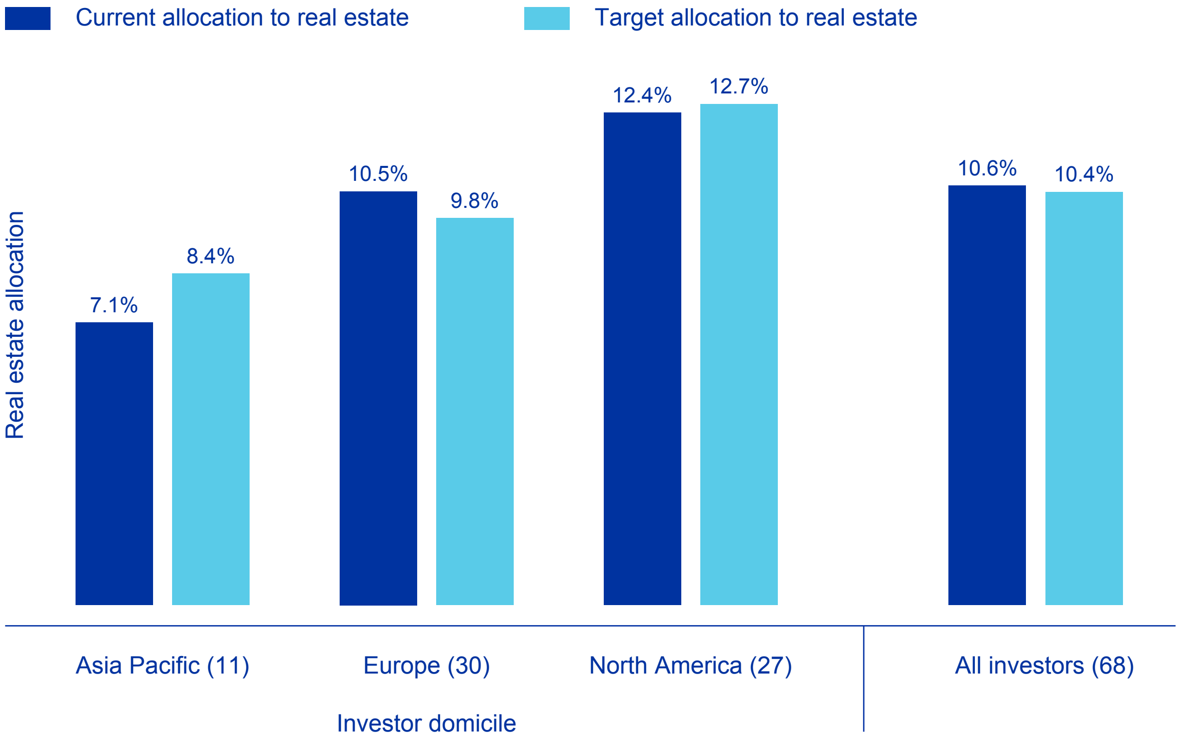
Investors embrace riskier strategies with a shift towards value added in 2024

> Interest rate policy, inflation, and denominator effect will define the market in 2024
> Investors are favoring value-added strategies in their preferred styles, locations, and sectors.
> Investors still favoring debt over all their investment opportunities

Figure 1: Current and target allocations to real estate globally (weighted by total AUM)*



** Number of respondents in parentheses*

Results of this year's edition of the ANREV/ INREV/PREA Investment Intentions Survey showed that the gap between current and target allocations narrowed further when compared to last year's edition. The gap decreased from 20 basis points in the 2023 report to 16 basis points in this year's edition. Which is significant when compared to the 120 basis point gap in 2022.

The reduction is observed for investors across all regions. However, it is less relevant for Europe investors. Furthermore, European investors are, on average, over-allocated to real estate.

This gap decrease between the current and target allocations is mainly driven by external conditions such as the monetary policy or the denominator effect.

Following the huge impact they had on the market in 2023 it is not shocking that, interest rates and inflation were highlighted by respondents to be the main issues impacting their real estate decisions for 2024, at 93% and 81% respectively.

Sentiment seems to have shifted this year as investors have preferred value-added and opportunistic strategies when investing in Europe, at 56% and 23% respectively. This change mirrors a similar pattern observed in the aftermath of the Global Financial Crisis (GFC), where a pivot toward value-added and opportunistic strategies yielded substantial returns.

Although the diversification benefit for a multi-asset portfolio remains the most important reason when investing in real estate, the enhanced returns ability of real estate has become more relevant for investors.

Non-listed real estate debt vehicles are gaining importance among investors as some are looking for less risky strategies. More than 60% of the respondents plan to increase their allocation to debt vehicles in 2024. The outcome is even more striking when adjusting the results by AUM, as investors representing over 80% of the total respondents' AUM will increase their allocations to non-listed real estate debt vehicles.

Regarding the top preferred locations and sectors, core European markets and mainstream sectors are the most favored picks for investors in Europe.

The United Kingdom and Germany are the preferred destinations for investors, followed by France and The Netherlands. At the same time, more secondary locations like Spain, Italy, or the Nordics have seen an increase in investor interest compared to last year.

Residential, industrial/logistics and office remain the preferred sectors in Europe.

Although office remains in the top three preferred sectors, there is a sharp drop compared with last year's results. This could be driven by its weak performance last year and the topic of remote working becoming more popular Industrial/logistics and student accommodation, however, have seen a major increases in interest compared to previous years.

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

Figure 2: Expected changes to real estate allocations in Europe over the next two years (weighted by real estate AUM)