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The Real Estate Institutional Investors' Summit

KPMG Real Estate Invest Survey –

An outlook for 2014

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Content

Overview

The global real estate market showed signs of resurgence over 2012–13, aided by slowly, yet surely, improving economic conditions and enhanced liquidity. What is the outlook for 2014? KPMG RE-Invest Survey 2014 shows that investment in real estate is on the upswing. Real estate may well be on its way to emerging as a stand-alone major asset class in a diversified portfolio, as investors are now seeking to reduce their exposure to traditional portfolios comprising of only bonds and equities.

We highlight here a few of the key trends revealed by the survey:

- In line with the results of last year's survey, investors are optimistic about increasing their exposure to real estate, with 81% respondents sharing plans in support of real estate investment. This trend will be supported by improved economic stability and debt availability, encouraged by an improving capital market. In corroboration, 90% respondents agree that the European core markets will remain investment hot-spots over the next five years, aided by debt availability and the emergence of sovereign wealth funds and globally-operating pension funds.

- Investors are now more willing to capitalize on undervalued or distressed assets, as confidence returns to the global economy. A total of 42% respondents are focusing on opportunistic strategies as the best investment opportunity, as compared with 32% last year. At the same time, conservative investment opportunities are also picking up pace, with 35% respondents considering core real estate as the best investment strategy.

- Surprisingly, investors' preference for how to invest changed dramatically from last year; 81% now prefer direct holdings/separate account mandates, up from 41% last year. In addition, investor preference for club funds, deals, or joint ventures, has increased from 35% last year to 55% this year.

- In terms of region, Western Europe continues to attract the maximum number of investors, owing to stable economic conditions and a strengthening debt market. Besides France, Spain, and the UK, Germany is another mature market preferred by investors and it leads the investment destination pool. A pent-up demand for real estate is also seen across the US, which is considered a sought-after investment destination by 29% respondents. This trend is in line with that of last year, when respondents saw New York as a major investment destination, second only to London.

- The European real estate market is expected to see consolidation due to regulations such as the Alternative Investment Fund Managers Directive (AIFMD), and the existing Basel III and Solvency II directives.

We believe that stabilisation of the debt condition, supported by sovereign wealth funds and globally-operating pension funds, will lead to an increase in global real estate investment over the next few years. We will continue to monitor the trends and bring you the right information at the right time, enabling you to make the right decision for your portfolio.

About the survey

KPMG RE-Invest Survey, now in its third year, has been designed as a preamble to the annual RE-Invest Summit, to be held at Cannes this year. KPMG and MIPIM RE-Invest have conducted this survey, as part of which select investors replied to 15 questions, sharing their assessment of the global real estate investment environment and popular investment strategies for 2014.

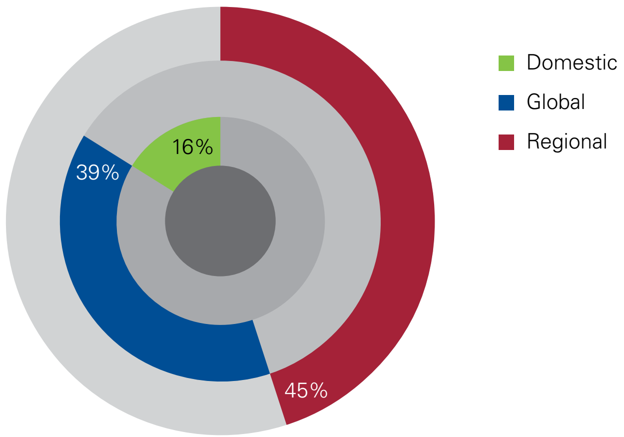
With its incisively designed structure and astute questions, the survey gathers the market sentiment and empowers investors by providing strategic insights into the global real estate investment scenario.

