The gap narrows between current and target allocations

> Current average allocations to real estate are now only 40 bps lower than target allocations
> Investors intend to place a minimum of €72.4 billion of new capital into global real estate
> A shift towards core and away from opportunity, value added still the most preferred in Europe

Institutional investors remain optimistic towards real estate, with half of all investors expecting to increase their allocations over the next two years. A further 40.7% expect to maintain current allocations and only 9.3% expect to decrease their real estate allocations.

Current average allocations to real estate increased to 10.0% from 8.9% last year, against an increase in target allocations from 10.2% to 10.4%, significantly closing the gap between the two. However, investors across all regions remain below their target allocations.

When allocations are weighted by total AUM, current and target allocations globally are 5.7% and 6.5% respectively, indicating that larger investors have lower allocations to real estate and are also further away from their target allocations.

A minimum of €72.4 billion of new capital is expected to be invested into real estate in 2019, €60.7 billion from investors and €11.7 billion from funds of funds. Most of the €60.7 billion will be deployed by European investors, while only 8.3% will come from Asia Pacific investors.

Figure 1: Current and target allocations to real estate (equally weighted)

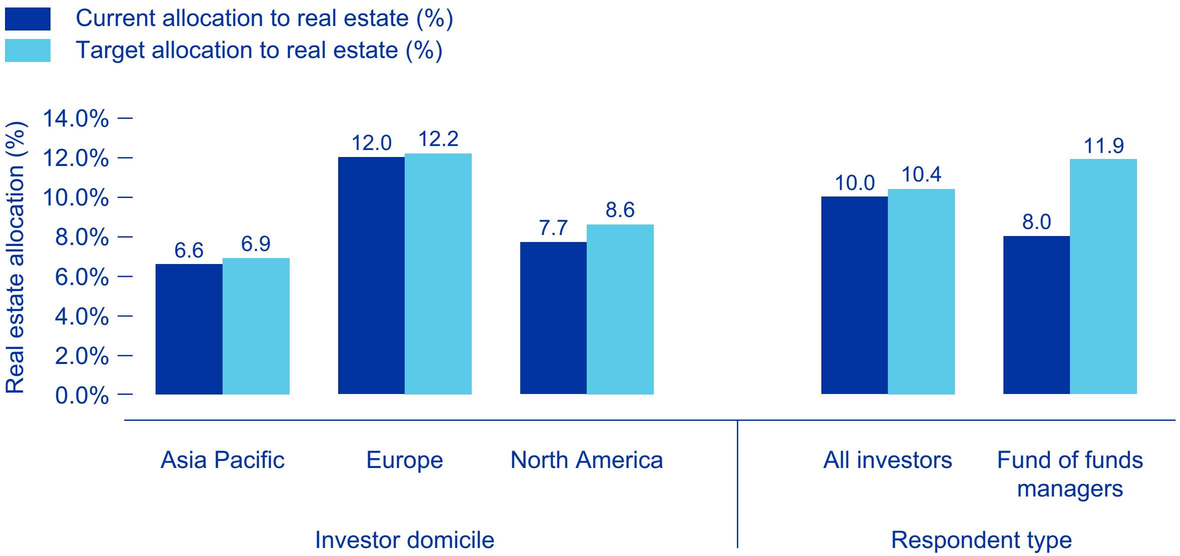
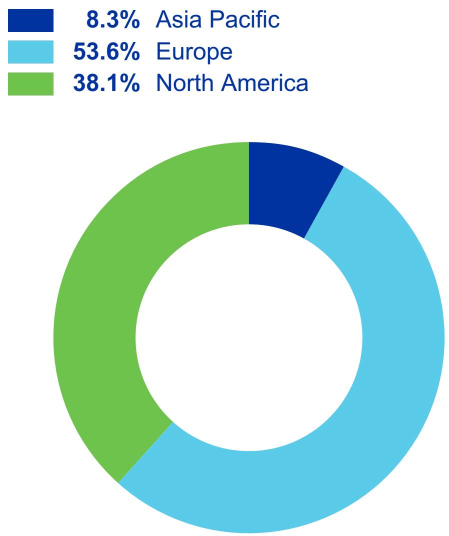


Figure 2: Capital expected to be invested into real estate in 2019 by investor domicile (€ 60.7 billion)



For investment into Europe, there are signs that investors are taking a more risk-averse approach to their real estate investments. With regards to risk-adjusted return prospects there has been a notable shift in favour of core and away from opportunity, though value added remains the most preferred investment style overall. Asia Pacific investors have a clear preference for core when investing in Europe, while North American investors indicate that value added is their preferred investment approach into Europe.

Germany, UK and France remain the dominant European destinations for investors, though the order of priority has shifted. Germany, last year's third, is now top of the list for investment into Europe in 2019, while the UK, number one in 2017, is now second followed by France in third. Funds of funds placed the UK top, with the Netherlands and Spain in joint second.

Offices remain the most popular sector, followed by retail, residential and industrial / logistics, though the alternatives are growing in popularity.

Over half of investors already invested into European non-listed real estate funds expect to increase their allocations over the next two years. Commitments to JVs and clubs appear to be slowing relative to previous years, while most investors will increase or maintain their allocations to directly held real estate, a reflection of the ongoing desire for greater control.

For further details contact research@inrev.org. The full report is available to members at inrev.org/research.

Figure 3: Investment style preferences 2007 to 2019