Preqin Investor Outlook: Real Estate

H1 2013

The Opinions of 100 Leading Investors on the Market

and Their Plans for the Next 12 Months

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Key Findings:

- 49% of investors surveyed made a private real estate fund commitment in 2012 (page 4).
- 53% of respondents expect to make new commitments to private real estate funds in 2013 (page 5).
- 54% of respondents expect to commit more capital to private real estate funds in 2013 than in 2012 (page 6).
- 55% of investors are targeting value added funds in 2013. 34% of investors are targeting real estate debt funds, up from 8% a year ago (page 7).
- 43% of respondents expect to increase their allocations to real estate in 2013 (page 8).
- 35% of investors are interested in separate accounts (page 9).

Contents:

Foreword

Welcome to the H1 2013 edition of Preqin Investor Outlook: Real Estate, a unique look at institutional investors in real estate, their views on the market and the outlook for the coming year. The report draws on the results of a series of extensive interviews carried out with more than 100 institutional investors in real estate funds in November and December 2012, as well as the year-round research carried out for Real Estate Online, the private real estate fund industry's leading source of data and intelligence.

There are strong signs that investor confidence in private real estate funds is returning, with 49% of investors having made new commitments in 2012, and 53% planning to make new commitments to the asset class in 2013. The improvement in the performance of private real estate has encouraged some institutions to return to the asset class, while an increase in the rate of distributions from their existing commitments means that many investors also have more capital available to invest. We look at investor activity in the past year on page 4 and appetite for new investments in 2013 on page 5. The majority (54%) of investors also expect to commit more capital to the asset class in 2013 than they did in 2012 and we look at expected capital outlay and number of commitments planned on page 6.

While a large proportion of investors focused primarily on core investments following the downturn, many are now increasingly looking at opportunities higher up the risk/return spectrum. Investor interest in core remained strong during 2012, but there was also increased appetite for core-plus, value added and opportunistic strategies. Page 7 examines the strategies and geographies targeted by investors in 2013.

Real estate remains an important part of many sophisticated investors' portfolios, with 93% of institutional investors active in the asset class targeting exposure to property of at least 5% of their total assets. We take a more detailed look at allocations to the asset class now, and investors' plans for their allocations in the future, on page 8.

The use of separate accounts is also continuing to increase, with some investors viewing this as a way to invest significant amounts of capital while retaining a greater level of control than they might have with a commitment to a blind-pool fund. We examine this, as well as interest in joint ventures and co-investment opportunities on page 9.

We also look at the key issues investors feel are affecting the private real estate market on page 10, as well as how satisfied they are with the returns their private real estate investments have generated.

We hope that you find this report to be interesting and useful, and as ever we welcome any feedback or suggestions that you may have for future editions. To find out more about our products and services, please do not hesitate to contact us at our New York, London, Singapore, or Silicon Valley offices.

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Investor Activity in 2012

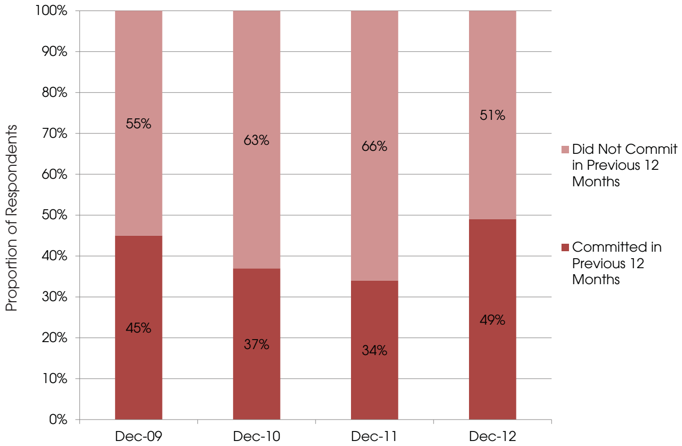
Despite challenging conditions for private real estate fundraising in 2012, there were signs of more investment activity among institutional investors.

A greater proportion of respondents committed to private real estate funds in 2012 than in any of the previous three years (Fig. 1). Forty-nine percent of investors surveyed made at least one private real estate fund commitment in 2012, a significant increase on the 34% of investors that made new commitments to private real estate in 2011. While there were still a large number of institutions which did not invest in private real estate in 2012, the increase in the proportion of investors making new commitments is a sign of renewed appetite for real estate funds.

"49% of investors surveyed made at least one private real estate fund commitment in 2012"

The level of new investment activity seen in 2012 differed by geographic location, as seen in Fig. 2. Asia-based institutions were the most active in 2012, with 86% of those surveyed by Preqin committing to private real estate funds during this period, compared to 48% of North America-based investors and 45% of Europe-based institutions. Institutional investors based in Asia have become more important sources of capital for the real estate asset class over the last few years. A shift in investor attitudes and changing regulations have allowed many Asia-based institutions to move away from traditional investments to focus more on alternative investments, and as a result many institutions are investing more capital in the real estate asset class.

