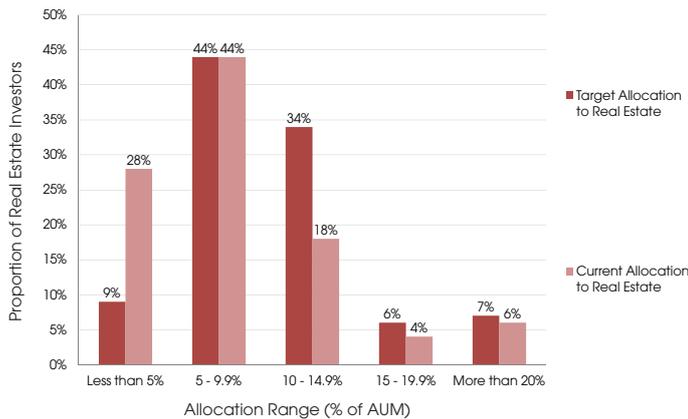




Private Real Estate Investors' Alternative Routes to Market

With investors scrutinizing their portfolios ever more closely in recent years, Forena Akthar looks at the varied ways investors in private real estate funds access the asset class and how this varies by investor size and location.

Fig. 1: Breakdown of Active Real Estate Investors by Current and Target Allocation to Real Estate



Source: Preqin Real Estate Online

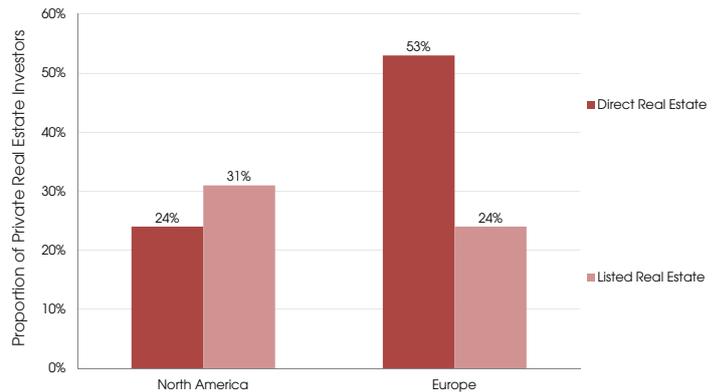
Real estate is an important part of many sophisticated investors' portfolios, and while the pace of new institutional investments in the asset class has certainly slowed since the economic downturn, the majority of institutions are below their strategic target allocations to the asset class and may well increase their activity in the mid to longer term.

The current and target allocations to real estate of institutional investors as a proportion of total assets are broken down in Fig. 1. A significant 44% of investors active in real estate have a target allocation in the range of 5-9.9% of total assets, and almost half (47%) have target allocations of 10% or more. For many investors, real estate clearly forms a core part of their overall investment strategies.

Investors in real estate can gain access to the asset class in a number of ways. Institutions can make direct property investments, purchase shares in public real estate investment trusts (REITs) or other listed property securities, and also invest indirectly through private real estate funds. Prior to the economic downturn, private real estate funds saw rapid growth and attracted a wide range of institutional investors. Each of these investment methods has both advantages and disadvantages, and institutions will invest through different methods based on their experience, resources, liquidity requirements and risk/return objectives.

Investors that commit to private real estate funds often utilize one or more additional methods of accessing the asset class. Trends can be seen among investors in different locations and with differing amounts of assets under management. For example, as Fig. 2 shows, North

Fig. 2: Private Real Estate Investors' Alternative Routes to Market by Investor Location

