Preqin Investor Outlook: Real Estate H1 2016

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Real Estate

Strong Performance Exceeds Investors' Expectations

Real estate has largely been performing well for institutional investors. Thirty-nine percent of investors interviewed by Preqin feel the performance of their real estate portfolios has exceeded their expectations in the past year, with just 10% saying it failed to meet expectations. Real estate funds have generated annualized returns of 16% in the past three years, while the 12.8% median return achieved by public pension funds' real estate portfolios in the 12 months to June 2015 is higher than any other asset class. Investors are seeing a lot of capital returned as a result. 2014 was a record year in terms of distributions from private real estate funds, with $187bn returned to investors, while $103bn was distributed to investors in the first half of 2015.

Driven by this strong performance and the confidence that it will continue to deliver, institutional capital will continue to flow into real estate in 2016. Eighty-two percent of investors expect to commit at least as much capital to real estate in 2016 as they did the year before. The longer term outlook is also positive, with 53% of investors below their strategic targets to real estate and many expecting to increase these targets in the medium to longer term.

There is no shortage of opportunities in the market; there are currently 497 private real estate funds being marketed, a record high, although fund managers must be aware of the concerns of investors if they want to secure commitments. With the majority of surveyed institutions citing high valuations of assets as their primary concern over 2016, investors face a difficult task in trying to separate the best managers that are adding genuine value from those that have simply benefitted from the rising market.

Investor Appetite

90%
Proportion of investors that feel their real estate investments have met or exceeded their expectations.

68%
Proportion of surveyed investors that feel that valuations are the key issue for the private real estate market in 2016.

52%
Proportion of surveyed investors that have a positive perception of real estate, up from 37% in December 2014.

Make-up of Investors

81%
Proportion of investors with under $10bn in assets under management.

$355bn
Total amount allocated to the asset class by the top 10 real estate investors.

$58bn
Estimated current allocation to the asset class of Abu Dhabi Investment Authority, the largest real estate investor globally.

Evolution of Investors

8.5%
Investors' average current allocation to real estate, below the average target allocation of 9.8%.

53%
Proportion of investors below their target allocation to real estate, the smallest in the period 2011-2015.

67%
Proportion of institutional investors that will not invest in first-time funds, the highest in the period 2009-2015.

Data Source:

Preqin's **Real Estate Online** contains detailed profiles of over 5,000 institutional investors actively or considering investing in real estate funds.

Information includes their plans for investment in the coming months, allocation information, full contact information for key decision makers, past investments and more.

For more information, please visit:

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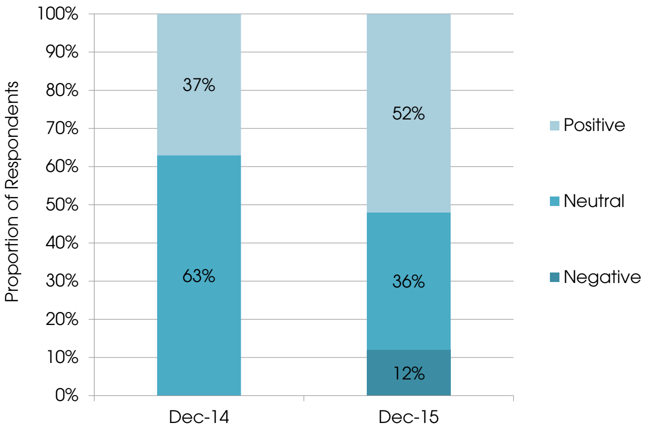
Satisfaction with Real Estate

Encouragingly, the majority (52%) of surveyed investors have a positive perception of the real estate asset class at present, indicating a large change in sentiment from the 37% that felt this way in December 2014 (Fig. 4.1). However, 12% have a negative perception, where none stated this at the end of 2014.

Furthermore, there is growing satisfaction among institutional investors with the returns they are seeing from their real estate portfolios. Fig. 4.2 shows that 39% of investors interviewed in December 2015 felt the performance of their private real estate fund investments had exceeded expectations in the previous 12 months, nearly three-times the proportion that stated this in December 2013. Investors remain confident in the ability of real estate to fulfil portfolio objectives, with 71% stating there had been no change in their level of confidence and 16% stating confidence had increased (Fig. 4.3).

