Real Estate Institutional Investor Trends for 2016 Survey

PROBITAS PARTNERS

probity (prō′bĭ·tē)

n. [from Latin probitas: good, proper, honest.] adherence to the highest principles, ideals and character.

On an ongoing basis, Probitas Partners offers research and investment tools for the alternative investment market to aid its institutional investor and general partner clients. Probitas Partners compiles data from various trade and other sources and then vets and enhances that data via its team's broad knowledge of the market.

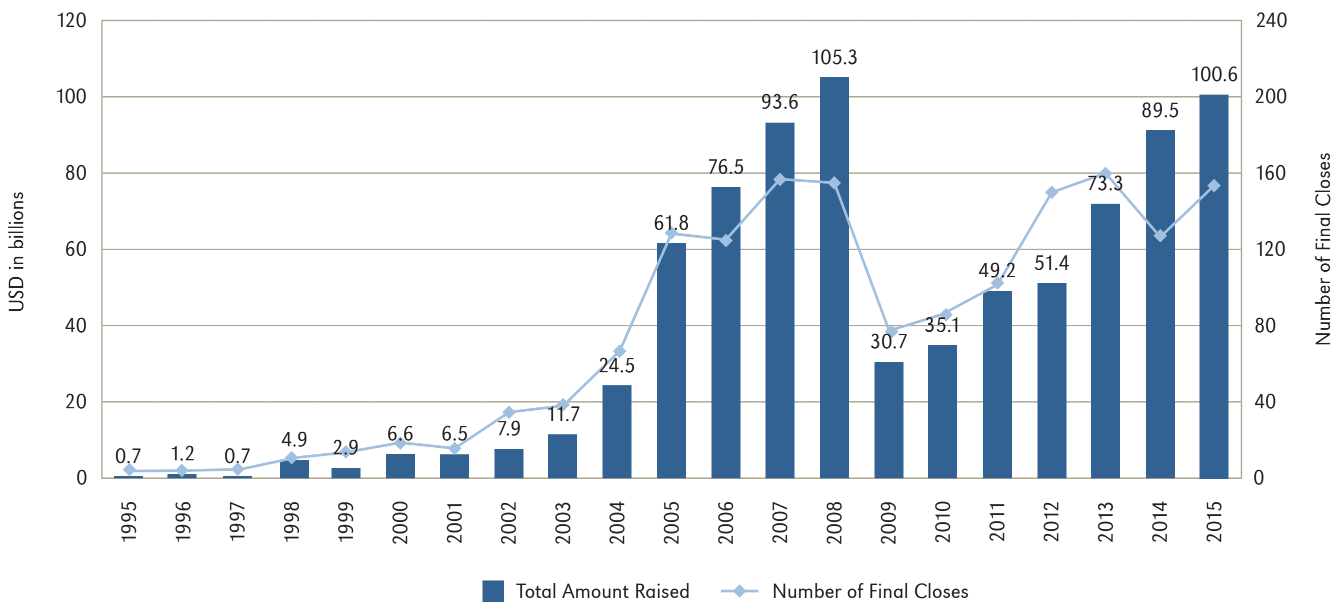
Contents

The Real Estate Fundraising Environment

- Fundraising in 2015 set a new post-Global Financial Crisis ("GFC") record (Chart I, just under the all-time peak reached in 2008).
- Global funds led the market in 2015, a switch from 2014 when North America was the leading geographic sector — though most global funds retained significant allocations to North America. Fundraising for Europe fell slightly, but allocations to Europe within global funds also remain substantial (Charts II and III).
- Opportunistic funds continued to be the preferred strategy, attracting nearly half of all fund commitments (Charts IV and V). Commitments to core and core plus strategies remained fairly low, but that number understates overall interest as most large investors targeting core strategies invest directly in assets or through separate accounts that are not tracked in our fund data.
- Interest in debt-focused funds declined from 27% of the market in 2013 to 18% in 2014 to 12% in 2015. One potential reason for the decline is that many new investors to real estate debt surged into the market to build core portfolios and at this point are more cautious about adding positions as they have legacy portfolios.

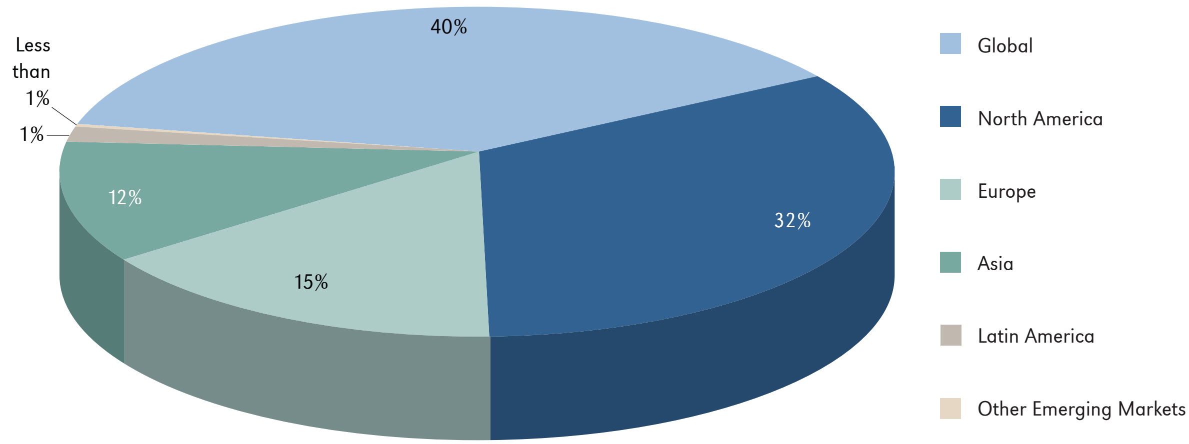
"Global funds led the market in 2015"

Chart I Global Real Estate Fundraising 1995–2015



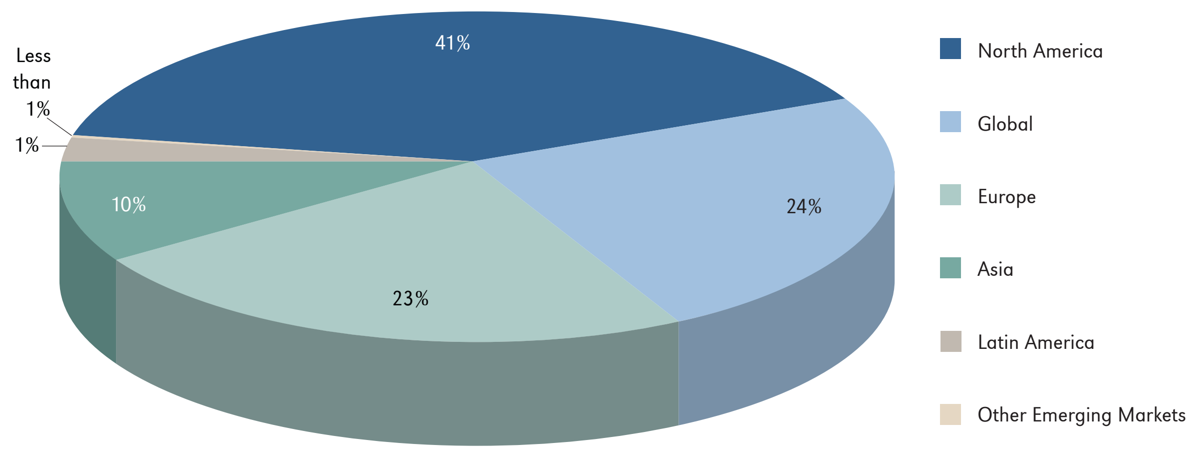
Source: Probitas Partners; PREQIN; PERE; IREI

Chart II 2015 Global Real Estate Fundraising by Geography
(in terms of capital raised, USD)



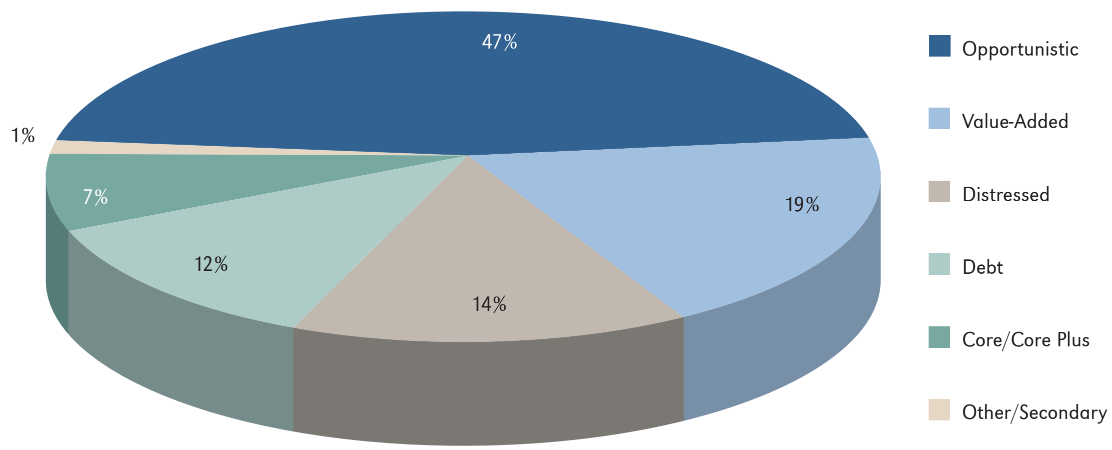
Source: Probitas Partners; PREQIN; PERE; IREI

Chart III 2014 Global Real Estate Fundraising by Geography
(in terms of capital raised, USD)



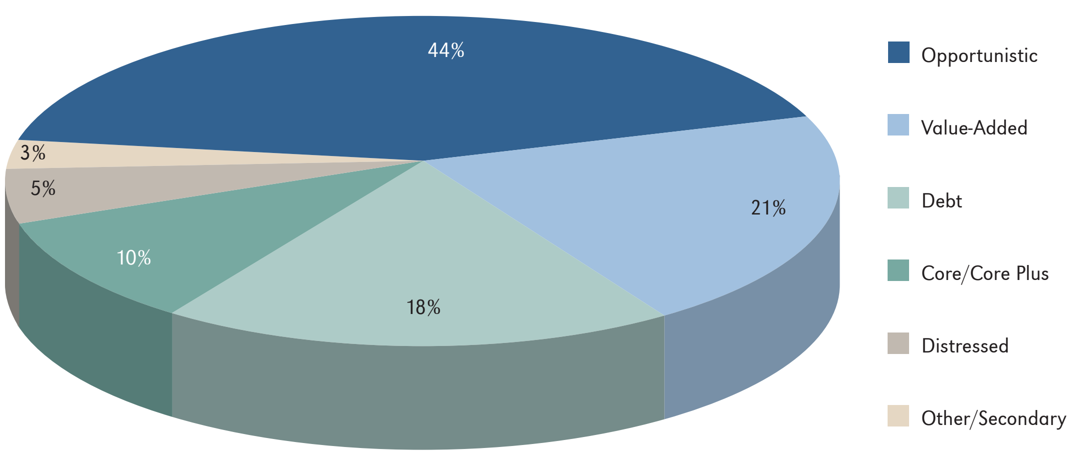
Source: Probitas Partners; PREQIN; PERE; IREI

Chart IV 2015 Global Real Estate Fundraising by Strategy
(in terms of capital raised, USD)



Source: Probitas Partners; PREQIN; PERE; IREI

Chart V 2014 Global Real Estate Fundraising by Strategy
(in terms of capital raised, USD)



Source: Probitas Partners; PREQIN; PERE; IREI

Real Estate Institutional Investor Survey

In April 2016, Probitas Partners conducted its latest online survey to determine institutional investor perspectives on investing in real estate. Responses were received from senior investment staff globally, representing such institutions as insurance companies, public and corporate pension plans, endowments and foundations, consultants and family offices.

