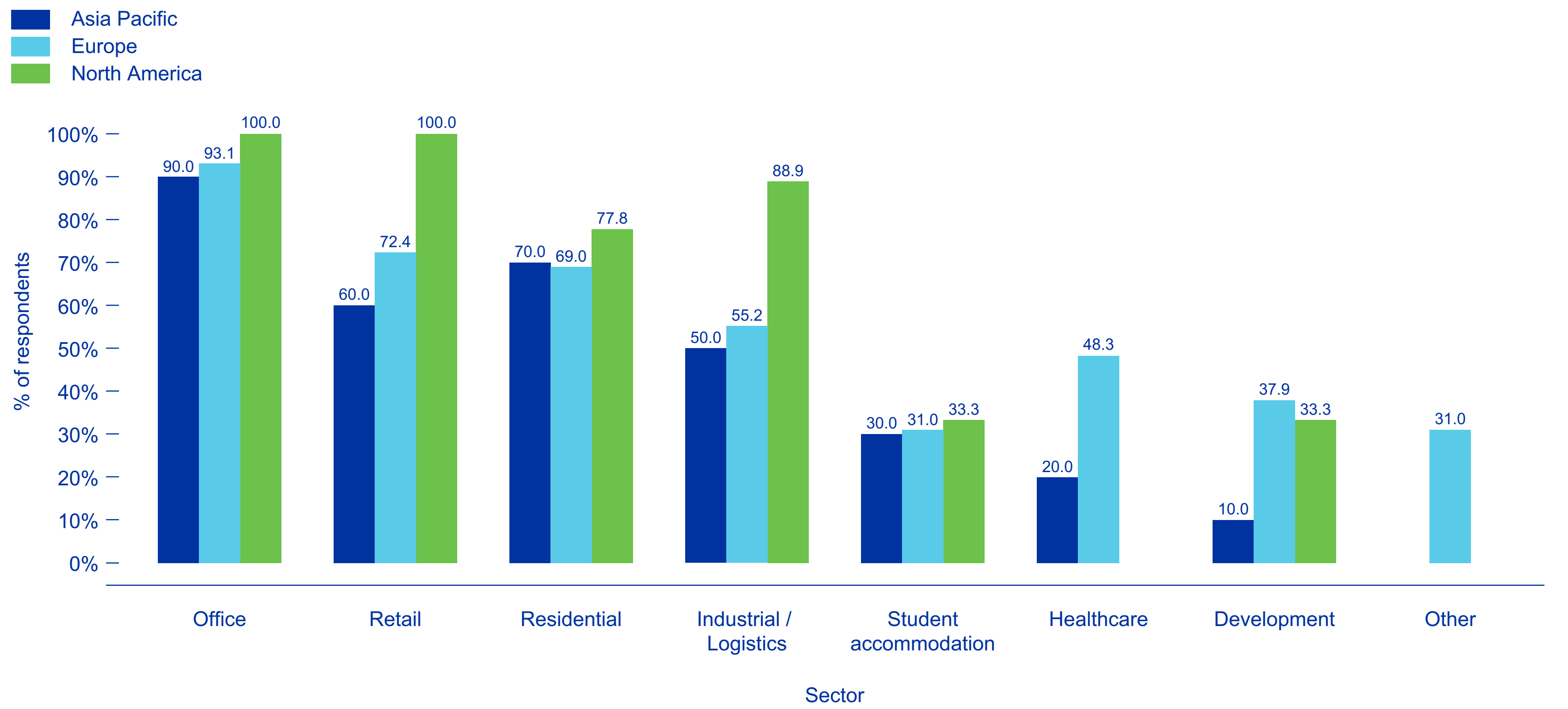


Based on a sample of 55 respondents. Note: The preferred sector relates to the sector that investors expect to invest in in 2019. This is a multiple choice question

European investors have a much stronger appetite for healthcare and development than investors of the other two regions, while North American investors are more in favour of student accommodation than their regional peers.

It is worth noting that the alternative sectors such as student accommodation and healthcare have gained in popularity over the year with the share of investors indicating that they expect to invest in these sectors in 2019 increasing.

Figure 38: Most preferred sectors for 2019 by investor domicile



Based on a sample of 55 respondents

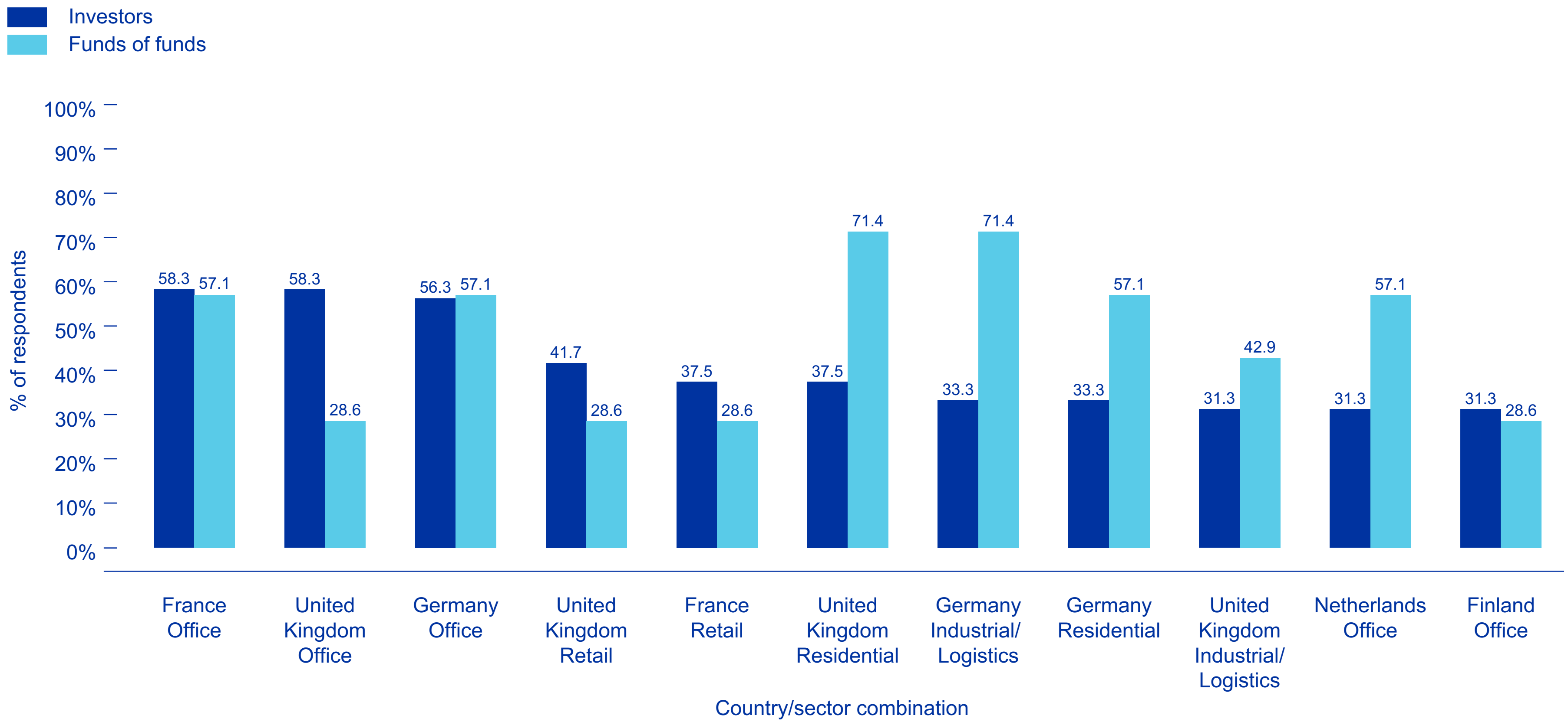
Preferred country / sector combinations by respondent type and investor domicile

Analysis by country / sector combinations shows that more than half of the investors have indicated their preference for offices in France, the UK and Germany.

Funds of funds place UK residential and German industrial / logistics in joint first. A number of markets share the second spot for this group - French office, German office, German residential and Dutch office.

The top ten preferred country / sector combinations are formed of the mainstream sectors and those mostly in developed markets (UK, Germany, France and Netherlands).

Figure 39: Most preferred country/sector for 2019 by respondent type



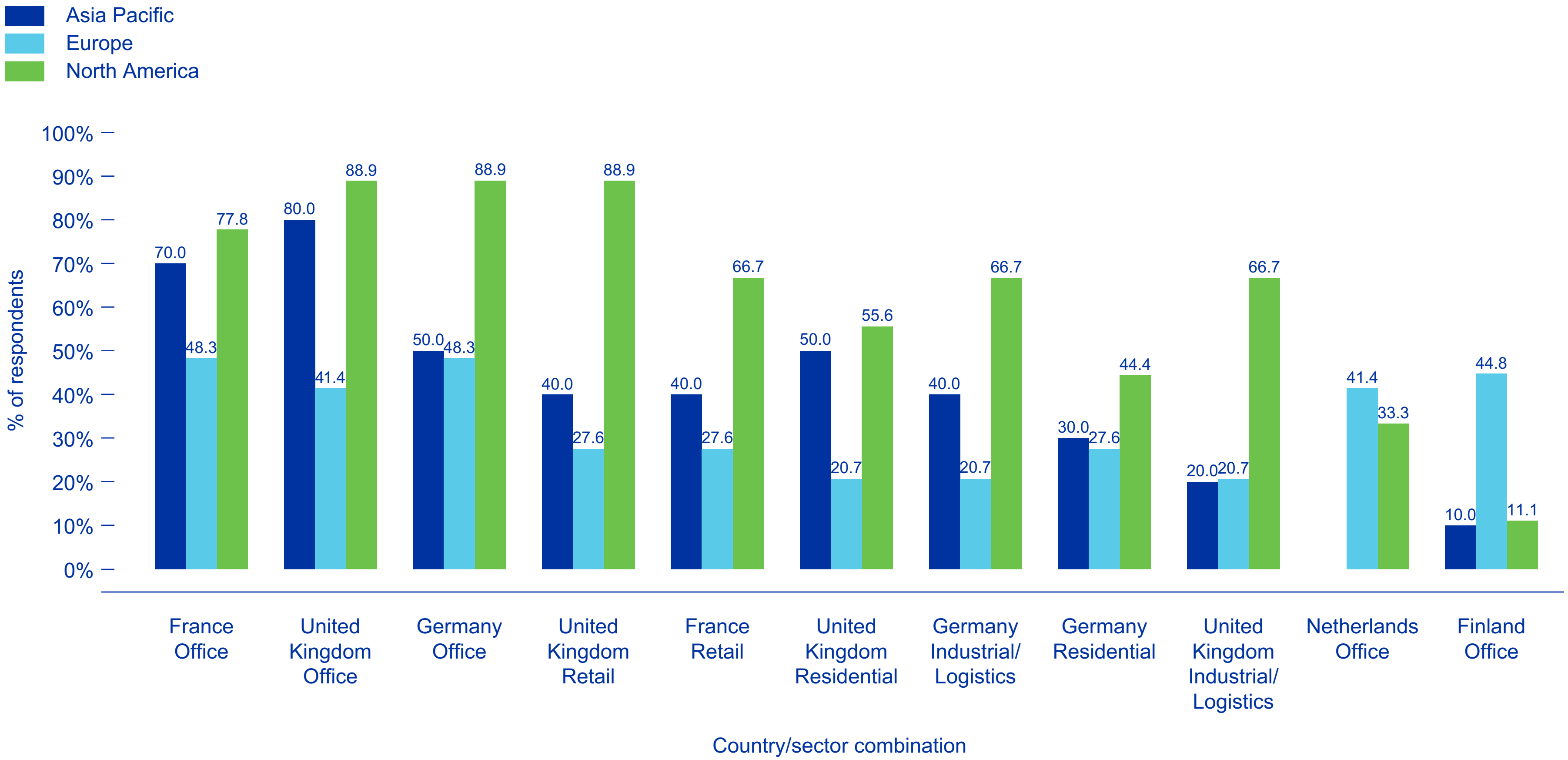
Based on a sample of 55 respondents. Note: The preferred country / sector combinations relates to the country / sector combinations that investors expect to invest in in 2019. This is a multiple choice question

North American investors demonstrate the strongest preferences for these combinations. The top combinations for this group are UK office, German office and UK retail.

European investors indicated a preference for the office sector across five countries – France, Germany, Finland, Netherlands, and the UK. But their preferences were also more evenly distributed than their Asia Pacific and North American counterparts.

Asia Pacific investors show a clear preference for the biggest and most liquid markets – offices in the UK, France and Germany.

Figure 40: Most preferred country/sector for 2019 by investor domicile



Based on a sample of 55 respondents

Over the past decade, France, the UK and Germany have generally dominated investor strategies, consistently ranking in the top three most preferred investment markets, the exception being 2012 and 2013, when Nordic retail and office appeared in the top three targeted markets.

Although German retail ranked third in 2017, France, UK and Germany office were again the top three destinations since 2018.

Office and retail remain the two dominant sectors, with industrial / logistics and residential usually being in third and fourth places interchangeably.