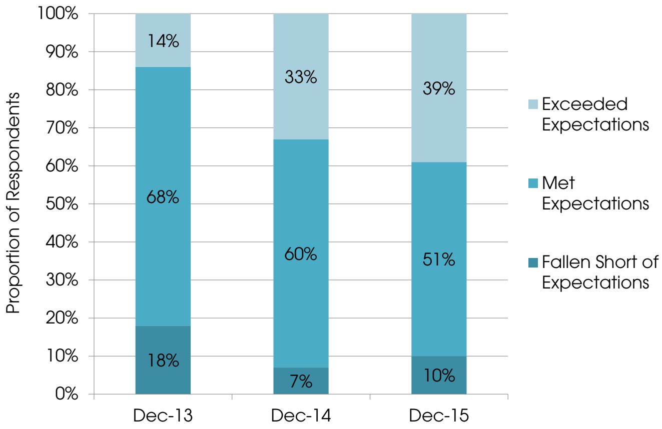
It is unsurprising therefore, that the majority (55%) of investors interviewed by Preqin will be looking to maintain their allocation to the asset class over the long term, although further growth in capital flowing to real estate is expected; 29% of investors plan to increase their exposure to the asset class, while just 16% will be shrinking their allocations (Fig. 4.4).

Fig. 4.1: Investors' General Perception of the Real Estate Industry at Present, 2014 vs. 2015



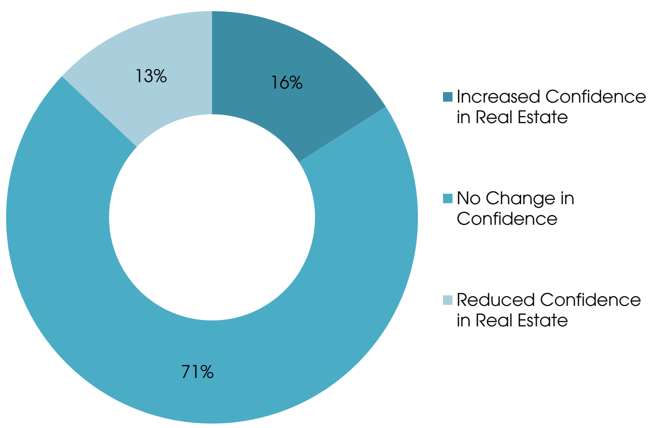
Source: Preqin Investor Interviews, December 2014-2015

Fig. 4.2: Proportion of Investors that Feel Their Private Real Estate Investments Have Lived up to Expectations over the Past 12 Months, 2013 - 2015



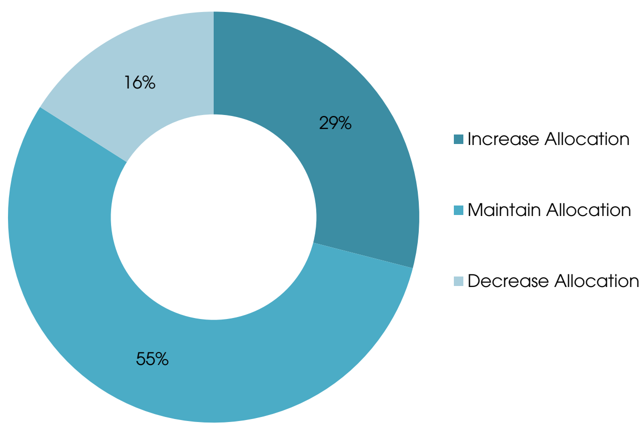
Source: Preqin Investor Interviews, December 2013-2015

Fig. 4.3: Investors' Change in Confidence in Private Real Estate to Achieve Portfolio Objectives in the Past 12 Months



Source: Preqin Investor Interviews, December 2015

Fig. 4.4: Investors' Intentions for Their Private Real Estate Allocations in the Longer Term



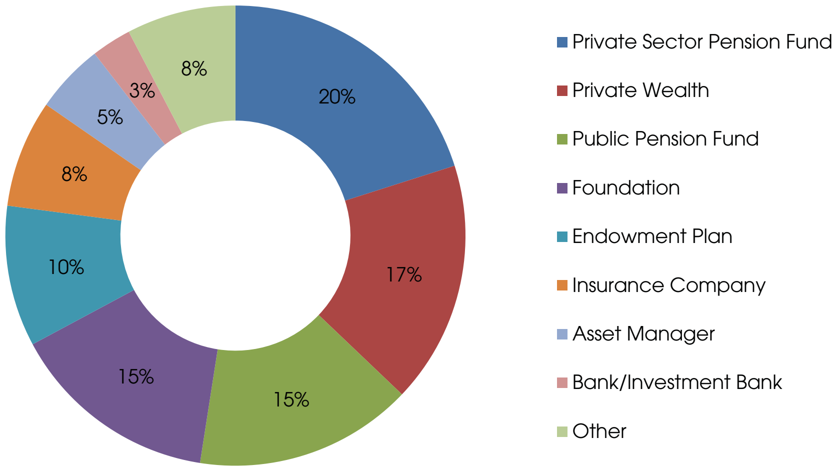
Source: Preqin Investor Interviews, December 2015

Evolution of the Investor Universe

Real estate remains an important part of many institutional investment portfolios, with 59% of investors maintaining an allocation to the asset class. Preqin's **Real Estate Online** features in-depth profiles for more than 5,000 institutional investors worldwide that are actively investing in real estate, including their preferences, past investments and plans for the next year, as well as contact information for key decision makers.

