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Probitas Partners
2021 Institutional Investors Real Estate Survey

June 2021

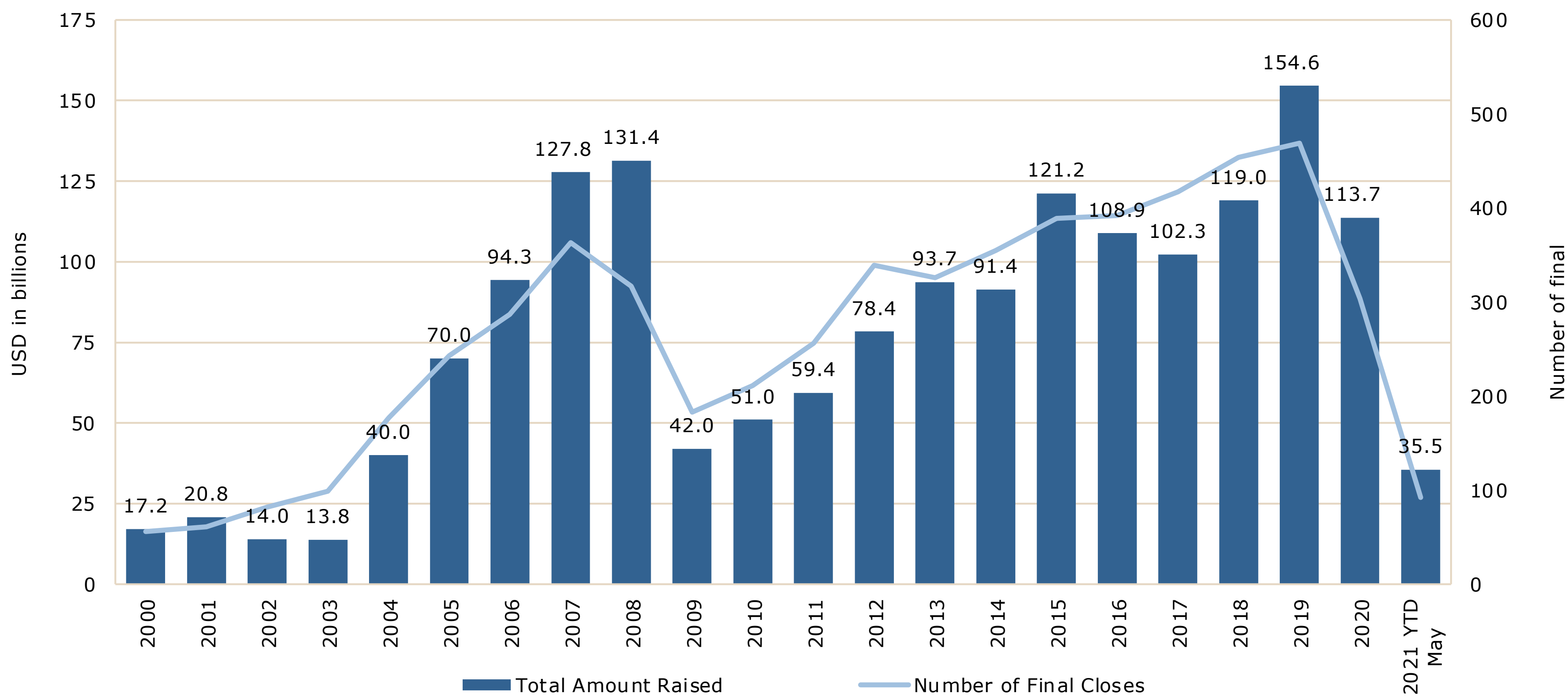
PROBITAS RESEARCH™

Table of Contents

Real Estate Market Snapshot: Equity Fundraising

- Only in 2019 did Closed-End Real Estate Equity Fundraising exceed its previous peak of 2008 before the Great Financial Crisis (GFC), but as the Pandemic hit in 2020 it fell substantially, both in the amounts raised and the number of funds closed
- The fundraising pace so far in 2021 is below last year's pace

Chart I - Global Closed-End Real Estate Equity Fundraising 2000–2021

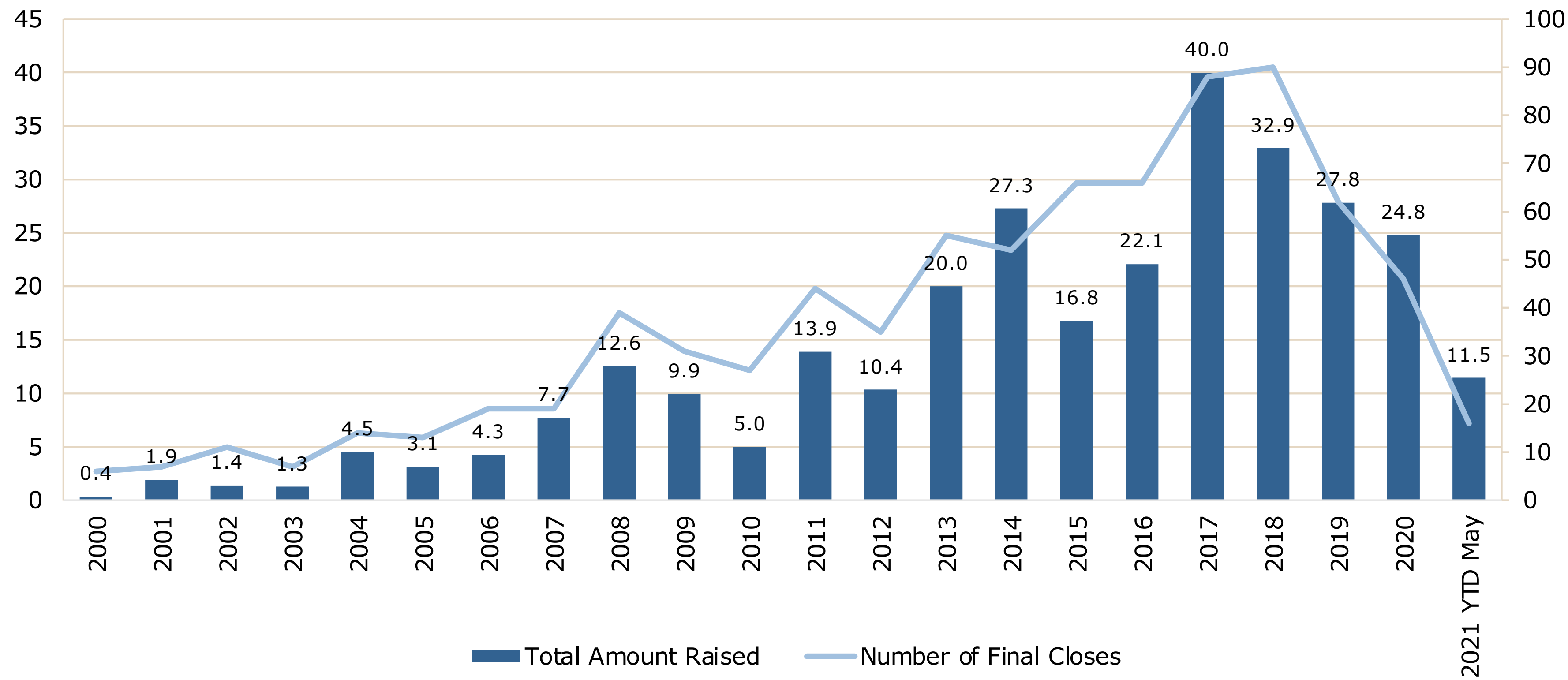


Source: PREQIN

Real Estate Market Snapshot: Debt Fundraising

- Closed-End Real Estate Debt Funds are a newer product and were not as badly affected by the GFC as equity funds
- However, fundraising for debt funds stalled out in 2017 and declined every year since then. Its continued fall in 2020 was moderate compared to the equity decline

Chart II - Global Closed-End Real Estate Debt Funds 2000-2021

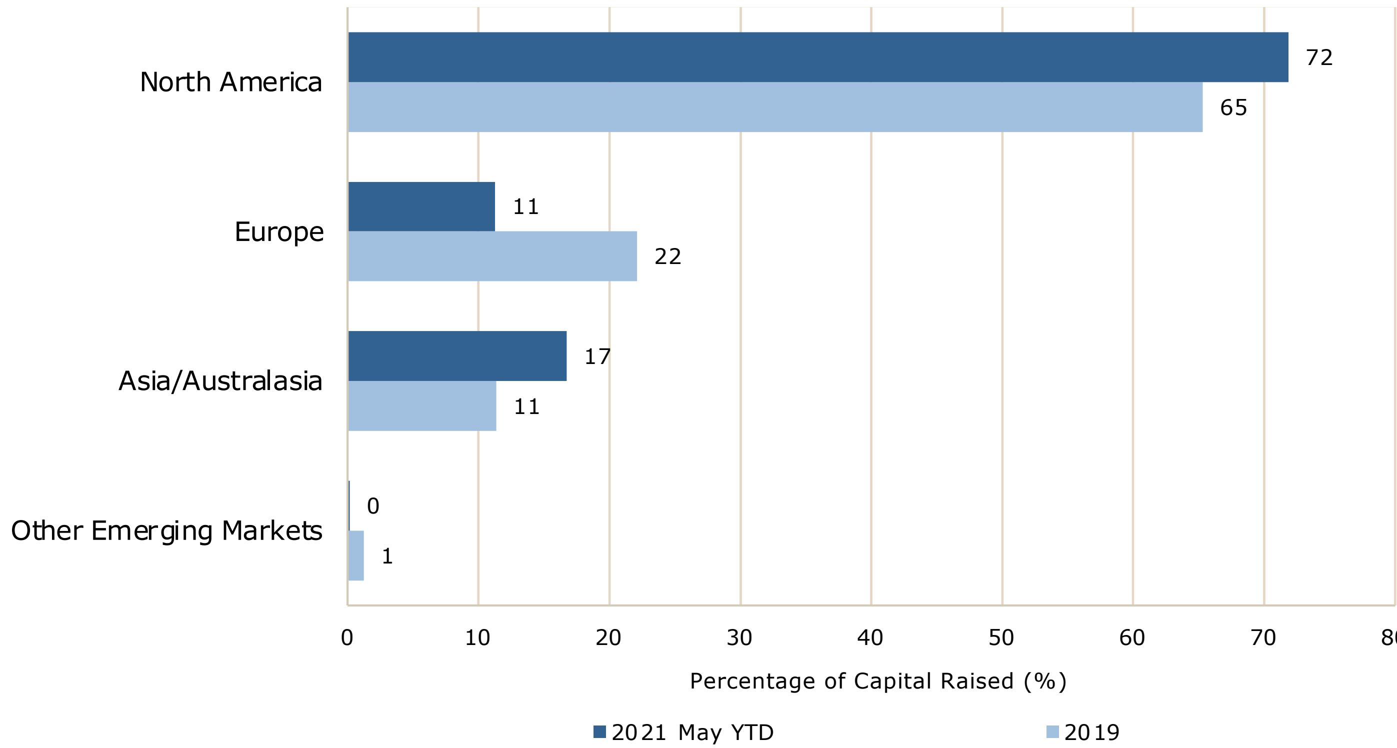


Source: PREQIN

Real Estate Market Snapshot: Fundraising By Geographic Focus

- Comparing the geographic focus of funds raised in 2019 before the Pandemic to this year's totals to date, there seems to have been a shift in interest towards North America and Asia/Australia
- There was not a strong interest in Other Emerging Markets in either year