Table 1: Most preferred country / sector combinations 2009 to 2019

	First	Second	Third
2019	France Office	UK Office	Germany Office
2018	France Office	UK Office	Germany Office
2017	Germany Office	France Office	Germany Retail
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

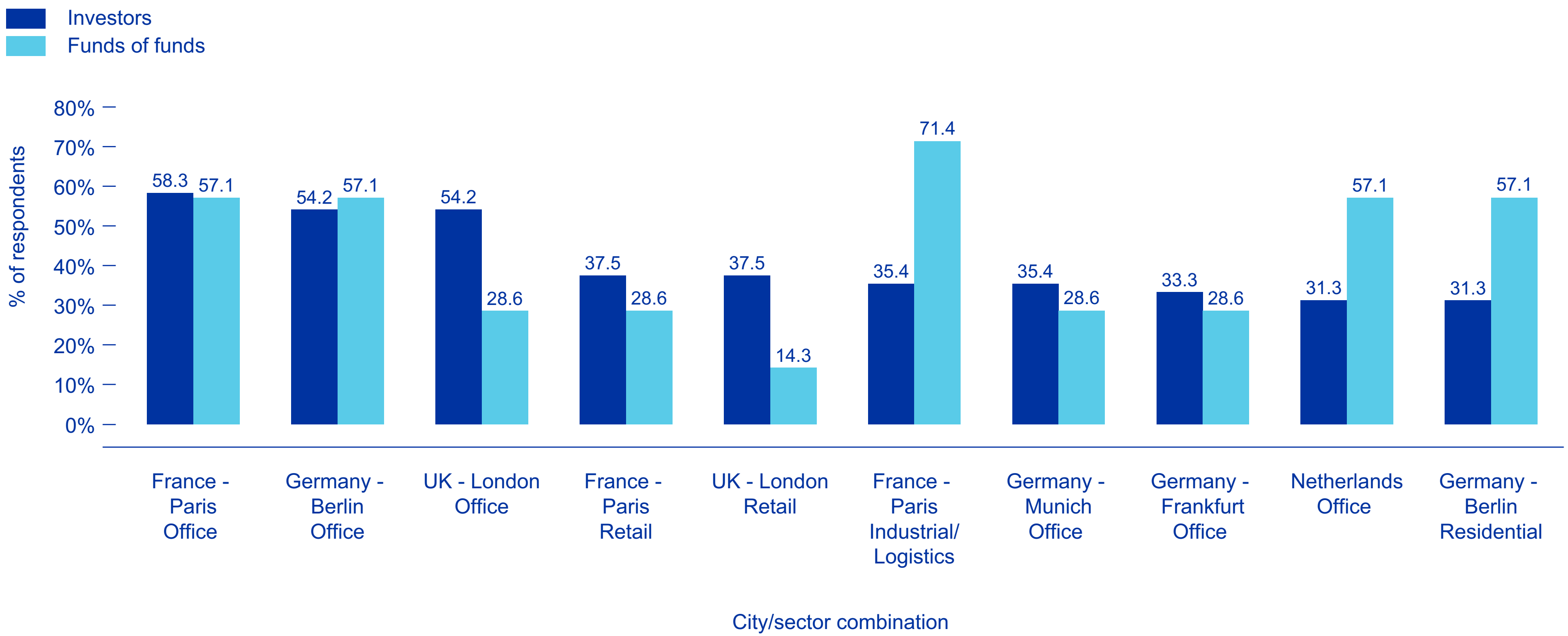
Preferred city / sector combinations by respondent type and investor domicile

Similar to last year, the preferred city / sector combinations for investors are Paris office, London office and Berlin office.

The top ten ranking of city / sector combinations is dominated by the mainstream sectors (office, retail, residential and industrial / logistics) with no presence from the alternative sectors.

The preferred city / sector combinations are different for funds of funds. The leading combination is Paris industrial / logistics, followed by a tie in second position by Paris office, Berlin office, Netherlands office and Berlin residential. London office, Paris retail, Frankfurt office, and Munich office share third place.

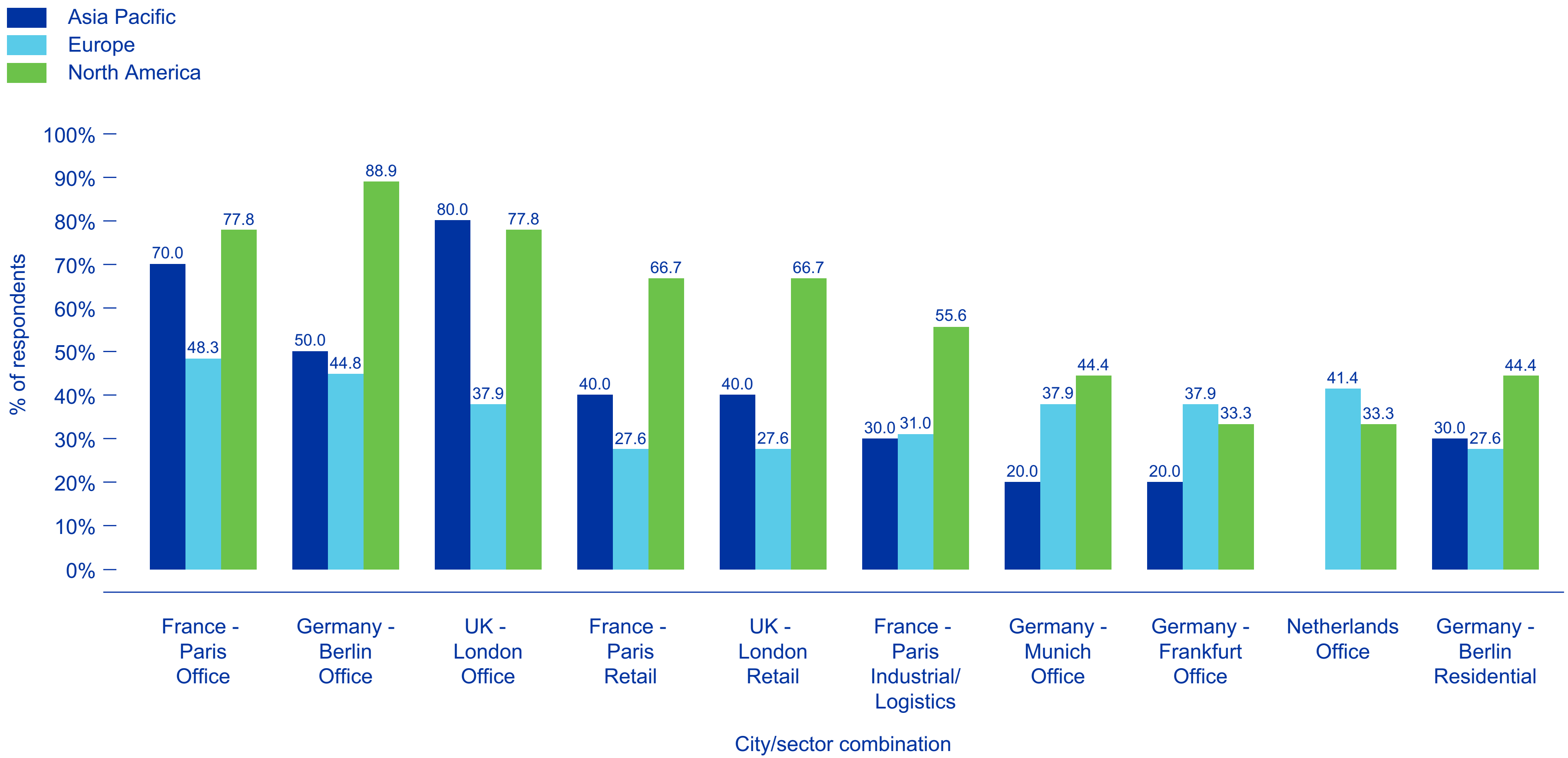
Figure 41: Preferred city/sector combination by respondent type



Based on a sample of 55 respondents. Note: The preferred city / sector combinations relates to the city / sector combinations that investors expect to invest in in 2019.
This is a multiple choice question

While Asia Pacific and North America investors mainly focus their attentions on top locations, European investors have more evenly distributed preferences across the difference markets.

Figure 42: Preferred city/sector combination by respondent domicile



Based on a sample of 55 respondents

Section 5

Expected investment trends for accessing Europe

Expected changes to real estate allocations

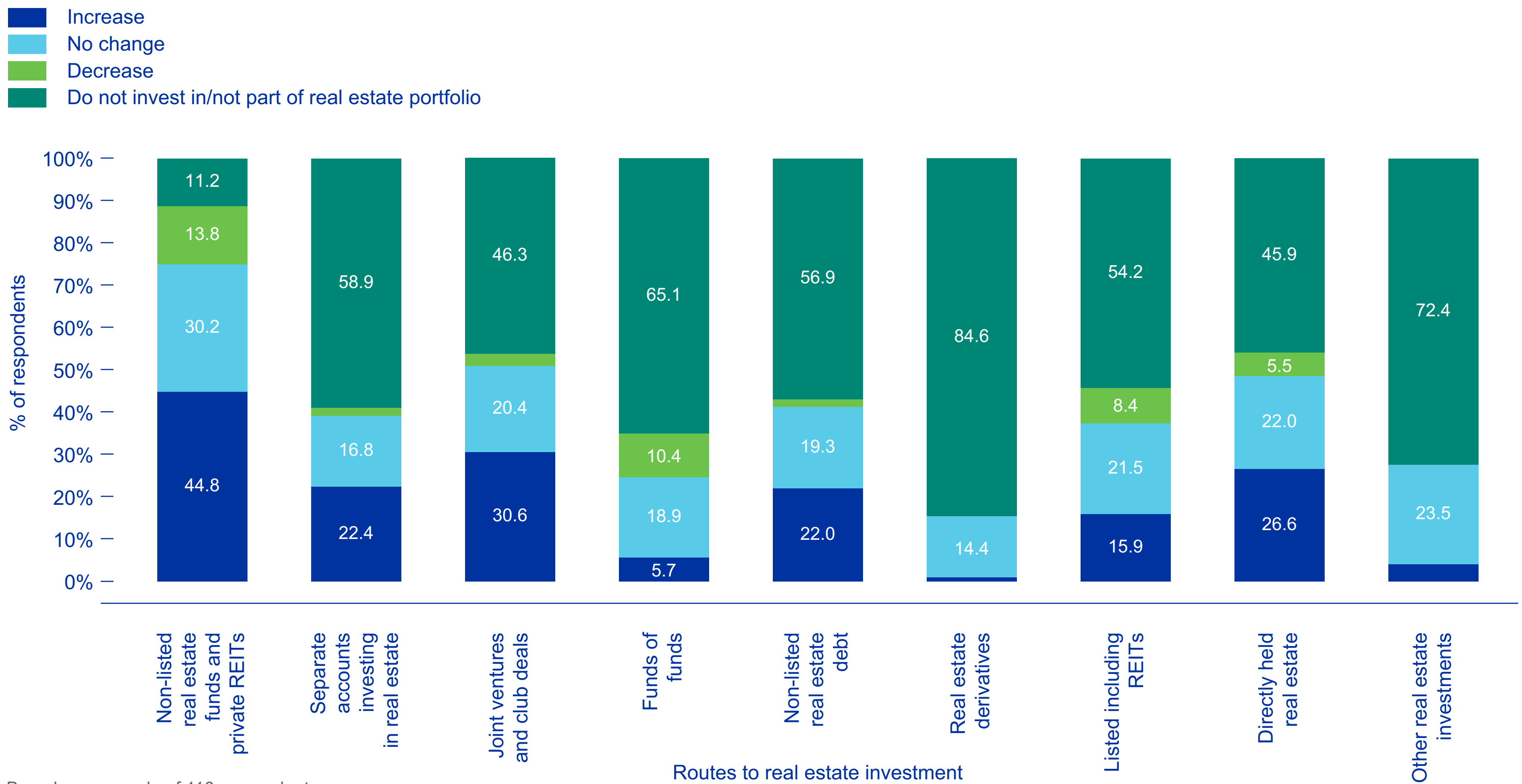
Over the next two years, a further influx of capital is expected into European real estate.

The investment route that shows the largest expected increase is non-listed real estate funds and private REITs, followed by joint ventures and club deals and directly held real estate.

On the other hand, neither investors nor funds of funds expect to increase allocations to real estate derivatives, and more investors indicated that they intend to decrease their allocation to funds of funds than to increase.

On an unweighted basis a significant proportion of investors indicated that certain routes to investment were not part of their real estate portfolio. The proportions of those invested were similar on a weighted basis or just slightly higher, indicating that most investors have some exposure to most routes to real estate investment.