With most routes to real estate being illiquid, real estate investment is particularly suited to institutional investors with long-term investment horizons. Fig. 4.5 illustrates how pension funds account for over a third of real estate investors, with private wealth institutions, foundations, endowment plans and insurance companies collectively representing a further 50%. The population of active real estate investors has a wide range of assets under management (AUM), as illustrated in Fig. 4.6, with the largest proportions holding between $1bn and $9.9bn (36%) and less than $500mn (32%).

Fig. 4.5: Breakdown of Institutional Investors in Real Estate by Type

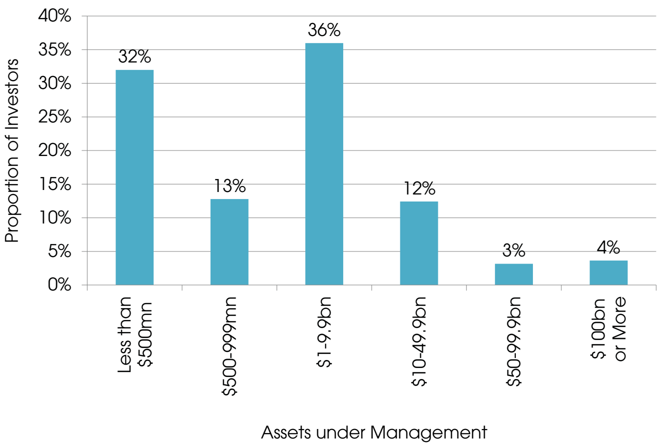


Source: Preqin Real Estate Online

Allocations

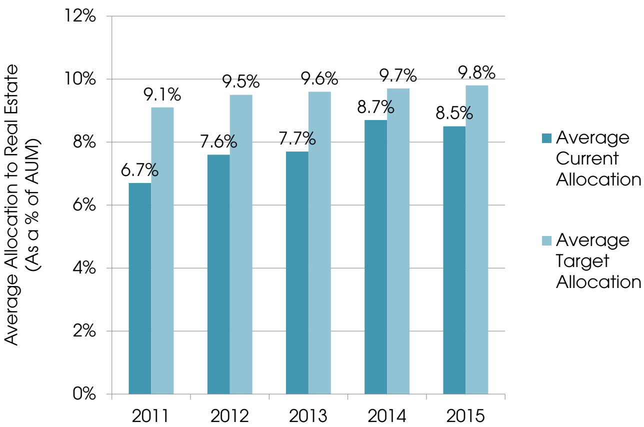
The prominence of real estate within an institutional portfolio has increased over recent years, with the average current allocation rising from 6.7% of AUM in 2011 to 8.5% in 2015, while the average target allocation rose from 9.1% to 9.8% over the same time period (Fig. 4.7). Record distributions to investors from private real estate funds in 2014 may have contributed to the slight fall in the

Fig. 4.6: Breakdown of Institutional Investors in Real Estate by Assets under Management



Source: Preqin Real Estate Online

Fig. 4.7: Investors' Changing Current and Target Allocations to Real Estate, 2011 - 2015



Source: Preqin Real Estate Online

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average current allocation from 8.7% in 2014.

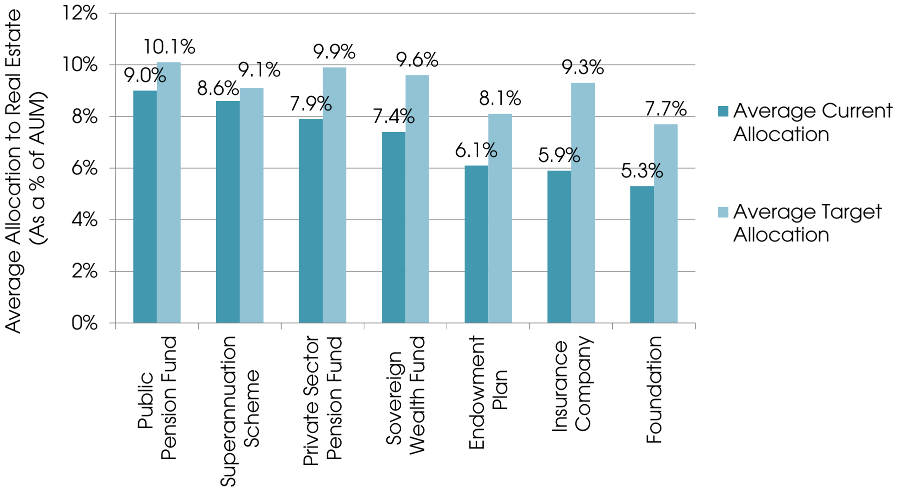
The top three investor types by average current allocation are all pension funds, of which public pension funds have the highest current and target allocations to real estate (Fig. 4.8). Sovereign wealth funds, which have long-term investment horizons, are also suited to investment in real estate, which is reflected in their relatively high average current and target allocations to the asset class.