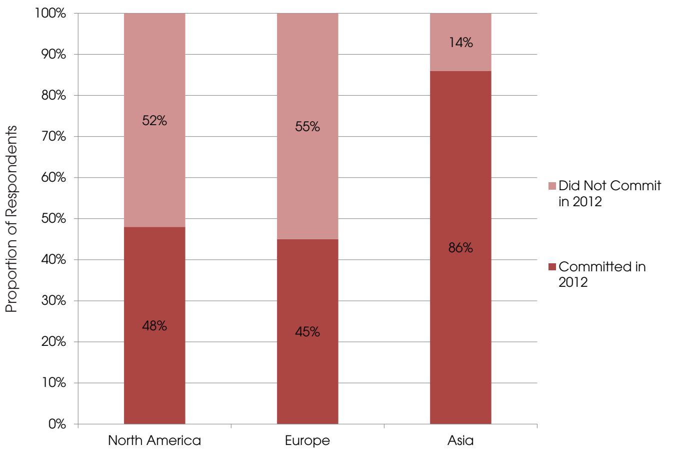
Fig. 1: Proportion of Investors that Committed to Private Real Estate Funds in Previous 12 Months, December 2009 - December 2012



Source: Preqin Investor Interviews, December 2009-December 2012

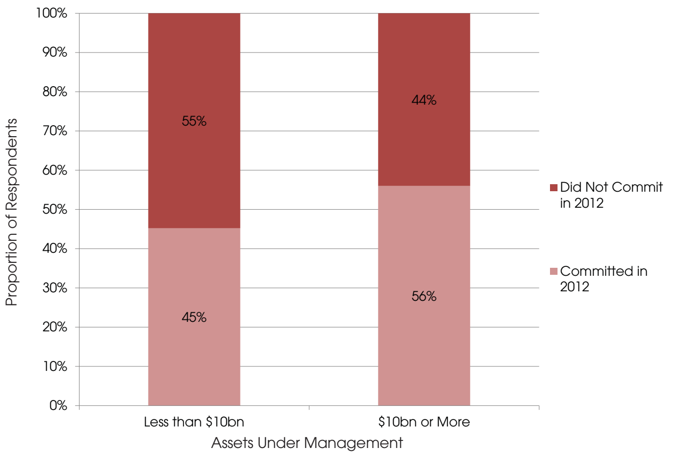
Larger institutions were more likely to have made commitments (Fig. 3), with 56% of investors with $10bn or more in assets under management committing capital to new funds during the year. Forty-five percent of investors with less than $10bn in assets under management made new commitments.

Fig. 2: Proportion of Investors that Committed to Private Real Estate Funds in 2012 by Investor Location



Source: Preqin Investor Interviews, November-December 2012

Fig. 3: Proportion of Investors that Committed to Private Real Estate Funds in 2012 by Assets Under Management



Source: Preqin Investor Interviews, November-December 2012

Investor Activity in 2013

Investor appetite for private real estate has grown over the course of 2012, with the proportion of investors likely to commit to private real estate now at a higher level than at any point since January 2010.

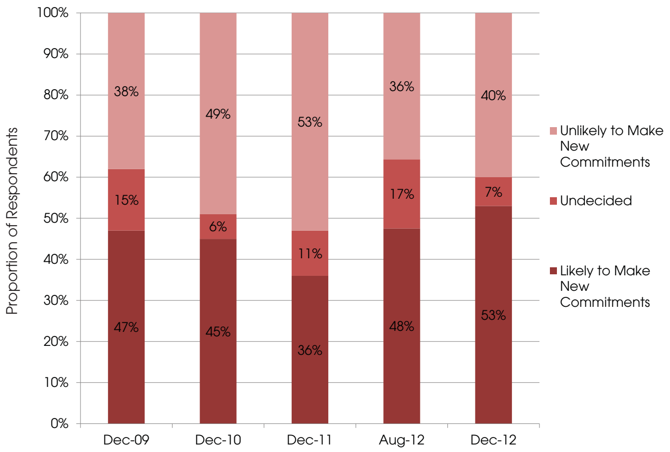
The proportion of investors planning to make commitments in the following 12 months has increased from 36% in December 2011 to 53% in December 2012 (Fig. 4). This growth in appetite followed a period of decline in the proportion of investors that expected to make commitments from December 2009 to December 2011. The results suggest that investors are starting to regain confidence in the asset class and, as a result, fundraising may increase in 2013.

The improvement in private real estate performance in recent quarters has encouraged some investors to seek new commitments, while increased transaction activity among fund managers means many investors are seeing more capital distributed from older commitments, which can be allocated to new funds. Closed-end private real estate funds distributed $41bn in the first half of 2012, compared with $48bn in the whole of 2011.

