



Investment Consultants' Views on Private Real Estate

Using data from the 2013 Preqin Investor Network Global Alternatives Report, Dami Sogunro takes a closer look at alternatives investment consultants and their views on private real estate, including how much capital they intend to invest going forward, key regions for investment and prevalent issues in the market.

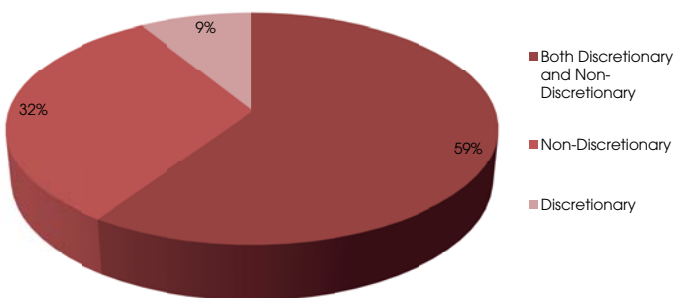
Consultant Universe

Consultants are an important resource to investors throughout the investment process, from making recommendations concerning asset allocation decisions to monitoring holdings. Within the alternatives space, consultants are often even more important, due to the need for specialist knowledge in the often opaque investment market.

Preqin currently tracks 371 alternatives investment consultants around the world. The majority (63%) of these consultants are headquartered in North America, as shown in Fig. 1, with 98% of these North America-based consultants located in the US. Europe is home to 31% of investment consultants, with the UK, Switzerland and Germany representing the most prominent locations in the region. Significantly fewer investment consultants are based in Asia or other regions outside North America and Europe, with only 6% of consultants based in these regions. A number of larger, more established alternatives investment consultants operate in Asia and other regions outside North America and Europe through smaller outfits, which they use to gain local knowledge and form relationships, but are headquartered in North America or Europe.

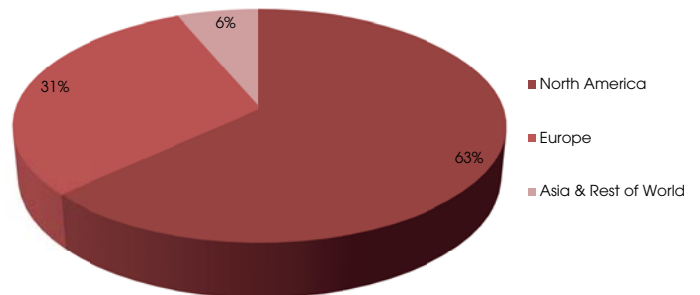
Investment consultants are able to serve clients on a discretionary or non-discretionary basis, or provide both types of services. Providing both types of services has been the trend among investment consultants in recent years, with firms adopting the ability to offer clients either service based on their needs in order to meet investors' varying requirements. Fifty-nine percent of alternatives investment consultants tracked by Preqin provide clients with both discretionary and non-discretionary services, 32% provide non-discretionary only services and 9% provide discretionary-only services, as displayed in Fig. 2.

Fig. 2: Breakdown of Alternatives Investment Consultants by Nature of Service Provided



Source: Preqin Real Estate Online

Fig. 1: Breakdown of Alternatives Investment Consultants by Location of Headquarters

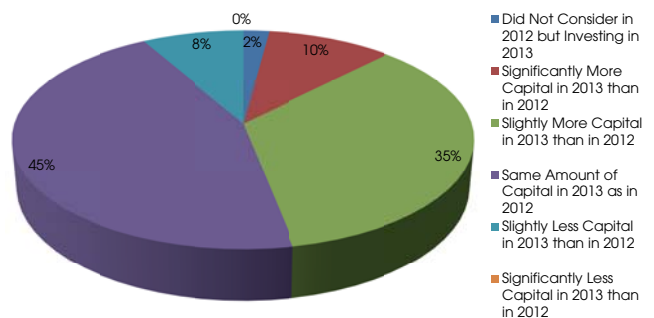


Source: Preqin Real Estate Online

Consultants' Views on Real Estate

Investor appetite towards private real estate investments has increased in the last year, with more investors looking to make new commitments to the asset class and the majority looking to invest more than last year, according to Preqin's Investor Outlook: Real Estate, H1 2013. Furthermore, many investors are now increasingly interested in strategies higher up the risk/return spectrum, with confidence in the real estate asset class growing. Forty-five percent of private real estate consultants intend to commit the same amount of capital to private equity in 2013 as 2012, as Fig. 3 demonstrates. Forty-five percent are looking to increase their capital commitments to real estate either significantly or slightly, with a further 2% investing in the asset class in 2013