In December 2015, the majority (53%) of investors were still below their target allocations to the asset class, as shown in Fig. 4.9. This proportion has steadily fallen from two-thirds of investors as of December 2011, as institutions have committed capital and more have reached their long-term strategic targets. Furthermore, 29% of investors are planning to increase their allocations to real estate over the longer term.

Private Wealth

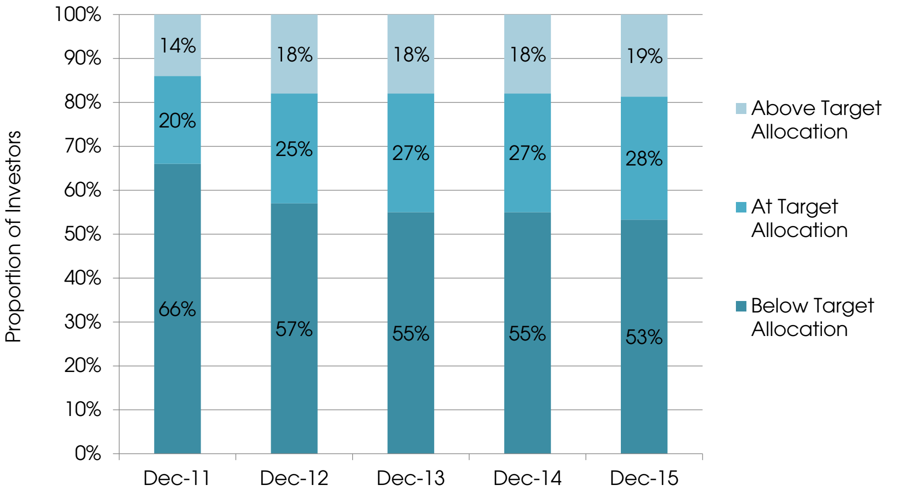
Private wealth is an increasingly important source of capital to the real estate asset class, with wealth managers and family offices currently making up 17% of the real estate investor universe. The majority (51%) of private wealth firms are wealth managers, while multi-family and single-family offices constitute 25% and 24% respectively (Fig. 4.10). As global numbers of high-net-worth individuals increase year on year, the importance of private wealth as a source of capital for the real estate industry is set to grow. Fifty-eight percent of fund managers surveyed by Preqin stated they had seen more appetite for real estate from family offices over the past year, more than any other investor type.

Fig. 4.8: Investors' Average Current and Target Allocations to Real Estate by Investor Type



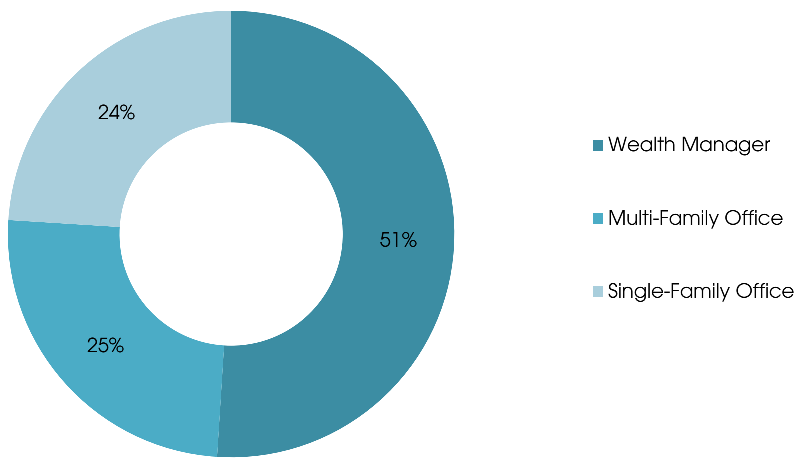
Source: Preqin Real Estate Online

Fig. 4.9: Proportion of Investors that Are At, Above or Below Their Target Allocations to Real Estate, 2011 - 2015



Source: Preqin Real Estate Online

Fig. 4.10: Breakdown of Private Wealth Investors in Real Estate by Type



Source: Preqin Real Estate Online

Data Source:

The **Fund Searches and Mandates** feature on Preqin's **Real Estate Online** is the perfect tool to pinpoint those institutions that are seeking new real estate funds for investment now.

Search for potential new investors by their current investment searches and mandates, including fund structure, fund strategy and regional preferences.