KPMG RE-Invest Survey

A Questions

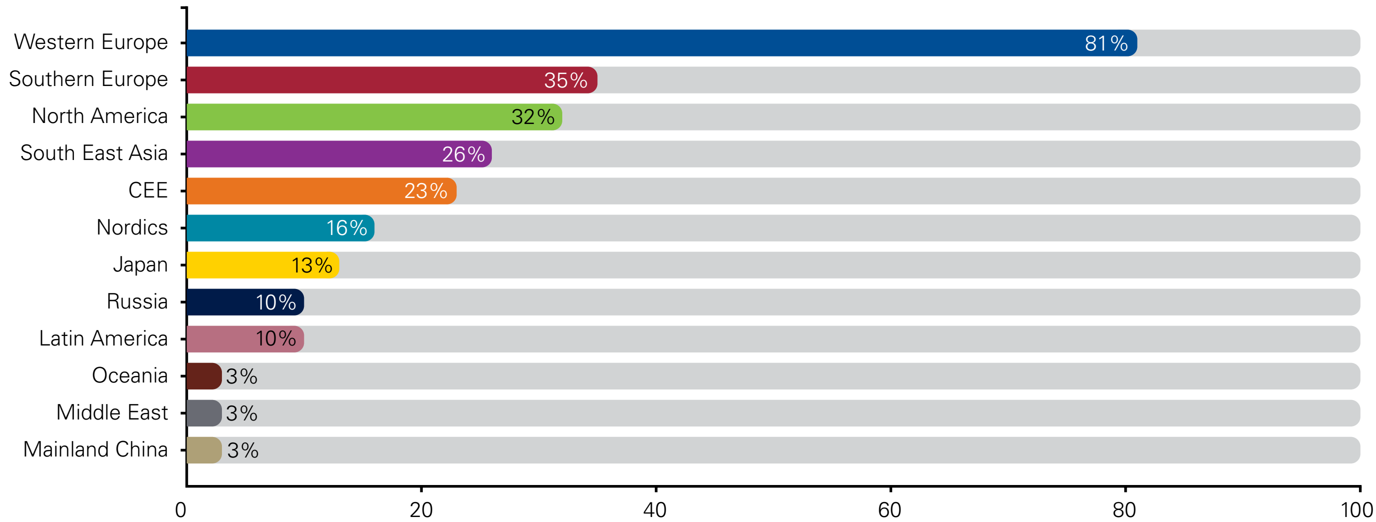
1) Are you pursuing a global, regional or domestic investment strategy?

The survey identified three investment preferences among investors – Domestic (investing in their own country), Regional (investing in specific economic regions) and Global (investing in different countries/regions). While Global and Regional are pegged as popular investment strategies, very few respondents seemed keen to limit their opportunities to their domestic markets.