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

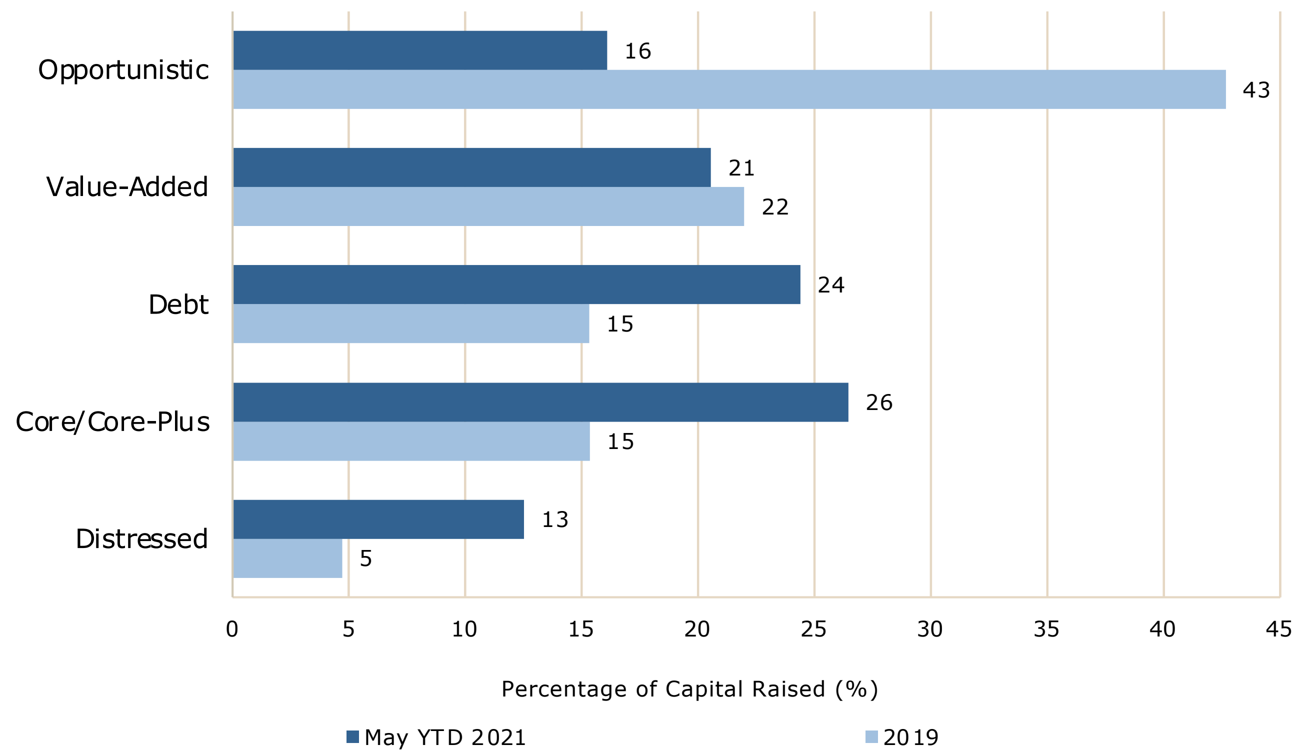


Source: PREQIN

Real Estate Market Snapshot: Fundraising By Strategy

- Comparing the popularity of fund strategies between 2019 and YTD 2021, there was a steep drop in interest in Opportunistic funds, with investor focus shifting heavily to Core/Core Plus funds and Debt funds
- There was also an increase in interest in Distressed funds

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



Source: PREQIN/Probitas Partners

Ten Largest Real Estate Equity Funds Closed in 2020

- Most of the funds that had final closes in 2020 were launched in 2019 or 2018
- Table I lists the largest real estate equity funds that had their final closes in 2020; seven of these funds were headquartered in the U.S. with four of the five largest funds following Opportunistic strategies

Table I
Ten Largest Closed-end Real Estate Equity Funds Closed in 2020

	Fund	Fund Manager	Strategy	Sector Focus	Geographic Focus	Amount (mn)	HQ
1	Blackstone Real Estate Partners Europe VI	Blackstone Group	Opportunistic	Diversified	Europe	USD 10,369	New York
2	Sino-Ocean Office Fund	Sino-Ocean Capital	Core	Office	China	USD 4,100	Beijing
3	Rockpoint Real Estate Fund VI	Rockpoint Group	Opportunistic	Diversified	Transatlantic	USD 3,819	Boston
4	SCREP VII	PAG	Opportunistic	Diversified	Asia	USD 2,750	Hong Kong
5	Sculptor Real Estate Fund IV	Sculptor Capital Management	Opportunistic	Diversified	US	USD 2,600	New York
6	Westbrook Real Estate Fund XI	Westbrook Partners	Value Added	Diversified	Global	USD 2,568	Palm Beach Gardens, FL
7	Oak Street Real Estate Capital Fund V	Oak Street Real Estate Capital	Triple Net Lease	Diversified	US	USD 2,500	Chicago
8	DivcoWest Fund VI	DivcoWest	Value Added	Diversified	US	USD 2,250	San Francisco
9	NREP Nordic Strategies Fund IV	NREP	Value Added	Diversified	Europe	EUR 1,900	Copenhagen
10	Rockpoint Growth and Income Real Estate Fund III	Rockpoint Group	Core Plus	Multi-Family/ Office	US	USD 2,012	Boston

Source: PREQIN/Probitas Partners; rankings based upon US$ equivalents

Five Largest Real Estate Debt Funds Closed in 2020

- These are the five largest Real Estate Debt funds that had final closes in 2020
- Three of these funds were focused on the U.S. and a fourth is headquartered in New York but invests globally

Table II

Five Largest Closed-end Real Estate Debt Funds Closed in 2020

	Fund	Fund Manager	Strategy	Geographic Focus	Amount (mn)	HQ
1	Blackstone Real Estate Debt Strategies IV	Blackstone Group	Mezzanine	Global	USD 8,000	New York
2	Walton Street Real Estate Debt Fund II	Walton Street Capital	Debt in Office, Retail & Hotels	US	USD 1,520	Chicago
3	Kayne Anderson Real Estate Opportunistic Debt	Kayne Anderson Capital Advisors	Targeting Freddie Mac K-Series bonds at discounted pricing	US	USD 1,325	Los Angeles
4	PIMCO Commercial Real Estate Debt	PIMCO	Senior Debt	US	USD 1,258	Newport Beach
5	M&G Real Estate Debt Fund IV	M&G Investments	Senior Debt	Europe	GBP 971	London

Source: PREQIN/Probitas Partners; rankings based upon US$ equivalents

Ten Largest Real Estate Fund Managers

- For a longer perspective, Table III lists the ten largest firms ranked by the amount of capital raised for closed-end real estate funds over the last ten years, combining funds raised for both equity and debt funds
- 80% of these funds are headquartered in North America

Table III
Ten Largest Firms Focused On Closed-End Real Estate Funds
Ranked By Capital Commitments Raised, Last Ten Years

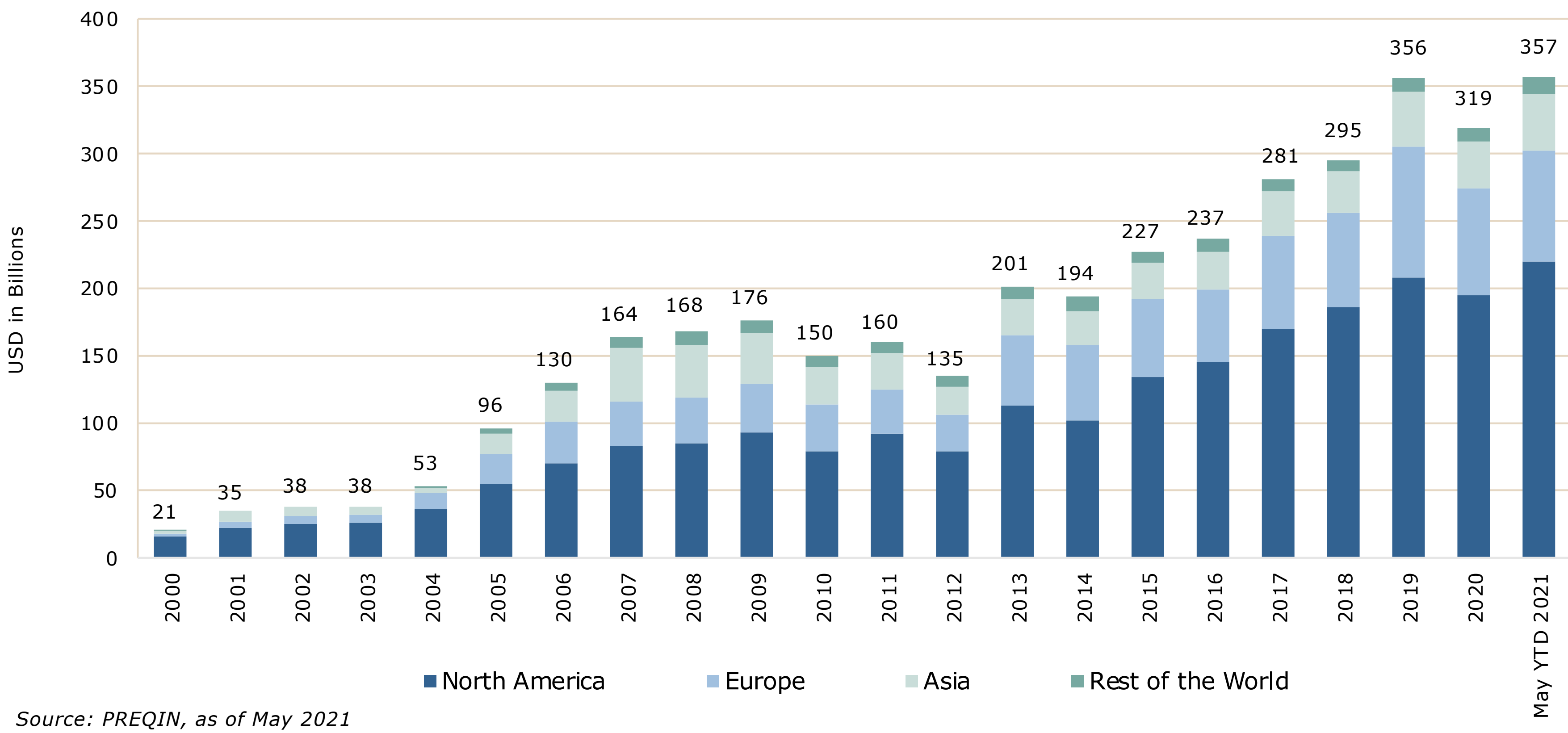
	Firm	Amount Raised	Estimated Dry Powder	Headquarters	Founded
1	Blackstone Group	110,644	27,864	New York	1985
2	Lone Star Funds	61,486	15,857	Dallas	1995
3	Brookfield Asset Management	38,286	10,441	Toronto	1899
4	Starwood Capital Group	24,159	10,751	Miami	1991
5	GLP	23,569	3,810	Singapore	2009
6	Angelo, Gordon & Co	15,132	4,123	New York	1988
7	Oaktree Capital Management	14,779	4,758	Los Angeles	1995
8	AXA IM Alts	14,426	1,316	Paris	1994
9	Rockpoint Group	13,861	4,044	Boston	2003
10	PIMCO	13,701	866	Newport Beach	1971

Source: PREQIN; rankings based upon US$ equivalents
Notes: Amounts in USD millions

Closed-End Real Estate Fund Dry Powder

- The trend of the amount of "dry powder" awaiting investment from all closed-end real estate funds has grown fairly steadily over the last 20 years with a noticeable dip after the GFC
- Though it fell in 2020, it has rebounded so far in 2021

Chart V - Closed-end Real Estate Fund Dry Powder by Geography



Source: PREQIN, as of May 2021

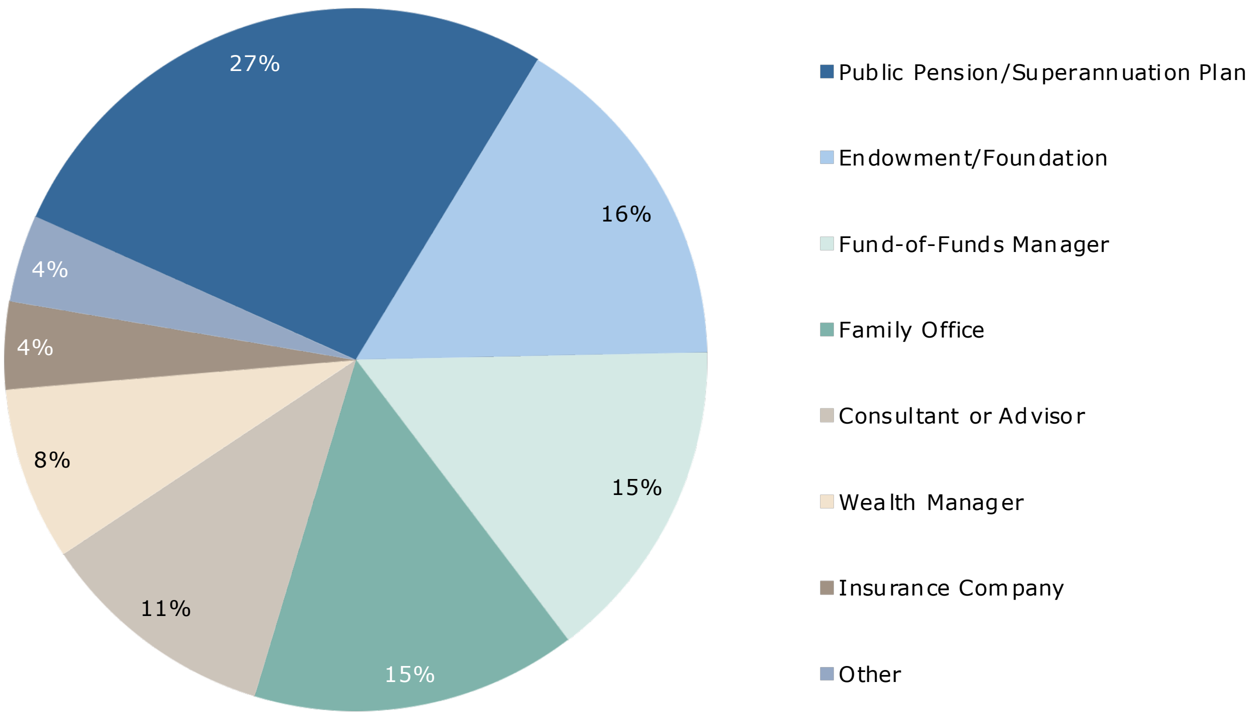
Survey Background

- Probitas Partners does a survey of institutional investors' interest in real estate investments annually in order to track key trends
  - Probitas did not do a survey in 2020 because it felt that the market disruptions caused by the Pandemic last Spring would obscure key trends instead of defining them
- This Survey was taken during May of 2021 and targets institutional investors globally
  - The majority of respondents are from North America, though there is participation from Europe and Asia
- Our analysis of the results is not only based upon the specific answers to the Survey but also our ongoing conversations with investors
- A number of charts in the Survey compare the results of our pre-Pandemic 2019 Survey to our latest results