For more information, please visit:

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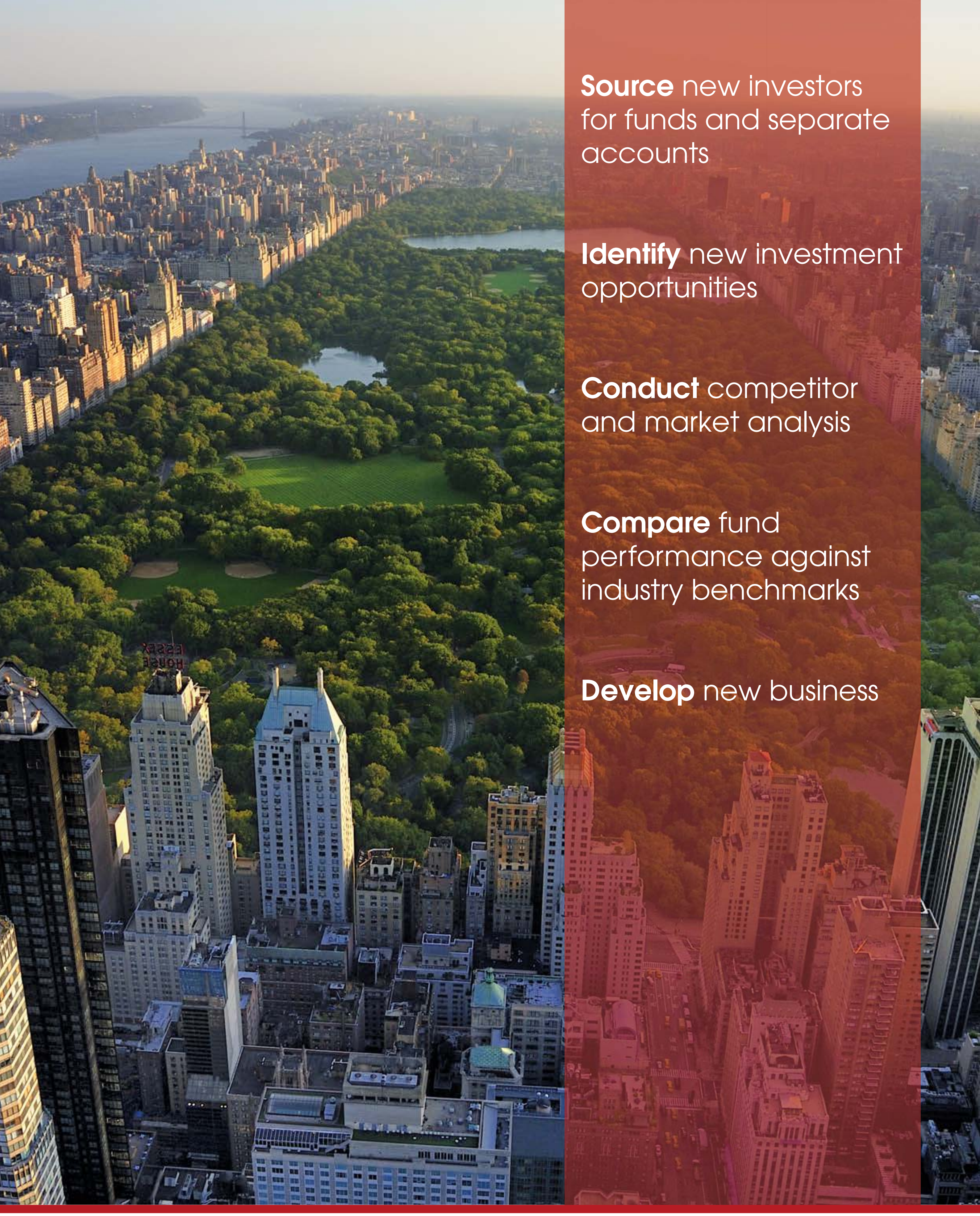

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Investor Activity in 2016

Over 2016, 30% of institutions expecting to be active in the coming year are planning to deploy more capital in 2016 than they did in 2015, a larger proportion than that stated their intention to commit less capital (Fig. 4.11). The majority (58%) of active institutions plan to commit less than $100mn. Some investors, however, are looking to put substantial amounts of capital to work: 14% will invest $300mn or more in private real estate funds in 2016.

