



Investor Appetite for Private Real Estate

Drawing on research carried out for the H2 2013 edition of Preqin Investor Outlook: Alternative Assets, Karun Ahluwalia, Carla Henry and Farhaz Miah examine investor appetite for private real estate in the coming year and in the longer term.

Preqin conducted interviews with 140 private real estate investors in July and August 2013 to discover their appetite for investing in the asset class in the next 12 months, as well as which strategies they will be targeting, how much capital they will be putting to work and their criteria for fund manager selection. The full results of this study are available in [Preqin Investor Outlook: Alternative Assets, H2 2013](#), along with the results of similar surveys conducted for private equity, hedge funds and infrastructure.

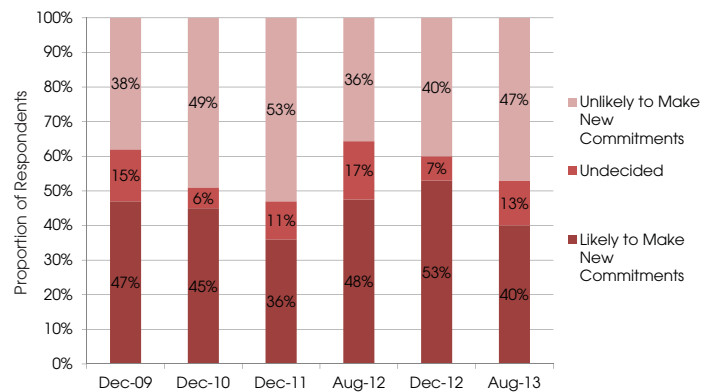
Investor Activity in the Next 12 Months

Despite the improved performance of real estate funds in recent months, the proportion of investors planning to make new private real estate fund commitments in the following 12 months has decreased substantially, from 53% in December 2012 to 40% in August 2013, as shown in Fig. 1. While there are numerous factors affecting investor attitudes, the wider economic environment and the impact it will have on real estate appears to be the biggest factor, with 42% naming this as a key issue affecting the private real estate market.

Investor appetite for new commitments varies considerably by location, with Asia-based institutions set to be the most active in the next 12 months; 71% of investors based in this region are likely to make new commitments in the coming year, as Fig. 2 shows. In comparison, only 35% of investors based in North America and 24% of Europe-based investors are likely to commit to private real estate in the next 12 months. Concerns over the economic climate in the eurozone may have affected the appetite of Europe-based investors as well as recent regulatory changes and proposals, such as Basel III and Solvency II.

As demonstrated in Fig. 3, appetite also varies by size, with institutions with more than \$10bn in assets under management much more likely to make new commitments in the coming 12

Fig. 1: Investor Intentions for Private Real Estate Investments in the Following 12 Months, December 2009 - August 2013



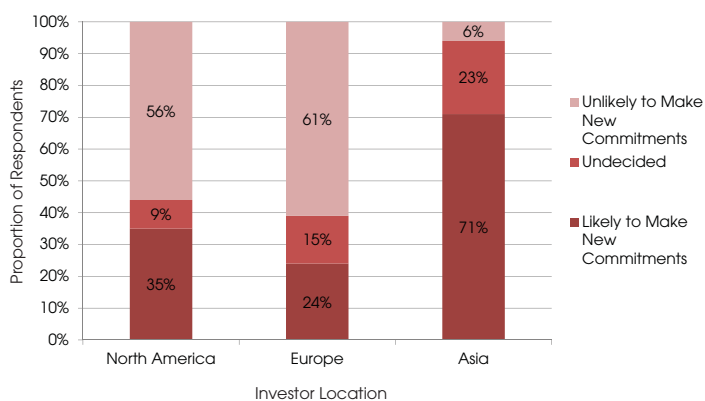
Source: Preqin Investor Outlook: Alternative Assets, H2 2013

months compared to those with less than \$10bn in total assets. Smaller institutions will typically make fewer commitments annually, and therefore a significant 59% are unlikely to make new real estate investments in the coming 12 months.

