European Association for Investors
in Non-Listed Real Estate Vehicles

Strong appetite for real estate despite COVID-19 pandemic

Minimum of €64.6 billion of new capital planned for deployment in global real estate in 2021

13 January 2021, Amsterdam – Institutional investors plan to invest a minimum of €55.4 billion in global real estate in 2021, with a strong emphasis on Europe, according to the 2021 Investment Intentions survey published today by ANREV, INREV and PREA. Funds of funds expect to invest a further €9.2 billion into global real estate this year, bringing the total expected minimum new capital to €64.6 billion.

Of the expected €55.4 billion of investments, nearly half (€26.5 billion) will be committed to European real estate compared with €17.5 billion for North America and €9.7 billion for Asia Pacific, with the remaining €1.7 billion targeting Americas ex US and Africa. These results might be partially skewed due to European respondents accounting for a large share of the sample size.

Across all three global regions, investors cited diversification benefits of real estate in a multi-asset portfolio as one of the most important factors in their decision to invest in the asset class. All regions recorded inflation hedging as the least important factor influencing their decision to invest.

Despite the turbulence caused by the COVID-19 pandemic in 2020, the majority of respondents, regardless of investor domicile and regional strategy, said it would not alter their future investment plans. Almost 80% of all investors targeting Europe reported no change in their investment plans, with North American investors looking to invest in Europe reporting an overall marginal increase in allocations – perhaps sensing the chance to enhance returns on the back of pandemic-induced opportunities in niche sectors and / or markets. Across all investment destinations globally (except the Americas excluding the US and Africa) more investors reported plans to increase allocations to real estate than to reduce them because of COVID-19.

Actual and target allocations

Average current real estate allocations globally stand at 9.3% versus an average target of 10.0%, suggesting that institutional capital should continue to flow into the asset class.

Current actual and target allocations were highest for investors domiciled in North America at 10.4% and 11.4% on average, respectively. For European investors, the gap between average actual and target allocations was the narrowest at 9.0% and 9.3%. Investors based in Asia Pacific had the lowest average actual allocations at 8.0% and the widest spread to their average target allocations of 9.7%.

For investors domiciled in Europe a far greater proportion (46%) expects allocations to real estate to increase over the next two years than anticipates a decrease (8%).

As in previous years, when deploying new investment capital in the European region most investors selected non-listed real estate funds and private REITs as their preferred route to market. The second most preferred route, based on an expected increase in allocations, are joint ventures and club deals.

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Also noteworthy is the expected increase in allocation to non-listed real estate debt. In 2021 it ranked third on a weighted real estate AUM basis, while it was only in fifth place in 2020.

Style preferences and home bias

Core continues to dominate as the preferred investment style globally, accounting for around 83% of the average institutional investment portfolio. Value added and opportunistic strategies represent 11% and 6%, respectively. Investors domiciled in North America have the greatest risk appetite, with 14% of their portfolios made up of value added and 12% of opportunistic investments. However, three quarters of their portfolios are still focused on core investments.

Looking at Europe as an investment destination, the latest results show a notable shift to a risk-off approach, with half of all respondents opting for core strategies – the highest level since 2015. The rise of core in this region comes at the expense of opportunistic strategies, preference for which fell from 20% last year to 13% in 2021. Preference for value added slid from 43% to 37% over the same period.

Globally, real estate portfolios exhibit significant home bias, with European investors keeping over two thirds of their portfolios in their own region. In 2021 European investors are expected to invest 62% of new capital at home. Asia Pacific investors, on the other hand, plan to allocate 69% of new capital to their own region while strongly favouring North America with a 22% allocation, compared with only 9% destined for Europe. North American investors are set for the highest home bias in 2021 at 73%, with the remainder almost equally split for deployment in Asia Pacific and Europe.

Destination preferences

For investors seeking opportunities in Europe over the next two years, Germany and France strengthened their positions as preferred destinations; and the Netherlands saw an uptick with investor preferences for this country rising from 37.3% last year to 51.6% in the current report. Germany remains the most preferred country in Europe among investors, while France overtook the UK and is now in a comfortable second place. The UK, which was the top-ranked destination in 2017 and 2018 and second in 2019 and 2020, slid into third position this year.

Investors from Asia Pacific and Europe are particularly interested in Germany and France, while their counterparts from North America show a strong preference for the UK. North American investors typically have a higher appetite for risk compared with their European and Asia Pacific counterparts, especially when investing internationally, and currently the UK offers more ways to enhance returns with distressed or repositioning opportunities.