Strategies and Regions Targeted

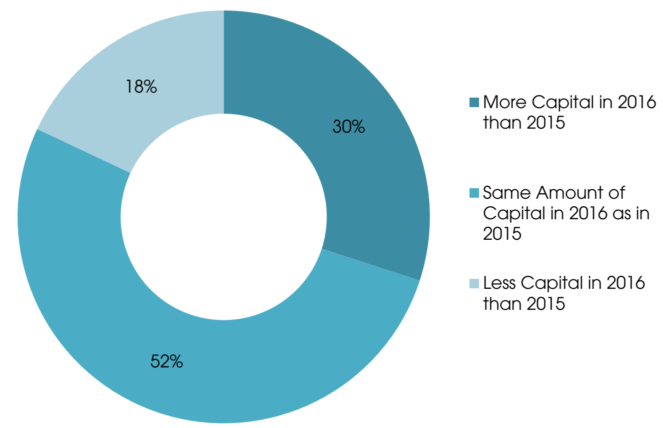
Value added, core and opportunistic funds continue to be the most favoured strategies by those investors that plan to be active in the real estate asset class in 2016; 55%, 50% and 45% of investors are looking to commit to these strategies respectively (Fig. 4.12). Appetite for these strategies remains relatively unchanged from December 2014, suggesting investors are still targeting a diverse range of real estate exposure.

The majority of investors looking to make commitments in 2016 have a strong domestic bias, with investors much more likely to invest capital in the region in which they are based. However, Asia-based investors are less likely to target Asia than Europe- or North America-based investors are to target their domestic markets (Fig. 4.13). Furthermore, North America- and Asia-headquartered investors are more likely than their Europe-based counterparts to have a globally diversified outlook.

Key Issues in 2016

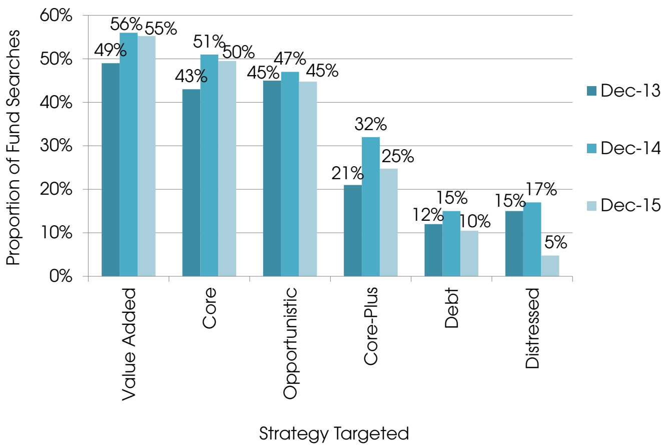
The pricing of real estate assets over 2016 is the primary concern of the majority of investors, which are concerned about the ability of fund managers to find opportunities at compelling valuations (Fig. 4.14). Two interrelated issues, the performance of real estate funds and fund managers' ability to source deals, are also cited as key concerns by notable proportions of respondents.

Fig. 4.11: Investors' Expected Capital Commitment to Private Real Estate Funds in 2016 Compared to 2015



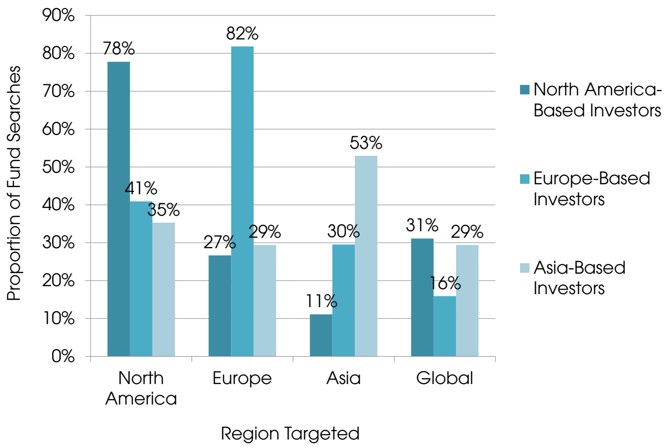
Source: Preqin Investor Interviews, December 2015

Fig. 4.12: Strategies Targeted by Private Real Estate Investors in the Next 12 Months, 2013 - 2015



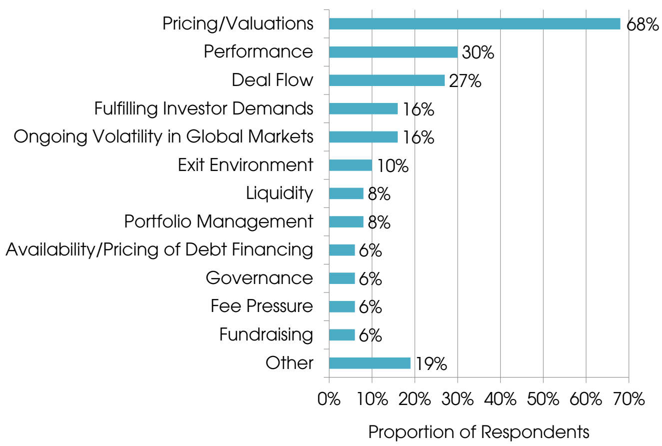
Source: Preqin Real Estate Online

Fig. 4.13: Regions Targeted by Private Real Estate Investors in the Next 12 Months by Location