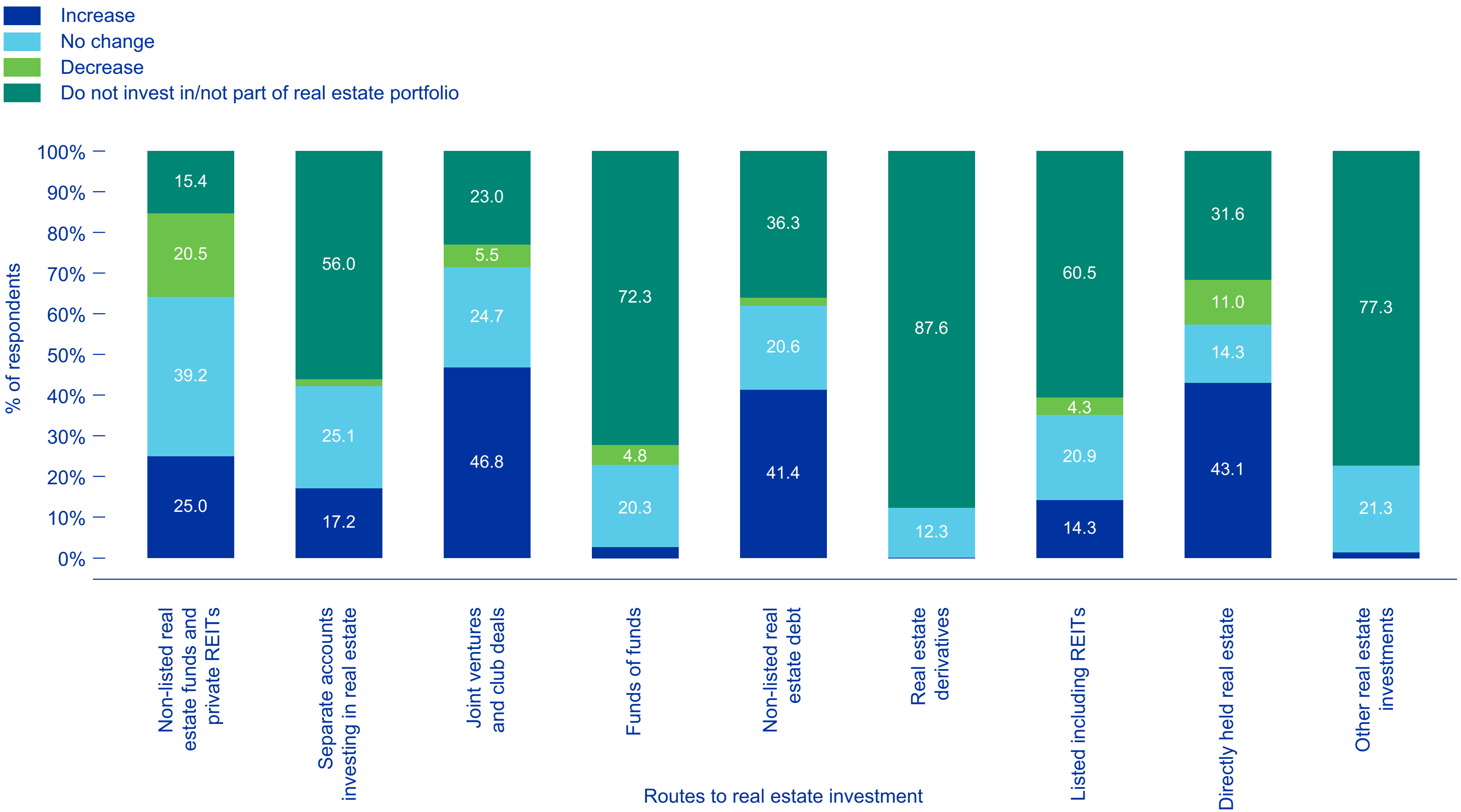
Figure 43: Expected changes to real estate allocations in Europe over the next two years



Based on a sample of 116 respondents

There are notable differences in the findings when the same analysis is performed on a value-weighted basis. Weighted by AUM, JVs & clubs, non-listed real estate debt and directly held assets are expecting to see an increase in allocations, most other routes to real estate are expecting no change to current allocations. Non-listed real estate funds are expected to see the largest decrease across the various routes and real estate derivatives is not currently used by most investors.

Figure 44: Expected changes to real estate allocations in Europe over the next two years (weighted by real estate AUM)



Based on a sample of 116 respondents

Expected changes to non-listed real estate funds

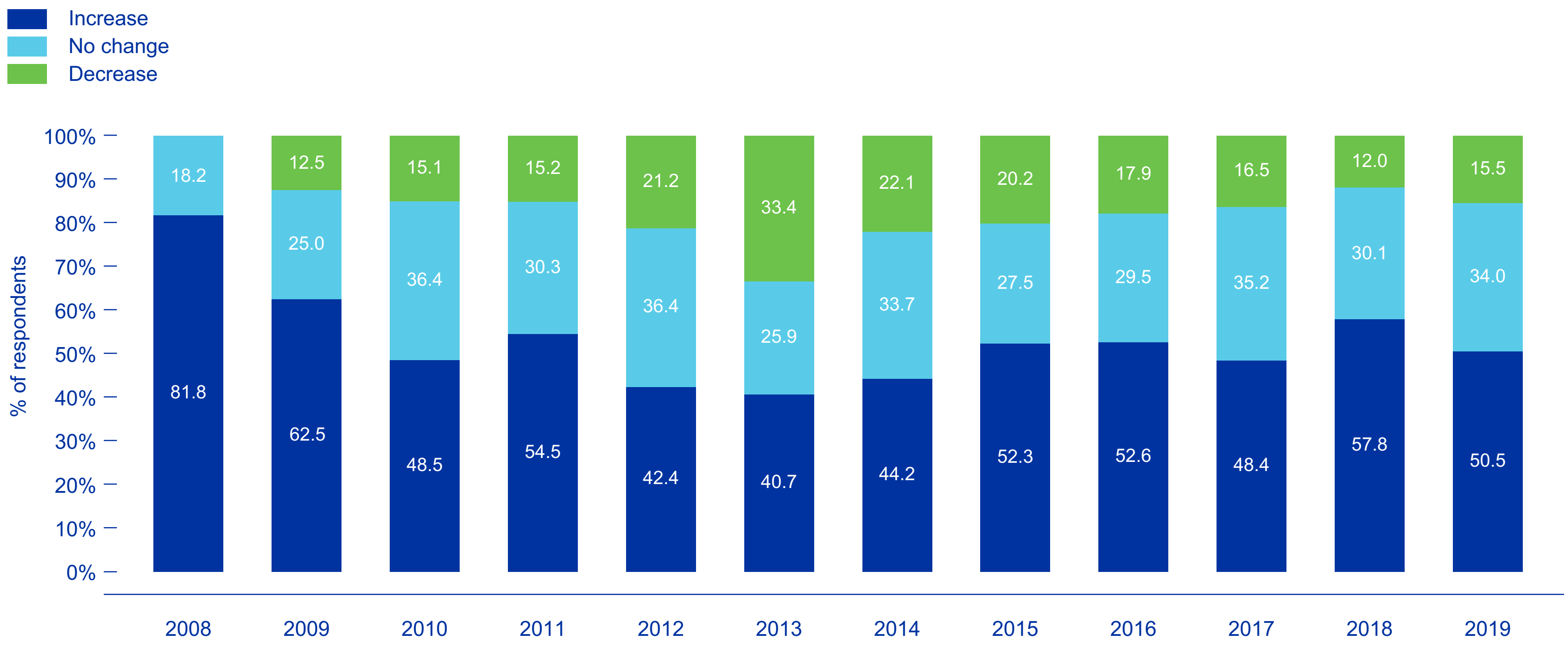
Between 2008 and 2019 investors have largely indicated that their intend to either increase allocations to non-listed real estate funds or hold their allocations steady.

This year investors continue to view non-listed real estate funds positively. While most indicated their intention to increase allocations, the proportion that did so is lower than last year's.

Despite this, the proportion of investors that intend to increase their allocation to funds or keep it the same remains above the ten-year average.

At the other end of the spectrum, more investors are expecting to decrease their allocations to non-listed real estate funds this year compared to the previous year. Nonetheless, the proportion of investors that intend to do so remains the second lowest since 2011.

Figure 45: Expected changes in allocations to non-listed real estate funds and private reits 2008 to 2019

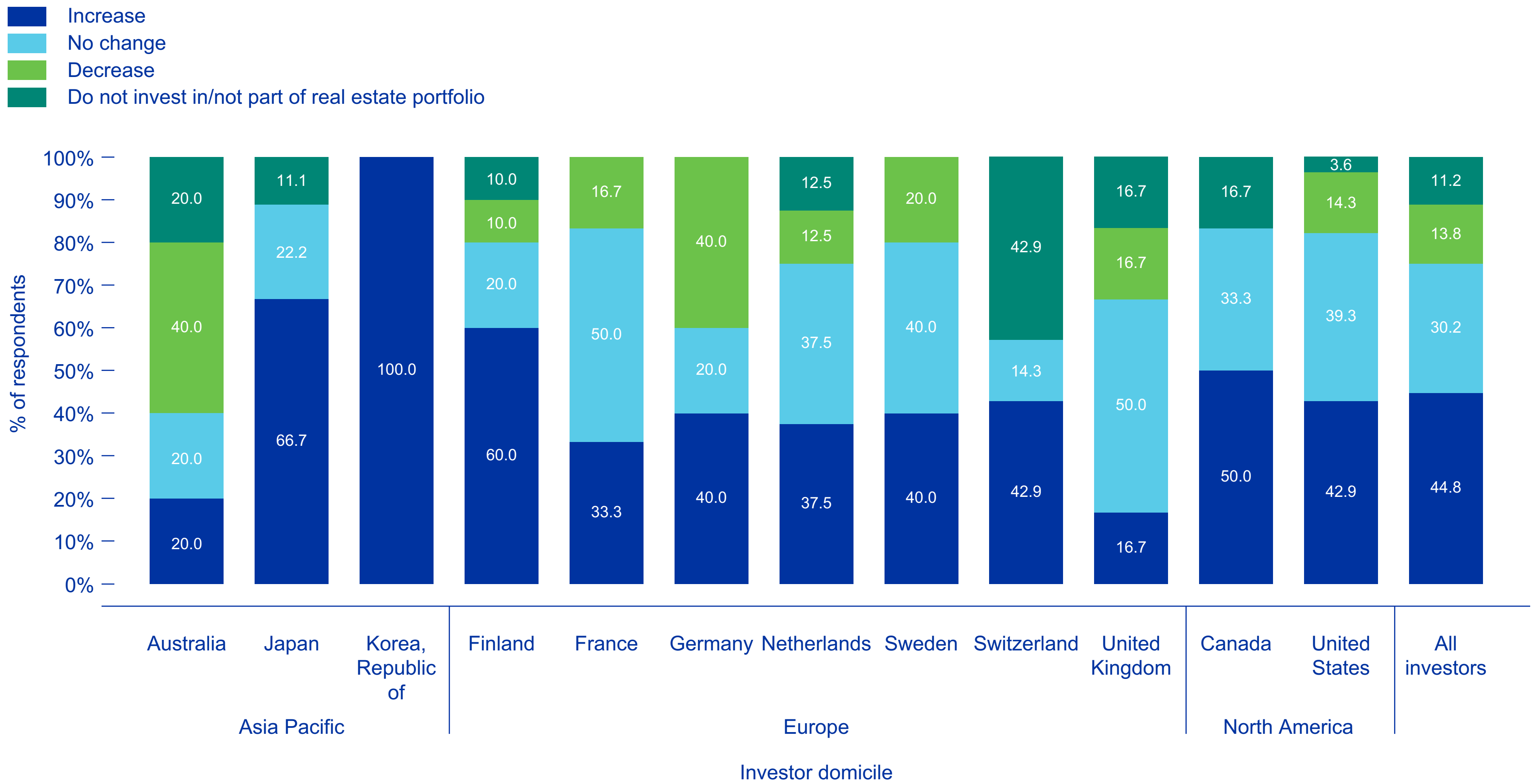


Based on a sample of 103 respondents

Across investor domiciles there are some regional differences worth nothing. Among Asia Pacific investors looking to invest in Europe there appears to be no consensus about the expected changes in allocations to European non-listed real estate funds. Australian investors expect mostly to decrease their allocations, while their Korean and Japanese peers expect to increase it.

All European investors, aside from Germany, show a clear intent to increase their allocations to funds. North American investors are also expecting to either increase or maintain their allocations, and very few have indicated an intention to decrease allocations.

Figure 46: Expected changes in allocations to non-listed real estate funds and private reits by investor domicile

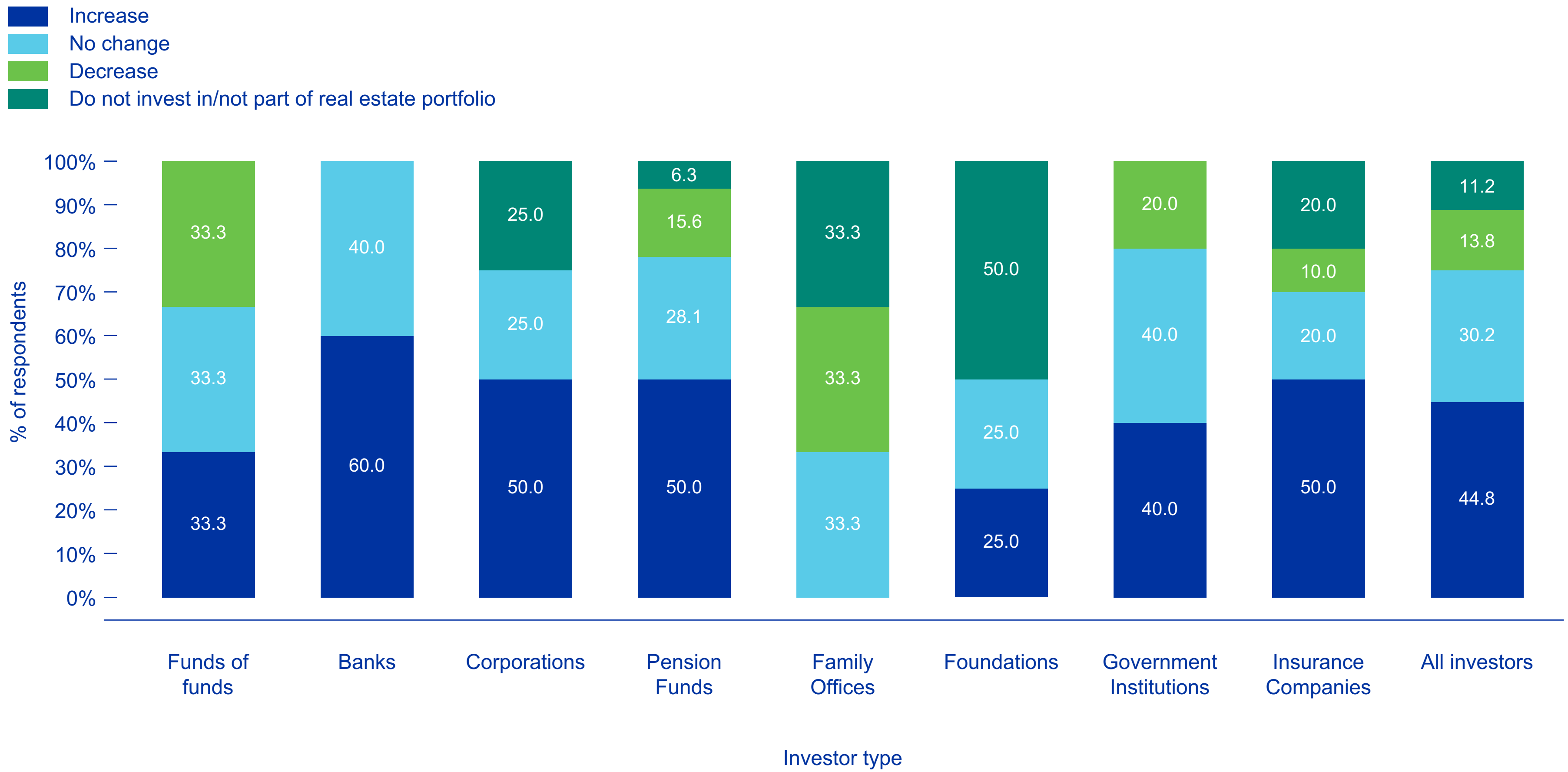


Based on a sample of 116 respondents

Analysis by investor type shows that the majority of investors expect to increase or maintain their allocations to funds over the next two years. The exception are funds of funds and family offices, with a notable proportion of their respondents expecting to decrease their allocations over the next two years.