Capital Outlay

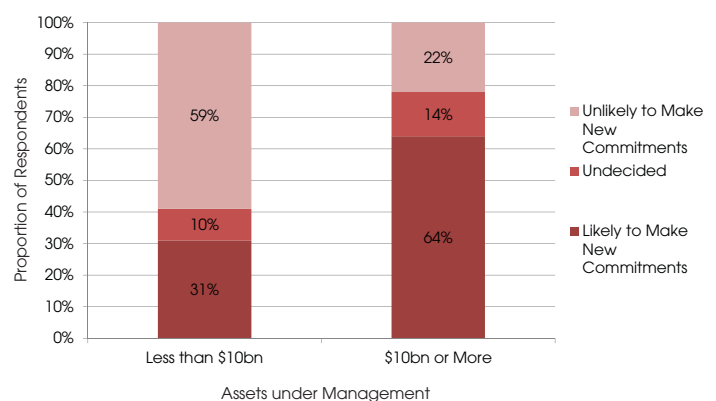
While many institutions are not currently planning new commitments, there remain a significant proportion of investors active in private real estate which are increasing their capital outlay to the asset class. Thirty percent of respondents expect to commit more capital to private real estate in the next 12 months compared to the last 12 months, and 12% expect to commit the same amount of capital in the next 12 months as they did in the 12 months to August 2013, as shown in Fig. 4. However, a sizeable 19% of respondents will commit less capital to private real estate

Fig. 2: Investor Intentions for Private Real Estate Investments in the Next 12 Months by Investor Location



Source: Preqin Investor Outlook: Alternative Assets, H2 2013

Fig. 3: Investor Intentions for Private Real Estate Investments in the Next 12 Months by Assets under Management



Source: Preqin Investor Outlook: Alternative Assets, H2 2013

in the next 12 months, and 39% of investors interviewed that did not commit in the previous 12 months will not commit in the next 12 months.

Nonetheless, in terms of capital, 76% of the respondents that are planning new commitments will be deploying \$50mn or more to private real estate funds in the next 12 months, whereas only 24% of investors will be making commitments totalling less than \$50mn over this period, as demonstrated in Fig. 5. While fundraising looks set to remain challenging in the coming months, it is clear there are active investors that are planning to put a significant amount of capital to work in 2013 and 2014.

Strategies Targeted

Since December 2012, appetite for opportunistic funds has risen significantly. Fig. 6 shows that 54% of active investors will target opportunistic vehicles in the next 12 months, up from 44% in December 2012. Value added vehicles are sought by 51% of institutions in the coming 12 months. These figures are reflective of the shift in general investor sentiment towards a return to higher risk/return profile investments. Appetite for core funds has remained stable in recent years but investor interest in core-plus, debt and distressed real estate has decreased to levels seen in December 2011 after a peak in appetite in December 2012.

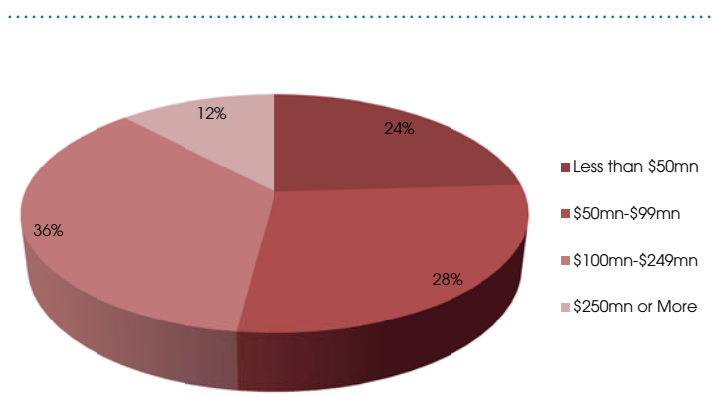
Allocations

Real estate remains an important part of many sophisticated investors' portfolios. Eighty-seven percent of investors interviewed plan to maintain or increase their allocations to the asset class in the next 12 months, with only 13% of investors expecting to scale down their exposure, as shown in Fig. 7. The outlook for investors' allocations over the longer term is particularly positive, with 92% of those interviewed expecting to maintain or increase their allocation to real estate. Even more encouraging for fund managers is that 40% of investors interviewed expect to increase their allocation to real estate in the longer term.