Source: Preqin Real Estate Online

Fig. 4.14: Investors' Views on the Key Issues for the Private Real Estate Market in 2016



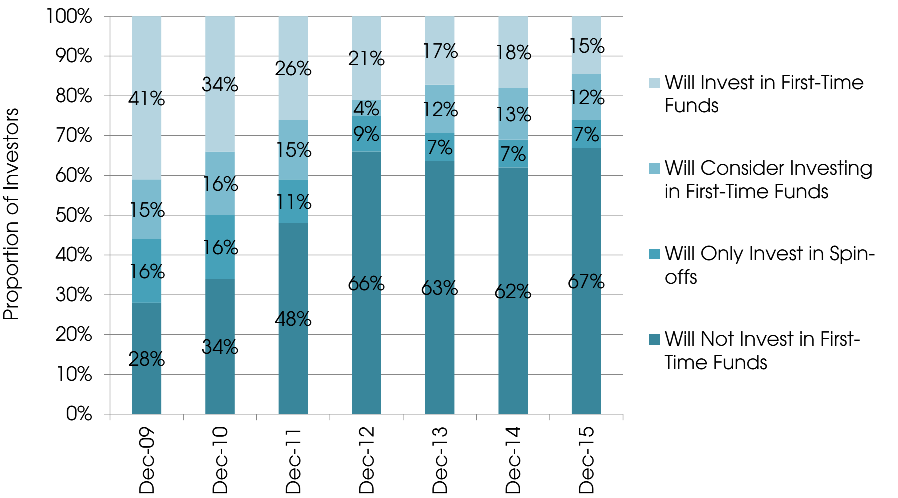
Source: Preqin Investor Interviews, December 2015

Appetite for First-Time Funds and Alternative Structures

Appetite for First-Time Funds

Investors are increasingly choosing to invest with more experienced fund managers that have a proven track record and consequently, approximately two-thirds of the investor population will not invest in first-time funds, a slight increase from 2013 and 2014, and a sizeable increase from 2009 (Fig. 4.15). There is a clear correlation between appetite for first-time funds and assets under management (AUM). Ninety-one percent of firms with AUM of less than $1bn will not invest in first-time private real estate funds, while 41% of firms with over $50bn in AUM will invest in new fund managers.

Fig. 4.15: Real Estate Investor Appetite for First-Time Funds, 2009 - 2015



Source: Preqin Real Estate Online

Appetite for Separate Accounts, Joint Ventures and Co-Investments

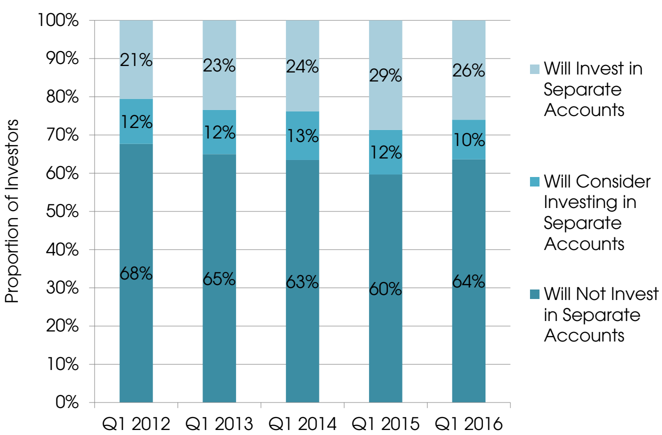
In recent years there has been an increase in investor appetite for exposure to real estate via alternative routes to market to traditional commingled funds. Structures such as separate accounts and joint ventures can offer institutions increased exposure to attractive assets, reduced fees, the opportunity to put large amounts of capital to work and a greater degree of control over their investment portfolio, while still accessing the skill and pipeline of deals of a third-party fund manager.

However, alternative structures come with high barriers to entry, often requiring large commitment sizes, making them accessible to only the largest of investors. Due to this, separate accounts, joint ventures and co-investments have been utilized by between one-fifth and one-third of real estate investors.

Fig. 4.16 illustrates that investor appetite for separate account mandates increased steadily between 2012 and 2015, before a small decline in 2016. This is supported by fundraising data, which shows a significant decline in the capital raised by separate accounts in 2015 from 2014. Fifty-two private real estate separate accounts were awarded in 2014 for $20.3bn, declining to 34 mandates awarded to fund managers for $12.9bn over the course of 2015.