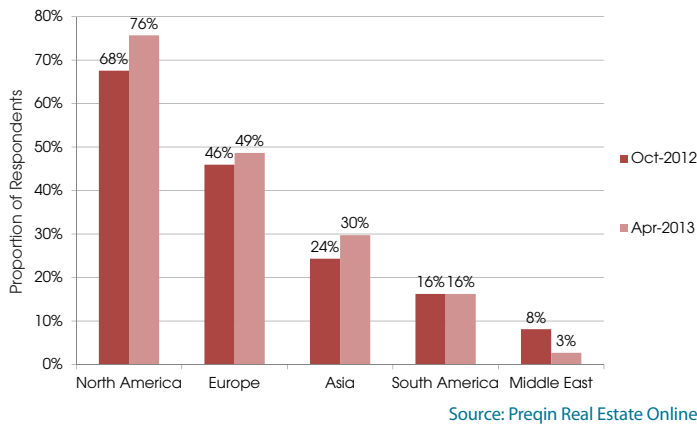
Fig. 3: Amount of Capital Alternatives Investment Consultants/ Clients Plan on Committing to Private Real Estate in 2013 Compared to 2012



Source: Preqin Real Estate Online



Fig. 4: Regions Viewed by Alternative Investment Consultants as Presenting the Best Opportunities in Private Real Estate Over the Following 12 Months, 2012 - 2013



after not doing so in 2012. Only 8% are looking to commit slightly less and no consultants are looking to commit significantly less. This is another positive indicator for the real estate asset class and those considering becoming active investors in this space.

Regions Presenting the Best Opportunities

Private real estate investment consultants surveyed by Preqin regarded North America as presenting the best opportunities in the asset class, with more than three-quarters (76%) naming the region, as illustrated in Fig. 4. Europe was regarded as an attractive area for real estate investment by almost half (49%) of consultants, with Asia cited by 30% of investment consultants. Each of these regions is regarded by a greater proportion of consultants as presenting the best opportunities in the asset class compared to 2012. North America has seen an increase of eight percentage points, with Europe and Asia witnessing increases of three and six percentage points respectively compared to 2012. This shows a generally more positive outlook towards the asset class from consultants. However, the proportion of consultants favouring Asia for alternative investments is still far below the level seen in 2011, when 51% of consultants viewed it as presenting the best opportunities.

Fig. 6: Alternatives Investment Consultant Attitudes to Different Private Real Estate Funds at Present (5 - Most Attractive; 1 - Least Attractive)

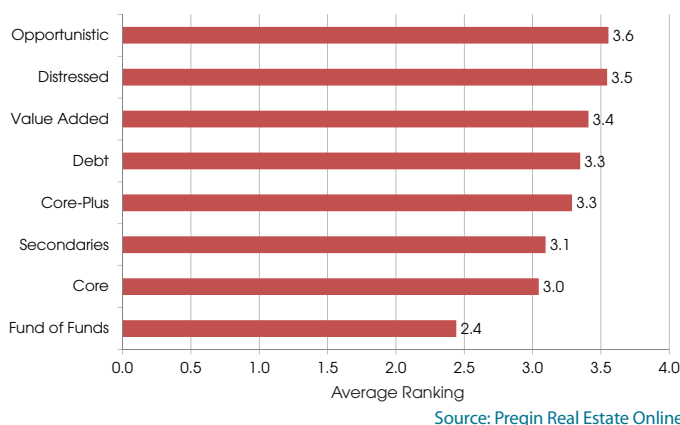
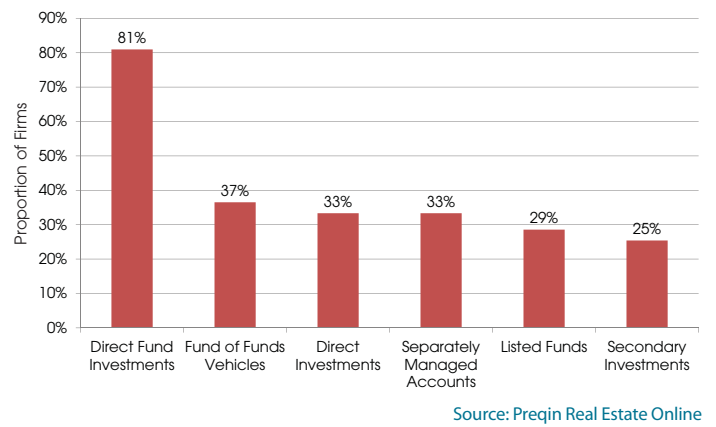