Overall, investors remain positive, with only 13.8% of the investors expecting to decrease their allocations to European non-listed real estate funds. Only 11.2% of the investors that responded indicated that they are not invest in European non-listed real estate funds.

Figure 47: Expected changes in allocations to non-listed real estate funds and private reits by investor type



Based on a sample of 116 respondents

Expected changes to joint ventures and club deals

Over the period 2008 to 2019, there has been considerable change in investors' expected changes in allocation to joint ventures and club deals.

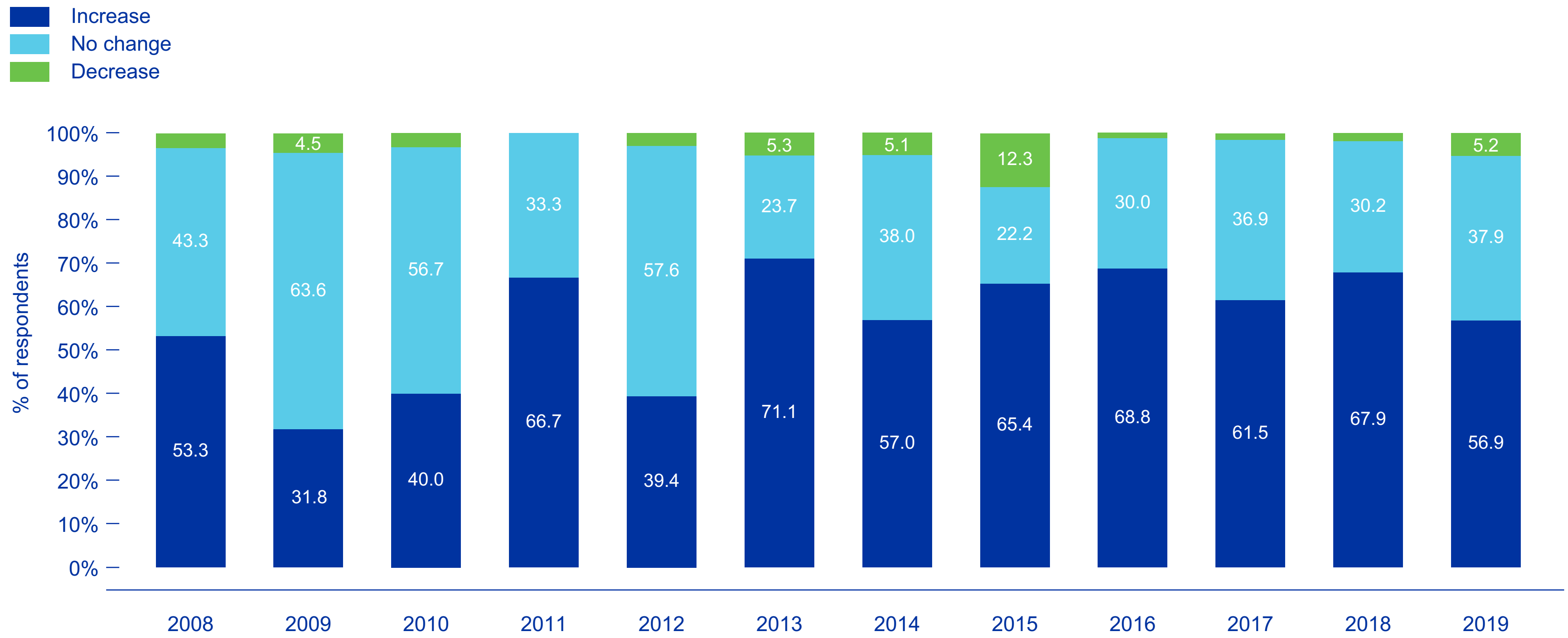
Of those that invest in these structures, the percentage expecting a decrease has increased from the previous year to a level last seen in 2013 and 2014. The only time it has breached the 10% threshold was in 2015.

Overall, the expected allocations to joint ventures and club deals appears to be slowing down relative to previous years.

Less investors expect to increase their allocations this year compared to the last, though more than half indicated that their intention was still to increase allocations to this vehicle type. However, at 56.9% this it the lower proportion since 2012.

Also, when looking at those that intend to maintain their current allocations to JVs and clubs, a higher proportion compared to last year expect to make no changes to their current allocations.

Figure 48: Expected changes in allocations to joint ventures and club deals 2008 to 2019



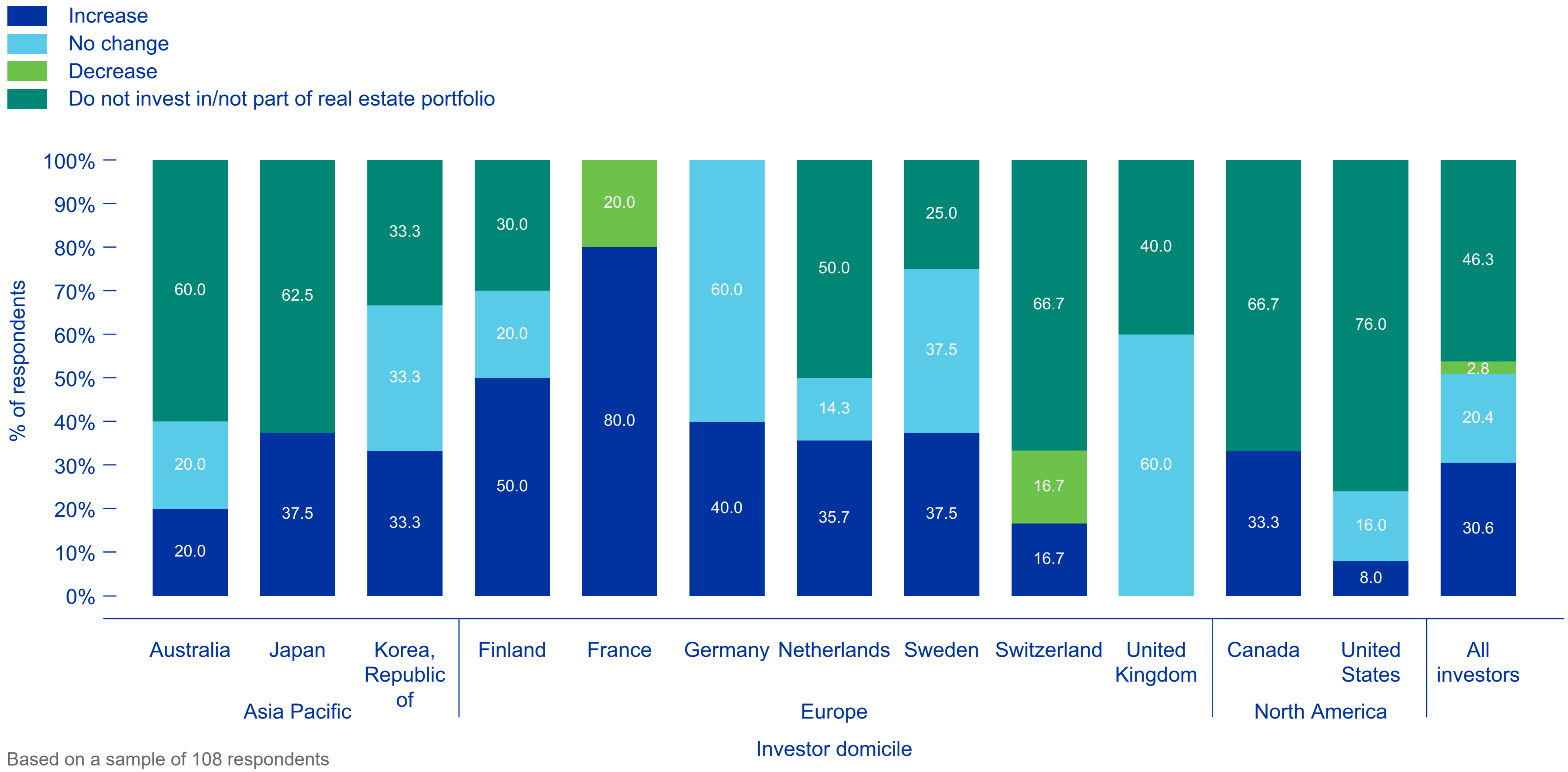
Based on a sample of 58 respondents

While most investors from Asia Pacific expect to increase their allocation to JVs and club deals, this is not the most popular product among them. Less than 50% of the respondents are currently invested in this vehicle type.

Among European investors French and Finnish investors have the highest conviction that their allocation to joint ventures and club deals will increase in 2019. However, 20.0% of French investors also plan to decrease allocations to this vehicle type. Investors based in Switzerland are the only other European investors who have indicated that they intend to decrease allocations.

Joint ventures and club deals do not appear to be a popular route for investing into Europe for North American investors. Of those that are invested in this product, there is an expectation to increase or maintain allocations over the next two years.

Figure 49: Expected changes in allocations to joint ventures and club deals by investor domicile

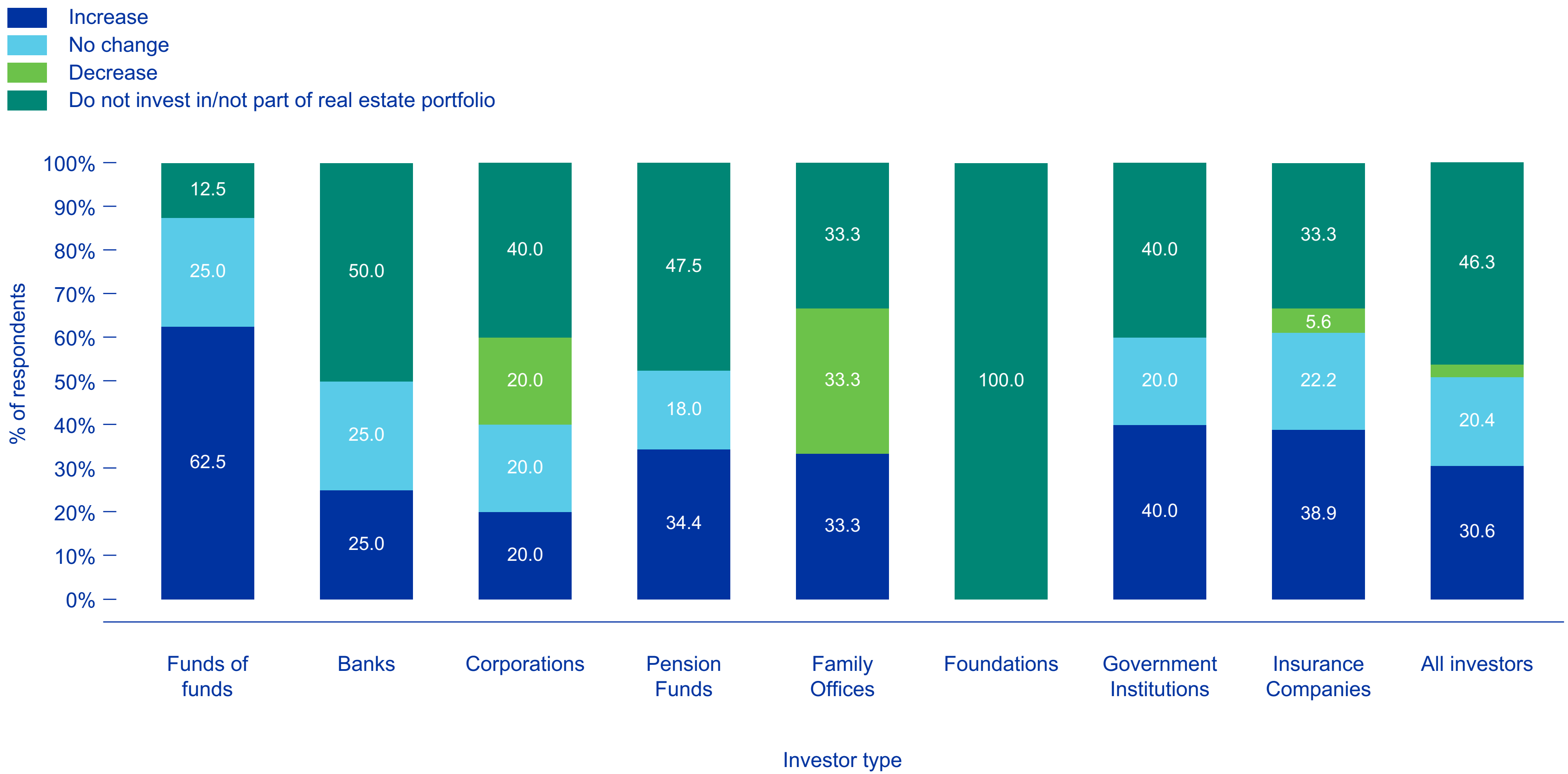


Based on a sample of 108 respondents

Funds of funds have the highest conviction to increase their allocation to JVs and clubs with more than half indicating so. Most other investor type intend to either increase or maintain allocations.