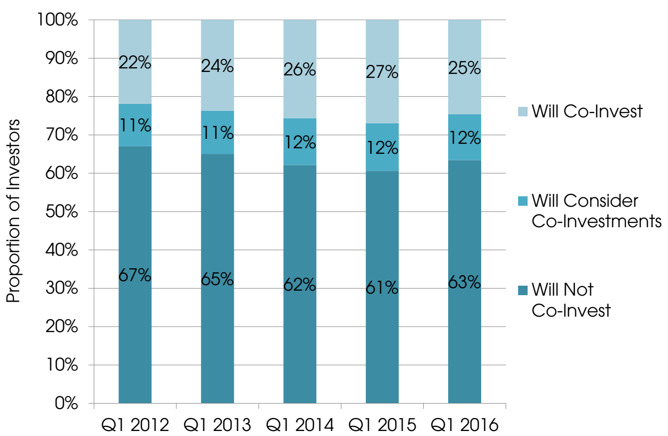
Investor appetite for co-investments has exhibited similar trends to the appetite for separate accounts, rising from 2012 until 2015, before declining slightly into 2016 (Fig. 4.17).

Fig. 4.16: Investor Appetite for Real Estate Separate Accounts, Q1 2012- Q1 2016



Source: Preqin Real Estate Online

Fig. 4.17: Investor Appetite for Real Estate Co-Investments, Q1 2012- Q1 2016



Source: Preqin Real Estate Online

How Investors Source and Select Funds

How Investors Source Funds

61% through **internal investment team**

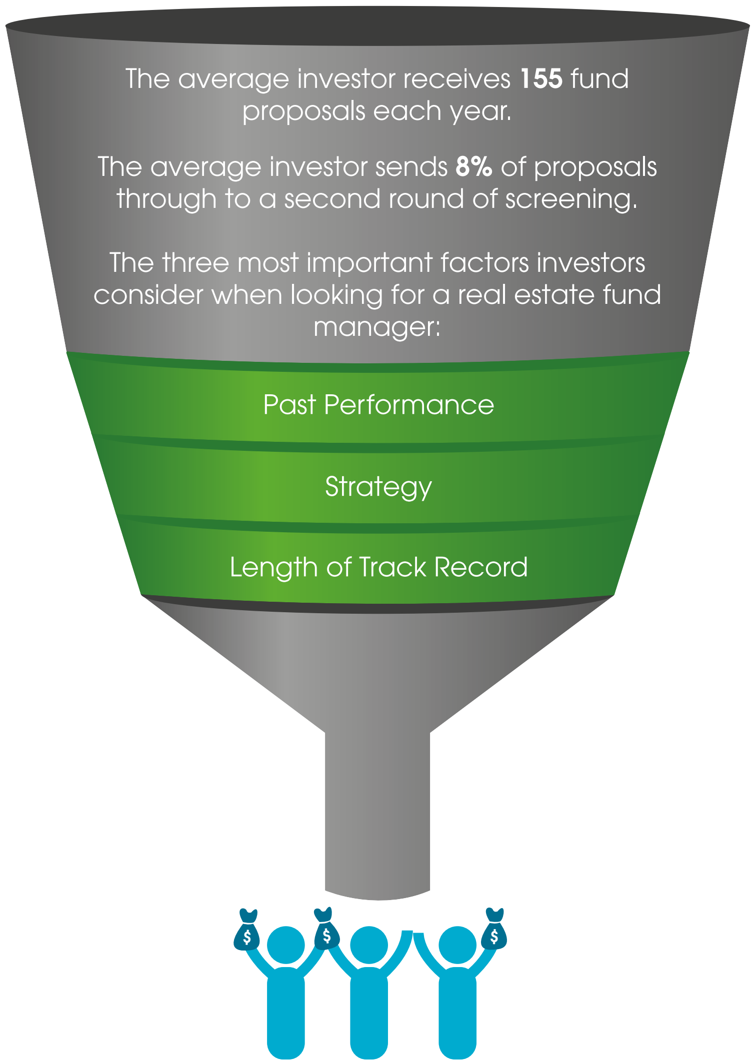
49% through **networking** and **peer recommendations**

36% through **direct approaches from fund managers**

34% after approach by **third-party marketer**

26% through **consultant recommendations**

20% through **fund databases**



The average investor makes **three** investments each year.

How Can Preqin Help Raise Funds?

- Find out which strategies investors are interested in with our dedicated **Fund Searches and Mandates** portal.
- Find out which consultants work with which investors and the key contacts at each group.
- Gain detailed insights into over **5,000** institutional investors to build tailored pitches to those investors looking for your fund.
- Over **7,800** investors are looking at funds on **Preqin Investor Network**. Ensure your details are accurate and up-to-date so investors can find you!

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Source: Preqin Investor Interviews, December 2015

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With global coverage and detailed information on all aspects of alternative assets, Preqin's industry-leading online services keep you up-to-date on all the latest developments in the private equity, hedge fund, real estate, infrastructure, private debt and natural resources industries.

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Find the most relevant investors, with access to detailed profiles for over 9,600 institutional investors actively investing in alternatives, including current fund searches and mandates, direct contact information and sample investments.

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