"Closed-end private real estate funds distributed $41bn in the first half of 2012 compared with $48bn in the whole of 2011"

Investors based in Asia are again set to be the most active, with 83% expecting to make new commitments in 2013 (Fig. 5), a similar proportion to the number that invested in private real estate funds in 2012. Forty-eight percent of investors interviewed based in North America were planning to commit to private real estate funds in 2013, and 39% of Europe-based investors interviewed said that they would invest in private real estate funds in 2013.

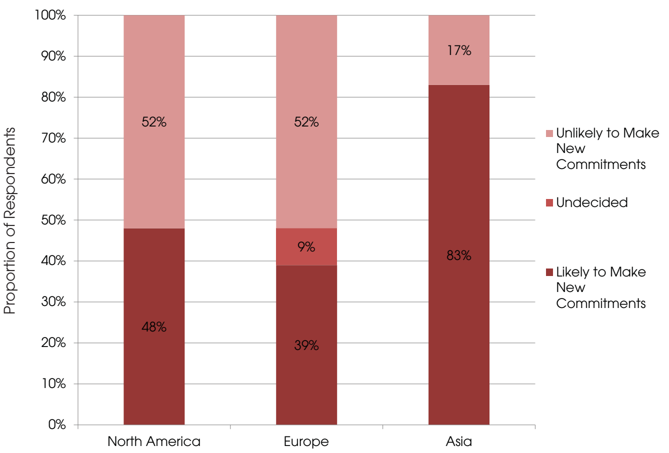
Fig. 4: Investor Intentions for Private Real Estate Investments in Following 12 Months, December 2009 - December 2012



Source: Preqin Investor Interviews, December 2009-December 2012

Larger institutions are more likely to be planning new commitments in 2013 (Fig. 6), with 69% of investors with $10bn or more in assets under management expecting to invest in 2013. In contrast, approximately 45% of those investors with less than $10bn in assets under management do not expect to make new commitments, while a further 9% may commit capital to real estate funds.

Fig. 5: Investor Intentions for Private Real Estate Investments in 2013 by Investor Location



Source: Preqin Investor Interviews, November-December 2012

Fig. 6: Investor Intentions for Private Real Estate Investments in 2013 by Assets Under Management

Source: Preqin Investor Interviews, November-December 2012

Capital Outlay and Anticipated Number of Commitments

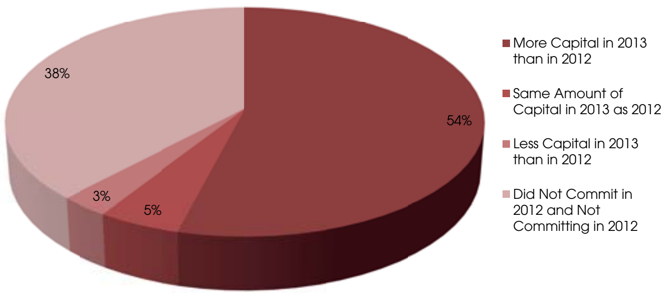
Not only has the proportion of investors expecting to make new commitments in the coming year increased, but the majority of investors are also expecting to commit more capital to private real estate in the next 12 months.

Fig. 7 examines how the amount of capital investors are expecting to commit to private funds in 2013 differs from the amount of capital they committed in 2012. The majority of respondents (54%) said that they expected to commit more capital to private real estate funds in 2013 than they did in 2012, again suggesting that fundraising is set to improve in the coming year. Only 3% of those surveyed said that they planned to commit less capital to funds in 2013 than they did in 2012.

Almost half (48%) of the active investors interviewed are taking an opportunistic approach in terms of the number of commitments they will make in 2013 (Fig. 8). Of those with more defined plans, most are planning only a small number of commitments, with 43% expecting to make one or two new commitments in the coming year. Although the majority of investors interviewed are expecting to invest more capital in 2013, many are increasingly choosing to concentrate on making larger commitments while maintaining fewer manager relationships.

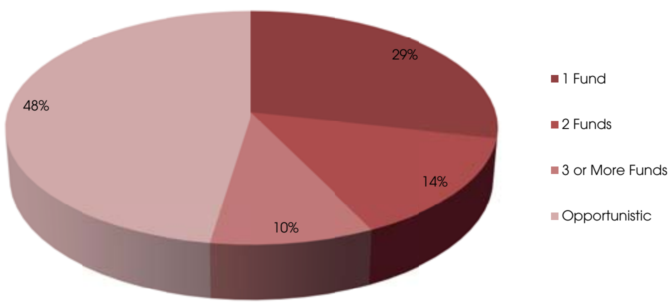
Investor appetite for first-time private real estate funds has fallen in recent years. As illustrated in Fig. 9, the proportion of investors not planning to invest in first-time real estate offerings more than doubled between December 2009 (28%) and December 2012 (66%). This diminished appetite for new firms is likely the result of a more risk-averse and cautious approach to real estate investment among many investors, with institutions increasingly wanting to see strong track records from the managers they invest with. First-time fundraising in the current market will likely be very difficult given the large number of funds on the road coupled with decreased investor appetite for first-time vehicles.