Overview of Survey Findings

The following summarizes the top-line findings from the survey:

- ***Interest in real estate remains strong:*** Fundraising in 2015 remained strong and investors plan to continue to commit to the sector.

- ***. . . though investors are concerned that we are reaching a cyclical high in the market*** with over 60% of respondents targeting this as a fear this year, up from over 50% last year.

"There has been a shift along the risk/return spectrum in our survey this year"

- ***Value-added and opportunistic funds remain a key target for investors:*** There has been a shift along the risk/return spectrum in our survey this year from core to core plus and value-added, though interest in opportunistic remains persistent. Value-added, and opportunistic strategies remain a significant component in most investors' portfolios for the coming year.

- ***Investors' opinions on core are split:*** More investors identified core as the total focus of their real estate program (slightly larger than the number of respondents focused on value-added) while an even larger percentage of investors said they do not invest in core at all. However, there are a number of large sovereign wealth funds and pension plans who are focused on making very large direct core investments, and that is not directly reflected in the survey.

- ***Interest in debt funds has significantly declined from its 2013 high:*** Debt-oriented strategies surged to an all-time fundraising high in 2013, but fell in 2014 and 2015, and registered low investor interest over the coming year. In part this decline is due to the fundraising surge itself, as many investors built their core allocations to the sector in 2013 and early 2014, and have less room for new debt investments at the moment.

- ***North America is still the strongest area of geographic focus:*** North America is the longest lived real estate market for institutional investors, and is of dominant interest to domestic investors and of significant interest to international investors.

- ***Interest in emerging markets remains muted:*** There are increasing concerns that political and short-term economic risks — especially currency risk — in the emerging markets are growing. Investors are less convinced that the longer term, high-growth story necessarily leads to outsized real estate returns over the shorter term of a normal fund life. The number of investors not investing at all in emerging markets increased significantly since last year.

- ***Investors' greatest fear again — too much money is flooding the market:*** Even as they pour money into the sector chasing what they perceive are attractive opportunities, they fear too much money is flooding in from other investors, inflating prices and increasing risks while eroding current and future returns. The second greatest fear is the feeling that we are nearing the top of the market cycle, with 69% of respondents citing that concern.

"There are increasing concerns that political and short-term economic risks — especially currency risk — in the emerging markets are growing"

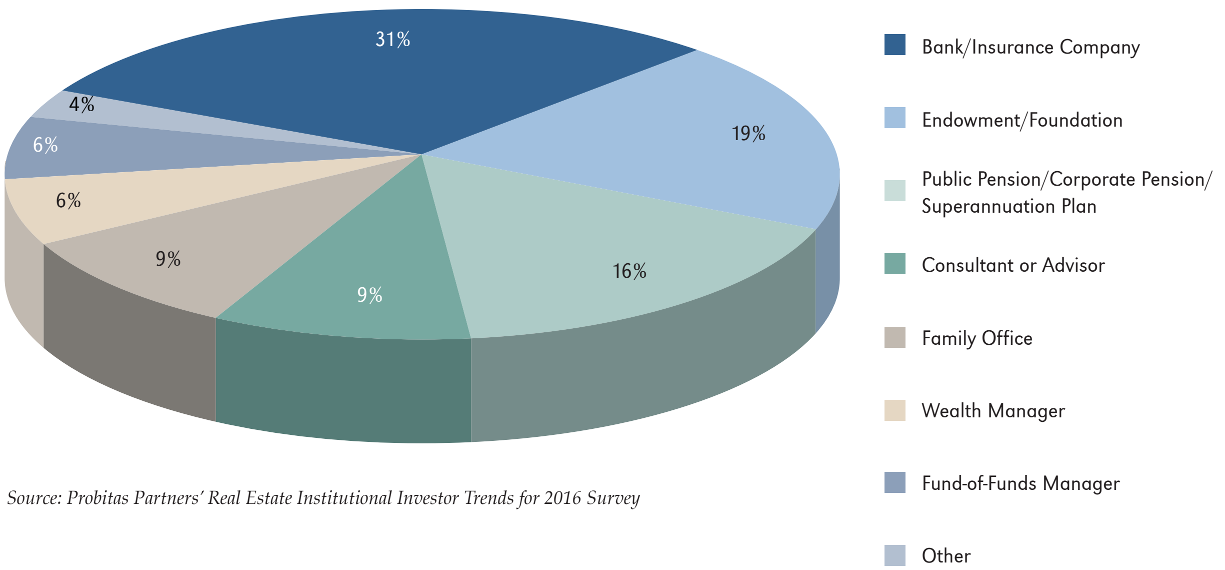
Profile of Respondents

- A number of different types of investors responded to the survey (Chart VI) with strong representation from insurance companies, endowments, foundations, and pension plans.

- 56% of the respondents to the survey were from the United States — unsurprising since the United States has the longest history of investors committing to real estate through closed-end funds (Chart VII). However, there were a significant number of responses from Asia and Europe as the closed-end fund model continues to build in those areas.

Chart VI Respondents Categorized by Investor Type

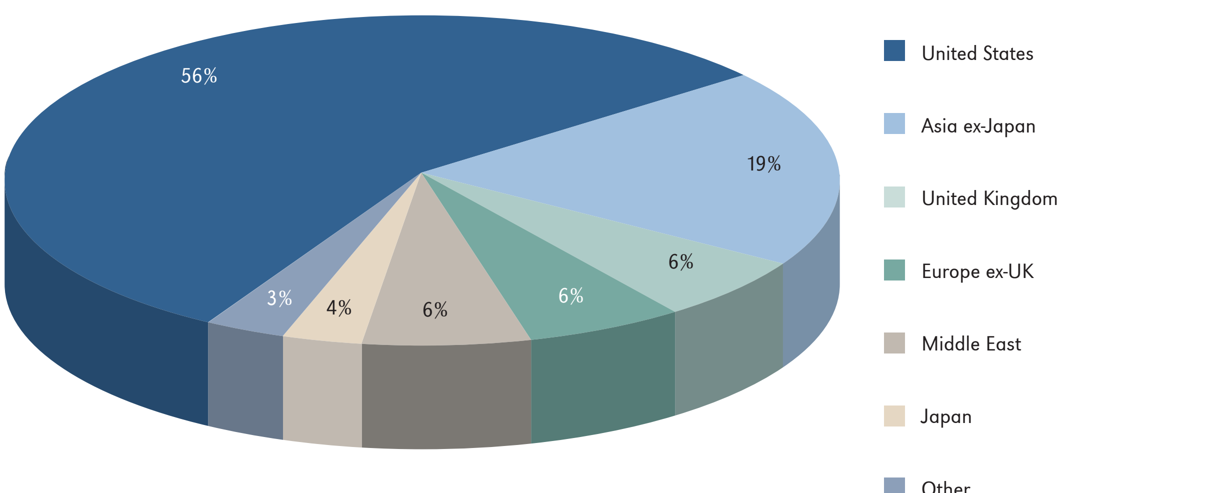
I represent a:



Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey

Chart VII Respondents Categorized by Firm Headquarters

My firm is headquartered:



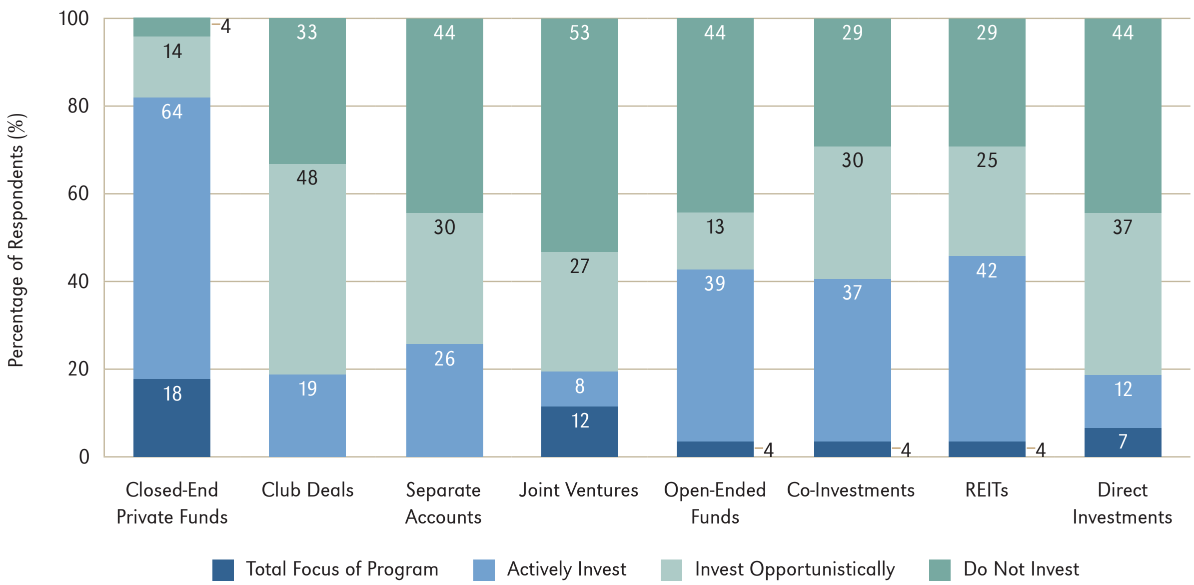
Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey

- Closed-end private funds are the dominant structure in which a vast majority of respondents actively invest (Chart VIII), with interest in the other structures much more scattered.

- Direct investing is undertaken predominantly by large investors — those seeking to invest more than $500 million over the next 12 months.