Fund Manager Selection Criteria

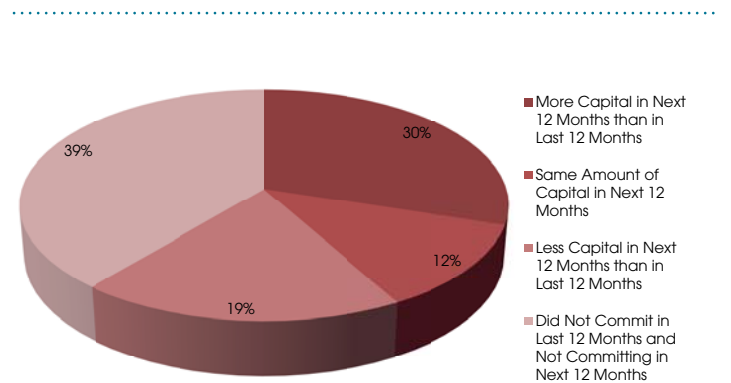
With the fundraising market extremely competitive, it is particularly important for fund managers to be aware of the criteria investors utilize when considering investing with a fund manager. When

Fig. 5: Investors' Expected Capital Outlay to Private Real Estate Funds in the Next 12 Months



Source: Preqin Investor Outlook: Alternative Assets, H2 2013

Fig. 4: Investors' Expected Capital Commitment to Private Real Estate Funds in the Next 12 Months Compared to the Previous 12 Months



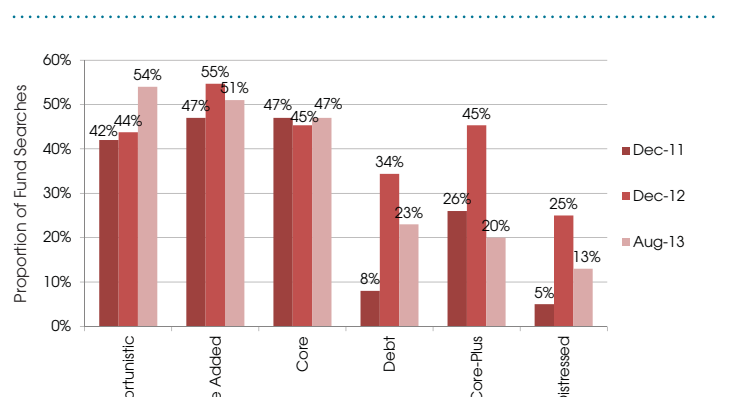
Source: Preqin Investor Outlook: Alternative Assets, H2 2013

asked to state the key factors they assess when seeking real estate fund managers, an established track record was the most commonly cited factor by investor, with 32% of respondents stating it as a key attribute, as Fig. 8 demonstrates. Management experience and background followed, cited by 30% of investors interviewed. Interestingly, returns were stated by a lower proportion of respondents, with 27% stating this as a key factor for consideration. With a manager's track record and experience the most important factors for investors when considering new relationships, first-time fund managers are likely to continue to find the fundraising environment extremely challenging.

Outlook

With only 40% of investors interviewed planning to make new real estate investments in the next 12 months, it seems that the wider economic environment and its impact on the real estate market continues to affect investor attitudes. However, there are still many investors which do anticipate making significant allocations to the asset class, with 76% of investors intending to be active planning to deploy \$50mn or more to real estate. Additionally, the outlook for real estate in the long term is particularly encouraging, with 92% of investors planning to maintain or increase their allocations to the asset class.