Fig. 7: Investors' Expected Capital Commitment to Private Real Estate Funds in 2013 Compared to 2012



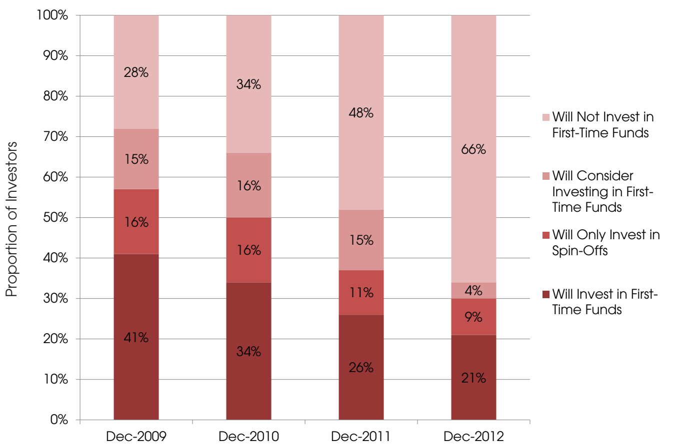
Source: Preqin Investor Interviews, November-December 2012

Fig. 8: Investors' Expected Number of Private Real Estate Fund Commitments in 2013



Source: Preqin Investor Interviews, November-December 2012

Fig. 9: Investor Attitudes towards First-Time Private Real Estate Funds, 2009-2012



Source: Preqin Real Estate Online

Strategies and Geographies Targeted in 2013

Many private real estate investors appear to be moving up the risk-return profile spectrum in 2013, with a greater proportion targeting core-plus and value added funds in the next 12 months.

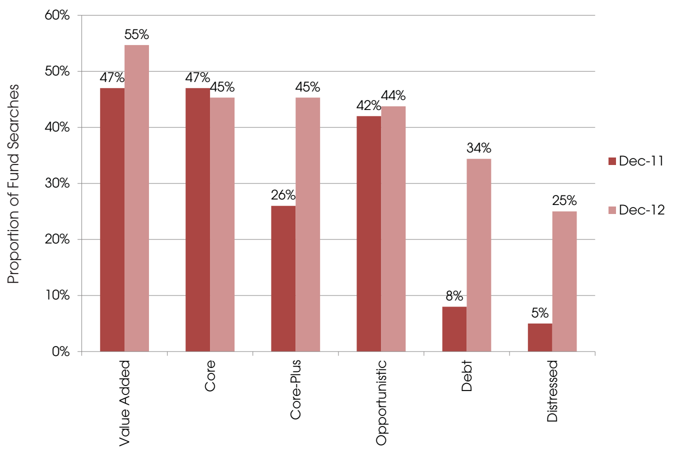
The proportion of investors targeting core-plus funds has increased significantly, from only 26% of investors targeting the strategy in the 12 months following December 2011 to 45% of investors in the 12 months following December 2012 (Fig 10).

The proportion of investors targeting value added investments has also increased, from 47% in the 12 months following December 2011 to 55% in the 12 months following December 2012, making value added the most commonly sought strategy by investors in 2013. These increases in appetite for relatively higher risk strategies may be a result of a desire to generate stronger returns than those targeted by core funds, or because investors believe core assets are becoming overpriced.

Core is still a commonly sought strategy in the next 12 months, with 45% of investors targeting core real estate funds. This is only a slight decrease compared to the 47% of investors which were targeting this strategy in the 12 months following December 2011. Perhaps most notable is the marked increase in the proportion of investors seeking distressed and debt vehicles over the past year. A significant 34% of investors were seeking vehicles following a debt strategy in the 12 months from December 2012, compared to just 8% in the 12 months from December 2011. Many investors have cited the opportunity to generate strong returns with a lower level of risk as one of the reasons for investing in funds following a debt strategy.

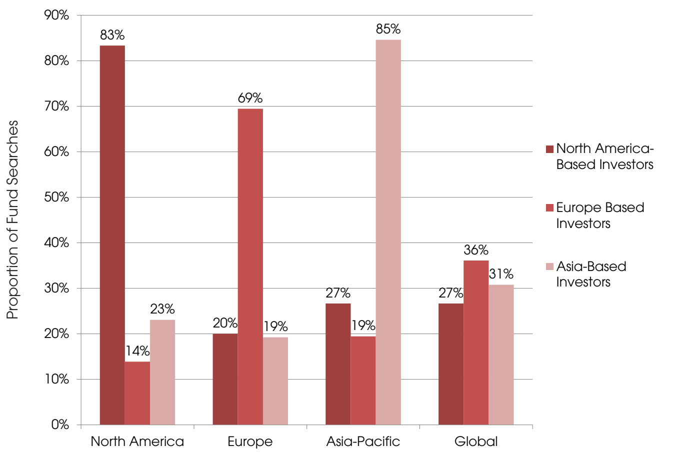
Fig. 11 shows the geographical preferences of private real estate investors for the next 12 months split by investor location. A significant proportion of real estate investors in each region shown are targeting investments in their own geographical area in the next 12 months. Most investors typically make more investments in their own region due to their greater knowledge of their local markets. Although a significant 83% and 85% of North America- and Asia-based investors respectively are targeting investments in their own region in the next 12 months, only 69% of Europe-based investors are targeting investments in Europe over the same time period.