Fig. 5: Alternative Investment Consultants' Preferred Route to Market for Private Real Estate Investment



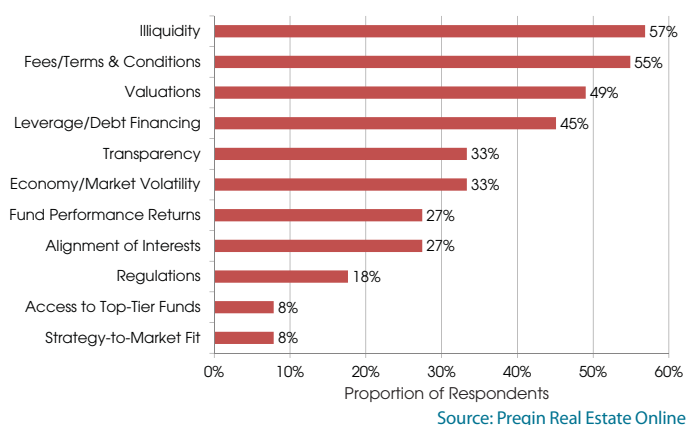
Preferred Route to Market

As shown in Fig. 5, direct fund investments are the most favoured method for investment into the real estate asset class (81%), with funds of funds the second most commonly utilized strategy (37%), although this is significantly less than for private equity (58%). For the remaining three investment structures, the same proportion of survey respondents utilize direct investments and separately managed accounts (33%), while just a quarter of respondents target investment opportunities on the relatively small real estate secondary market.

Attitudes to Different Private Real Estate Funds

Fig. 6 shows the preferences of alternatives investment consultants concerning private real estate funds, with a score of 5.0 representing the most attractive option at present and 1.0 the least. Many consultants view higher risk/return profile strategies as more attractive, with opportunistic, distressed and value added funds receiving average rankings of 3.6, 3.5 and 3.4 respectively. Conversely, the lower-risk strategies of core-plus and core seem to be less attractive to consultants, receiving average rankings of 3.3 and 3.0 respectively.

Fig. 7: Alternatives Investment Consultants' Perceptions of the Most Important Issues in the Private Real Estate Market





Important Issues in the Real Estate Market

Illiquidity and fees/terms and conditions were viewed as important issues in the market for 57% and 55% of consultants respectively, as illustrated in Fig. 7, and it is clear that many consultants do not feel that the interests of fund managers and investors are fully aligned. Valuations and leverage were the key issues for 49% and 45% of consultants respectively, demonstrating the impact the continuing volatility in the real estate market has on alternatives investment consultants and their ability to make investments on behalf of their clients.

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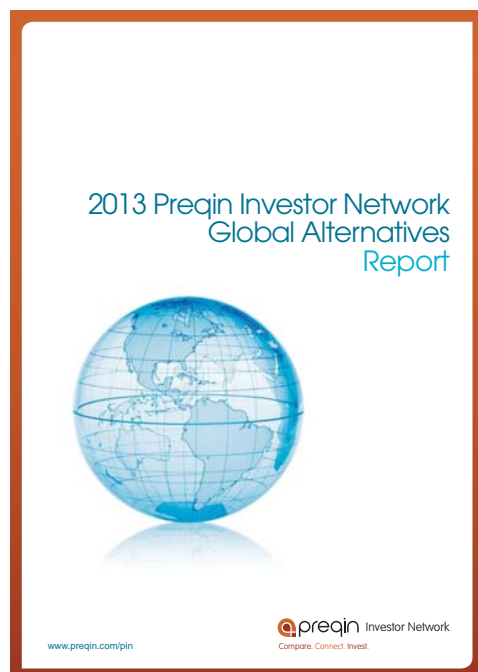
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The Report is the most comprehensive review of the alternatives industry aimed exclusively at institutional investors ever undertaken. It includes in-depth analysis on:



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