A notable proportion of corporations and foundations intend to decrease allocations to JVs and clubs.

Figure 50: Expected changes in allocations to joint ventures and club deals by investor type



Based on a sample of 108 respondents

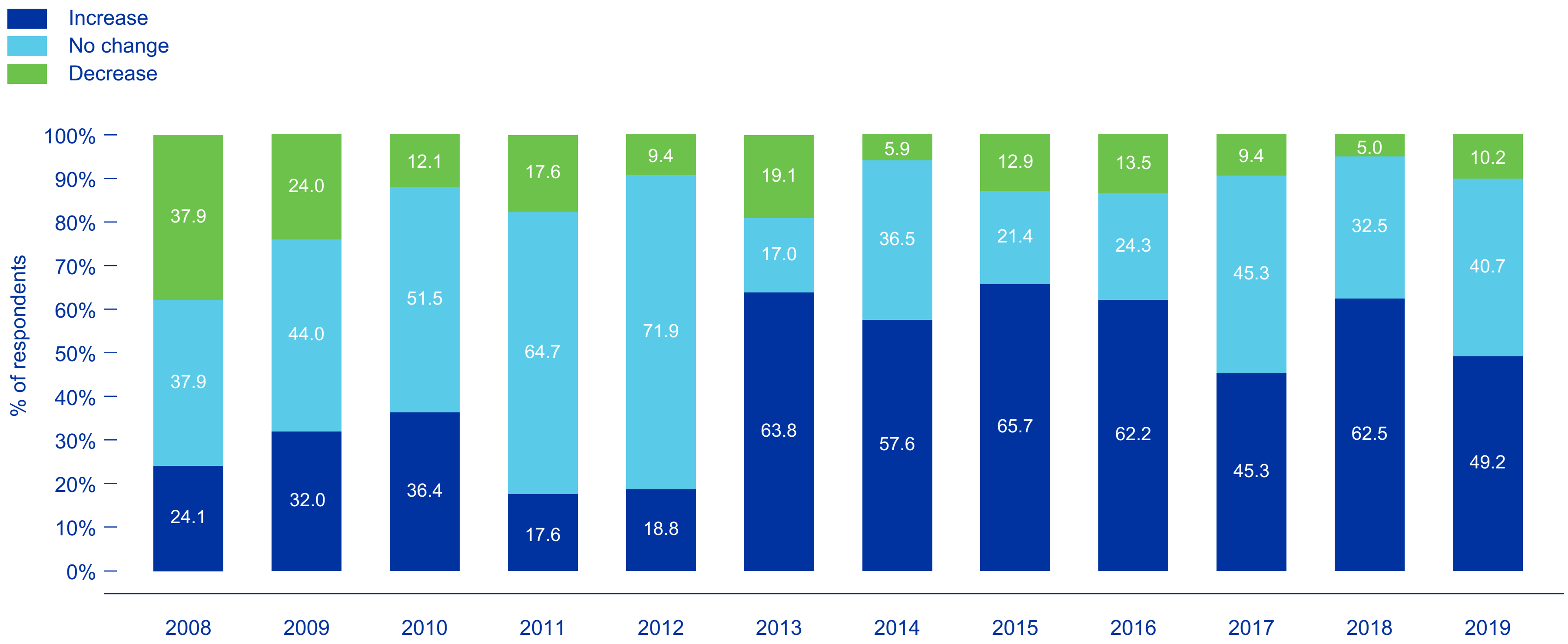
Expected changes to directly held real estate

Since 2013 investors have largely indicated that their intend to either increase allocations to directly held real estate or hold their allocations steady.

However, this year sees a notable decline in the proportion of investors that expect to increase their allocation to directly held real estate, and an increase in the proportion of investors that do not intend to change their current allocations.

There is also a significant increase in the proportion of investors that intend to decrease their allocation to directly held real estate over the next two years. The proportion is almost double that of the previous year.

Figure 51: Expected changes in allocations to directly held real estate 2008 to 2019



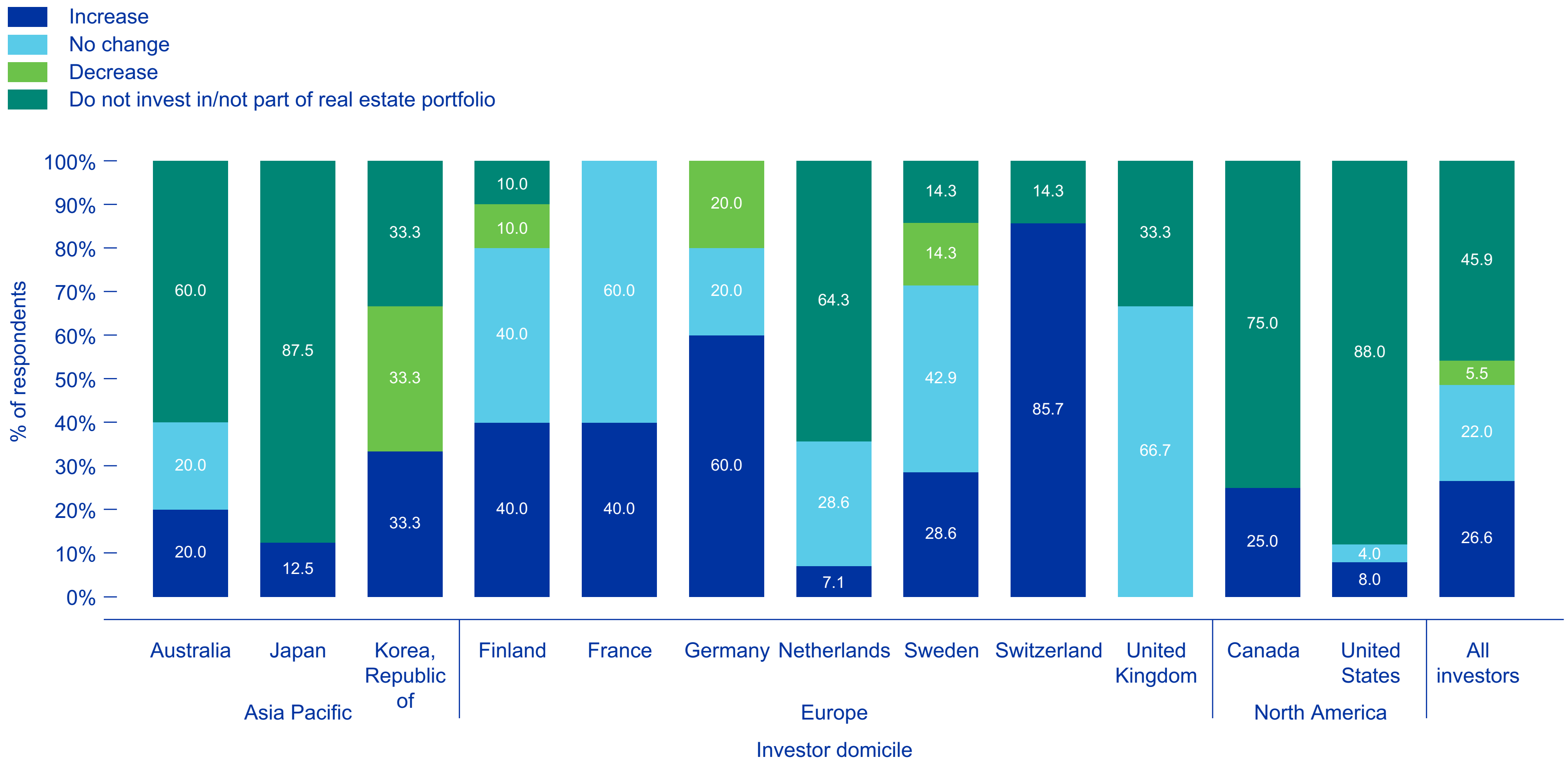
Based on a sample of 59 respondents

Within Asia Pacific, only Korean investors expect to decrease their allocation to directly held real estate.

In Europe, expectations are mostly to increase or maintain allocations, with the exception of Finland, Germany, and Sweden, where a small proportion of these investors are expecting to lower their direct real estate allocations.

Very few North American investors appear to access European real estate via the direct route. However, those that do hold direct real estate expect their allocations to increase.

Figure 52: Expected changes in allocations to directly held real estate by investor domicile

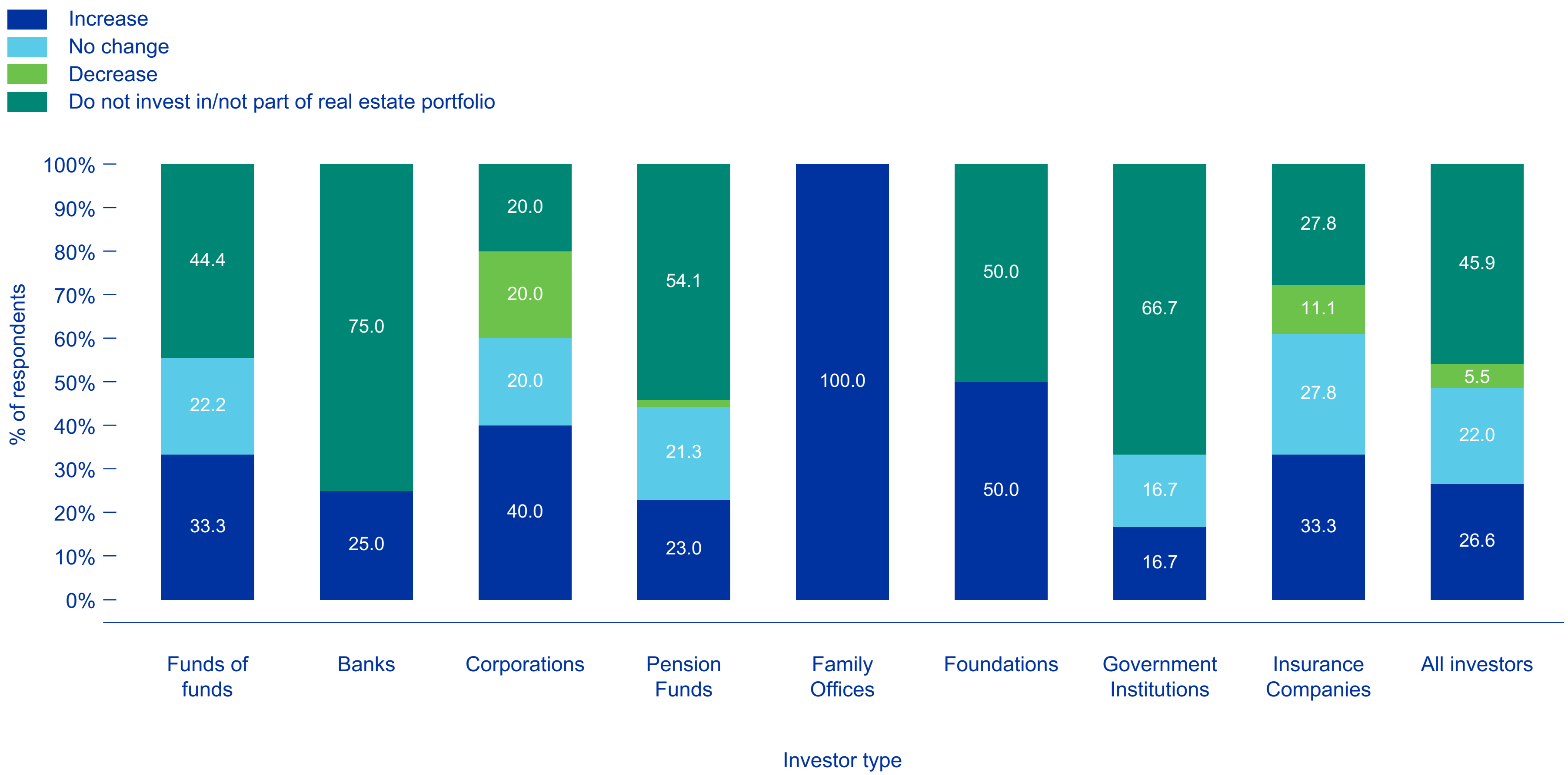


Based on a sample of 109 respondents

Most investor types expect to either increase or maintain current allocations to direct real estate investments. Interestingly, a notably proportion of some investor groups do not hold real estate assets directly as part of their overall real estate portfolio, namely banks and government institutions.

Overall, more than half of all investors hold direct real estate. Of these only a small proportion expect to decrease their allocation over the next two years.