Respondents Categorized by Investment Type

- Public Pensions, Endowments/Foundations, Fund-of-Funds Managers and Family Offices made up nearly three quarters of all respondents

Chart VI - Respondents Categorized by Investor Type
I represent a:

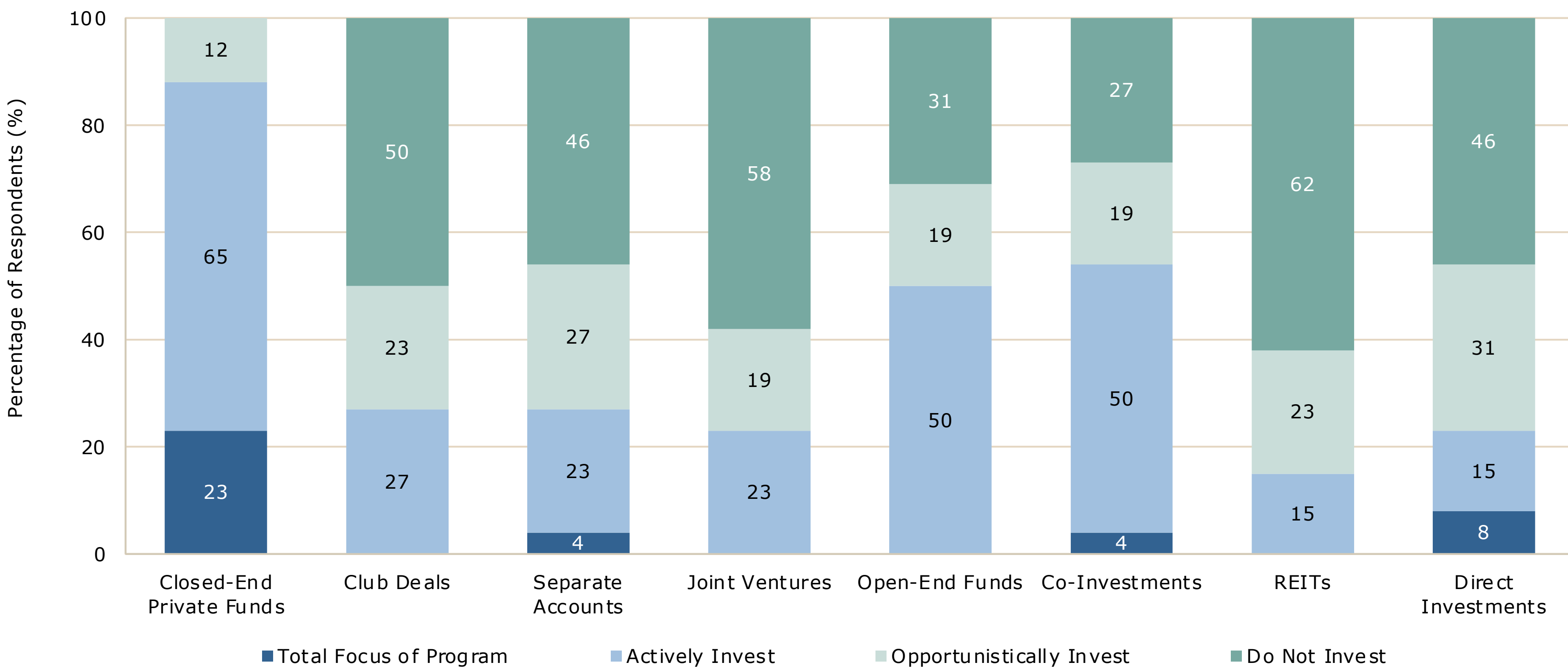


Source: Probitas Partners' Real Estate Institutional Investor Trends: 2021 Survey Results

Interest in Investment Structures

- The most popular investment structure for respondents was closed-end funds, with 88% either totally focused on closed-end funds or actively investing in the structure, though co-investments and open-end funds are contenders
- The least popular structures are REITs and Joint Ventures

Chart VII - Real Estate Investment Structures
We invest via:



Source: Probitas Partners' Real Estate Institutional Investor Trends: 2021 Survey Results

Drivers of Investment Focus

- Only two drivers attracted more than a third of respondents – maintain established relationships with fund managers and targeting strategies with the potential for downside protection
- Besides looking for access to co-investments, other responses were quite scattered

Chart VIII - Drivers of Investment Focus

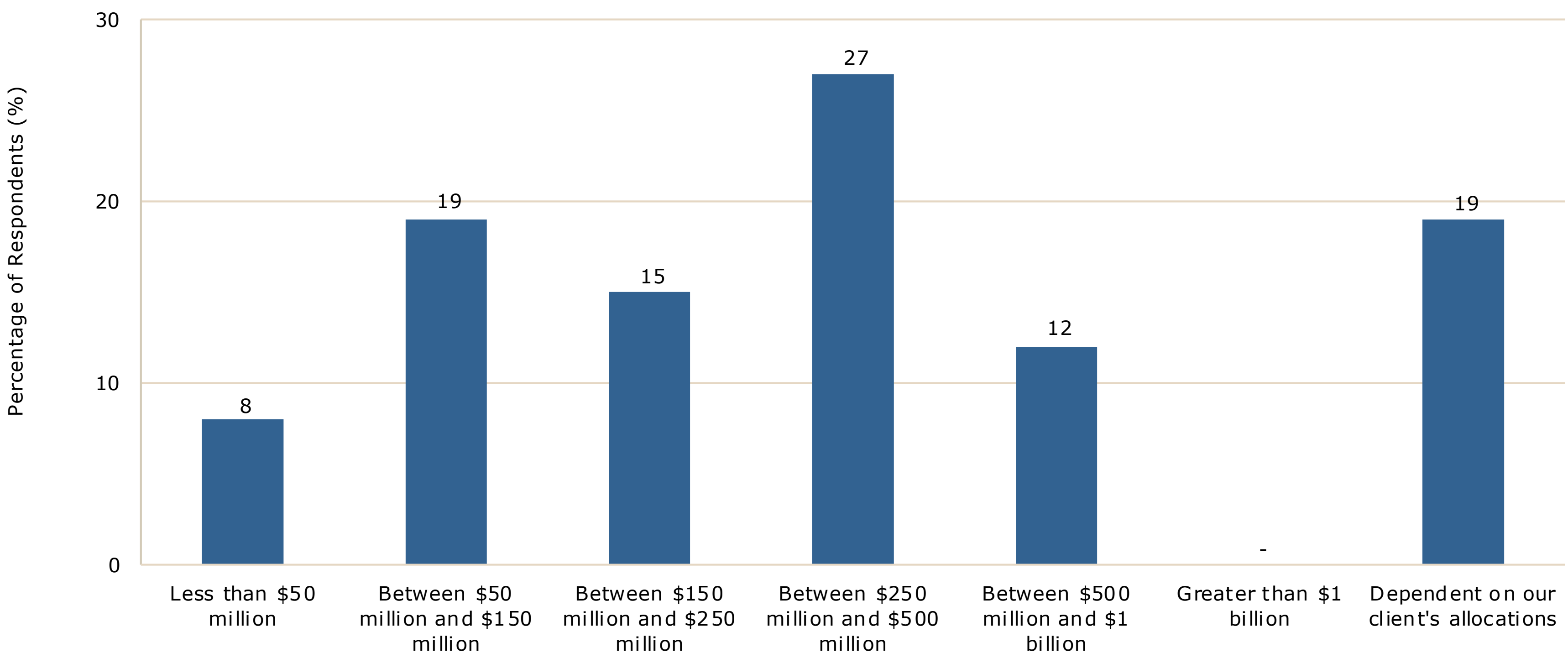
Our real estate investment focus over the next year will be driven by (choose no more than three):

Source: Probitas Partners' Private Equity Institutional Investor Trends: 2021 Survey Results

Annual Real Estate Allocations for the Next Year

- As far as real estate allocations over the next year, the respondents were quite diverse by the size of their programs with 39% of respondents seeking to deploy between $250 million and $1 billion

Chart IX - Real Estate Allocations
Over the next year, we are looking to commit across all areas of real estate (in USD):

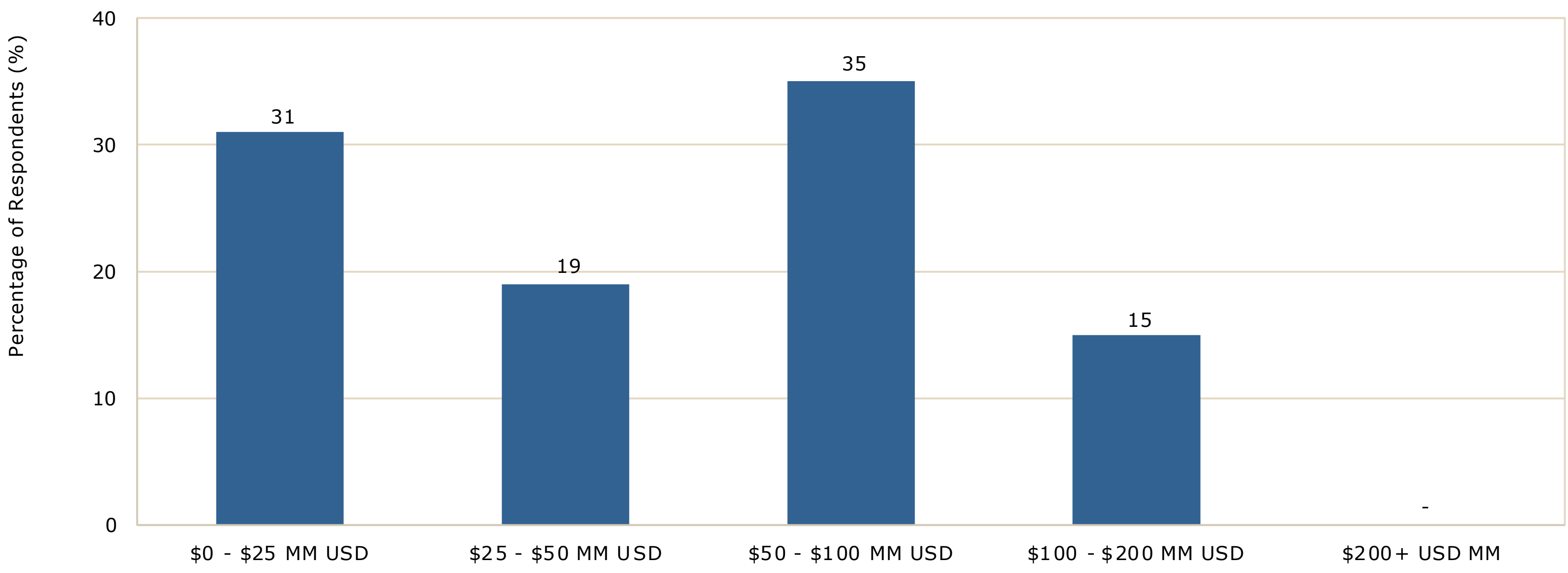


Source: Probitas Partners' Real Estate Institutional Investor Trends: 2021 Survey Results

Targeted Average Size of Individual Investments

- As far as the average size of individual investments or fund commitments, responses were again fairly diverse, with 50% of investors looking to make individual commitments of $50 million to $200 million