Fig. 10: Strategies Targeted in the Next 12 Months by Private Real Estate Investors, December 2011 - December 2012



Source: Preqin Real Estate Online

Fig. 11: Regions Targeted in the Next 12 Months by Private Real Estate Investors



Source: Preqin Real Estate Online

Allocations Now and in the Longer Term

Real estate remains an important part of many sophisticated investors' portfolios and almost half have a target allocation of 10% or more of their total assets. Most investors plan to maintain or increase their allocations, with only a very small proportion of investors expecting to scale down their exposure to the asset class.

An examination of the proportion of investors that are at, above or below their target allocations to real estate suggests that institutions are making more real estate investments, with a smaller proportion below their target allocations than were under their targets a year ago. This could also be a reflection of improving values of investors' property portfolios. In December 2011, 66% of all real estate investors were below their target allocations to real estate; this decreased to 57% in December 2012 (Fig. 12).

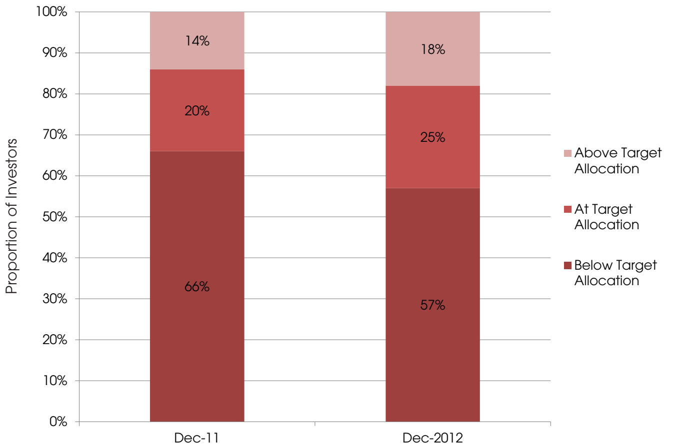
The proportion of real estate investors that are at their target allocations increased from 20% in December 2011 to 25% in December 2012 and the percentage above target rose from 14% to 18% over the same time period. Nevertheless, with more than half of investors below their targeted level of exposure, there remains a significant amount of capital which may be allocated to the asset class in the coming years.

Furthermore, with a significant 26% of investors allocating 10% or more of their assets to real estate and 49% targeting this level of exposure (Fig. 13), it is clear that real estate forms an important part of many institutions' investment portfolios. Of institutional investors active in real estate, just 9% have a target allocation of less than 5% of their total assets.

Most investors remain committed to the real estate asset class in the mid to long term. As shown in Fig. 14, half of all real estate investors surveyed expect to maintain their allocations to the real estate asset class in the next 12 months and 52% expect to maintain their allocations in the longer term. Encouragingly for fund managers, 43% of real estate investors surveyed expect their real estate allocations to increase in the next 12 months, with 39% expecting to increase their allocations in the longer term.

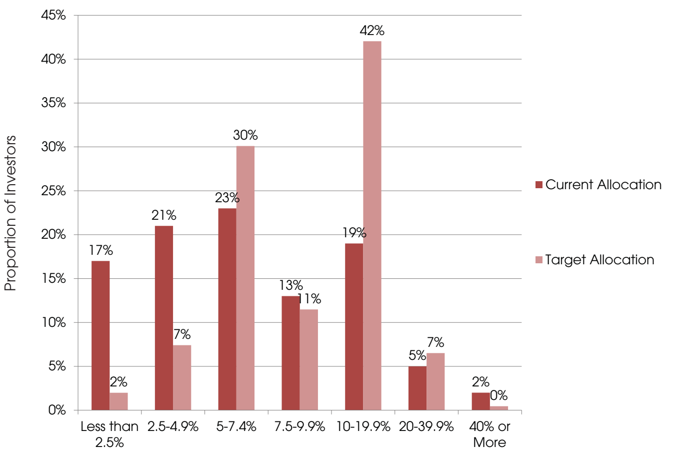
Only 7% and 9% expect to decrease their allocations in the next 12 months and the longer term respectively. This shows that a degree of confidence is returning to the real estate investor community, with most remaining committed to the asset class in the long term.