Figure 53: Expected changes in allocations to directly held real estate by investor type



Based on a sample of 109 respondents

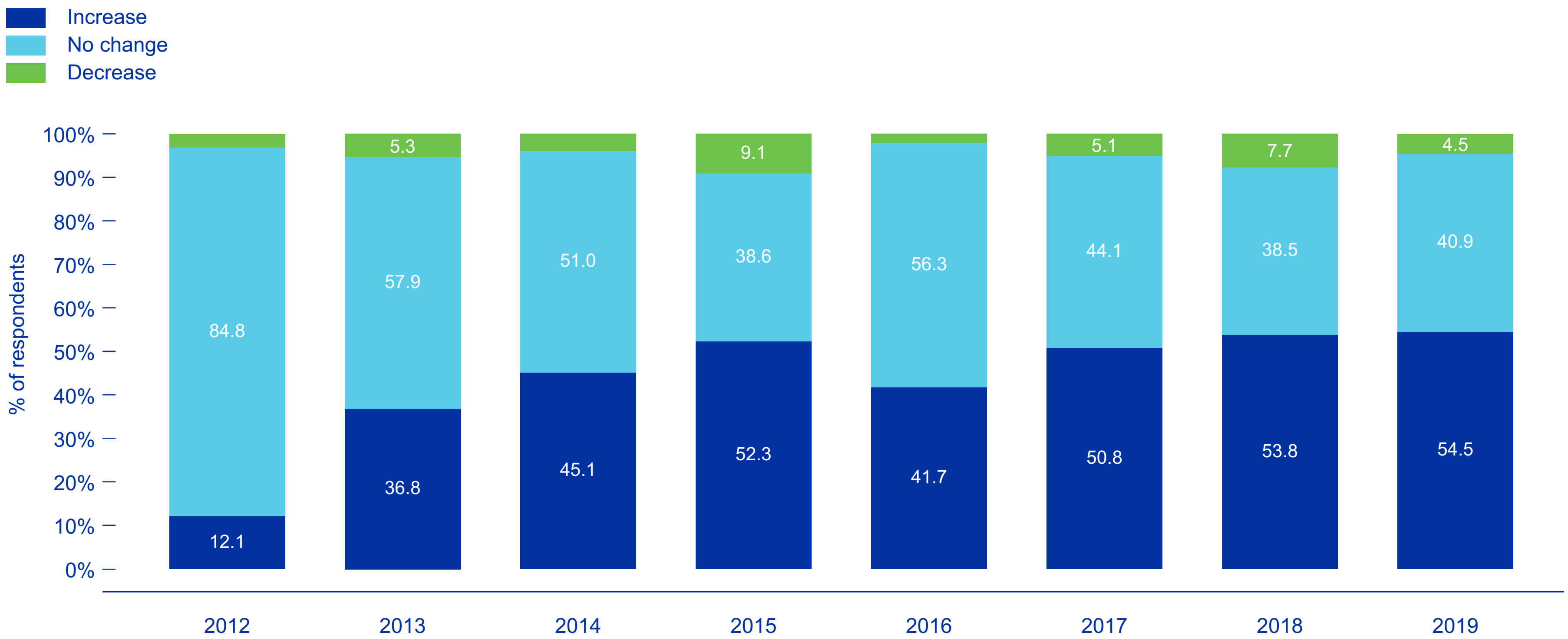
Expected changes to separate accounts investing directly

There has been a steady trend towards increasing allocations to separate accounts since 2012 (with the exception of a slight blip in 2016).

More than half of the investor respondents expect to increase their separate accounts allocations in the coming two years, this is a record for separate accounts.

While the proportion increasing allocations is rising, the proportion expecting no change is also rising and therefore, the proportion intending to decrease allocations has fallen to less than 5% of those invested in this product type.

Figure 54: Expected changes in allocations to separate accounts investing in real estate 2012 to 2019



Based on a sample of 44 respondents

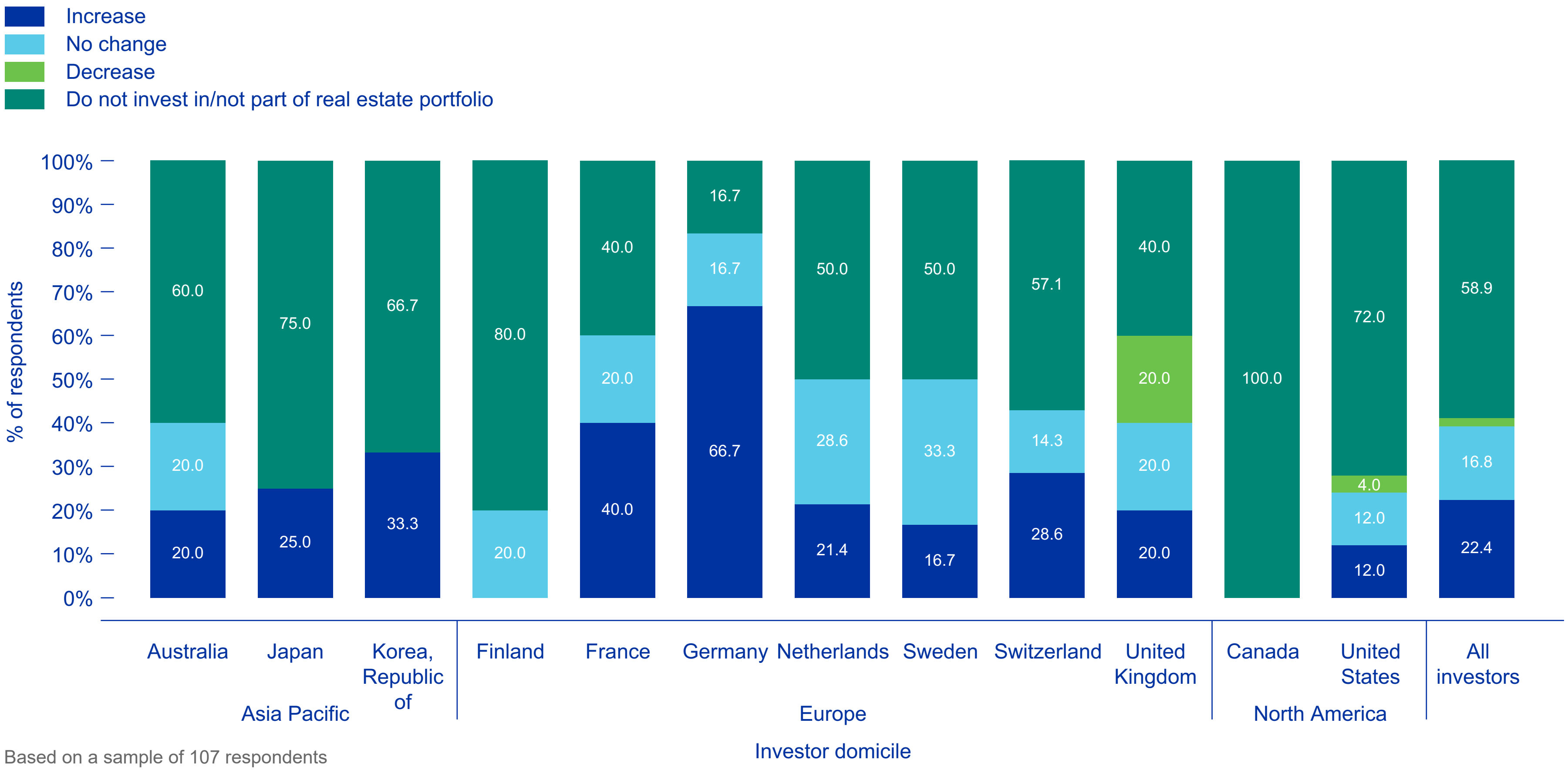
Interestingly, whether accessed by investor domicile or investor type, the findings indicate that a significant proportion of investors are currently not accessing real estate via separate accounts.

Of those that are investing in real estate via this route, those in Asia Pacific are not expecting to decrease their allocations.

This is mostly the case for Europe also, where almost all investors are not expecting to lower their allocations to separate accounts. The exception is the UK where one fifth have indicated an intention to decrease allocation. Meanwhile German investors have the highest conviction to increase their allocation to this route.

Most US investors expect to increase or maintain their allocation over the next two years, while only a smart part of the sample expects to decrease it.

Figure 55: Expected changes in allocations to separate accounts investing in real estate by investor domicile

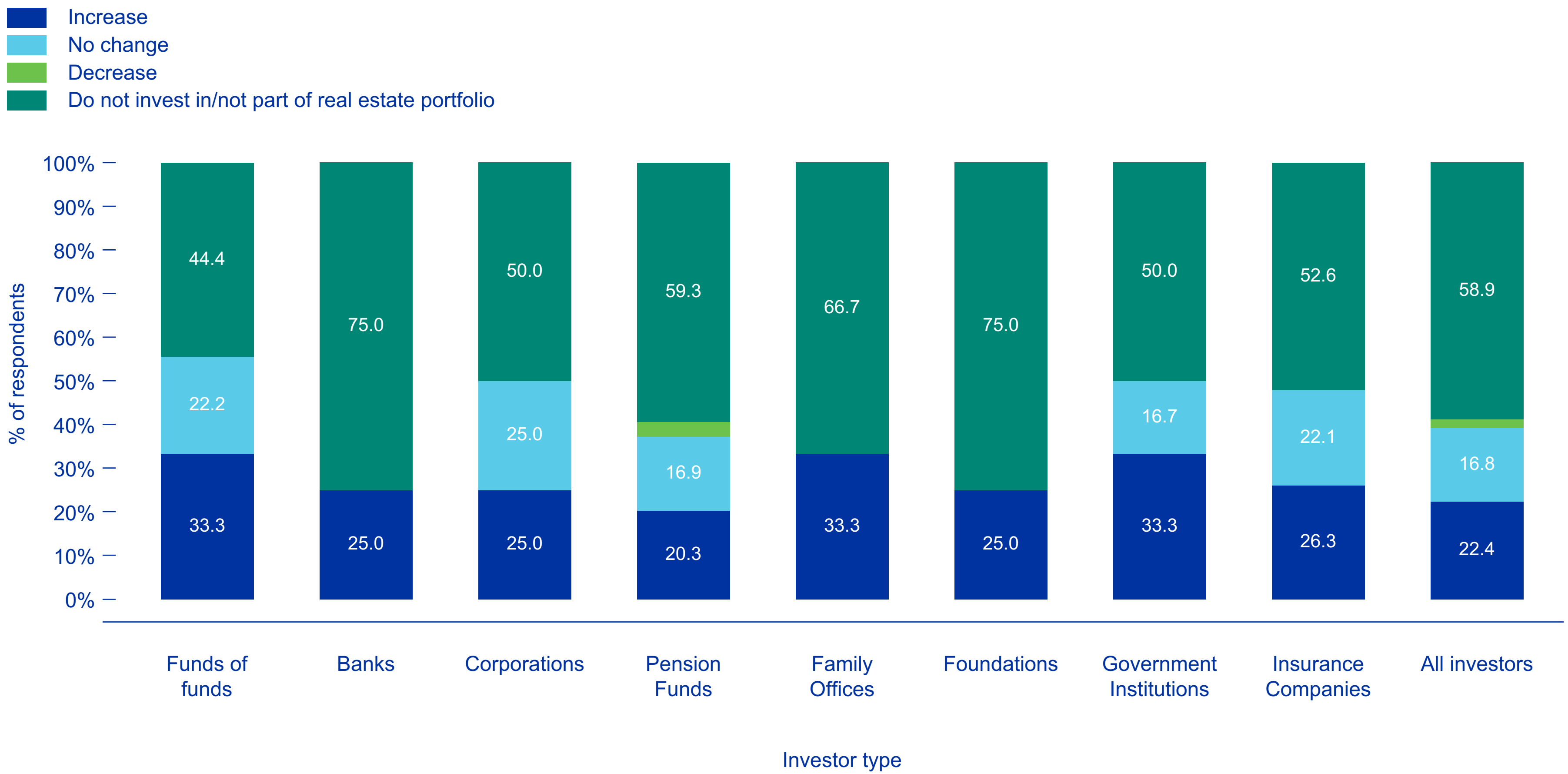


Based on a sample of 107 respondents

Analysis by investor type shows that those that the majority of those that are already invested into Europe via separate accounts intend to either maintain current allocations or increase allocations. Only pension funds indicate an intention to decrease allocations to separate accounts over the next two years.

Although separate accounts currently are less used than funds, JVs and clubs or directly holding real estate for accessing European real estate markets, they show one of the fastest growing trends in terms of those wanting to increase their allocations to this investment route.

Figure 56: Expected changes in allocations to separate accounts investing in real estate by investor type



Based on a sample of 107 respondents

Section 6

Preferred structures for non-listed real estate funds

Preferred features for non-listed real estate fund investments by respondent type

With regards to the preferred features of European non-listed real estate funds, investors have a strong preference for multi country over single country funds and for regulated over non-regulated funds.

They have a notable preference for seeded pool over blind pool funds, multi-sector over single sector funds and discretionary over non-discretionary funds as well as funds with GAV above €500 million and for funds with similar investors by company type.

They have a mild preference for a large pool of investors, closed end over open end funds and for funds with similar investors by domicile.

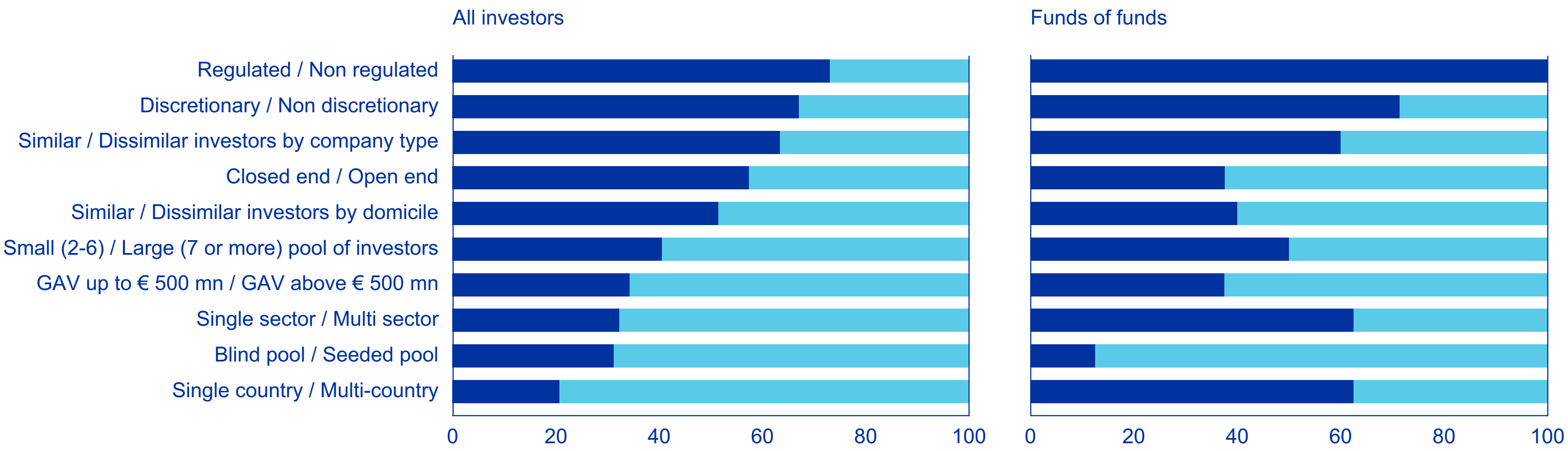
Meanwhile fund of funds have a very strong preference for regulated funds over non-regulated and a strong preference for discretionary over non-discretionary European non-listed real estate funds.

