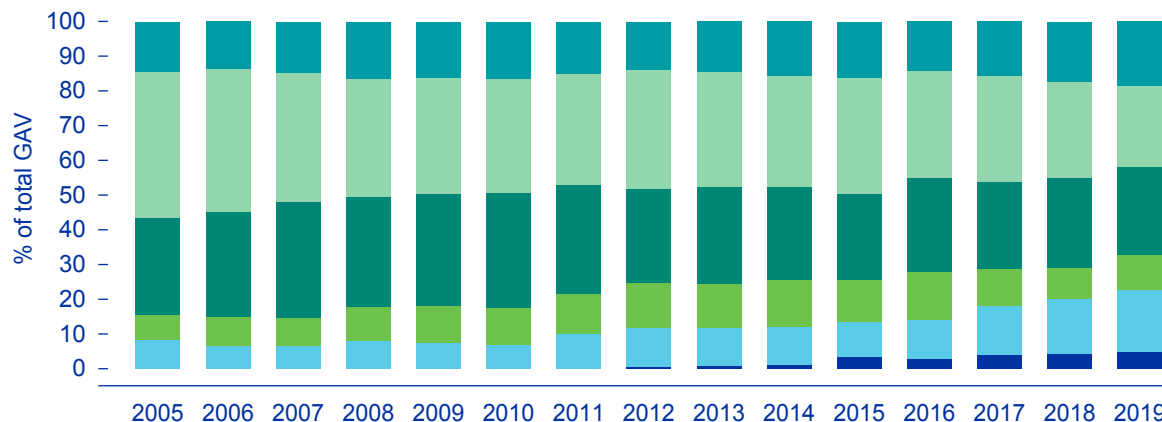
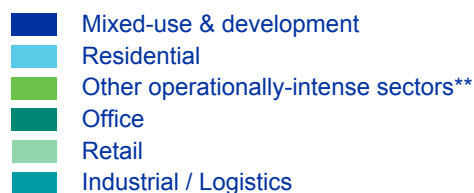


## Investment appetite for operational real estate set to rise

- > Allocations to operational real estate and residential have expanded faster than to traditional sectors
- > Operational real estate represents a diverse range of market segments that have a large dispersion of risk
- > Understanding implications for required expertise, knowledge and the overall scale of resource is important

Over the 2005-2019 period, growth in European investment allocations to the stand-alone operational real estate sectors, Residential and Mixed Use, has outstripped that of Office, Retail and Industrial/ logistics according to analysis of the INREV Annual Index. Current allocations are at 11.8%, with strong investment intentions to increase exposure.<sup>1</sup>

Figure 1: Capital allocation by sectors\*



Source: INREV Annual Fund Index 2020

\* Excluding cash and unreported figures

\*\* Aged care, health care, hotel, leisure, parking, student housing, other

Investor appetite for operational real estate is expected to continue rising. This is being driven largely by two megatrends: the change in investment approach from providing space as a product to embracing space as a service; and the long-term structural trends, stemming from accelerating economic and social megatrends.

The research explores the risk characteristics of the evolving real estate investment sectors that comprise operational real estate in Europe and their implications for investment approach in terms of objectives, structure, and resource requirements.

The analysis is primarily based on 22 bespoke interviews, undertaken between June and August 2020 with investors and investment managers active in the alternative real estate market in Europe.

<sup>1</sup> Investment Intentions Survey 2020

**‘Operational real estate is very diverse.’**

The makeup of risk characteristics of operational real estate is very diverse and includes long income, strong relative risk adjusted

returns and / or capital growth. Variation in the risk profiles of different sectors and the diversity across countries in terms of maturity, regulation and cultural considerations are important to consider, as well as the use of investment structures to mitigate risk and explore opportunities.

Operational real estate can be a good portfolio diversifier, enabling investors to balance risk exposure within a sector and more widely, as well as with the use of investment structures, ranging from ‘Leasehold’, ‘Management Contract’ to ‘Shared Interest’ and ‘Hold Co’.

This enables investors and managers to create bespoke opportunities from a wide menu of risk and return attributes, selecting and blending risk dimensions.

Interviewees employing the ‘Hold Co’ represented organisations that had restructured their businesses to align with

long-term megatrend, not merely their real estate allocations, making a choice to move up the value chain and partake in developing segments of the new economy.

The findings highlight that investing in operational real estate has implications for required expertise, knowledge and the overall scale of resource.

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The full report is available to members at [inrev.org/research](http://inrev.org/research)

**Figure 2: Investment structures employed**