Chart X - Average Size of Individual Investment
Over the next year, we expect our institution's average investment size in real estate investments to be (in USD):

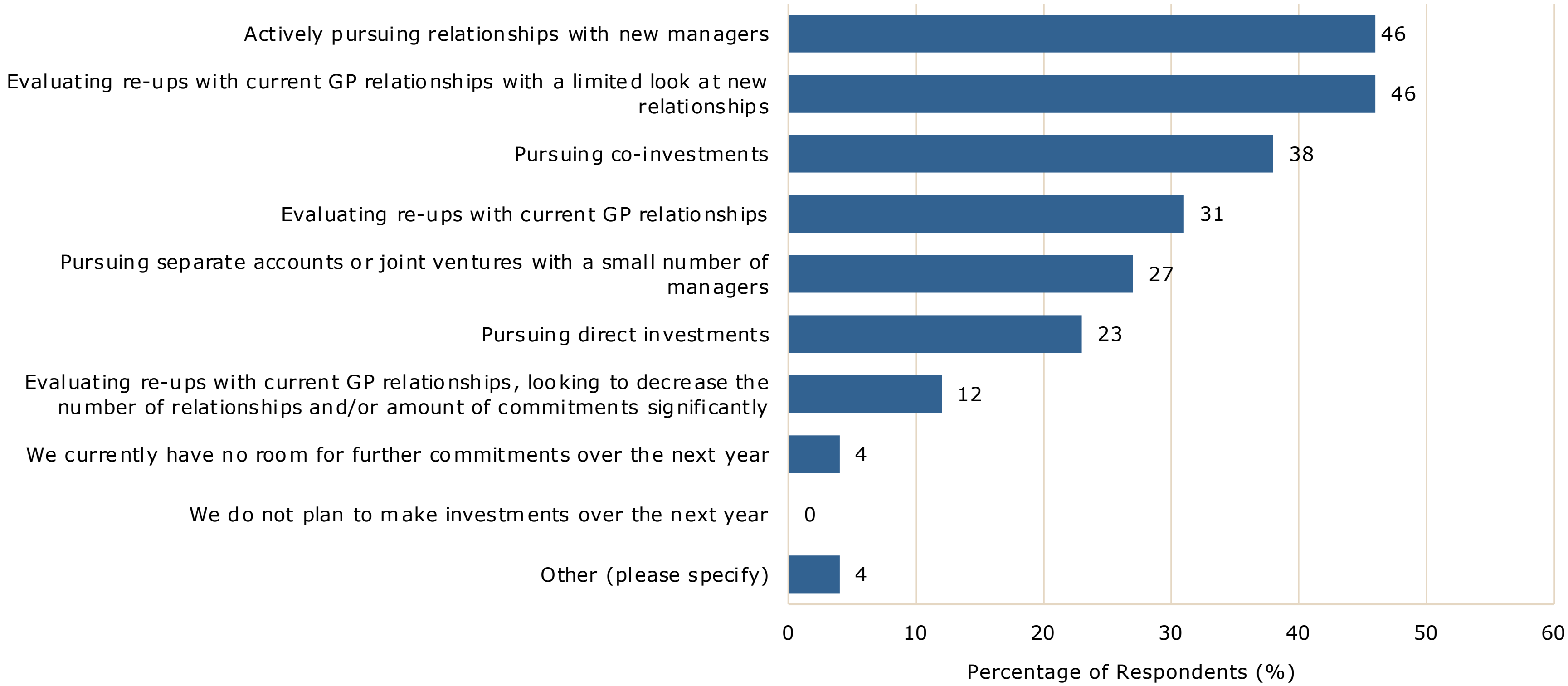


Source: Probitas Partners' Real Estate Institutional Investor Trends: 2021 Survey Results

Real Estate Strategic Portfolio Focus

- Interestingly, nearly 50% of respondents are focused on re-ups with current fund managers while nearly another 50% are actively pursuing relationships with new managers
- 38% of respondents are pursuing co-investments with 23% pursuing direct investments

Chart XI - Real Estate Strategic Portfolio Focus
Over the next year we expect our primary private equity real estate focus to be (choose no more than three):

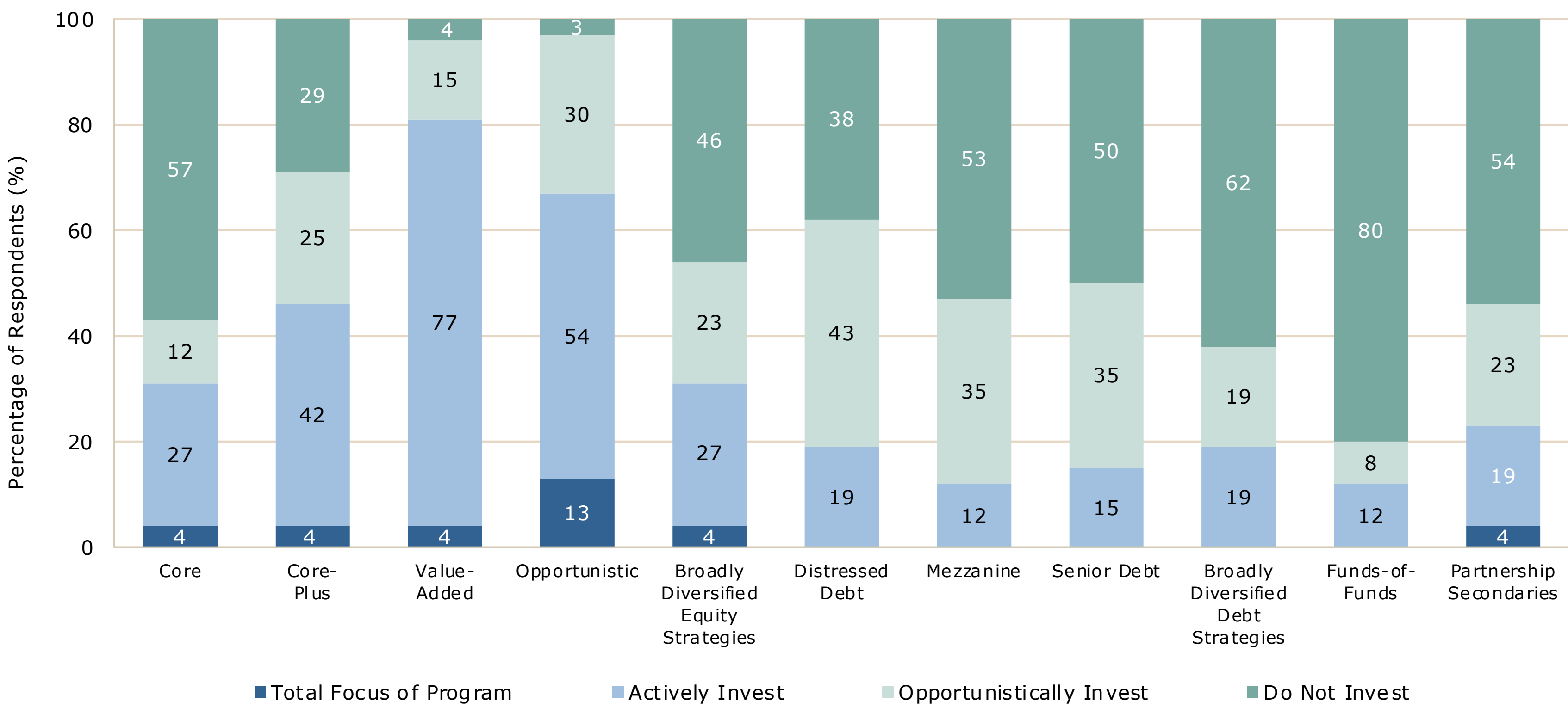


Source: Probitas Partners' Real Estate Institutional Investor Trends: 2021 Survey Results

Targeted Real Estate Investment Strategies

- As far as fund or transaction strategies, the two most popular are Value-Added or Opportunistic, closely followed by Core-Plus
- The various debt strategies are of middling interest while few investors are interested in funds-of-funds

Chart XII - Targeted Real Estate Investment Strategies
As far as risk/return strategies for funds or properties, we focus on:

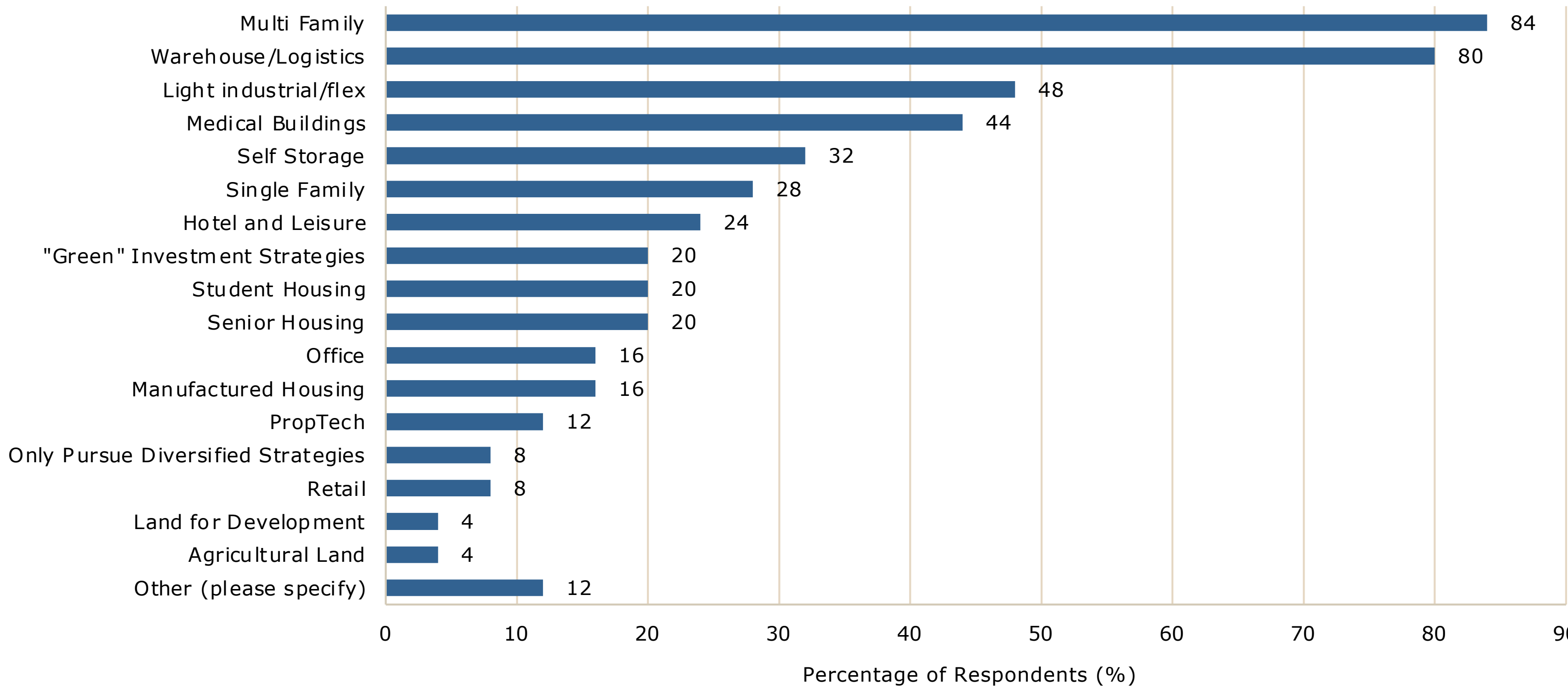


Source: Probitas Partners' Real Estate Institutional Investor Trends: 2019 Survey Results

Real Estate Industry-Sector Preferences

- The two greatest industry-sectors of investor focus by far are Multi-Family and Warehouse/Logistics – both were targeted by over 80% of respondents
- Two key long-term sectors – Office and Retail – trailed badly

Chart XIII - Real Estate Industry-Sector Preferences
For the various industry sectors or subsectors of real estate globally, we are most interested in (choose no more than five):



Source: Probitas Partners' Real Estate Institutional Investor Trends: 2021 Survey Results

Sector-Focus - 2019 vs. 2021

- Comparing the highlights of the 2019 survey to 2021 shows distinctive changes driven by the Pandemic
  - Multi-Family and Warehouse/Logistics led in both years, but increased their leads
  - The Office sector was badly hit by the Pandemic, falling from 41% interest in 2019 to 16% in 2021
  - Interest in Light Industrial/Flex soared from 18% to 48%
  - Not on the table, Retail plunged from 28% in 2019 (in 6th place) to 8% in 2021

Table IV
Institutional Investors Focus of Attention Among Real Estate Industry-Sectors
Top Five Responses

