

Investors Hesitate on Future Commitments to Real Estate

Investors remain satisfied with recent performance, but feel that asset valuations will depress future returns

The *Preqin Investor Update: Alternative Assets H2 2019* finds that the outlook for real estate over the coming year is more challenging. Investors are largely satisfied with the asset class's performance over the past 12 months, with 83% saying that returns have met or exceeded their expectations. But future prospects are less certain, and 23% of investors believe that returns in the coming 12 months will decline – the highest proportion of any asset class. This is likely due to high asset valuations putting pressure on pricing, as 29% of investors say that assets are overvalued and expect a pricing correction in 2020. Four out of five investors ranked asset valuations as the biggest challenge to future returns, followed by high competition for assets. In response to this, more than a quarter of investors expect to place less capital in the asset class than they did in the previous 12 months.

For more information and analysis, see the full *Preqin Investor Update: Alternative Assets H2 2019* here: <http://docs.preqin.com/reports/Preqin-Investor-Update-Alternative-Assets-H2-2019.pdf>

Justin Hall, Real Estate Product Manager:

“The real estate market is facing a challenging moment. With so many active firms in the market, and so much capital waiting to be put to work, prices have risen to record levels. This is making it harder than ever for fund managers to find assets they can add value to, and seems likely to depress future returns. In turn, this is pushing investors to focus more on higher-risk value added and opportunistic strategies as they seek to preserve future yields. The long-term health of the asset class seems secure, but we may have said goodbye to the days of standout uncorrelated returns.”

Key Real Estate Investor Outlook Facts:

- The vast majority of investors (**83%**) **feel real estate has met or exceeded their expectations over the last 12 months.**
- However, **23% expect the asset class to perform worse in the next 12 months** – the highest of any asset class – while just 11% expect returns to improve.
- **Twenty-nine percent of investors think assets are overvalued**, and predict a pricing correction before the end of 2020.
- **Four out of five investors (82%) see asset pricing as the biggest challenge to performance** in the next 12 months. The next largest proportion (52%) cite competition for assets as a challenge.
- As a result of these concerns, **27% of investors expect to commit less capital to the asset class** in the next 12 months than they did in the previous 12 months.
- When they do commit, **investors are most commonly targeting value added (46%) and opportunistic (44%) funds**, up from 37% and 29% respectively at the end of 2018.

**All figures are based on the results of a survey of 177 institutional investors conducted in July 2019.*

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