Fig. 12: Proportion of Investors At, Above or Below Target Allocation



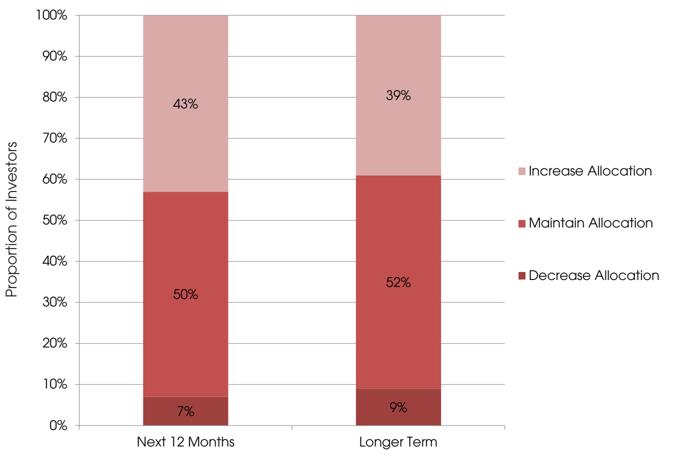
Source: Preqin Real Estate Online

Fig. 13: Distribution of Investors' Current and Target Allocations to Real Estate (As a Proportion of AUM)



Source: Preqin Real Estate Online

Fig. 14: Investors' Intentions for Their Real Estate Allocations in Next 12 Months and Longer Term



Source: Preqin Investor Interviews, November-December 2012

Alternative Methods of Accessing the Asset Class

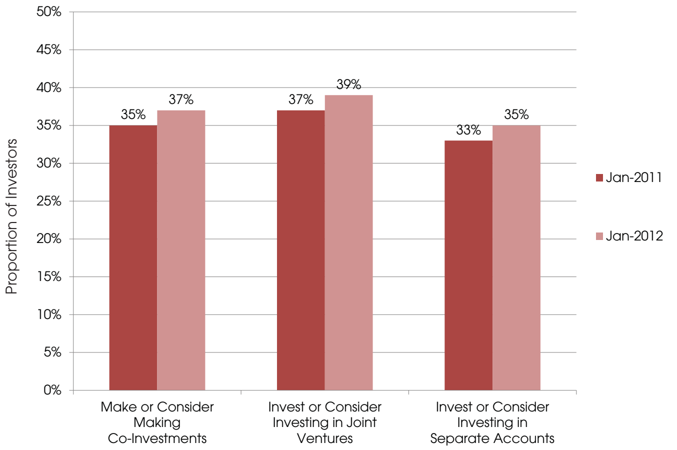
A significant trend in the private real estate market in recent years is the increasing investor interest in alternative routes to the real estate market. The proportion of investors with an interest in separate accounts, joint ventures or co-investment opportunities all increased during 2012.

Thirty-seven percent of real estate investors are now interested in co-investments, 39% in joint ventures and 35% in separate accounts (Fig. 15). Increased appetite for these types of investment is a result of institutions seeking the skill, resources, and unique opportunities that many real estate firms can offer, but with the additional control over their portfolios that would not be available through blind-pool fund commitments. However, the resources and knowledge required to make these investments means that it is typically the larger real estate investors that will look to gain exposure through these routes. Fig. 16 shows that 70% of institutions with $10bn or more in total assets invest or consider investing via joint ventures, and 64% utilize or consider utilizing separate accounts. In contrast, among investors with less than $1bn in assets under management, just 19% invest or consider investing in joint ventures and 18% invest or consider investing via separate accounts.

The use of separate accounts by real estate investors is more widespread in North America than Europe, with 26% of investors headquartered in North America actively investing in separate accounts, compared with 11% in Europe. A further 14% of Europe-based investors, however, have not made a separate account investment but would consider doing so in the future.

Appetite for separate accounts also varies by investor type (Fig. 17). Public pension funds frequently have large ticket sizes, making separate account investments a particularly viable option for many of these investors. Additionally, the majority (55%) of asset managers invest in separate accounts, or would consider doing so. Many asset managers are likely to have significant investment teams and the necessary resources to evaluate and monitor separate account investments.

Fig. 15: Investor Appetite for Co-Investments, Joint Ventures and Separate Accounts, January 2012 - January 2013



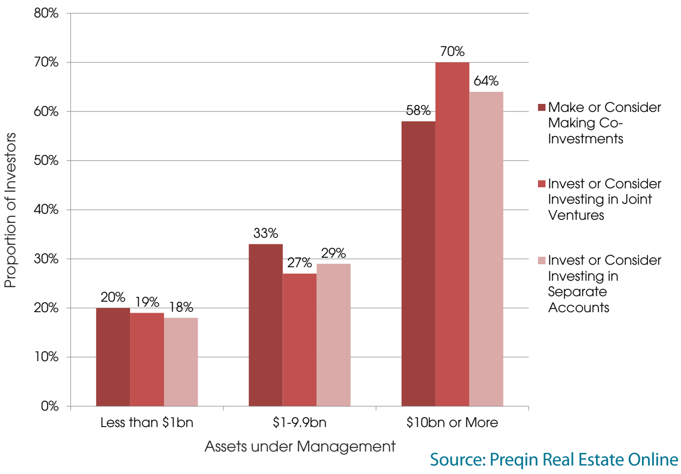
Source: Preqin Real Estate Online

Data Source:

Real Estate Online has detailed profiles of over 3,500 active real estate investors, including information on preferences for co-investments, joint ventures, and separate accounts.