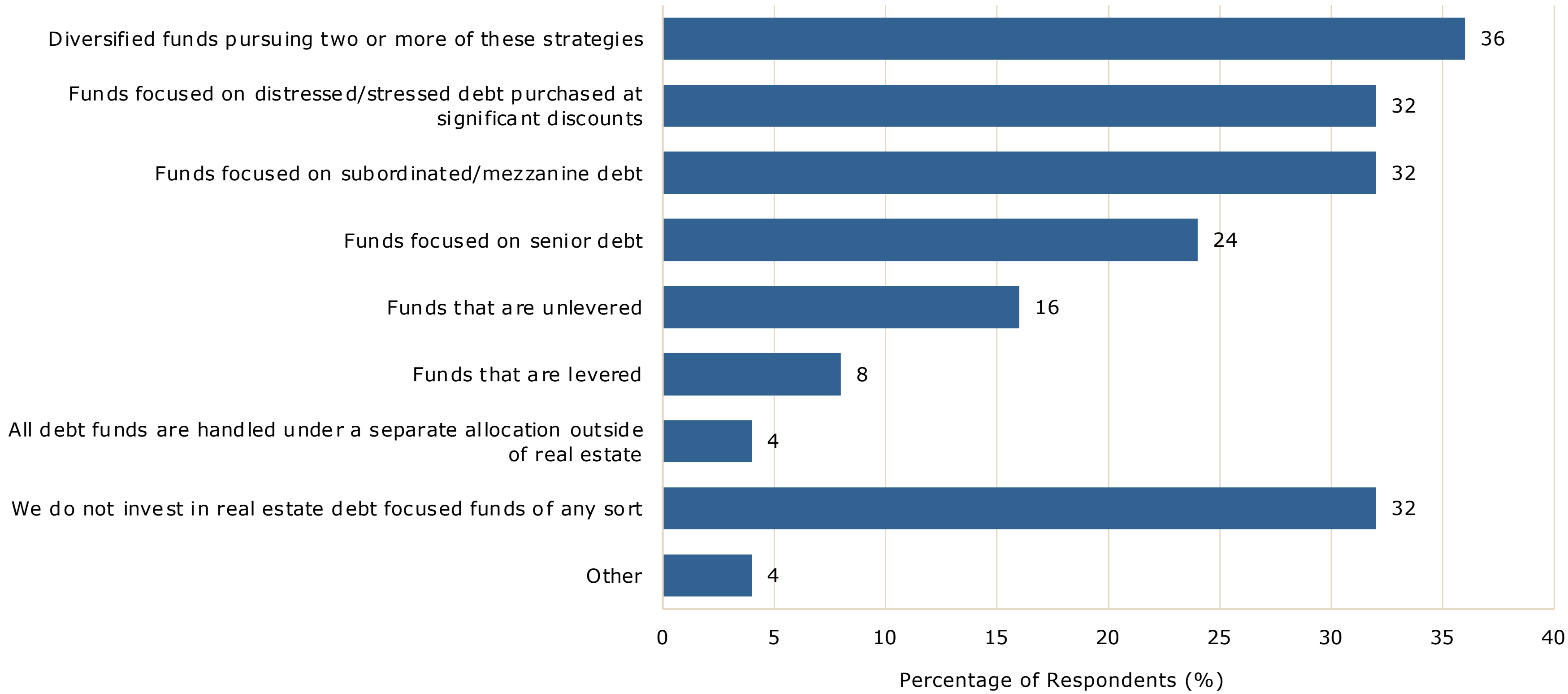
2019		2021	
Sector	**% Targeting**	**Sector**	**% Targeting**
Multi-Family	80%	Multi-Family	84%
Warehouse/Logistics	69%	Warehouse/Logistics	80%
Office	41%	Light Industrial/Flex	48%
Senior Housing	33%	Medical Buildings	44%
Medical Buildings	31%	Self Storage	32%

Source: Probitas Partners' Real Estate Institutional Investor Trends: 2019 and 2021 Survey Results

Interest in Real Estate Debt/Mezzanine Funds

- Diversified funds pursuing two or more of the base debt strategies led investor interest with 36% of respondents, a huge leap from the 5% who targeted it in 2019
- Though 32% of respondents did not invest in debt, that's down from 37% in 2019
- More investors are interested in targeting unlevered funds than levered funds

Chart XIV - Real Estate Debt/Mezzanine Funds
As far as real estate debt/mezzanine focused funds are concerned, we are interested in (choose all that apply):

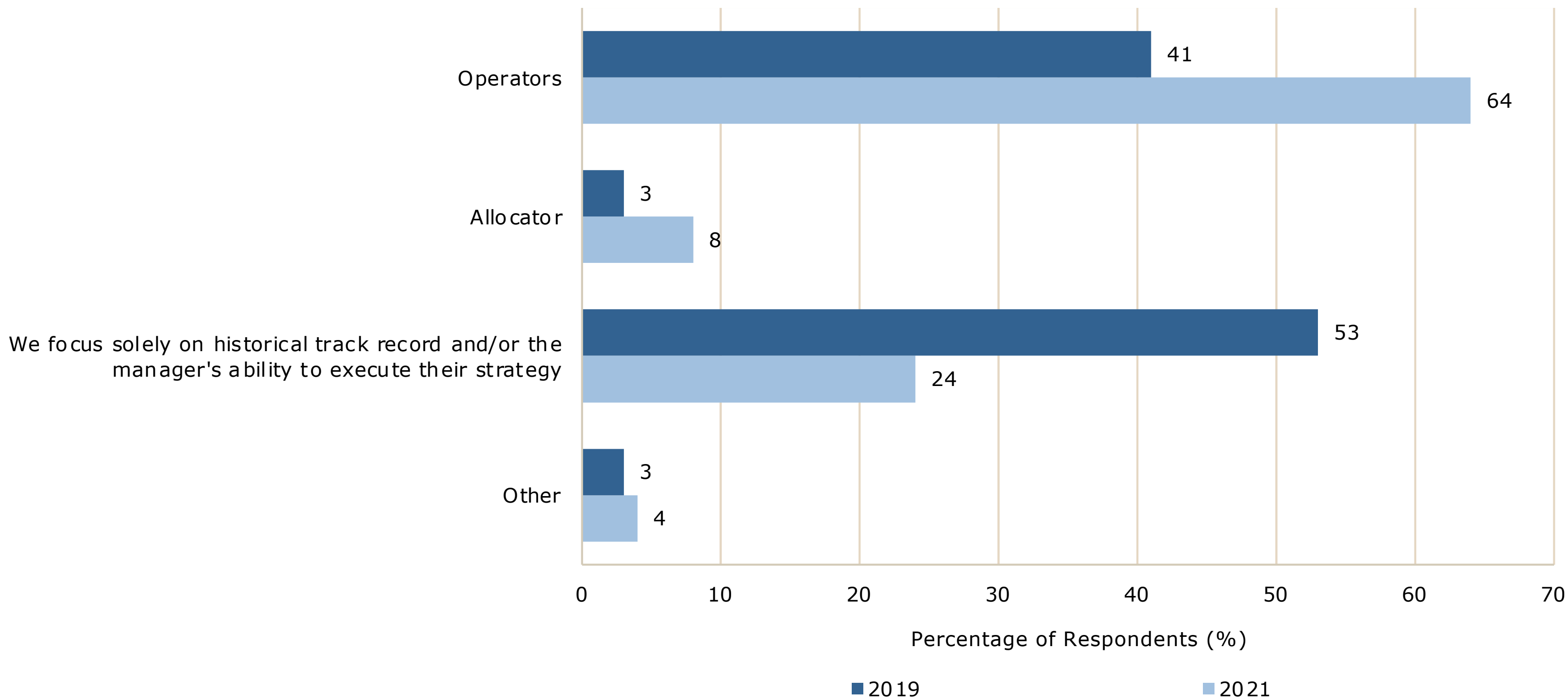


Source: Probitas Partners' Private Equity Institutional Investor Trends: 2021 Survey Results

Preference For Operators or Allocators

- In our past surveys, fund managers who act as Operators were preferred to Allocators, though the majority of respondents were often most focused on strong past returns
- The change since 2019 has been stark – interest in fund managers who are Operators increased by 50% while the percent of respondents solely focused on strong track records was halved

Chart XV - Manager Investment Style
As far as manager investment style, we are more focused on:

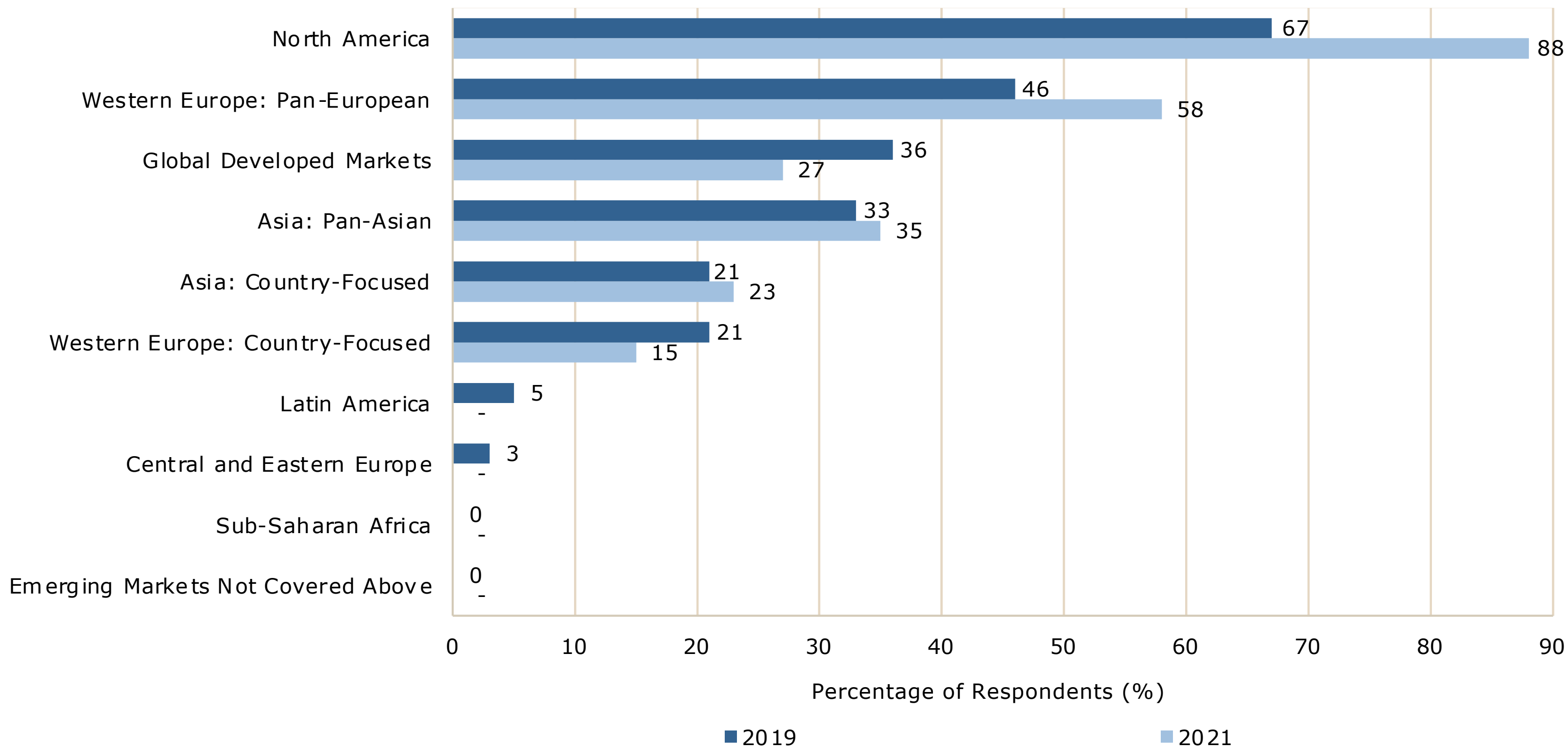


Source: Probitas Partners' Real Estate Institutional Investor Trends: 2021 and 2019 Survey Results

Investor Geographic Focus by Region

- Though they were always popular, interest in North American and Pan-European funds increased substantially since 2019
- Outside of Asia, there is little interest in emerging markets – and less interest in 2021

Chart XVI - Investor Geographic Focus (by Region)
For the major geographic sectors of real estate, we are mainly focused on (choose no more than four):