They have a notable preference for single country and single sector funds over multi country or multi sector, for open end funds rather than closed end funds, for funds with similar investors by company type but not by domicile, and for funds with GAV above €500 million.

They are indifferent between funds with a small pool of investors or a larger pool of investors.

- 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%

Figure 57: Preferred features for non-listed real estate fund investments by respondent type.



Based on a sample of 77 respondents. Note: The preferred features relates to the features that investors prefer for the bulk of their non-listed real estate fund investments

Preferred features for non-listed real estate fund investments by investor domicile

When investors are compared by their region of domicile, some commonalities and interesting differences are observed.

Asia Pacific investors have a very strong preference for regulated funds over non-regulated, and a strong preference for discretionary over non-discretionary funds, seeded pool over blind pool funds and to invest into funds with similar investors by company type.

They have a notable preference for funds with a small pool of investors over a large pool and for closed end funds rather than open end, and a mild preference for funds with similar investors by domicile.

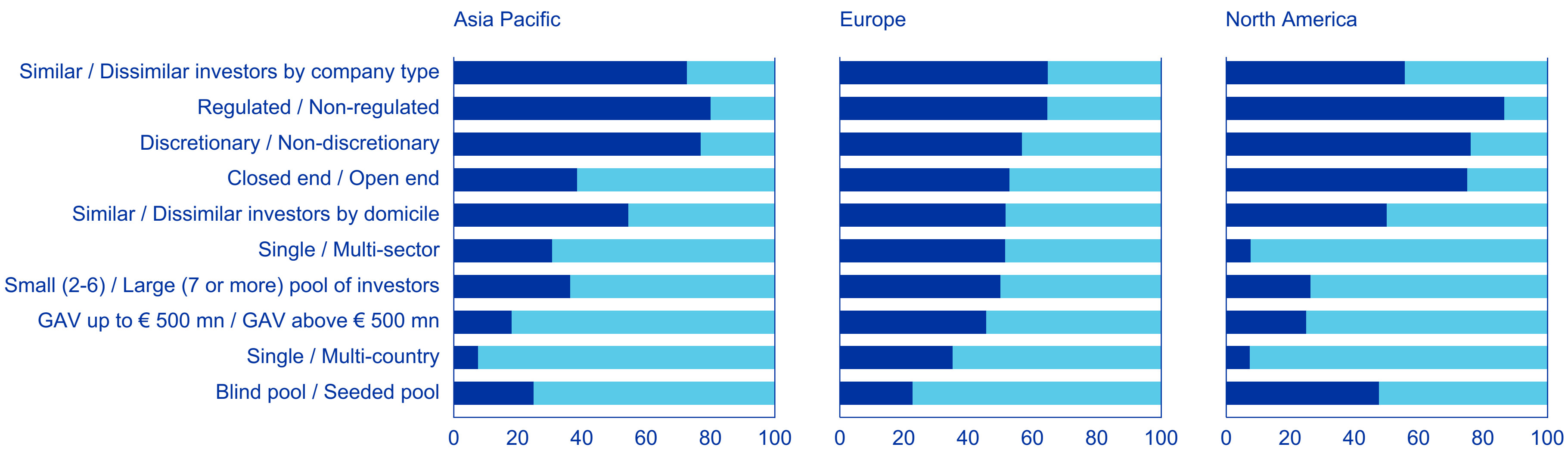
European investors have a strong preference for seeded pool investments over blind pools, and a notable preference for regulated over non-regulated funds, multi country over single country funds and for funds with similar investors by company type.

These investors indicate a mild preference for larger funds over smaller funds, discretionary funds over non-discretionary, closed end structures over open end, single sector funds over multi sector and to invest in funds with similar investors by domicile.

Like their Asia Pacific peers, North American investors also have a very strong preference for regulated funds over non-regulated a strong preference for discretionary over non-discretionary funds. In addition they also have a strong preference for closed end over open end funds and for larger funds with a large pool of investors.

They have a mild preference for seed pool investments over blind pools and to invest in funds with similar investors by company type.

Figure 58: Preferred features for non-listed real estate fund investments by investor domicile



Based on a sample of 77 respondents. Note: The preferred features relates to the features that investors prefer for the bulk of their non-listed real estate fund investments

Preferred features for non-listed real estate fund investments by investor type

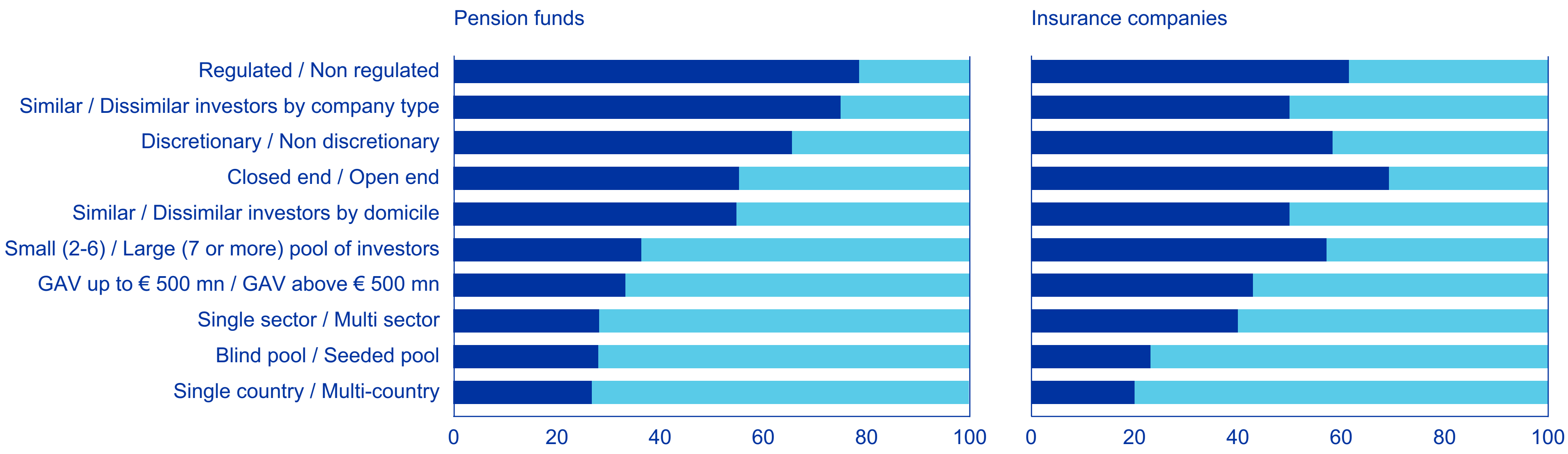
Analysis of the two largest investor groups shows that pension funds have a strong preference for multi country and multi sector over single country or single sector funds, seeded pool investments over blind pools, regulated over non-regulated funds and for funds with similar investors by company type.

They have a notable preference for discretionary funds over non-discretionary, larger funds above €500 million of GAV and for funds with a larger pool of investors

Meanwhile insurance companies have a very strong preference for funds with a multi country strategy, and similar to pension funds have a strong preference for seeded pool investments over blind pools.

They have a notable preference for funds with a strategy to invest across multi sector rather than single sector and for regulated over non-regulated funds.

Figure 59: Preferred features for non-listed real estate fund investments by investor type.



Based on a sample of 41 respondents

Section 7

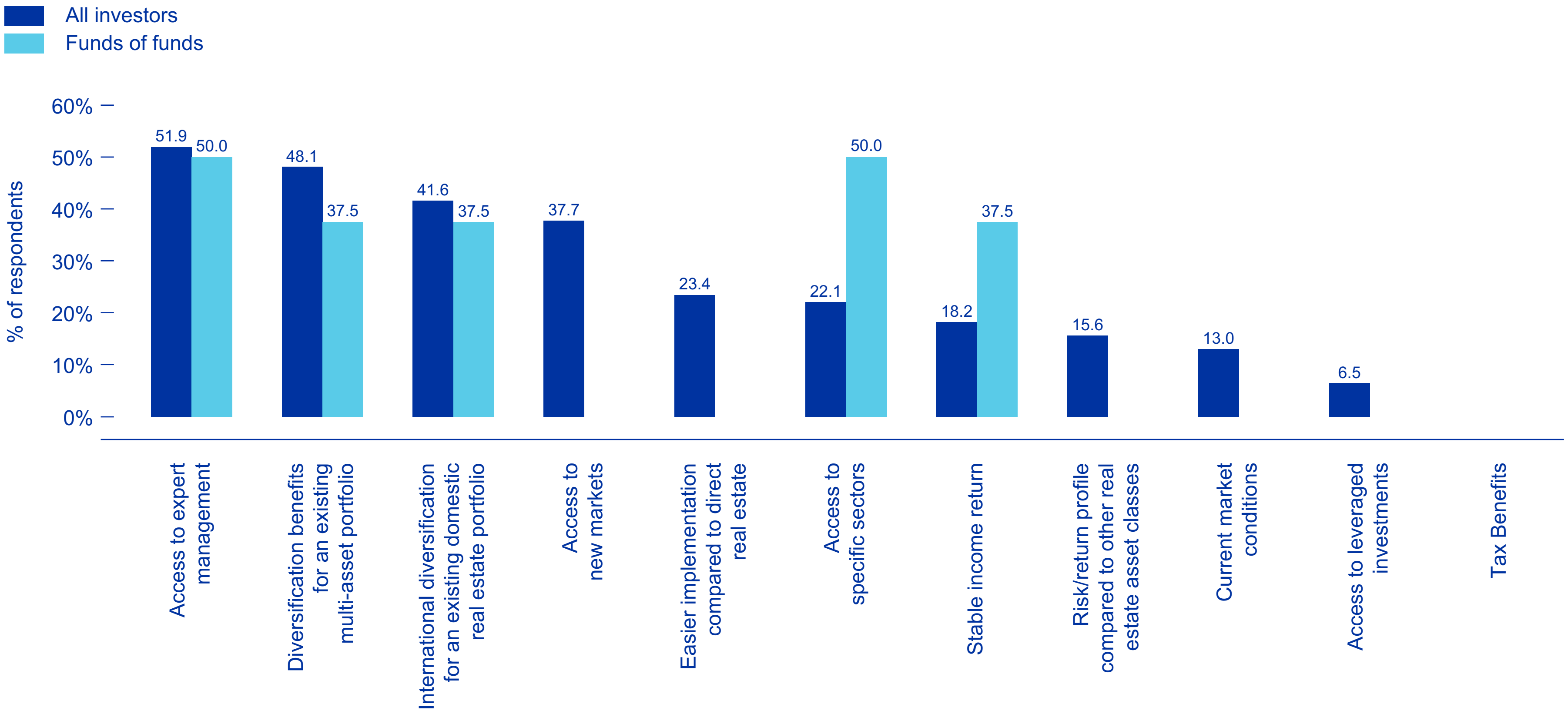
Pros and cons of investing in non-listed real estate funds

Reasons to invest in non-listed real estate funds

The main reasons for investors to invest in non-listed real estate are access to expert management followed by diversification benefits for an existing multi-asset portfolio and then by international diversification for an existing domestic portfolio.

For fund of funds access to expert management and access to specific sectors are ranked joint first, followed by diversification benefits (both for a multi-asset portfolio and internationally) and stable income returns are joint second.