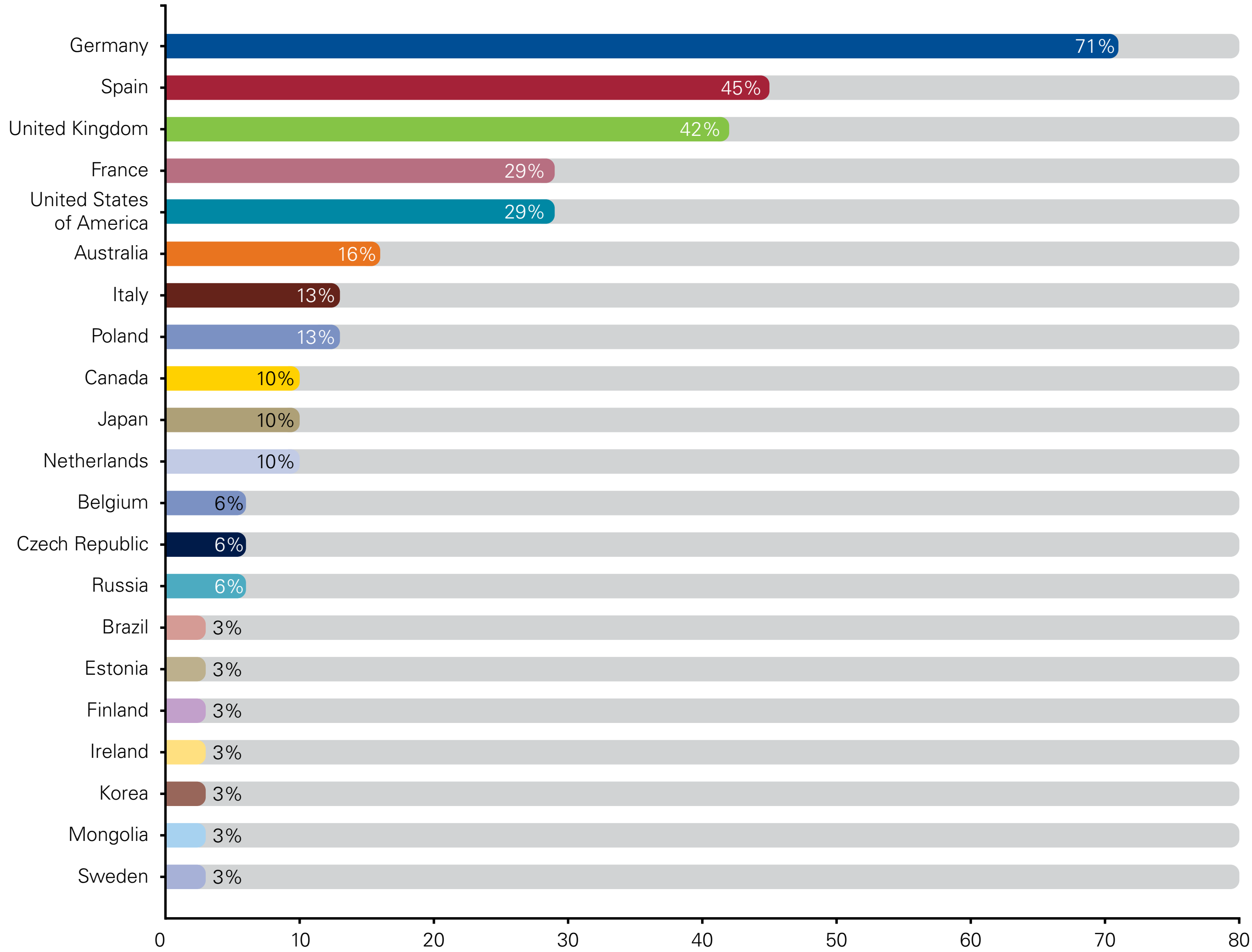
2) Which regions/markets offer the best opportunities today?

The survey showed a strong positive bias towards real estate investment in Western Europe, with 81% respondents confident that it offers better opportunities than Southern Europe (second at 35%), North America (third at 32%) and South East Asia (fourth at 26%).



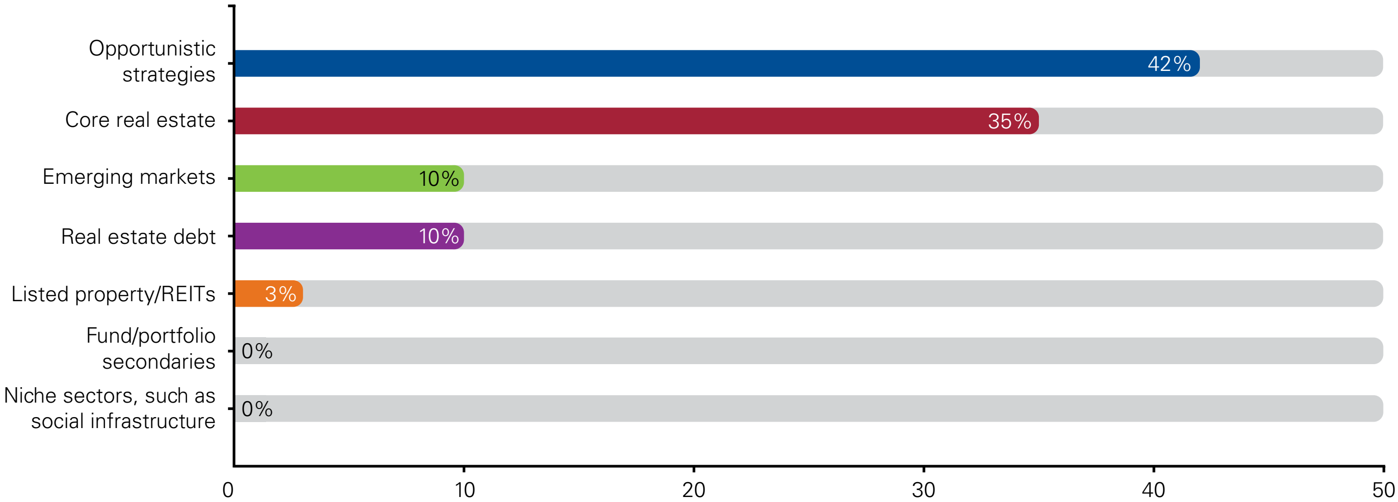
3) Name four countries that offer the best real estate investment opportunity today