Sector allocations and preferences

At the global level, the office sector takes up the largest allocations from investors across all three regions at 34%, followed by residential (23%), retail (20%) and industrial/logistics (12%). Other ‘niche’ sectors account for 11% of allocations across global portfolios.

Looking forward at a European regional level, offices, industrial/logistics and residential tie for the most preferred slot for new investments in 2021. Unsurprisingly, retail's fall from favour continues and the sector has been overtaken in preference by development. On the other hand, residential shows significant gains becoming the joint first sector preference for investors. One hundred percent of funds of funds selected residential as their preferred sector for investment.

One marked shift in attitude toward combined country and sector preferences is the absence of the UK from the top 10, most probably due to the on-going uncertainty caused by the dual impact of the COVID-19 pandemic and Brexit. Instead, investors express a strong preference for Germany industrial/logistics, Germany office, France office and France industrial/logistics. Investors also have a considerable appetite for Germany residential and France residential.

So far as city and sector combinations are concerned, apart from Paris offices the top four preferred slots include industrial/logistics in Berlin, Paris and London, exemplifying the increased appetite for the sector. Despite strong appetite for residential assets, only Paris residential made it into the top 10 list of investor preferences, while the sector was featured three times in the country and sector combinations.

Iryna Pylypchuk, INREV's Director of Research and Market Information said: 'This year's Investment Intentions suggests continuing robust investor appetite for real estate, with Europe and the diversity it offers firmly in sight and somewhat of a sweet spot for both local, regional and cross-regional capital. Real estate's role in a multi-asset portfolio is the key determinant to invest in the asset class. With target allocations maintained or even increased in some cases, there is clearly room for more capital to find its way into the asset class. Non-listed funds are expected to see most of the new capital allocations in Europe, but an increase in allocations to joint ventures and club deals, especially by the larger investors, makes for an interesting period of activity ahead. This is very much in line with the emerging trend for a more operational style of investment and risk-off strategies, as investors seek to take greater control.'

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Notes to Editors

About the Investment Intentions Survey 2021

The Investment Intentions Survey provides insight into expected trends in the real estate investment industry in 2021. It explores aspirations for investment over the next two years, with a focus on non-listed real estate funds.

The survey is a joint project between INREV, ANREV and PREA, so providing a comprehensively global perspective. It is published once a year in January.

This year's survey is based on data from 99 respondents (84 investors and 15 funds of funds), Around half of the sample (51) is based in Europe, slightly less than one third (29) is based in North America and about one fifth (19) in Asia Pacific. By investor domicile, European investors participating in this survey hold a minimum of €479 billion of assets under management in real estate.

About INREV

INREV, the European Association for Investors in Non-Listed Real Estate Vehicles, was launched in May 2003 as a forum for institutional investors and other participants in the growing non-listed real estate vehicles sector. The association represents and reflects an industry with a total value of €2.8 trillion and INREV members deliver €385 billion of stimulus to the real economy of Europe.

INREV has 449 members which include 90 of the largest institutional investors as well as 69 of the 100 largest real estate fund managers, plus banks and advisors across Europe and elsewhere.

The non-profit association is focused on increasing the transparency and accessibility of non-listed vehicles, promoting professionalism and best practice, and sharing knowledge. It is based in Amsterdam, the Netherlands.

About ANREV

ANREV is the Asian Association for Investors in Non-Listed Real Estate Vehicles, a not-for-profit organisation based in Hong Kong. ANREV's agenda is driven by the members, in particular the investors, and is focused on improving transparency and accessibility of market information, promoting professionalism and best practices, sharing and spreading knowledge. Fund managers, investment banks, lawyers and other advisors provide support in addressing key issues facing the Asian non-listed private equity real estate fund markets.

ANREV is part of a global alliance together with the European Association for Investors in Non-Listed Real Estate Vehicles (INREV) and the National Council of Real Estate Investment Fiduciaries (NCREIF), which works with the other regional associations to advance the global agenda of transparency, accessibility and professionalism and increased harmonisation across the non-listed real estate industry. http://www.anrev.org

About PREA

Founded in 1979, the Pension Real Estate Association (PREA) is a non-profit trade association for the global institutional real estate investment industry. PREA currently lists over 700 corporate member firms across the United States, Canada, Europe and Asia. Our members include public and corporate pension funds, endowments, foundations, Taft-Hartley funds, insurance companies, investment advisory firms, REITs, developers, real estate operating companies and industry service providers. http://www.prea.org