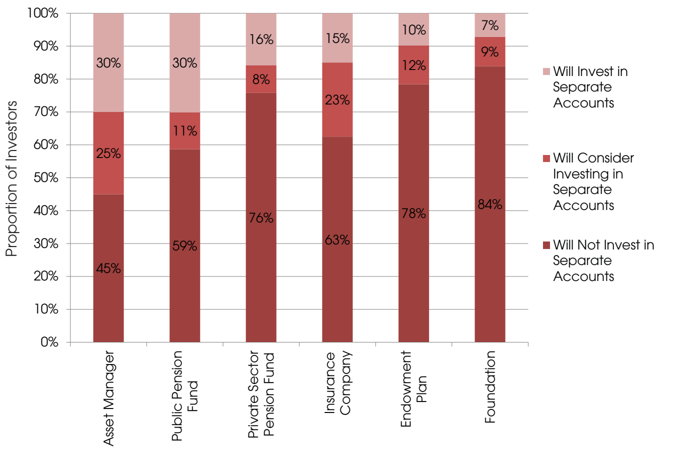
www.preqin.com/reo

Fig. 16: Investor Appetite for Co-Investments, Joint Ventures and Separate Accounts by Size



Source: Preqin Real Estate Online

Fig. 17: Real Estate Investor Appetite for Separate Accounts by Investor Type



Source: Preqin Real Estate Online

Key Issues and Satisfaction with Returns

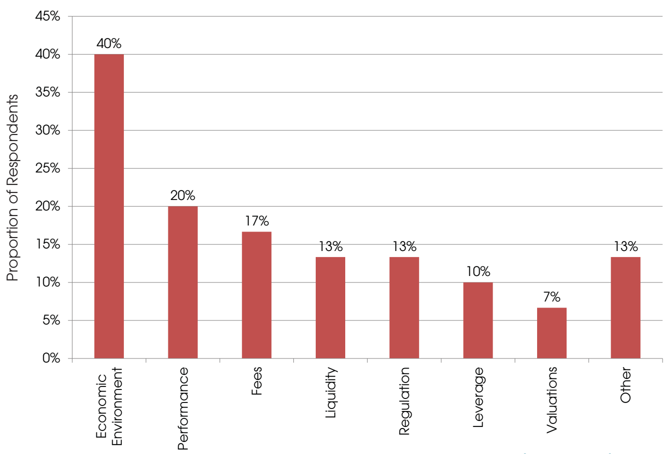
While the more recent performance of the real estate asset class offers signs of encouragement, many institutions saw significant declines in their real estate portfolios in 2008 and 2009. To find out more about how this has affected investors, we asked study participants what they thought were the key issues facing the private real estate fund market, and whether the performance of their private fund investments had met their expectations.

For many investors, the wider economic environment and the impact it could have on the real estate asset class continues to be a concern, with 40% of investors interviewed citing this as a key issue affecting the private real estate market (Fig. 18). The performance of the asset class was an issue for 20% of respondents. Many investors saw significant declines in their real estate portfolios following the onset of the global financial crisis, and the potential for real estate to generate strong returns in the coming years is also a concern. For a significant 47% of real estate investors interviewed, the performance of their private real estate fund investments has fallen short of their expectations (Fig. 19). Only 3% of real estate investors feel that the performance of their private real estate fund investments has exceeded their expectations, while 50% feel that returns have met their expectations.

Asia-based investors were most likely to be satisfied with the performance of their private real estate portfolios, with three-quarters stating that it had met their expectations. This may be because Asia-based institutions had less exposure to the Europe- and North America-focused funds which were most affected by the economic downturn. In contrast, 63% of North America-based investors and 53% of European institutions said their private real estate investments had failed to live up to expectations.

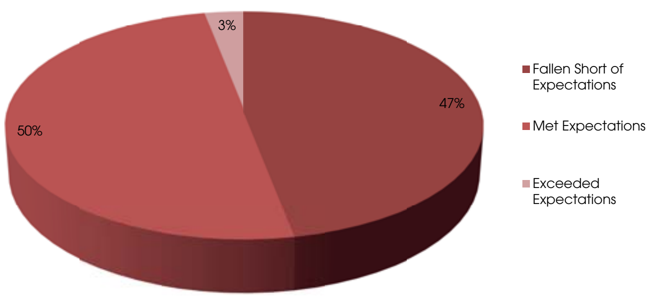
Fees were stated as an issue by 17% of investors, suggesting that some investors still believe that the interests of fund managers and investors are not completely aligned. Thirteen percent of respondents felt that the lack of liquidity associated with many real estate funds was an issue. Increased regulation was also cited as a key issue by 13% of respondents, with this particularly affecting banks and insurance companies.