Chart VIII Real Estate Investment Structures

I invest via:

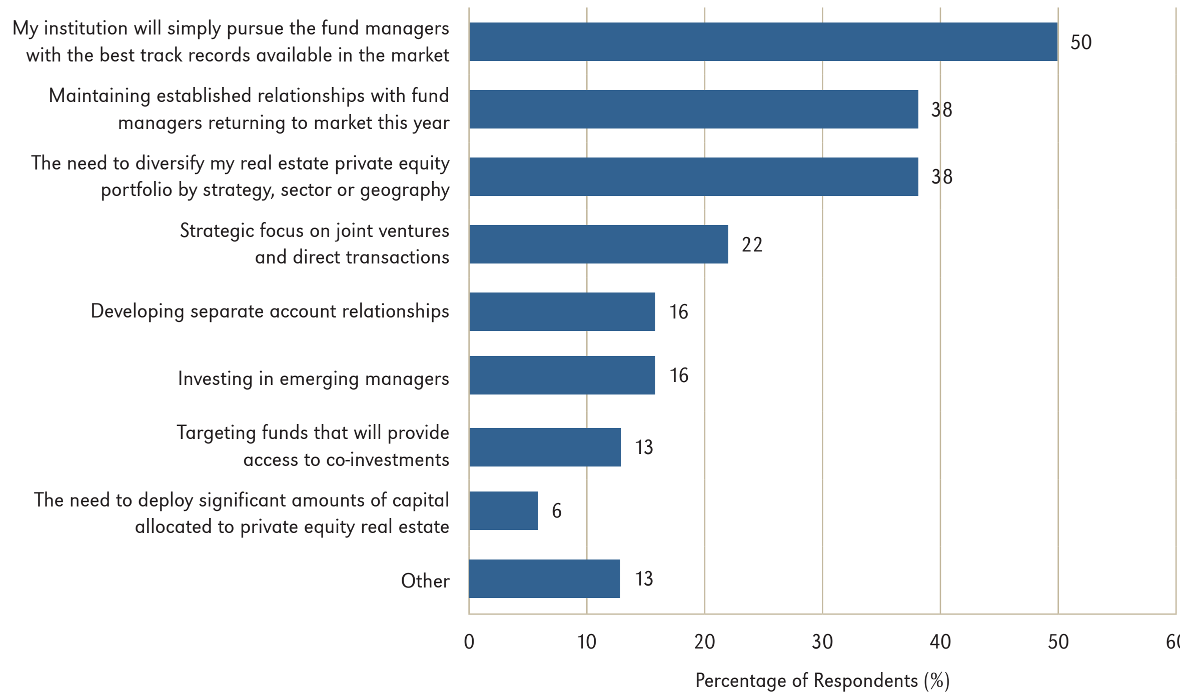


Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey

- What is the driving force behind investors' strategies? 50% of respondents simply focus on those managers with the best track records who are currently out fundraising (Chart IX). However, a significant number of investors are also focused on maintaining key relationships with fund managers or on diversifying their portfolios into different strategies, industry sectors or geographies.

Chart IX Drivers of Investment Focus

My real estate investment focus over the next year will be driven by (choose no more than three):



Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey

- The majority of respondents to the survey plan to commit $150 million or less to real estate over the next year (Chart X). However, there are a number of larger respondents, led by public pension plans and insurance companies, whose allocations were appreciably larger, with 9% planning to invest $1 billion or more into real estate.

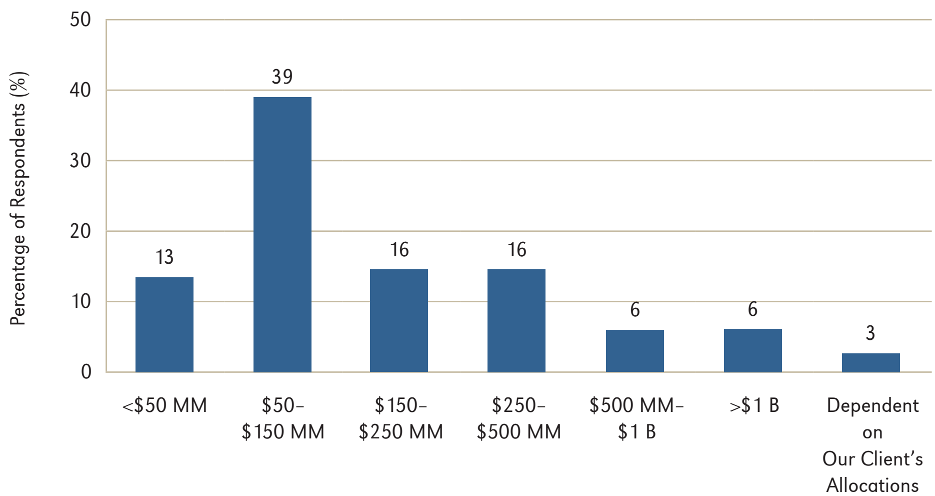
- As far as the average size of their investments, 42% of respondents target individual commitments of $25 million to $50 million to a single fund (Chart XI). However, 13% of respondents are targeting commitments of $100 million or more to individual funds.

- Last year 30% of the respondents were actively looking to add new fund manager relationships, a number that soared to 53% this year (Chart XII) with another 44% focused on re-ups but also taking a limited look at new fund managers.

"Last year 30% of the respondents were actively looking to add new fund manager relationships, a number that soared to 53% this year"

Chart X Real Estate Allocations

Over the next year, we are looking to commit across all areas of real estate (in USD):

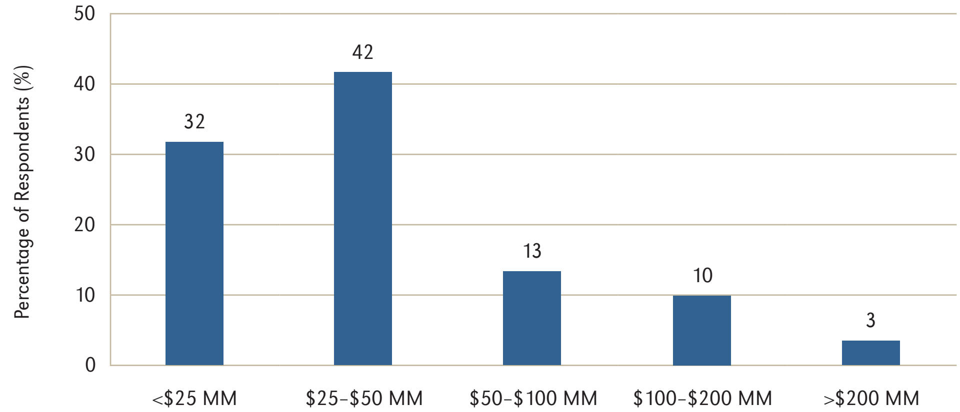


Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey

Note: Some sectors total greater than 100% as a few investors had multiple responses

Chart XI Average Size of Investment

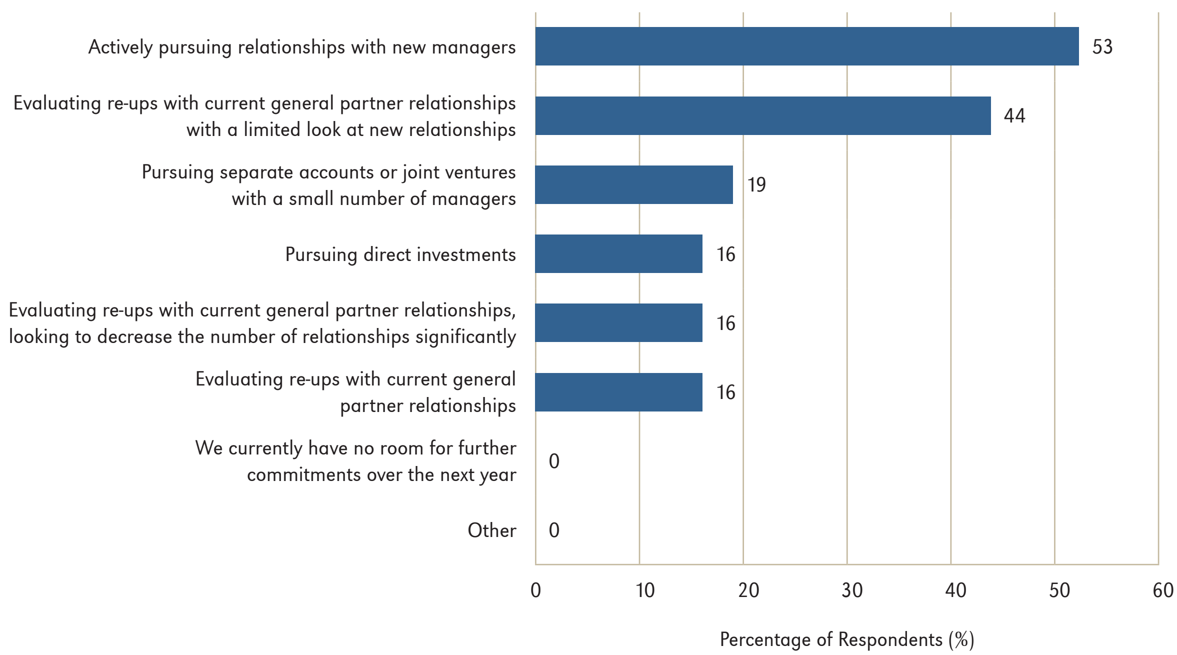
Over the next year, I expect my institution's average investment size in real estate investments to be (in USD):



Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey

Chart XII Private Equity Real Estate Focus

Over the next year we would expect our primary private equity real estate focus to be (choose no more than three):



Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey

Sectors of Interest

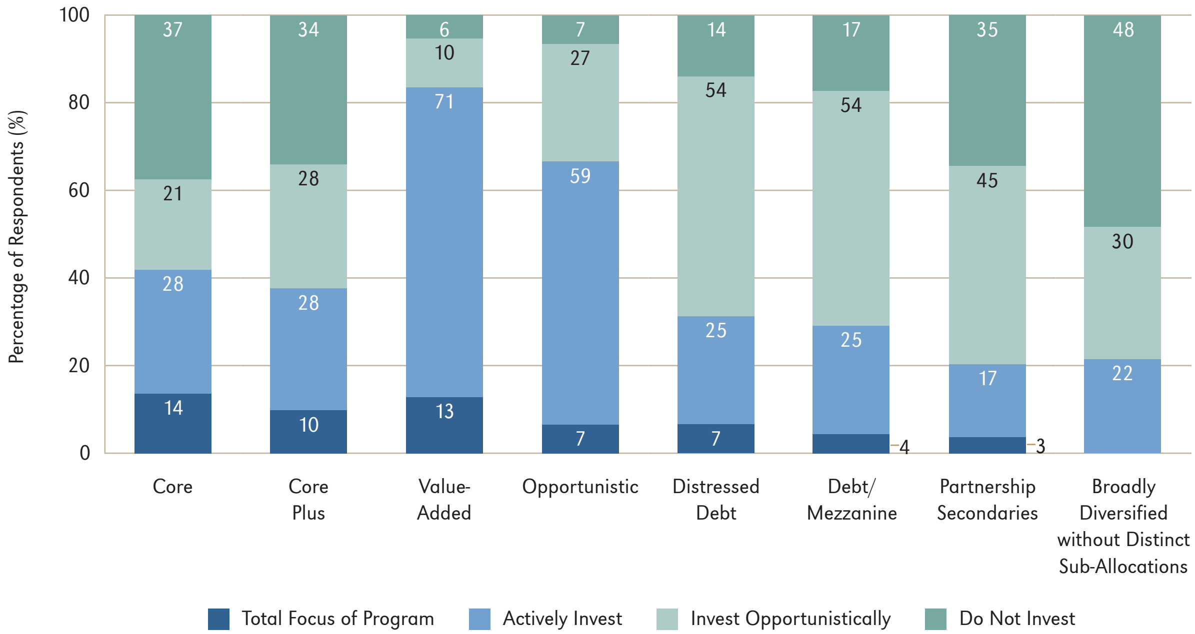
- Respondents this year indicated a shift in strategy away from core to higher risk/return strategies. Those investors totally focused on core strategies fell from 22% last year to 14% this year (Chart XIII). At the same time, those investors totally focused on core-plus went from 0% last year to 10% this year. In the value-add arena, the combination of being totally focused on the sector or considering it a strategic part of their program went from 62% last year to 84% this year. Interest in opportunistic strategies remained roughly the same.