Figure 60: Reasons to invest in non-listed real estate funds by repondent type



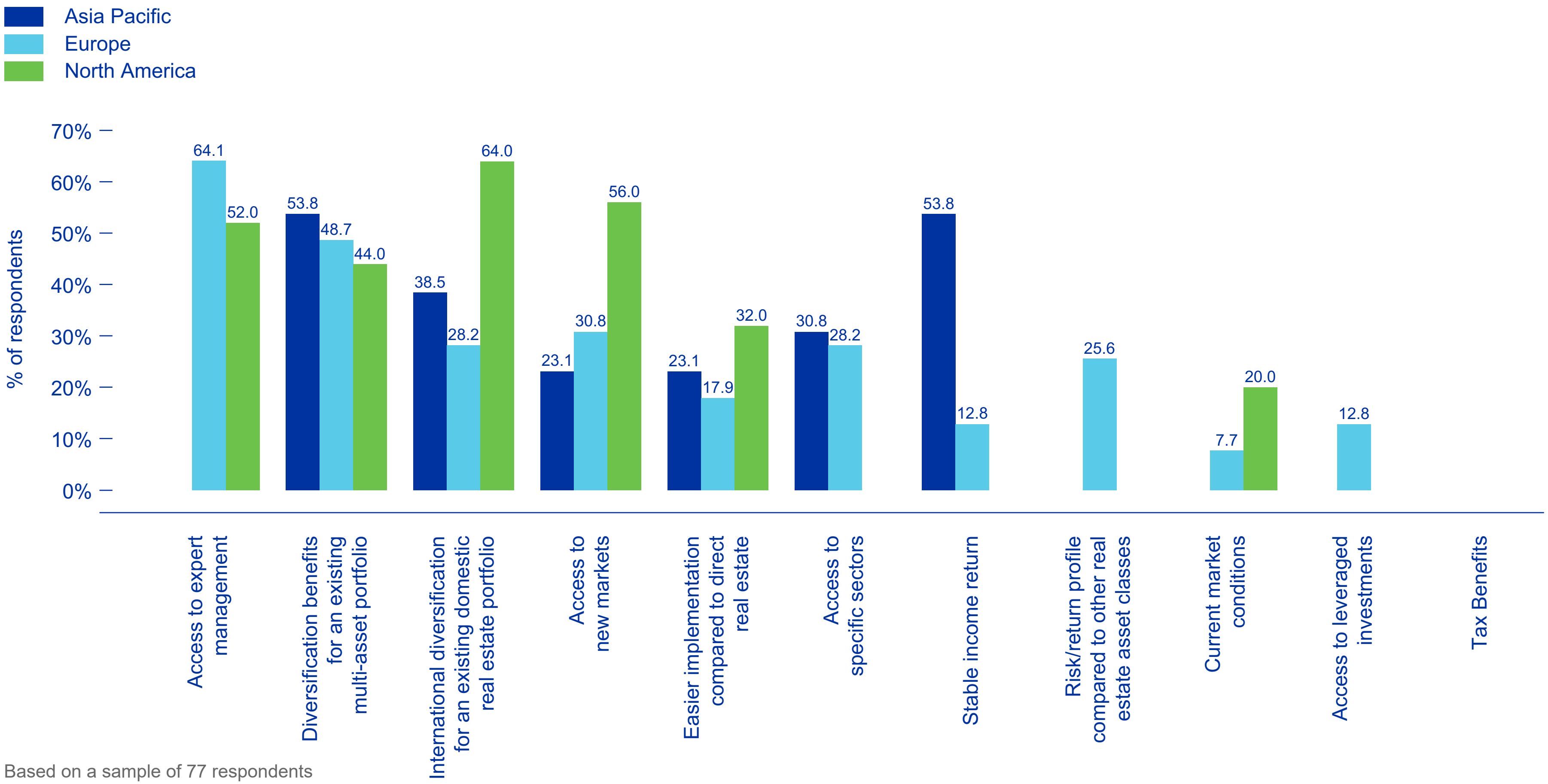
Based on a sample of 77 respondents

When looking across investor domiciles, there are some regional variations worth noting. Asia Pacific investors look for diversification benefits for an existing multi-asset portfolio and stable returns first, followed by international diversification and access to specific sectors as second and third reasons to invest in European non-listed real estate funds.

Meanwhile European investors indicate that it is the access to expert management which is the main reason for them to invest in European non-listed funds. This is followed by diversification benefits for an existing multi-asset portfolio, followed by access to new markets.

For investors based in North America international diversification is the main reason for investing in non-listed funds when investing in Europe. The second most important reason for this group is the access to new markets and access to expert management that funds provide.

Figure 61: Reasons to invest in non-listed real estate funds by investor domicile



Based on a sample of 77 respondents

Most challenging obstacles when investing in non-listed real estate funds

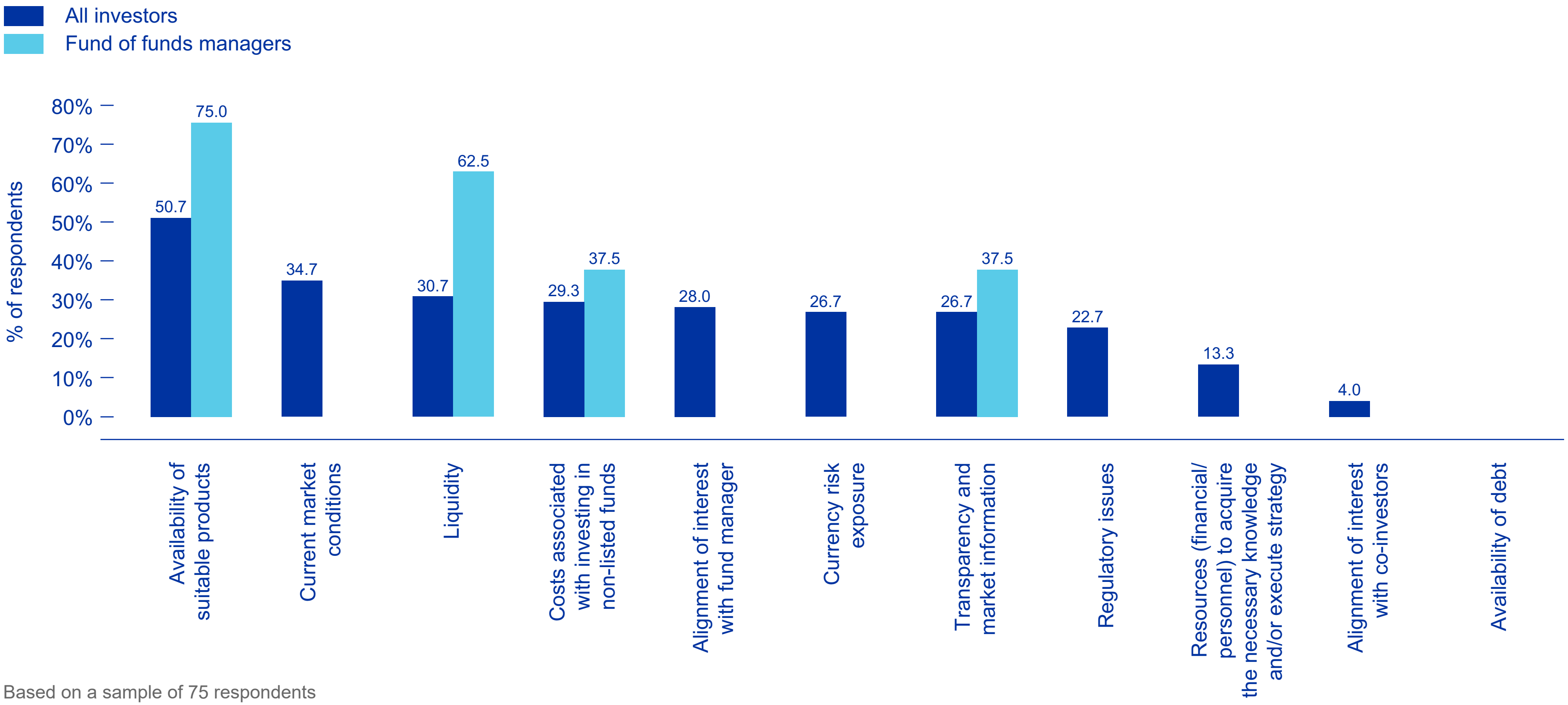
Looking back over the last 12 years at the obstacles facing investors, certain patterns can be observed.

Availability of suitable products has been highlighted as the key deterrent to making investments into non-listed real estate funds over the last few years. It is not surprising that current market conditions is cited as the second most challenging obstacle given the current stage of the cycle.

In 2015 and 2016 alignment of interest with the fund manager moved to the top of investors' agenda, but has now fallen to fifth place.

Interestingly, this year investors indicated liquidity as the third most important reason deterring them from investing in non-listed real estate funds; this factor previously featured in the top 3 in 2015.

Figure 62: Most challenging obstacles when investing in non-listed real estate funds by repondent type



Based on a sample of 75 respondents

Availability of suitable products tops the list as the most challenging obstacle when investing into European non-listed real estate funds for both investors and fund of funds managers.

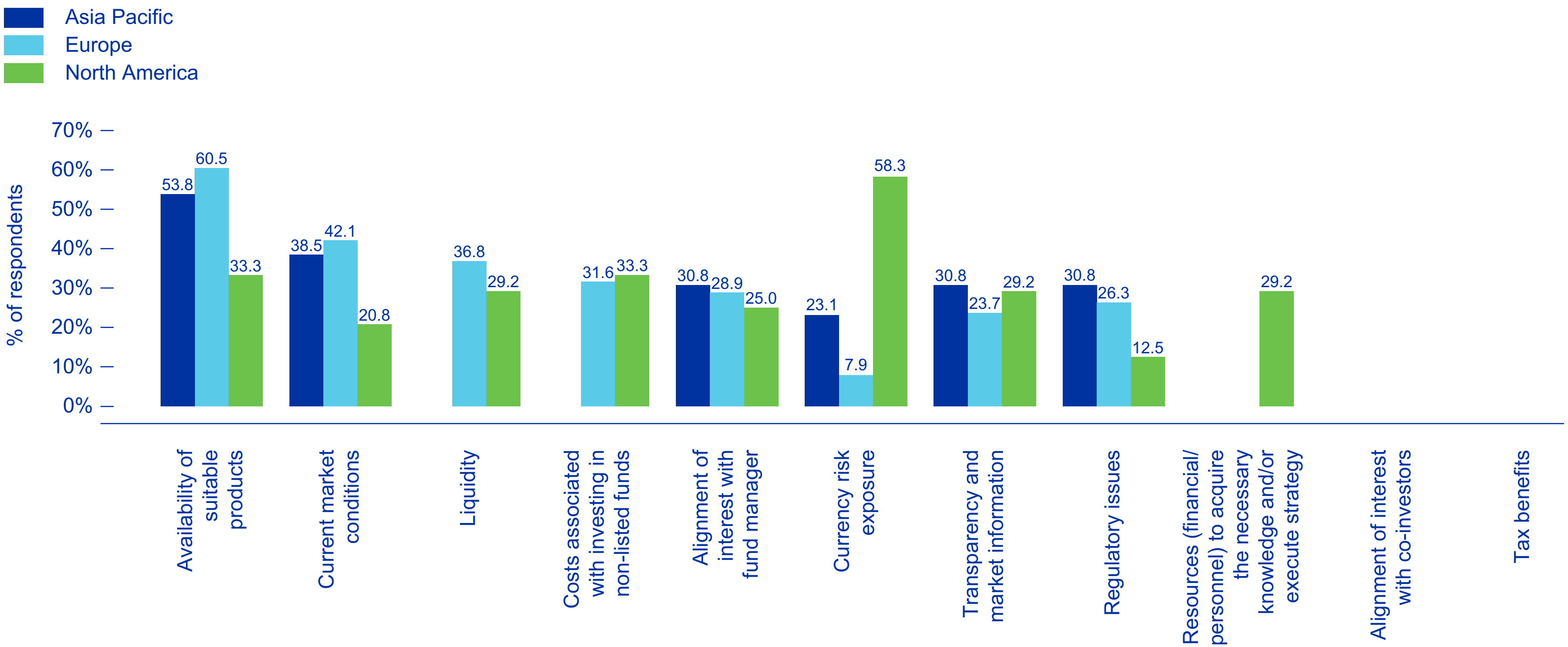
Next investors cite current market conditions as the most challenging obstacle, followed by liquidity. Meanwhile funds of funds regard liquidity as the second most challenging obstacle, and in joint third for this group are transparency and the costs associated with investing in non-listed real estate funds.

Asia Pacific and European investors are aligned in their views when it comes to the top two most challenging obstacles. They both see availability of suitable products and current market conditions as the biggest challenges for investing into non-listed funds.

Their opinions then deviate with Asia Pacific investors indicating that alignment of interests, market transparency and regulatory issues share the third spot, while European investors indicate that liquidity comes third.

North American investors have slightly different views. For this group of investors currency exposure comes first. Next are availabilty of suitable products and cost associated with investing in funds tied in the second position. Liquidity, resources and transparency in joint third.

Figure 63: Most challenging obstacles when investing in non-listed real estate funds by investor domicile



Based on a sample of 75 respondents

Appendix 1

Participants

Participants

ANREV, INREV and PREA would like to thank the following investors and funds of funds for participating in the Investment Intentions Survey 2019, and for giving permission for their company names to be published.

Aberdeen Standard Investments
ADIA
AFIAA Real Estate Investment AG
Alecta
Allianz Real Estate GmbH
Almazara
Altan Capital
Antilooppi
ASR
ATP Real Estate
Atradius N.V.
Aviva Investors
AXA IM - Real Assets
Bayerische Versorgungskammer
Blue Sky Group
Bouwinvest Real Estate Investors
CBRE Global Investors
Church Commissioners for England
CNP Assurances SA
Colorado PERA
Commonfund
Commonwealth of Pennsylvania Public School Employees` Retirement System
Compenswiss
DTZ Investors
First State Super
Franklin Templeton Investments
Generali Real Estate
GIC Private Limited
Helaba Invest
HESTA
Hostplus
Ilmarinen
Iridis AG
Ivanhoe Cambridge Inc
Keva
Los Angeles County Employees Retirement Association
Mandatum Life
Maryland State Retirement Agency
MN
New Jersey Division of Investment
NN Group
Nokia
North Carolina Retirement System
NYS Teachers` Retirement System
Office of NYC Comptroller
Ontario Power Generation
Oxford Properties
Pensimo
Pensioenfonds PGB
PFA
PGGM
Regents of the University of California
SBI Life Insurance Co., Ltd.
Sino-Ocean Capital
State board of administration of florida
Stichting Pensioenfonds voor Fysiotherapeuten
Stiftelsen för Åbo Akademi
Storebrand Fastigheter AB
SWIB
Teachers` Retirement Allowances Fund
The Church Pension Fund
The Crown Estate
The State Pension Fund (Finland)
Tokio Marine Asset Management
UniSuper
Utah Retirement Systems
Varma Mutual Pension Insurance Company
Vestcor
VFMC
Virginia Retirement System
Wespath Benefits and Investments, Inc.
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