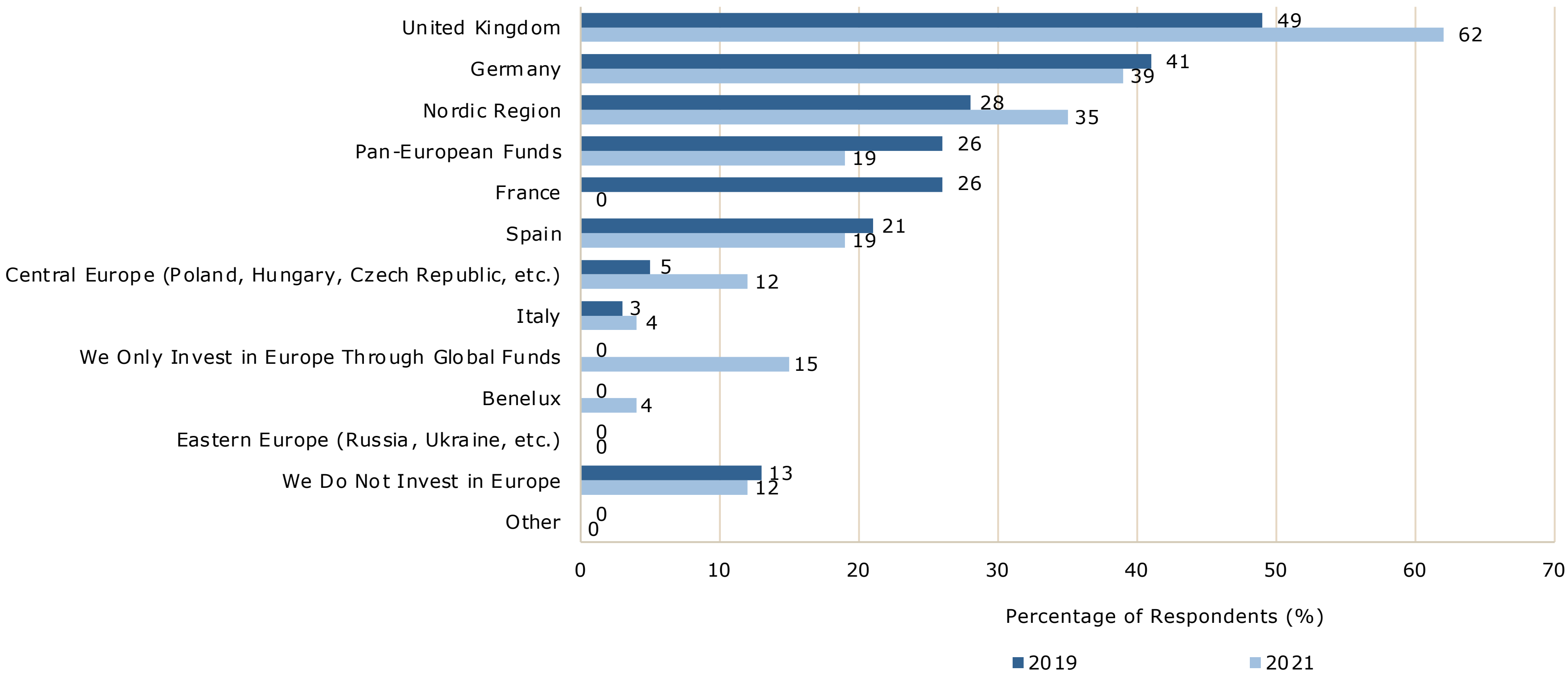


Source: Probitas Partners' Real Estate Institutional Investor Trends: 2019 and 2021 Survey Results

Most Attractive Markets in Europe

- Since 2019, interest in the United Kingdom and the Nordic Region increased noticeably while interest in Germany remained stable; they make up the top three responses
- There was also a significant increase in those who only invest in Europe through Global funds

Chart XVII - Most Attractive Markets in Europe
For Europe, we find the most attractive markets to be (choose no more than three):

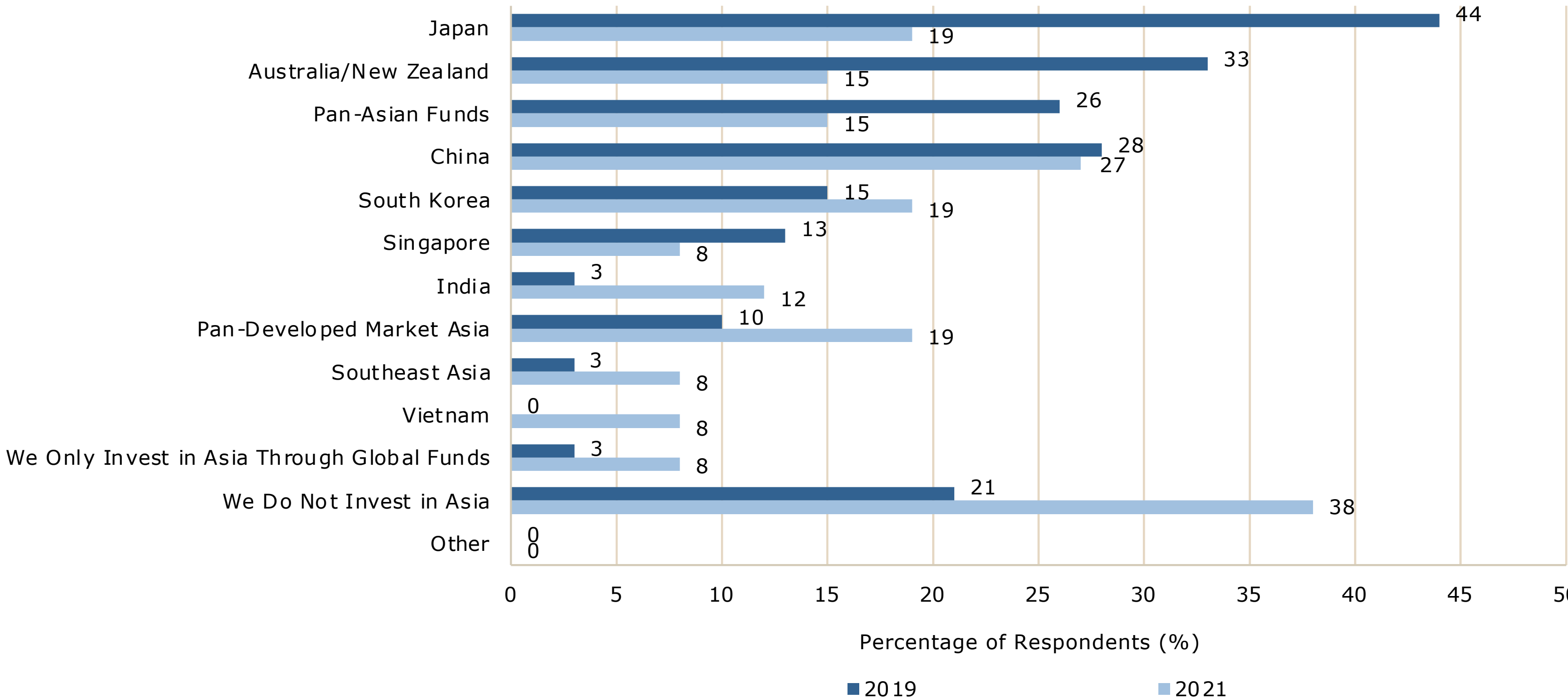


Source: Probitas Partners' Real Estate Institutional Investor Trends: 2021 and 2019 Survey Results

Most Attractive Asian Markets

- There was a major reordering of the interest in countries and regions in Asia in 2021, though this may have been impacted by the fact that there were fewer Asian respondents this year
- Though interest in China remains strong, there was also an increase in the number of respondents who said they did not invest in Asia

Chart XIX - Most Attractive Asian Markets
For Asia, we find the most attractive markets to be (choose no more than three):

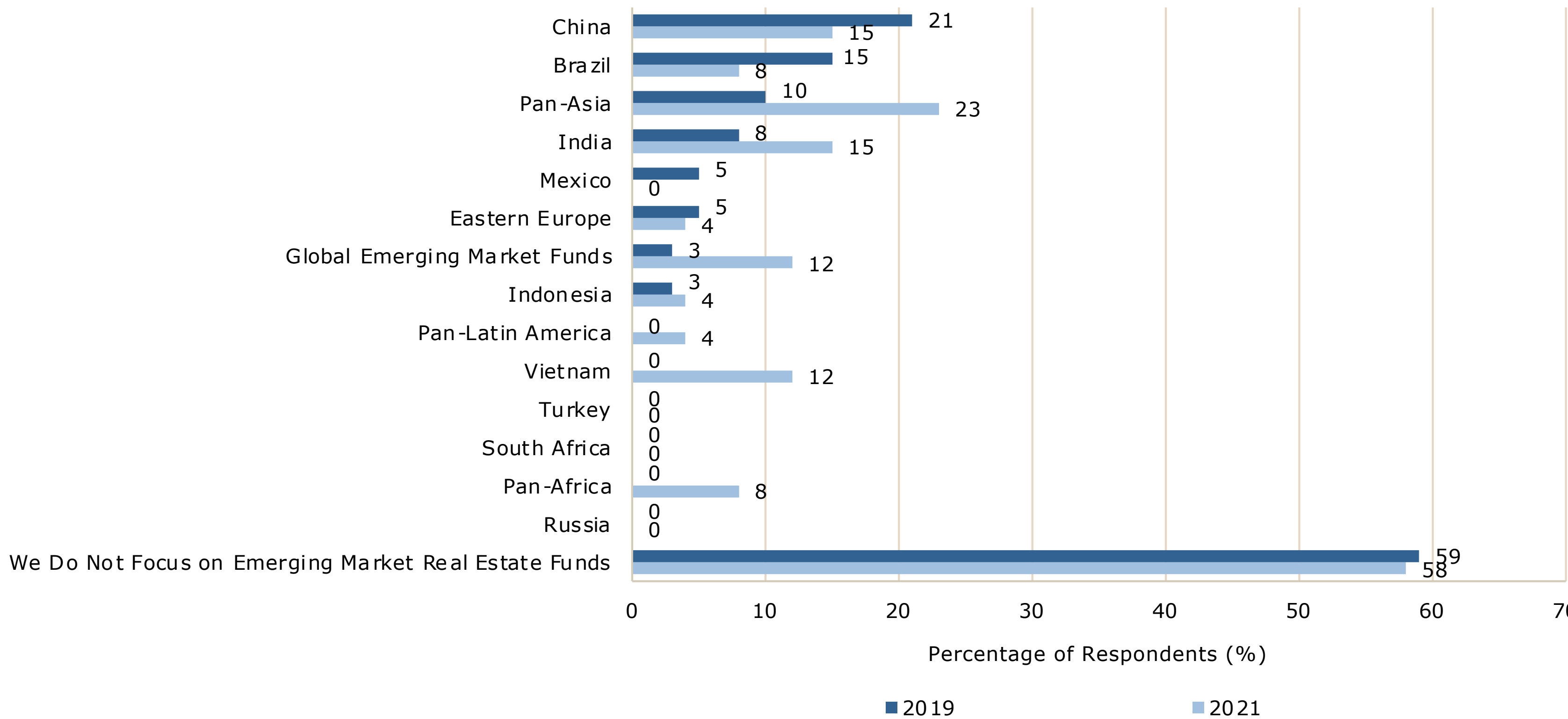


Source: Probitas Partners' Real Estate Institutional Investor Trends: 2021 and 2019 Survey Results

Most Attractive Emerging Markets

- Most notable about these results is that there is little difference in one basic premise – that nearly 60% of respondents did not focus on emerging market real estate funds
- When looking at specific geographies, however, there were a number of changes in interest, though no geography attracted the focus of more than a quarter of respondents

Chart XX - Most Attractive Emerging Markets
For emerging markets, we are targeting (choose no more than three):