- Interest in debt funds has been volatile over the last five years. There was almost no interest in debt funds before the GFC, but the shortage of debt from traditional sources lead to more debt funds being launched in 2011 and 2012, with fundraising for the sector exploding in 2013. So many investors made significant bets on the sector then that fundraising tumbled in 2014 and 2015. Though last year no respondents felt that debt was a key part of their investment strategy, this year 29% of respondents described it as being a strategic part of their real estate investing program.

"Investors totally focused on core strategies fell from 22% last year to 14% this year"

Chart XIII Real Estate Investment Strategies

As far as risk/return strategies for funds or properties, we focus on:



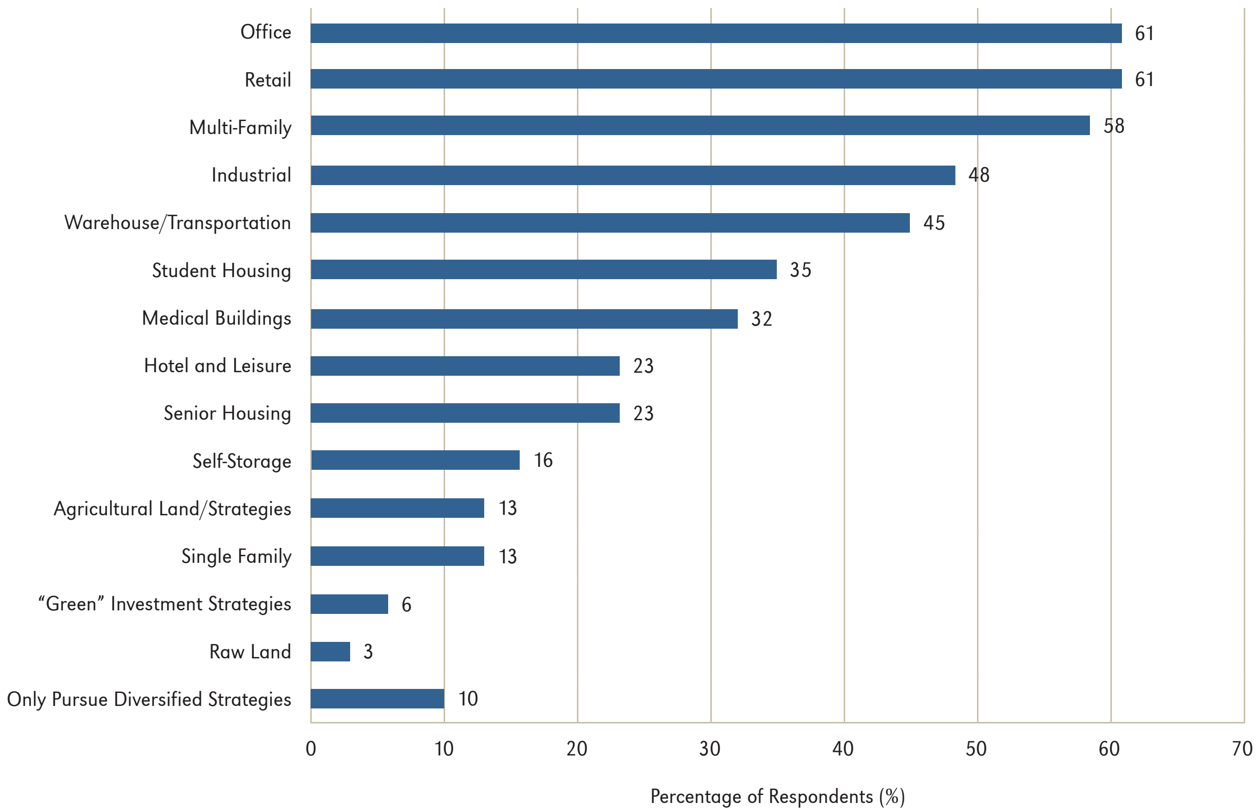
Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey

- Interest by product type continues to be slanted towards office, retail, and multi-family, with industrial falling back somewhat this year (Chart XIV). Non-North American respondents are much more focused on the retail sector (79%) and the office sector (71%).

- North Americans tend to have more mature core portfolios, and as a result, have more interest in niche strategies that can add diversification than European or Asian respondents.

Chart XIV Real Estate Sector Preferences

For the various industry sectors or sub-sectors of real estate globally, I am most interested in (choose no more than five):



Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey

- Table I compares the top five sectors of interest in this year's survey to the pre-crisis responses we tracked just before the market crash. Of note, the 2016 survey included many more niche strategies for consideration.

- Even with those caveats, the difference in interest between retail and hotel and leisure, two of the more volatile sectors, is marked between the two time periods (with hotel and leisure interest at 23% in 2016, though out of the top five). In addition, the warehouse/transportation sector, which was not an option on the 2007 survey, soared into the fifth ranking in 2016, increasing significantly in investor interest from 24% last year to 45% this year.

Table I Institutional Investors Focus of Attention Among Real Estate Sectors

Top Five Responses

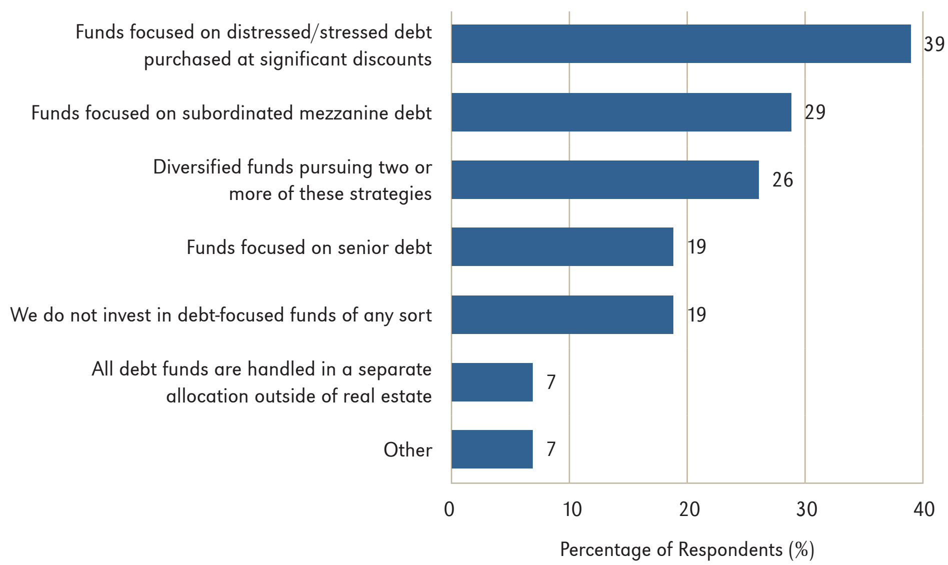
2007		2016	
Sector	**% Targeting**	**Sector**	**% Targeting**
Office	27%	Office	61%
Multi-Family	27%	Retail	61%
Industrial	23%	Multi-Family	58%
Retail	14%	Industrial	48%
Hotel and Leisure	5%	Warehouse/Transportation	45%

Source: Probitas Partners' Real Estate Institutional Investor Trends Survey, 2007 and 2016

- Within real estate debt, investors are much more focused on higher-returning distressed and stressed debt strategies (Chart XV). Notably, 19% of investors said that they do not invest in real estate debt at all, though that is down significantly from the 32% who responded that way last year.

Chart XV Real Estate/Debt/Mezzanine Funds

As far as real estate/debt/mezzanine focused funds are concerned, we are interested in (choose all that apply):



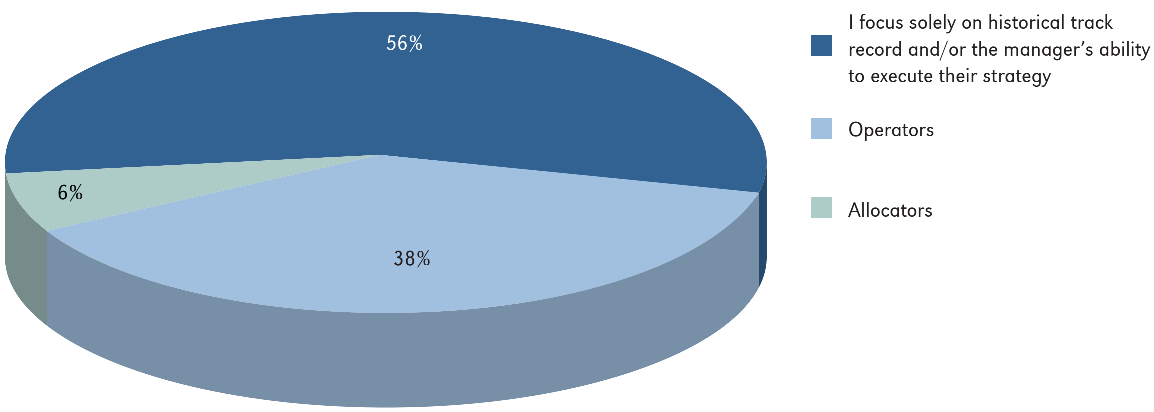
Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey

- When choosing between allocators and operators, a slight majority of respondents (56%) were indifferent, focusing solely on historical returns, up significantly from 32% in last year's survey (Chart XVI). Only 6% of respondents favored allocators.

- Non-North American respondents were more focused on historical track record (71%) as the most important attribute (Chart XVII) and were mainly indifferent between allocator and operator orientations.

Chart XVI Manager Investment Style

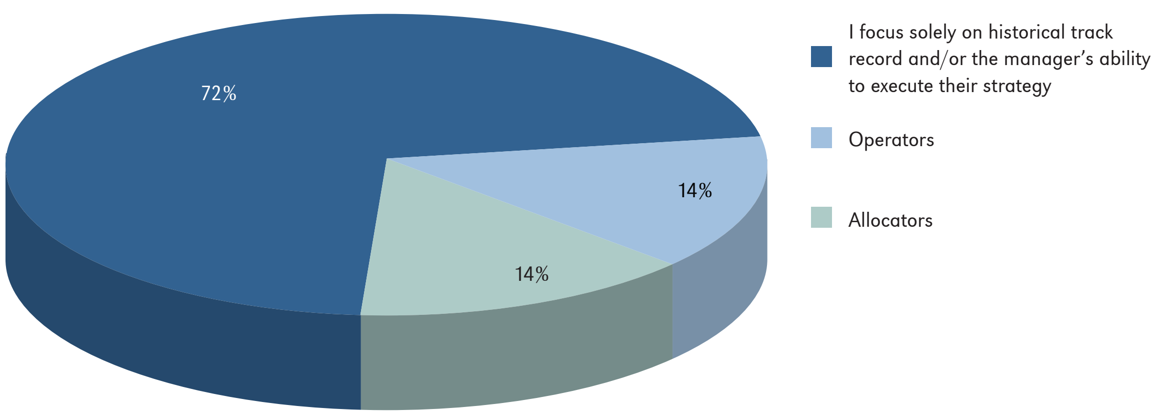
As far as manager investment style, I am more focused on:



Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey

Chart XVII Manager Investment Style — Non-North American Respondents

As far as manager investment style, I am more focused on:



Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey

Geographies of Interest

- North America continued to dominate investor geographic preference driven both by the availability of experienced managers and the large representation by North American investors in the survey (Chart XVIII). Pan-European funds targeting Western Europe were also of strong interest.