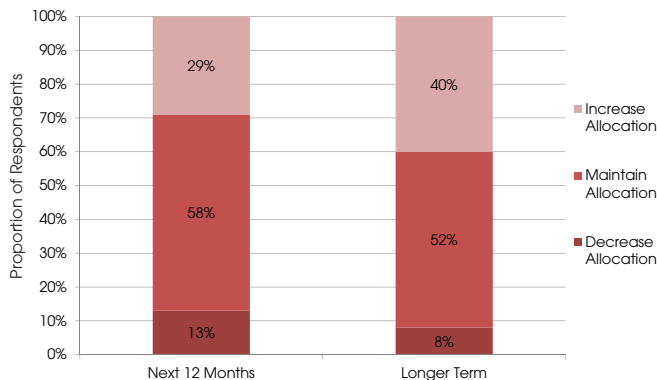
Fig. 6: Strategies Targeted in the Next 12 Months by Private Real Estate Investors, December 2011 - December 2012



Source: Preqin Investor Outlook: Alternative Assets, H2 2013



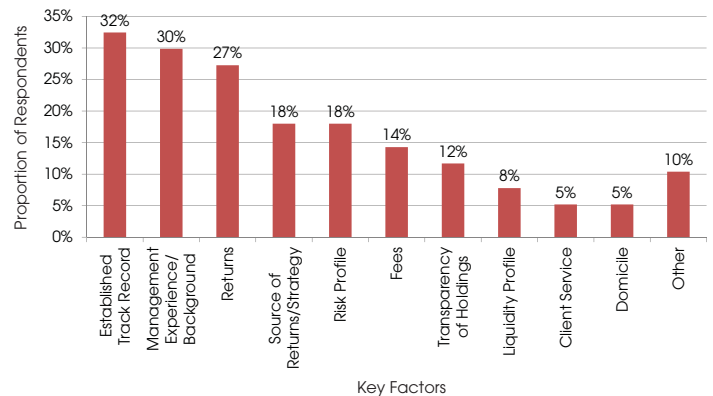
Fig. 7: Investors' Intentions for Their Real Estate Allocations in the Next 12 Months and Longer Term



Source: Preqin Investor Outlook: Alternative Assets, H2 2013

Fundraising looks set to remain a tough prospect for the remainder of 2013 however, with more than 450 real estate funds being marketed. There are institutions set to commit large amounts of capital to private real estate in the coming year, and there will be managers which have considerable success in the fundraising market. For many other firms however, fundraising is likely to remain a long and difficult process.

Fig. 8: Key Factors Investors Assess When Searching For Private Real Estate Fund Managers



Source: Preqin Investor Outlook: Alternative Assets, H2 2013

Data Source:

This article uses data from the recently launched [Preqin Investor Outlook: Alternative Assets, H2 2013](#). Based on the results of extensive interviews with 450 institutional investors investing in alternative assets, the report explores investor appetite in the coming year, strategies and geographies targeted, key issues and satisfactions with returns, and more.

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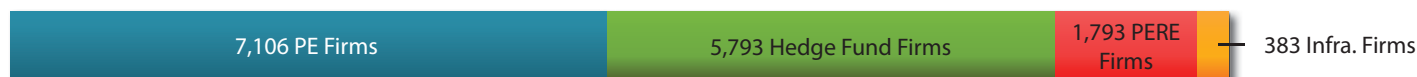
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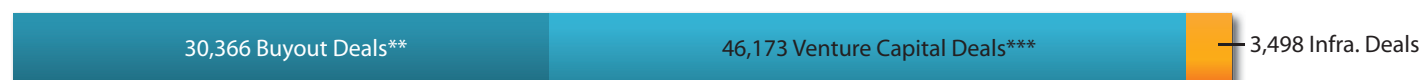
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