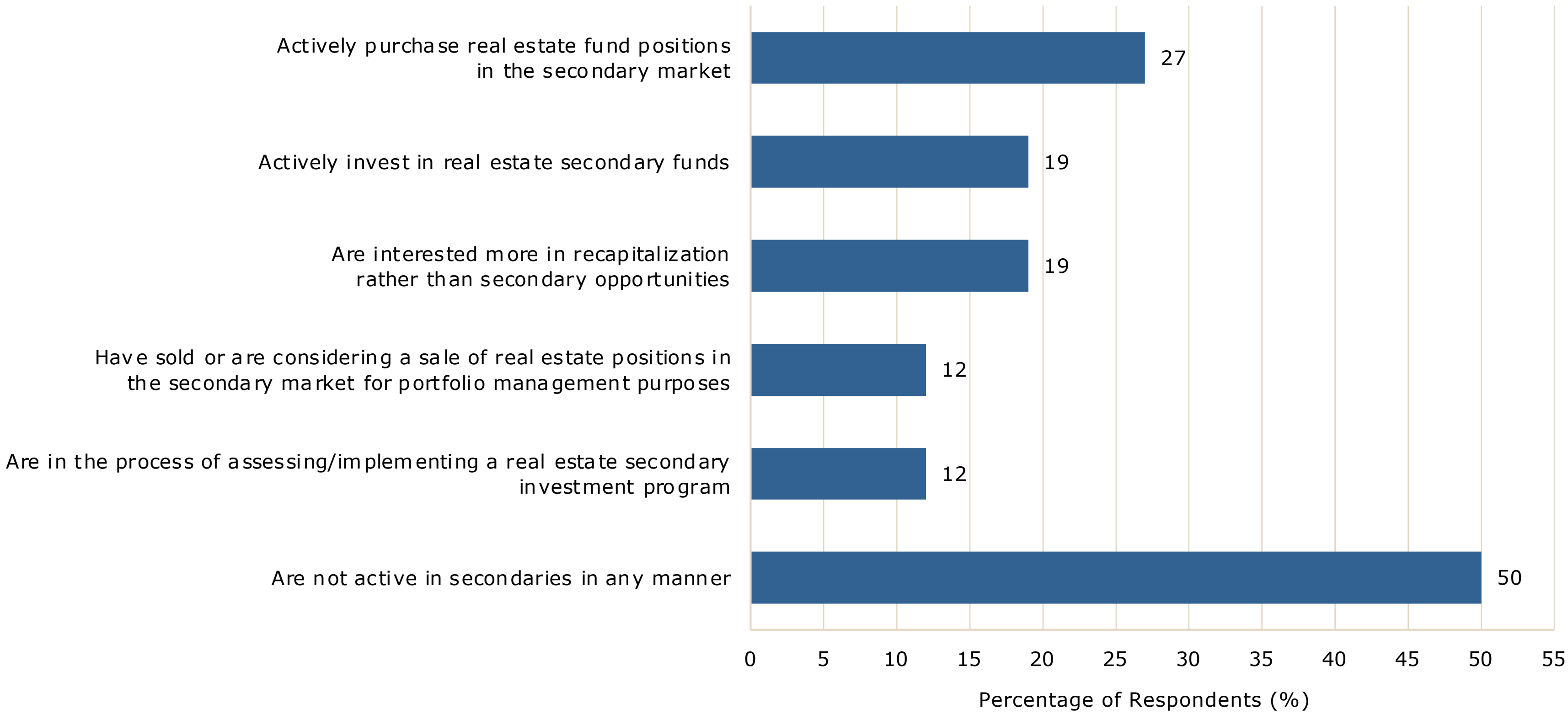


Source: Probitas Partners' Real Estate Institutional Investor Trends: 2021 and 2019 Survey Results

Interest in Secondary Markets

- The secondary market in real estate is younger and less developed than the private equity market, and though 50% of respondents stated they were not active in secondaries in any manner, that is lower than the 63% who responded that way in 2019
- The rest of the responses were pretty well scattered – though 12% did state that they were in process of establishing a secondary program

Chart XXI - Secondary Market Investments
In the private equity real estate secondary market, we (check all that apply):

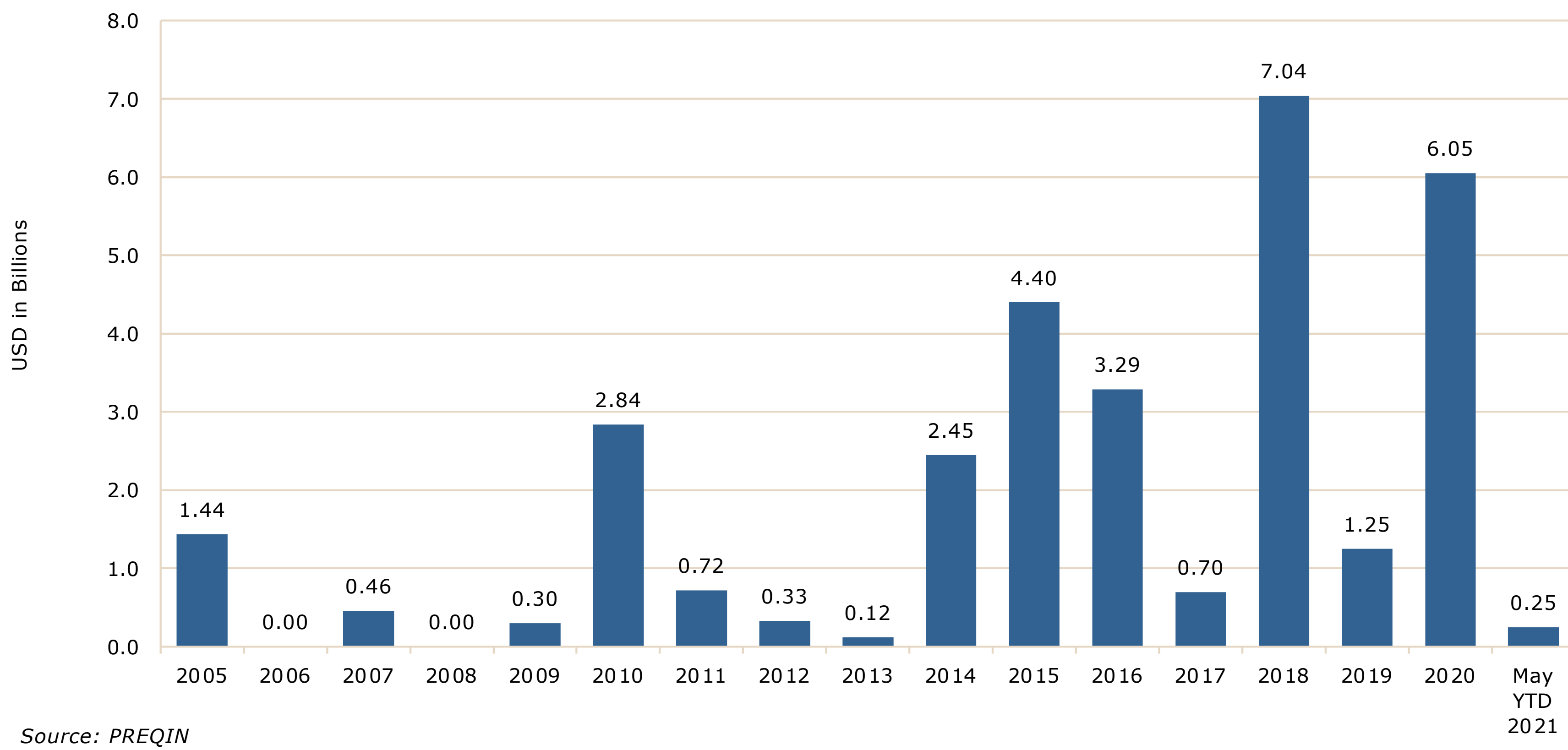


Source: Probitas Partners' Private Equity Institutional Investor Trends: 2021 Survey Results

Specialized Real Estate Secondary Fundraising

- Fundraising for specialized real estate secondary funds provides some information on the underlying appetite for secondaries over time
- However, analyzing trends is difficult because a few large funds active in the sector create a temporary surge every time they have a final close

Chart XXII - Specialized Real Estate Secondary Fundraising 2005—2021

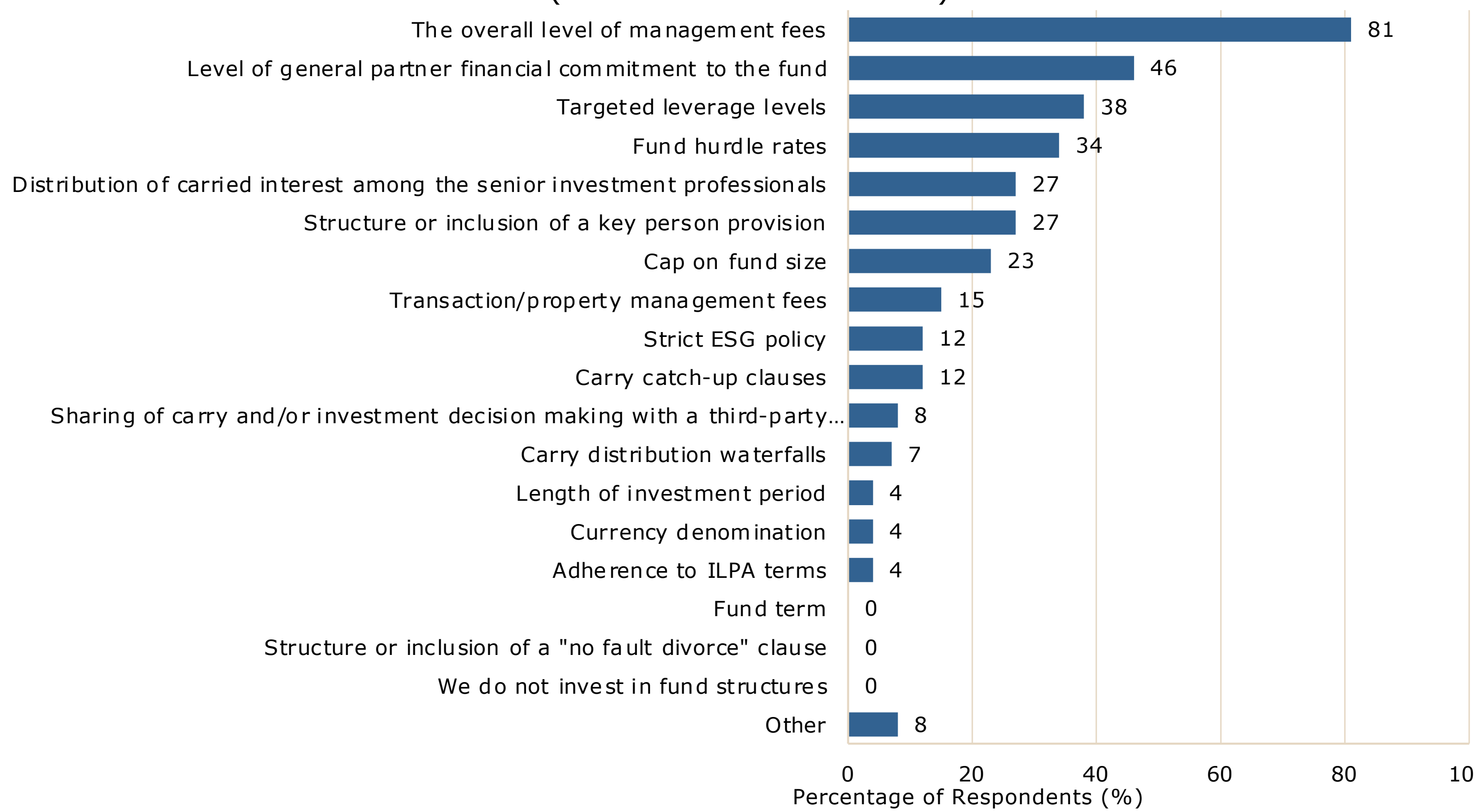


Source: PREQIN

Investor Focus on Terms and Fund Structure

- The biggest area of focus for respondents by far was the overall level of management fees

Chart XXIII - Issues Regarding Terms or Fund Structures
The terms or fund structures we most care about are (choose no more than three):