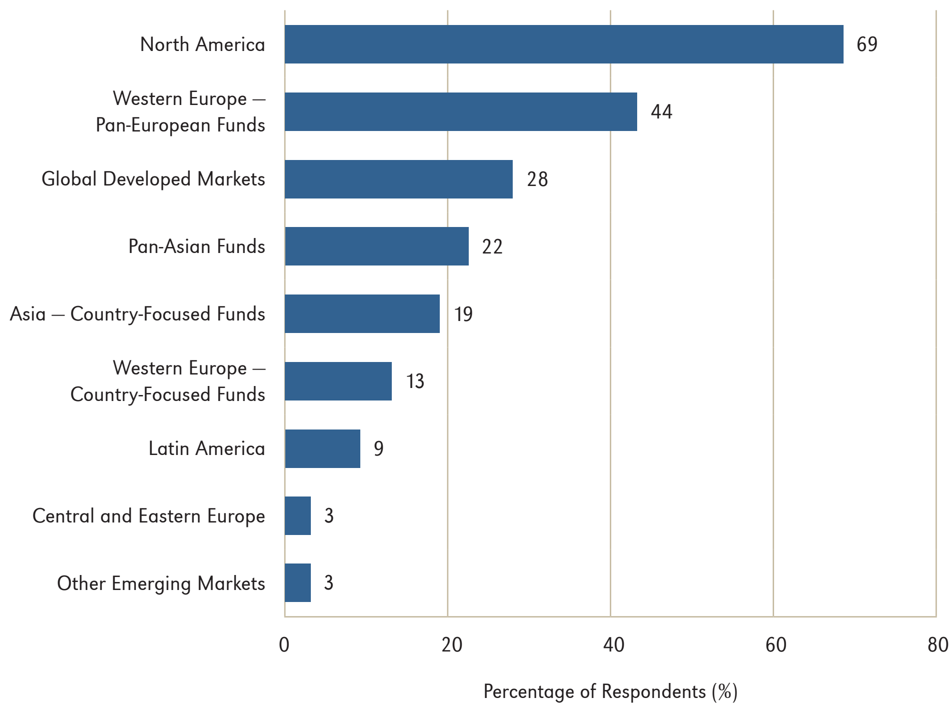
- There was also more interest in Asia-focused funds — both Pan-Asian and country-focused funds — than in any of the other emerging markets.

- There are distinct differences between North American respondents and non-North American respondents (Chart XIX). Non-North Americans are much more interested in international markets than North Americans, while 83% of North Americans targeted their home market.

"Non-North Americans are much more interested in international markets than North Americans."

Chart XVIII Geographic Focus

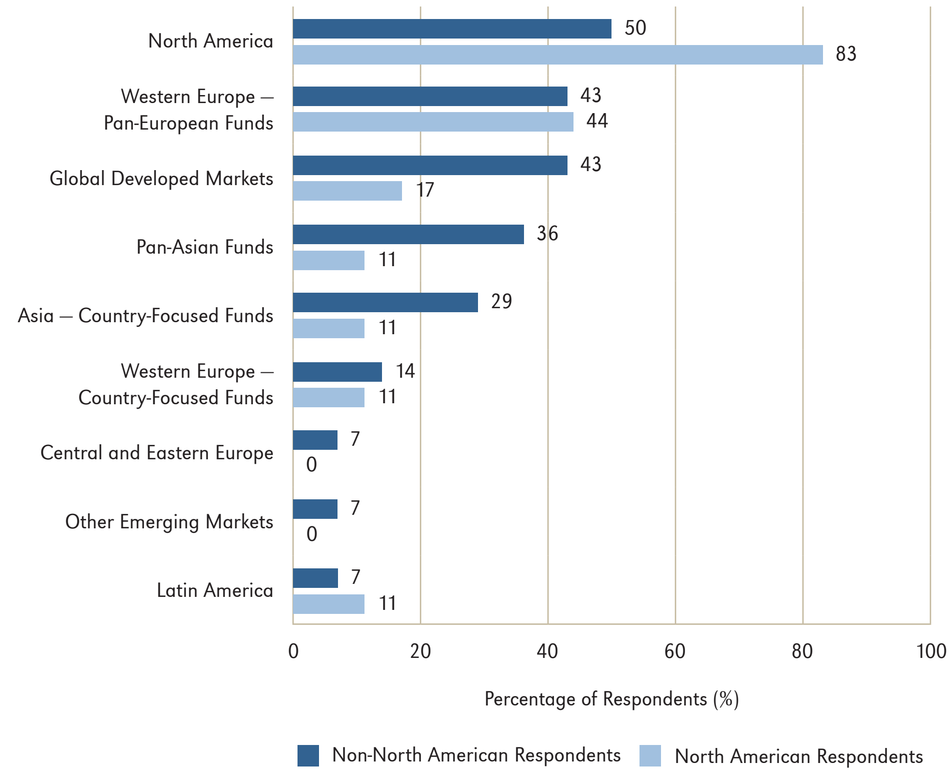
For the major geographic sectors of real estate, I am mainly focused on (choose no more than three):



Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey

Chart XIX Geographic Focus (by Region)

For the major geographic sectors of real estate, I am mainly focused on (choose no more than three):



Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey

- Within the European market, Pan-European funds are the largest sector of interest this year, while interest in the United Kingdom, the clear leader last year dropped significantly (Chart XX). It is likely that some of the decline in interest in the UK is driven by uncertainty over the Brexit referendum.

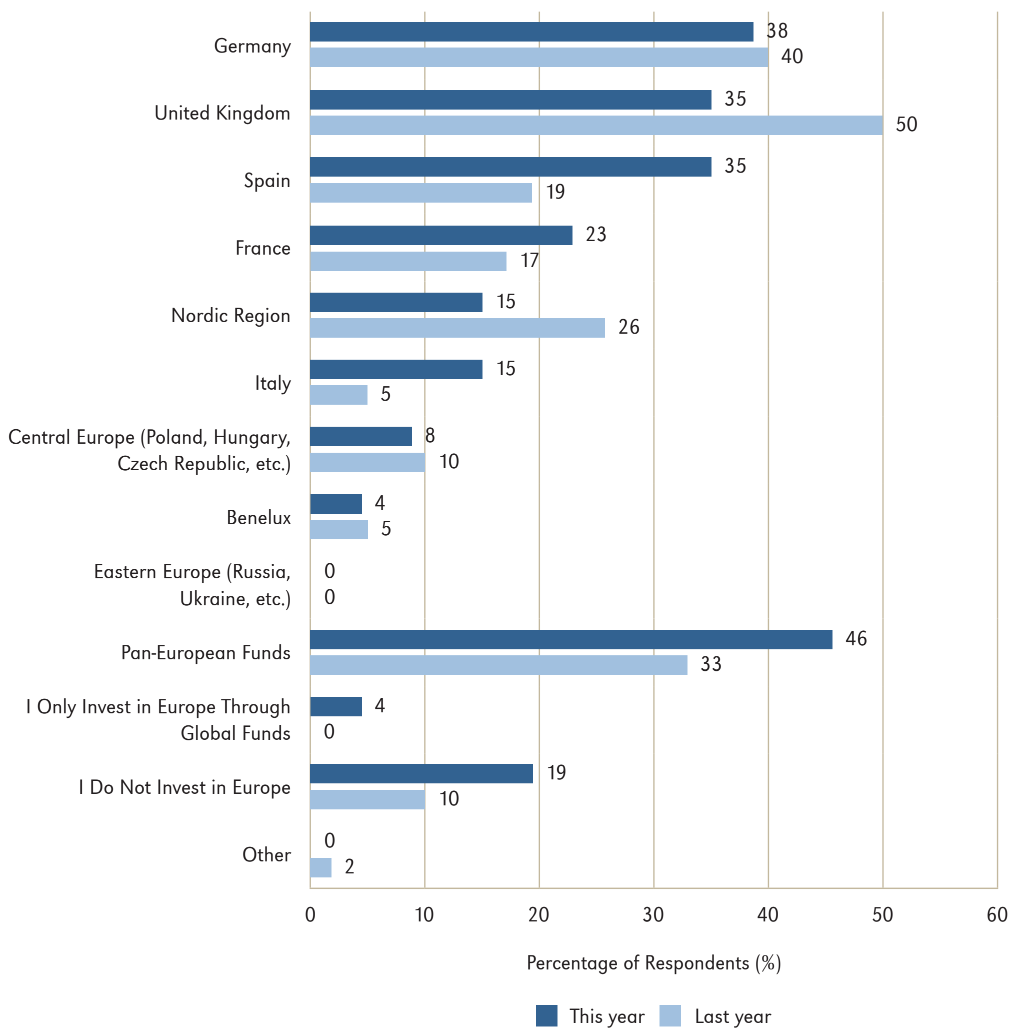
- Interest in Spain and Italy also increased significantly, as many investors feel those markets have bottomed out and are primed to rise. On the other hand, as was the case last year, no respondent was interested in Eastern Europe.

- There was an increase this year in respondents who said that they did not plan to invest in Europe at all — though at 19% this year that is still below the 21% it was two years ago.

"Pan-European funds are the largest sector of interest this year"

Chart XX Most Attractive Markets in Europe

For Europe, I find the most attractive markets to be (choose no more than three):



Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey and 2015 Survey

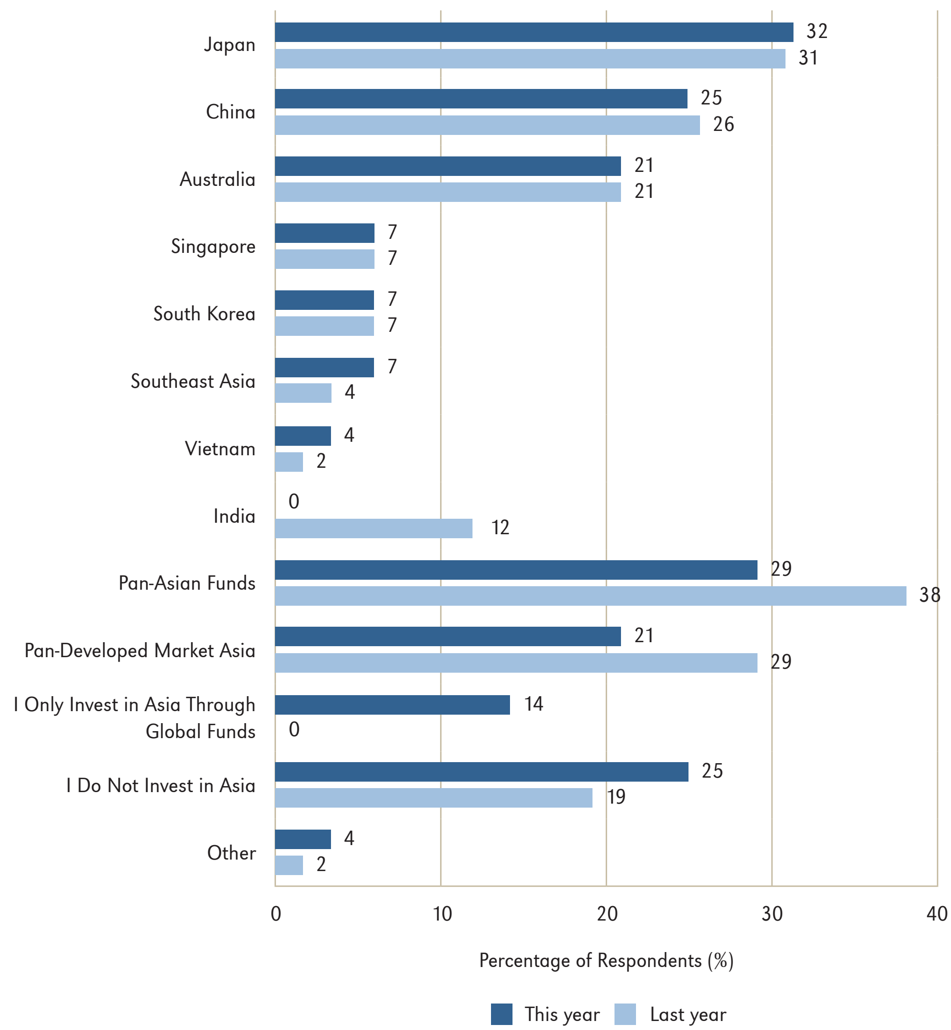
- There was a shift away from Pan-Asian funds and Pan-Developed Market Asia funds this year (Chart XXI) with more respondents saying they got their exposure to Asia through global funds or that they did not invest in Asia at all.

