

Sovereign Wealth Funds Increase Exposure to Real Estate

Real estate continues to grow in prominence in SWF portfolios as nearly two-thirds now invest in the asset class

The proportion of sovereign wealth funds investing in real estate continues to grow steadily according to an excerpt from the newly launched **2017 Preqin Sovereign Wealth Fund Review**. Sixty-three percent of sovereign wealth funds currently hold allocations to real estate, up from 62% in 2016 and 59% in 2015. Consequently, more sovereign wealth funds invest in real estate and infrastructure than any other asset class. Within the real estate industry, sovereign wealth funds are primarily looking to invest directly in real estate projects, with more funds indicating a preference for direct investment than for commingled real estate funds.

For more information and analysis, see the full *May Real Estate Spotlight* here:
<https://www.preqin.com/docs/newsletters/re/Preqin-Real-Estate-Spotlight-May-2017.pdf>

Key Facts on Sovereign Wealth Funds Investing in Real Estate:

- **The total AUM of sovereign wealth funds now stands at \$6.59tn**, up 1% from \$6.51tn a year ago.
- Increasing from 62% in 2016 and 59% in 2015, **63% of SWFs currently invest in the private real estate industry.**
- While just over a third (36%) of SWFs smaller than \$1bn allocate to the asset class, **all SWFs larger than \$100bn and 67% of those with \$50-99bn in AUM invest in real estate.**
- **Asia and the Middle East-based funds represent the largest proportion of SWFs allocating to real estate.** Each region accounts for 27% of investors, while just under a fifth (19%) are based in North America.
- **Direct investment in real estate is the most widely used route to market** for SWFs, with 79% preferring this method. This is ahead of the 67% that cited unlisted funds, or the 38% that have listed real estate exposure.
- In terms of private real estate fund strategies, **value added, opportunistic and core vehicles are the most utilized by SWFs**, targeted by 52%, 52% and 50% of funds respectively.
- **Real estate secondaries and fund of funds are the least favoured strategies for SWFs**, with just 6% and 10% respectively investing in these vehicles.
- Over half (56%) of SWFs have a global focus for their real estate investments and developed real estate markets remain prominent; **63% and 60% of SWFs favour allocating to Europe and North America respectively.**

Andrew Moylan, Head of Real Estate Products:

“Real estate is a key asset class that continues to attract vast sums of capital from sovereign wealth funds. In particular, the long-term nature of real estate investments, as well as the potential for regular income, align the asset class with typical sovereign wealth fund investment priorities. In light of interest rates remaining low across many key markets globally, it is unsurprising to see many sovereign wealth funds investing additional capital in real estate to generate income, while on a domestic level real estate investment can bring significant socio-economic benefits.

Sovereign wealth funds focus much of their capital on direct real estate, and continue to expand their investment teams in key markets globally as they build out their real estate portfolios. In doing so, many are able to bypass commingled real estate funds, and may, in some cases, compete directly with them for deal opportunities.”

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