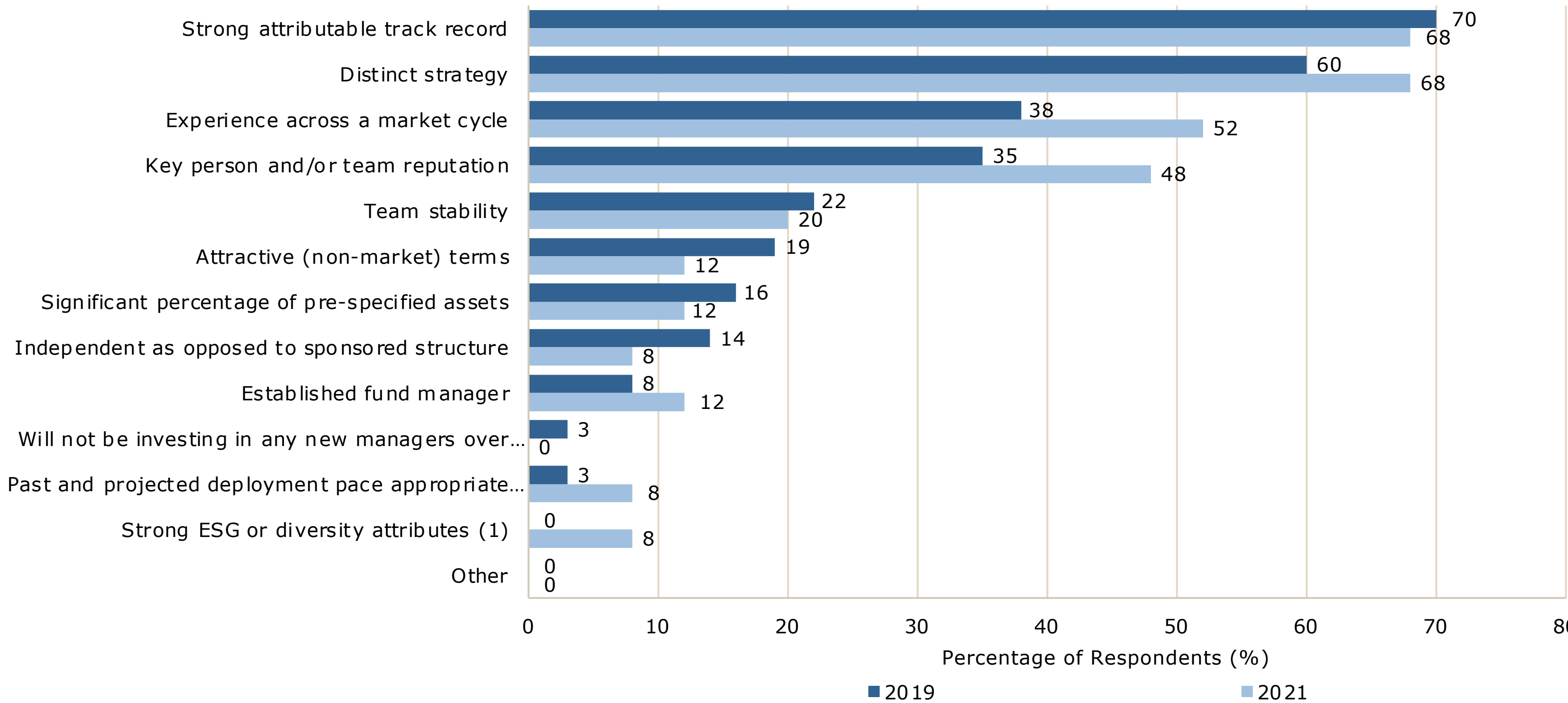


Source: Probitas Partners' Private Equity Institutional Investor Trends: 2021 Survey Results

What Are Investors Looking For In New Managers?

- The biggest change in investor focus since 2019 has been a surge in focus on fund manager experience over market cycles and the manager's reputation

Chart XXIV - Key Characteristics of New Fund Managers
The key characteristics required for us to consider an investment in a new manager (choose no more than three):

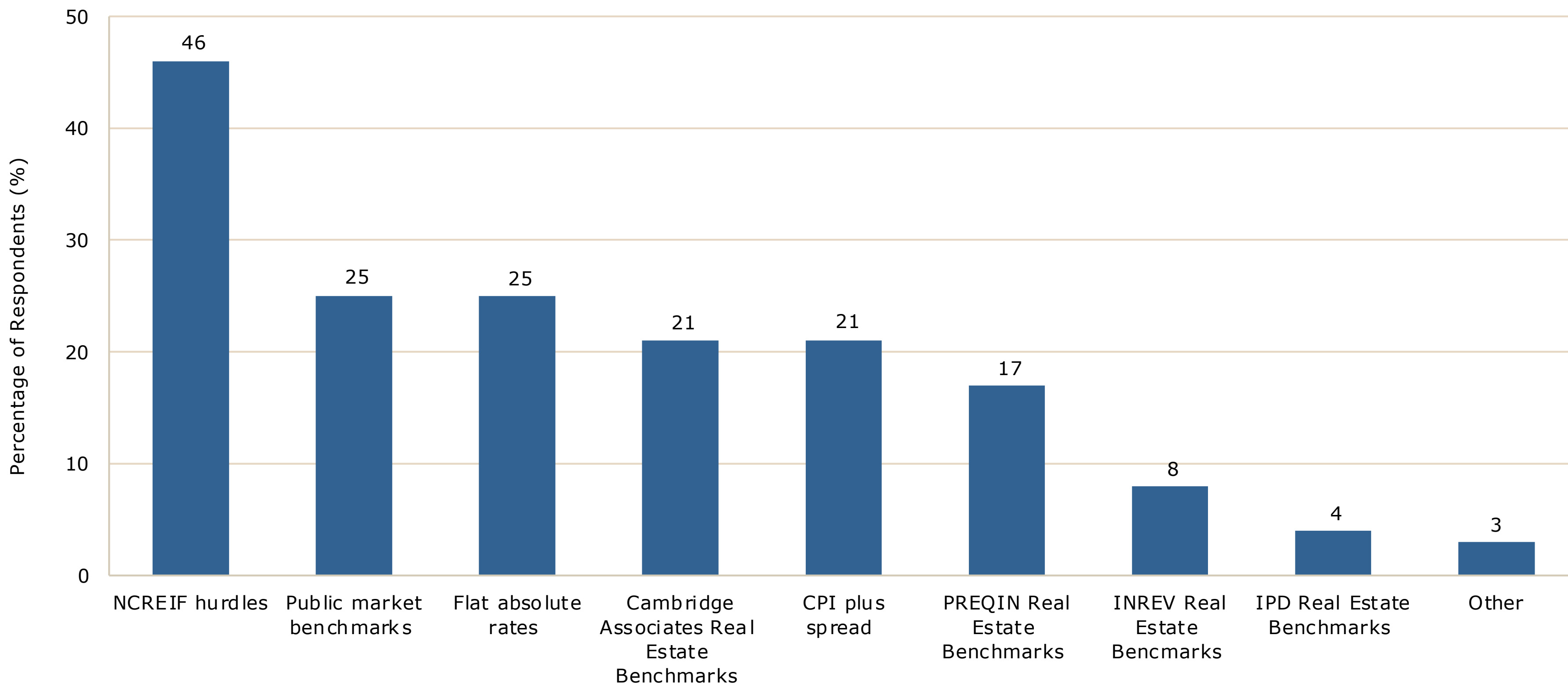


Source: Probitas Partners' Real Estate Institutional Investor Trends: 2021 and 2019 Survey Results
Note: Not asked in 2019

Portfolio Benchmarks

- Investors leverage various indices to measure both portfolio and individual fund performance and a number of them use two or three
- Though NCREIF hurdles are the leading benchmark, none of these indices were used by more than 50% of respondents

Chart XXV - 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: 2021 Survey Results

What Keeps You Up At Night?

- In both 2019 and 2021, two of the top three concerns revolved around too much money coming into various areas of real estate
- In 2019, 62% of respondents were concerned that we were reaching the peak of a market cycle, while in 2021, 39% of respondents were concerned about the impact of rising interest rates on their portfolios

Table V
What Keeps You Up at Night?
Top Three Responses:

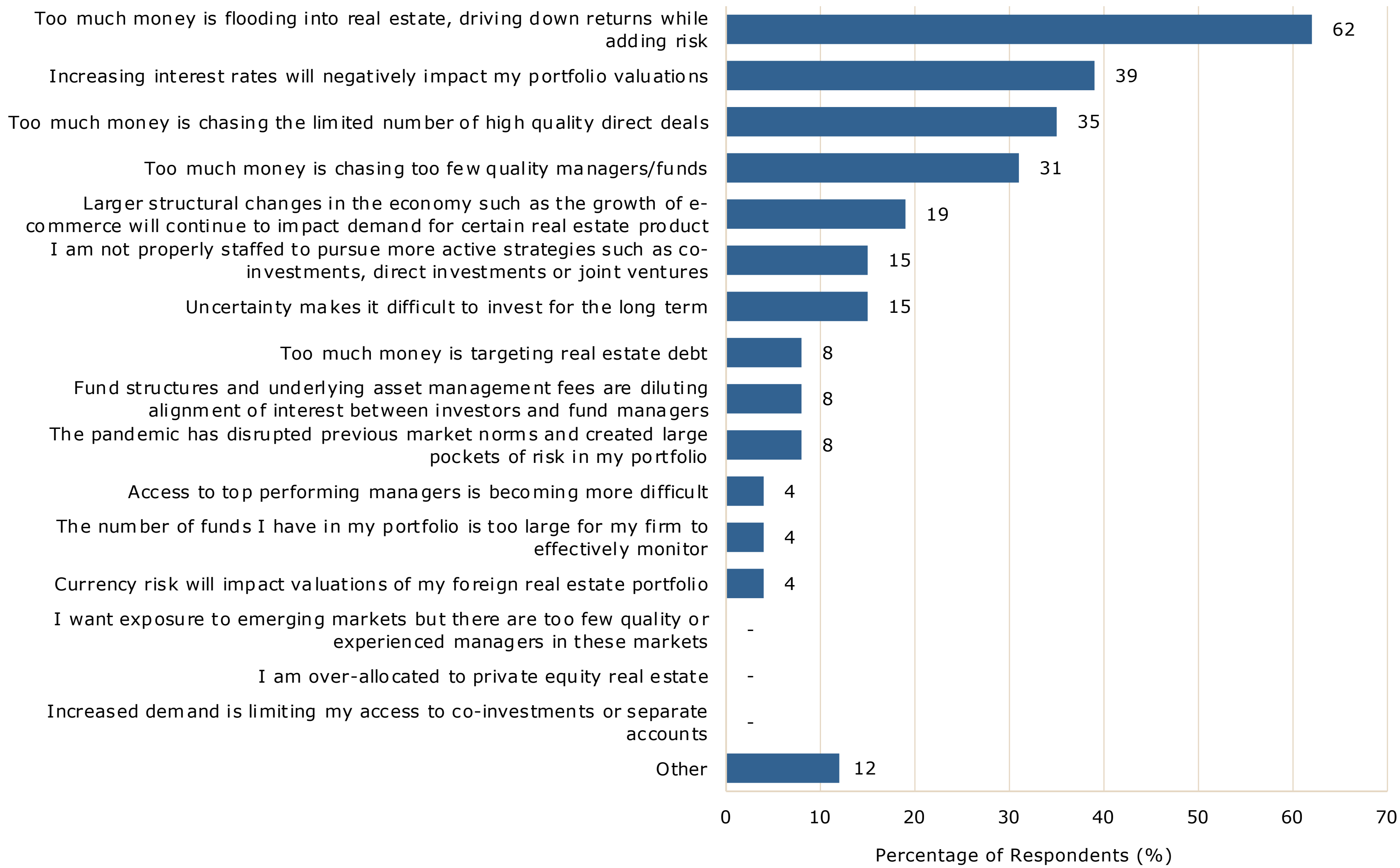
2019		2021	
Issue	**%**	**Issue**	**%**
We are nearing another cyclical market high point	62%	Too much money is flooding into real estate, driving down returns while adding risk	62%
Too much money is flooding into real estate, driving down returns while adding risk	59%	Increasing interest rates will negatively impact my portfolio valuations	39%
Too much money is chasing too few quality managers/funds	27%	Too much money is chasing the limited number of high quality direct deals	35%

Source: Probitas Partners' Real Estate Institutional Investor Trends: 2021 and 2019 Survey Results

Investors' Greatest Fears: Full List

Chart XXVI - Greatest Fears

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



Source: Probitas Partners' Private Equity Institutional Investor Trends: 2021 Survey Results

Investors' Greatest Fears (cont.)

- Besides the top three investor fears in both years, respondent's concerns were very scattered without a dominant trend
- However, there were some interesting individual responses that were not part of the pre-selected fears:
  - *Slower economic growth will dampen rental growth rates and valuations*
  - *Underwriting investment opportunities in a Zoom environment*
  - *Too much capital chasing "in favor" sectors like logistics and data centers*

Summary

- The Pandemic, which began to hit in earnest in the first quarter of 2020, negatively impacted fundraising for both closed-end real estate equity and debt funds, with fundraising below the 2019 peak for equity funds and below the 2018 peak for debt funds
- The pace of fundraising for the first five months of 2021 is below that of 2020 for both equity and debt funds, though equity funds trail more
- As far as investor interest in various strategies and industry-sectors, there were several distinct changes between 2019 and 2021:
  - Interest in Opportunistic strategies declined significantly as investor interest shifted to lower risk/lower return strategies, especially Core Plus
  - As far as industry-sectors, there was a distinct decrease in interest in the Retail and Office sectors that were hard hit by the Pandemic
  - In terms of geographic-focus, interest in North American and Pan-European strategies increased while the already weak interest in Emerging Markets declined even further
  - Among investors' major fears, the concern that increasing interest rates will negatively impact performance of their portfolios is the largest change
- There is still strong interest in co-investments and direct investments

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