- Interest is tightly clustered between China and the developed economies of Australia and Japan for country-focused funds. However, interest in China funds did decline significantly from 36% two years ago to 25% this year.

- Among Asian investors, Japan (71%) and China (57%) were the most favored geographies, while for North American investors, Japan-focused funds were the preference.

Chart XXI Most Attractive Asian Markets

For Asia, I find the most attractive markets to be (choose no more than three):



Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey and 2015 Survey

Emerging Markets

- For emerging markets overall, the most striking result is that 57% of respondents say that they are not investing at all (Chart XXII), up sharply from 42% of respondents last year.

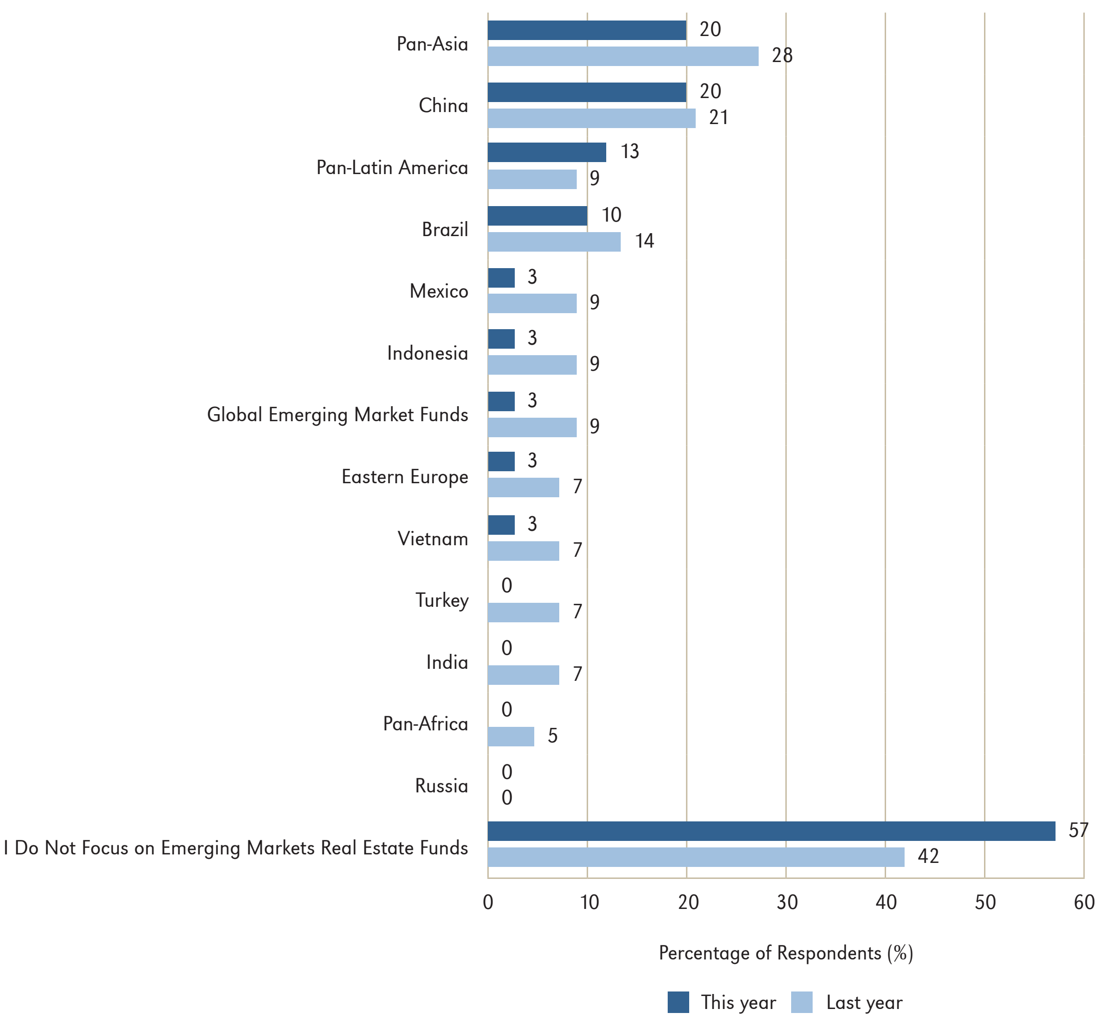
- As far as country-focused funds, China was the dominant preference, basically holding on to last year's level of interest. Pan-Latin American funds were the only sector with increased interest.

- Interest in smaller niche markets was extremely weak, with Turkey, India, and Pan-African funds attracting no interest.

- North American investors were even less interested in emerging markets with 63% of them saying they do not focus on these funds — though 19% of them did say they were interested in Brazil.

Chart XXII Most Attractive Emerging Markets

For emerging markets, I am targeting (choose no more than three):



Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey and 2015 Survey

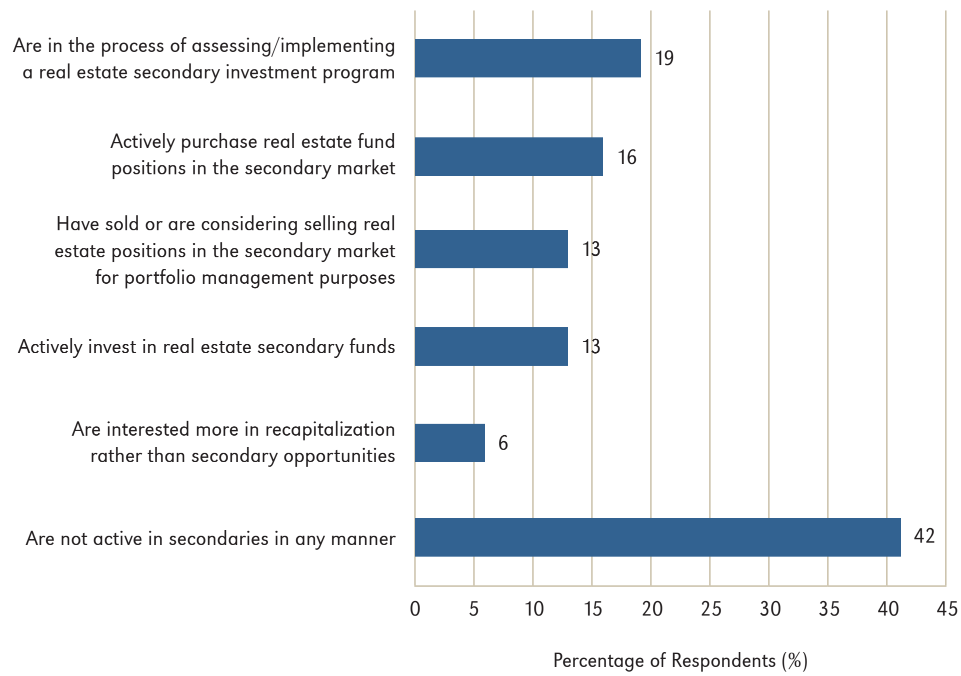
The Secondary Market

- The secondary market in real estate is still relatively new. 42% of respondents reported that they are not active in secondaries in any manner (Chart XXIII) though that is a notable decline from 55% last year. Fundraising for specialized secondary funds targeted at real estate has never exceeded $2 billion in any particular year though there are a number of more sophisticated investors that buy fund positions directly and not just through secondary funds.

- However, there is beginning to be more interested in secondaries. The number of respondents who actively invest in specialized secondary funds increased from 7% last year to 13% this year, and those respondents who say that they directly purchase positions in funds in the secondary market increased from 10% last year to 16% this year.

Chart XXIII Secondary Market Investments

In the private equity real estate secondary market, we (check all that apply):



Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey

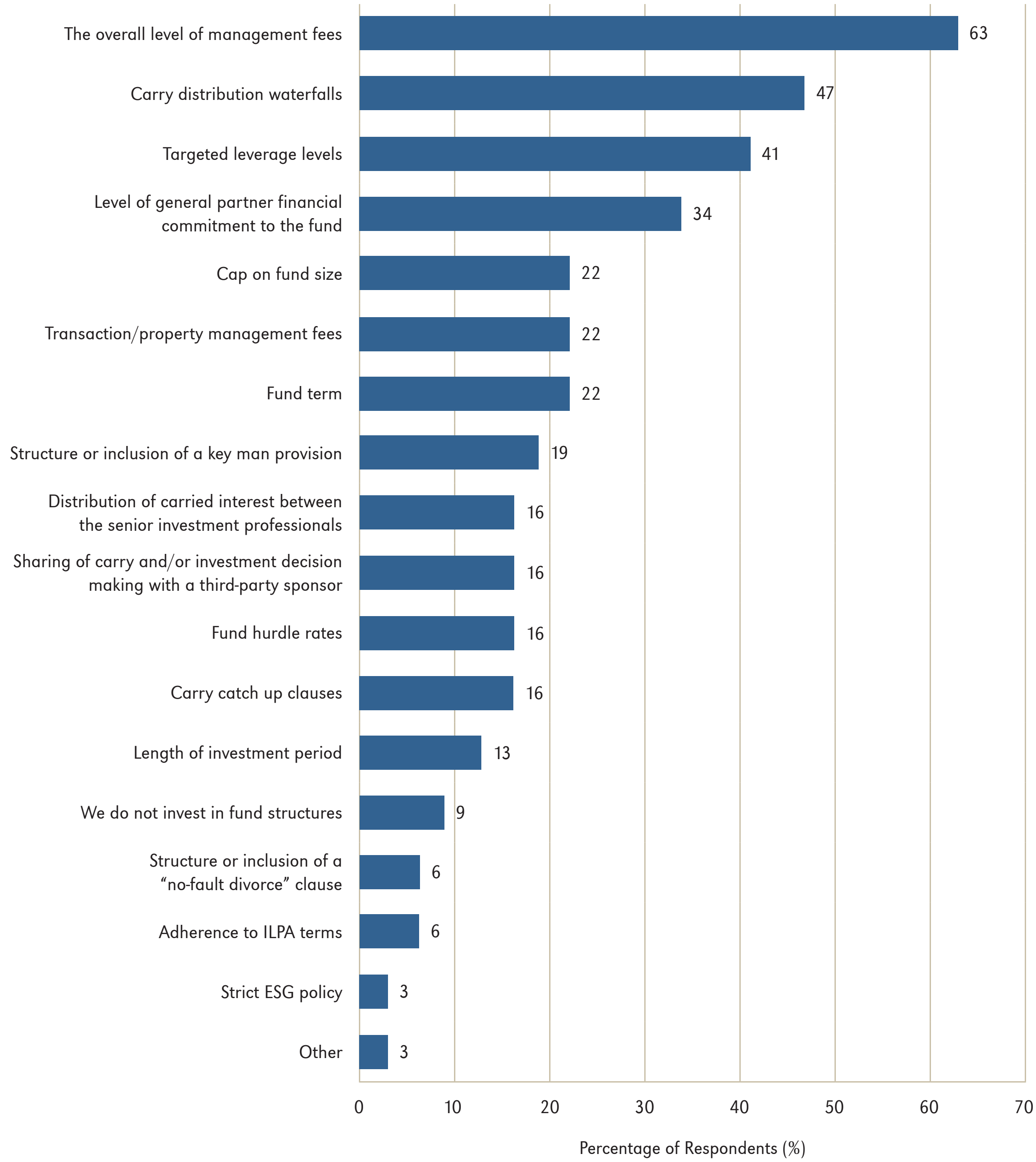
Key Terms and Emerging Managers

- The level of management fees charged by fund managers remains the top focus of investors (Chart XXIV), as it is a key element of alignment of interest between investors and fund managers.
- Over the last two years, concern about leverage employed by fund managers increased significantly, moving from 29% in 2014 to 41% this year.
- Non-North American investors are even more focused on management fees than North Americans (71%), and they are also focused on the level of general partner financial commitment to a fund, with 44% targeting that element.
- As far as strict ESG policies, only 3% of respondents said that it was an important issue for them, a level noticeably lower than that found in our private equity surveys.

"Over the last two years, concern about leverage employed by fund managers increased significantly"

Chart XXIV Issues Regarding Terms or Fund Structure

The terms or fund structure we most care about are (choose no more than three):



Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey

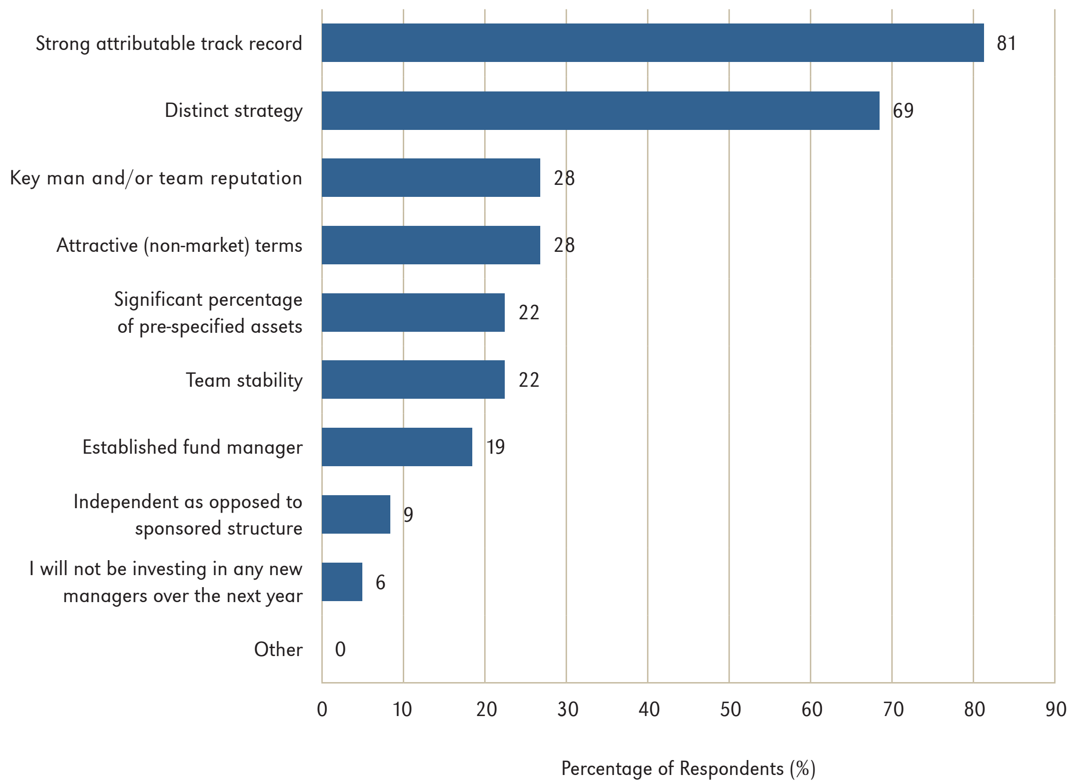
- When looking at new fund managers, investors remain focused on a strong attributable track record and a distinct, repeatable strategy as their key decision drivers (Chart XXV) though other issues or strategies can be beneficial at the margin.

- Only 6% of respondents stated that they would not invest in new managers over the next year.

- Non-North American investors are much more interested in pre-specified assets than North American investors, and are much more likely to back an established manager. North American respondents, on the other hand, are more focused on key man or team reputations as decision drivers (Chart XXVI).

Chart XXV Key Characteristics of New Fund Managers

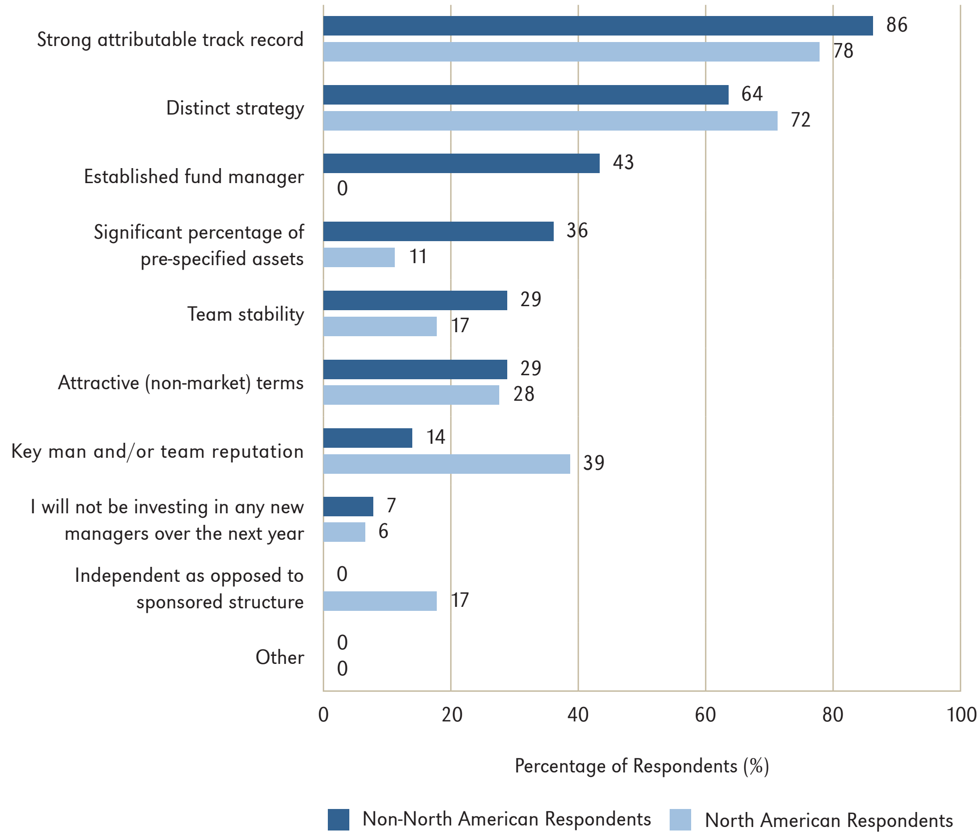
The key characteristics required for me to consider an investment in a new manager (choose no more than three):



Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey

Chart XXVI Key Characteristics of New Fund Managers

The key characteristics required for me to consider an investment in a new manager (choose no more than three):



Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey

Benchmarking

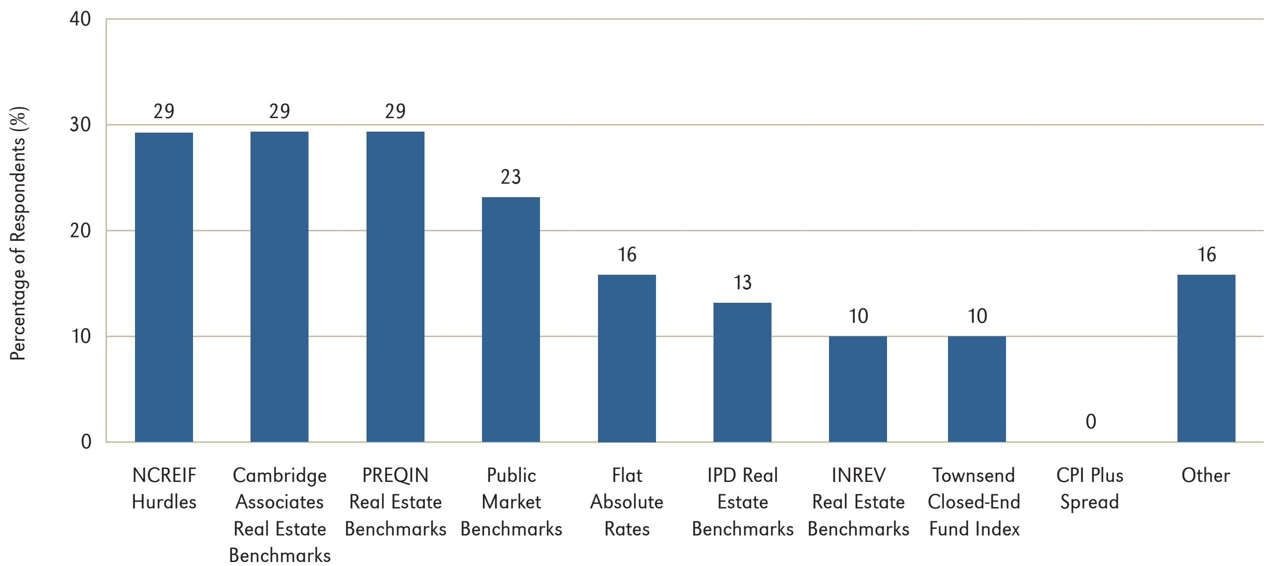
- Investors use a wide range of real estate specific or overall market benchmarks for their portfolios (Chart XXVII) and in many cases use multiple benchmarks.

- NCREIF, Cambridge and PREQIN data are all used by 29% of respondents, often in combination with another benchmark. Use of NCREIF actually fell significantly, from 51% last year. Outside of North America the PREQIN benchmark is used more (54%), while in North America Cambridge is more preferred (39%).

- "Other" answers are varied with no particular pattern.

Chart XXVII Portfolio Benchmarks

What benchmarks do you use for the return of your overall portfolio? (choose all that apply)



Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey

Investor Fears and Concerns

- The greatest fear among investors is that too much money is flooding the sector (Chart XXIX). This response was the leading concern across all types of investors and across all geographies, though it actually fell from 86% in 2015.

- Last year Probitas Partners added the fear regarding reaching a cyclical market high point. This was the second leading response last year and this year, with 52% or respondents selecting it last year, increasing to 69% this year.