Fig. 18: Key Issues Facing the Private Real Estate Market



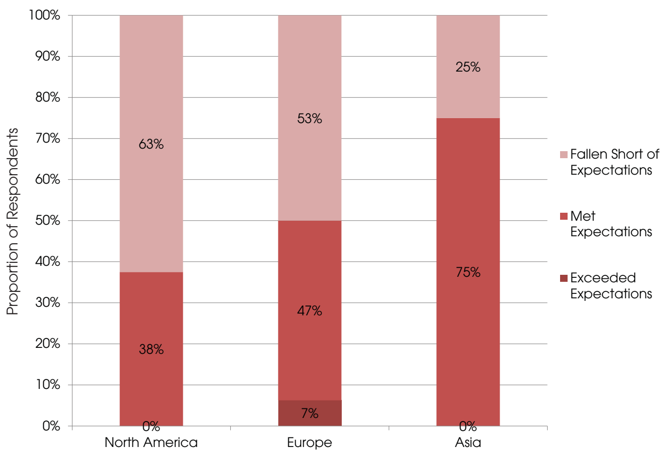
Source: Preqin Investor Interviews, November-December 2012

Fig. 19: Proportion of Investors that Feel Their Private Real Estate Fund Investments Have Lived up to Expectations



Source: Preqin Investor Interviews, November-December 2012

Fig. 20: Proportion of Investors That Feel Their Private Real Estate Fund Investments Have Lived up to Expectations by Investor Location



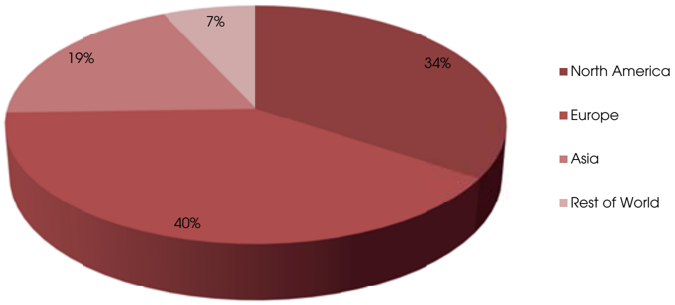
Source: Preqin Investor Interviews, November-December 2012

Methodology and Breakdown of Study Participants

The H1 2013 edition of Preqin Investor Outlook: Real Estate draws on the results of detailed interviews conducted with over 100 institutional investors in real estate from around the world during December 2012. The sample of investors was selected from Preqin's **Real Estate Online** database, the most comprehensive and accurate source of information on investors in private real estate funds available today, and the interviews were carried out by our skilled teams of multi-lingual analysts. Investors of varying locations, types and sizes were interviewed in order to provide a representative sample of the institutional investor universe.

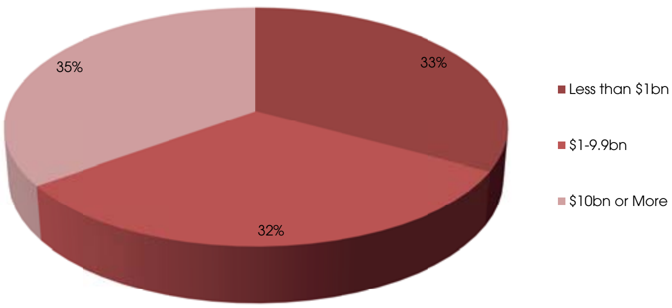
Speaking directly to institutions located across the globe has enabled us to provide in-depth analysis of their current views and opinions, providing readers with a unique insight into the attitudes of the leading investors in real estate.

Fig. 21: Breakdown of Study Participants by Location



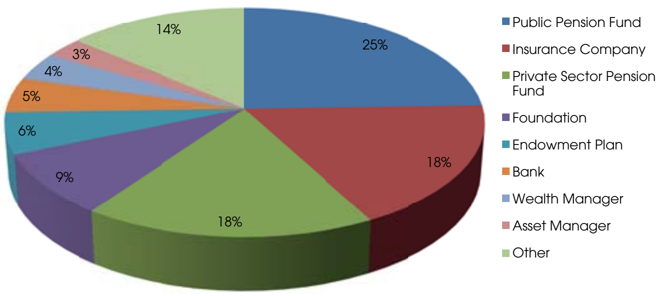
Source: Preqin Investor Interviews, November-December 2012

Fig. 22: Breakdown of Study Participants by Assets under Management



Source: Preqin Investor Interviews, November-December 2012

Fig. 23: Breakdown of Study Participants by Investor Type



Source: Preqin Investor Interviews, November-December 2012

Preqin Investor Outlook: Real Estate

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Preqin Real Estate Online

With global coverage and detailed information on all aspects of the real estate asset class, Preqin's industry leading Real Estate Online services keep you up to date on all the latest developments in the real estate universe.

Source new investors for funds and co-investments

Find the most relevant investors, with access to detailed profiles for over 3,500 institutional investors actively investing in unlisted real estate, including insurance companies, pension funds, family offices, foundations, wealth managers, endowments, banks and more.

Identify potential investment opportunities

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