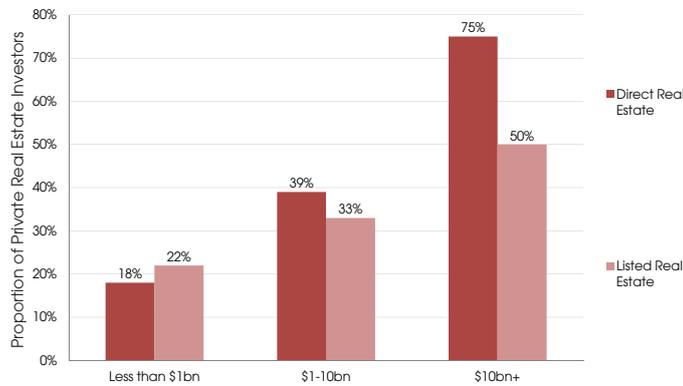


Source: Preqin Real Estate Online

America-based private fund investors are more likely to invest in listed real estate than in direct property alongside their fund investments. The opposite is true for European institutions, with 53% investing directly and only 24% investing in listed real estate.

Fig. 3 shows that real estate fund investors with total assets of less than \$1bn are least likely to include direct or listed real estate investments in their property portfolios. Many smaller institutions will not have the resources required to maintain a direct portfolio. With increasing investor size, however, activity in direct and listed real estate increases. A significant 75% of private real estate investors with more than \$10bn in assets also have direct property investments. This includes institutions which have large direct allocations and also commit to private funds in order to gain exposure to markets to which they are underweighted or that they might not be able to access through their direct portfolios.

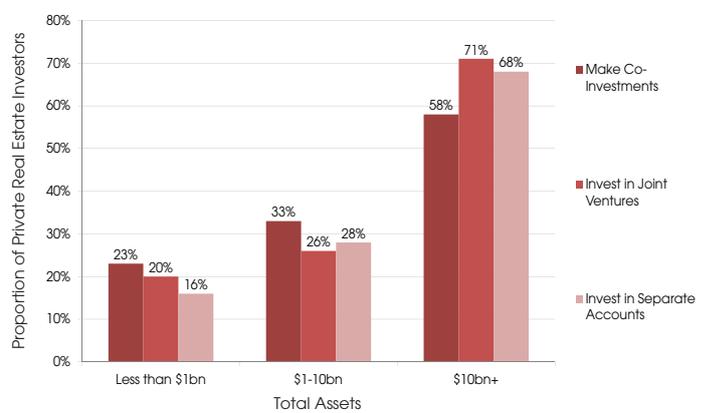
Investors with larger assets under management also have a stronger preference for co-investments, joint ventures, and separate accounts; the appetite for these investment structures grows with increasing investor size. There has been increased appetite for these types of investment in recent years, with institutions seeking the skill, resources, and unique opportunities that many real estate firms can offer, but with the additional control over their portfolio that might not be available through a blind-pool fund commitment. It is clear, however, that the resources and knowledge required for these investments mean that typically only larger investors look to gain exposure through these routes.

**Fig. 3: Private Real Estate Investors' Alternative Routes to Market by Investor Total Assets**

Source: Preqin Real Estate Online

Seventy-one percent of institutions with \$10bn or more in total assets invest in joint ventures, and 68% utilize separate accounts. In contrast, for investors with less than \$1 billion in assets under management, just 20% invest in joint ventures and 16% through separate accounts (Fig. 4).

Although changes in the market have prompted investors to scrutinize their real estate fund portfolios more closely and examine other routes

Fig. 4: Appetite for Co-Investments, Joint Ventures, and Separate Accounts by Investor Size

Source: Preqin Real Estate Online

through which they might invest in the asset class, the private real estate fund model is unlikely to fall out of favour with institutions investing in property. While some of the larger investors may increasingly invest through joint ventures or separate accounts, many of these institutions will already have real estate portfolios incorporating a range of types of real estate investment. For many of the small- and mid-sized investors, investing directly or through separate account structures is not an option, and private funds will remain one of the most common

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ways in which these investors access the asset class. For most, it will be a case of maintaining the right mix of investments and utilizing the methods most appropriate to them and which will be most beneficial to their portfolios.

Data Source:

Preqin's Real Estate Online is the industry's leading source of intelligence on the private real estate industry. This constantly updated resource includes details for all assets of the asset class, including fund performance, fundraising, institutional investor profiles, fund manager profiles and more.

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