- Table II highlights the three greatest fears from this year's survey compared to our 2008 survey, which was taken in the midst of the market turmoil of the GFC. In 2008 investors were very focused on credit problems in their portfolios that were rapidly developing before their eyes. In 2016 investors are concerned with developing generic issues, too much money in the market and a feeling that we are nearing the top of a cycle. The greatest fear of 2016, that too much money was flooding into real estate funds, was not a concern in 2008 as fundraising was grinding to a halt as the public markets collapsed.

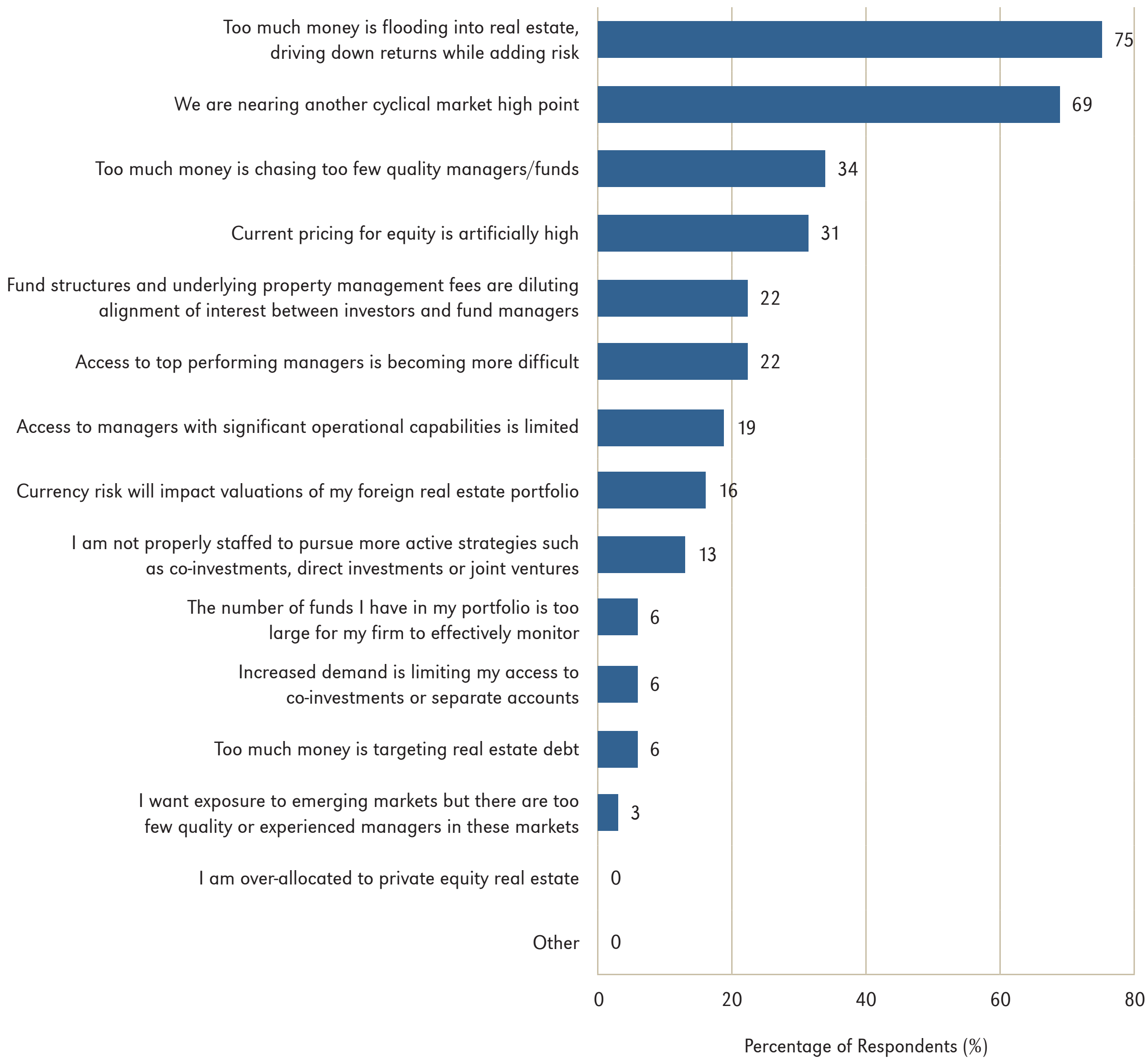
Table II What Keeps You Up at Night?
Top Three Responses

2008		2016	
Issue	**%**	**Issue**	**%**
Credit problems in Western or mature markets will dramatically impact performance	67%	Too much money is flooding into real estate, driving down returns while adding risk	75%
Capitalization rates will increase significantly impacting existing portfolio valuations	30%	We are nearing another cyclical market high point	69%
Fund structures and underlying property management fees are destroying alignment of interest between investors and fund managers	24%	Too much money is chasing too few quality managers/funds	34%

Source: Probitas Partners' Real Estate Institutional Investor Trends Survey, 2008 and 2016

Chart XXVIII Greatest Fears

My three greatest fears in the real estate market at this moment are:



Source: Probitas Partners' Real Estate Institutional Investor Trends for 2016 Survey

Our View of the Future

We see several key trends emanating from the survey and our ongoing conversations with institutional investors:

- ***Fundraising for real estate vehicles is likely to grow over the next year but tensions in the market could reverse that trend quickly.*** Key factors driving this are the following:
  - Though realizations have slowed in the last few months, distributions over the last three years are still driving a need to redeploy proceeds to maintain allocations in a market with what investors believe are increasingly less attractive investment alternatives.
  - Returns on many other fixed-income investments are perceived to be unattractive as central banks continue to maintain or push down interest rates, in some instances, into negative territory.
  - However, there is a growing fear that we are approaching the top of a market cycle, and though there is no consensus on a potential trigger event, underlying investor fears imply a negative reaction could develop quickly.

"Increasingly, manager quality is a function of not just past performance but demonstrated discipline in past cycles"

- ***Closed-end funds focused on value-added and opportunistic strategies continue to be the choice for investors lacking the scale to invest directly.*** Many institutional investors lack the internal resources to pursue more active strategies.
  - However, these investors are also very concerned that we are reaching the top of a market cycle and remain highly focused on manager quality and fund terms. Increasingly, manager quality is a function of not just past performance but demonstrated discipline in past cycles, with evidence to support that claim. Investors are also becoming more concerned about leverage levels, looking to avoid the worst of the problems that arose in the last market crisis.

- ***Core assets are still of strong interest to direct investors but the amount of money targeting that sector has continued to drive down potential returns.*** In the aftermath of the GFC, core assets — especially "Trophy" assets in the central business districts of Tier I cities — benefited from a flight to quality seeking respite from the turmoil in highly leveraged opportunistic funds. Even as the flow of capital pushed down returns, activity by central banks globally to reduce interest rates helped to keep returns relatively attractive, at least on a direct base. However, these forces made it increasingly difficult over the last couple of years for core assets to make sense within a closed-end fund structure with the necessity of supporting fees and carry.

- ***Large pension plans and sovereign wealth funds will continue the trend of lowering their costs and increasing investment control by pursuing direct investments, separate accounts, and joint ventures.*** This trend reflects an ongoing change by many large investors to fundamentally change the function of real estate in their portfolios, from some combination of inflation hedge, higher return generator and current return generator, to a primary focus on inflation hedge or liability matching function, with an ability to generate stable returns. These are large portions of the overall real estate capital market allocation, so the shifts are substantial. These direct strategies require more resources and experienced internal staff to execute effectively — and are not easy for smaller investors to replicate. However, the large pension plans active in these sectors are diverting significant amounts of capital away from closed-end funds into these strategies and are likely to continue to do so.

- ***Changes to FIRPTA create benefits and drawbacks for North America.*** The recent changes to the Foreign Investment in Real Property Tax Act ("FIRPTA") in the United States are somewhat of a mixed blessing, eliminating the tax for qualified foreign pension plans but actually increasing the amount of withholding tax for other investors. The FIRPTA actions also did not affect the potential for a tax on Effectively Connected Income ("ECI") in the United States for investments that are not considered passive. Though there are various legal structures that can be used to mitigate the effects of FIRPTA and ECI, there are still legal complexities involved in managing compliance, and investors targeting the United States for the first time because of the repeal of FIRPTA are just beginning to map the universe of opportunities, analyze the effects of currency exchange on returns, and come to grips with how they should structure to deal with ECI. Of course, this is on top of the concern that with the amount of money that has flowed into the United States over the last several years, it is nearing the tipping point, at least in the primary markets where investors have been focused the past five years.

- ***Europe and Brexit uncertainty.*** Within Europe, the UK has been a magnet for real estate capital for several years, through direct investments, UK country-focused funds and Pan-European funds, as investors conversely shunned Southern Europe because of its economic troubles. As a result, many investors are over-weighted to London real estate and the market had begun to show weakness even before Brexit began to raise its head as a serious issue. In advance of the referendum, a number of investors have paused somewhat on the UK and are now considering the ramifications. On the other hand, more investors, especially Europeans, have decided that a number of economies in Southern Europe have truly bottomed out, as Spain, for example, is now becoming a target.

- ***Interest in real estate debt and credit strategies continues to moderate.*** After surging in interest from late 2012 through 2013 from nearly no interest previously, fundraising for these strategies continues to slow. As we moved into late 2014 and into 2015, investors needed to focus on their legacy debt portfolios and how they were performing, as well as how new investments would fit into their portfolios. The space saw substantial moderation of returns in the larger end of the market (loans of $50 million and more), making that segment of the market less attractive.

- ***Distressed debt is rising on radar screens.*** Interest in distressed debt has begun to rebound from very low levels, with 25% of respondents opportunistically looking at it this year compared to 9% last year. Investors are increasingly nervous about the markets in general and concerned that we are nearing a market peak, and this trend is likely to continue. However, they are still uncertain whether a turn in the market will generate significant stressed and distressed investment opportunities. Since the last potential "100-year flood" of opportunities post-GFC was effectively dammed by concerted central bank action, investors are leerier of predicting the impact of governmental action on their returns.

- ***Caution on emerging markets is increasing.*** A number of emerging markets have suffered from political or economic turmoil, while others have been badly hit by the strength of the United States dollar. Certain investors believe that the long-term growth potential for emerging markets is better than developed markets, but they have become much less certain about the shorter-term prospects for real estate returns over the normal life-span of a closed-end fund in specific markets. This is especially true when emerging market returns are compared with very attractive proven returns for several strategies in developed markets with perceptibly less risk. Of the emerging markets, interest in China and Pan-Asian focused funds is by far the strongest, though that interest has moderated over the last three years as investors continue to discuss how the markets in China will progress, with hope warring with trepidation. There continues to be increased interest in the more developed markets that sit adjacent to China (Japan, South Korea, Hong Kong, Singapore, and Australia) as a risk moderated way to generate attractive Asia-oriented exposure as a complement to or alternative to China exposure.

- ***Emerging managers continue to garner interest.*** Investors who have already established large core portfolios are increasingly looking to add alpha to their portfolios by backing new managers with distinct strategies or competitive advantages. They are not interested in pursuing "just another opportunistic fund" or "just another value add fund" – that is unless its multi-cycle track record is extremely compelling.

Real Estate Institutional Investor Trends for 2016 Survey

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