Germany continues to outperform, with 71% respondents considering it a prime investment destination. Spain is also gradually catching up with the European core markets (UK, Germany and France). France and the US are next in line, posting an equal number of votes at 29% each.



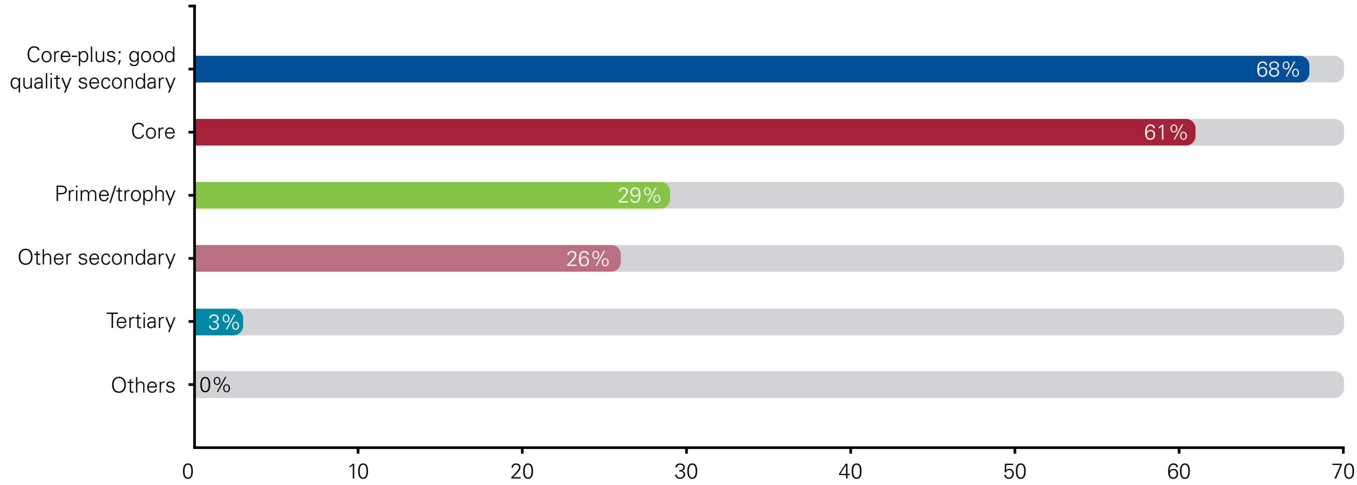
4) Which of the following strategies offer the best investment opportunity?

Investment in real estate debt is continuously showing a downward trend, with only 10% respondents terming it as the best investment opportunity, significantly down from 21% last year. Investors are increasingly adopting opportunistic strategies, up from 32% last year to 42% this year, thereby investing in high-quality undervalued assets to bank on the gains of strong market revival in the future. However, an increase in preference for core real estate as an investment opportunity to 35%,from 29% last year, reflects that conservatism continues to exist.



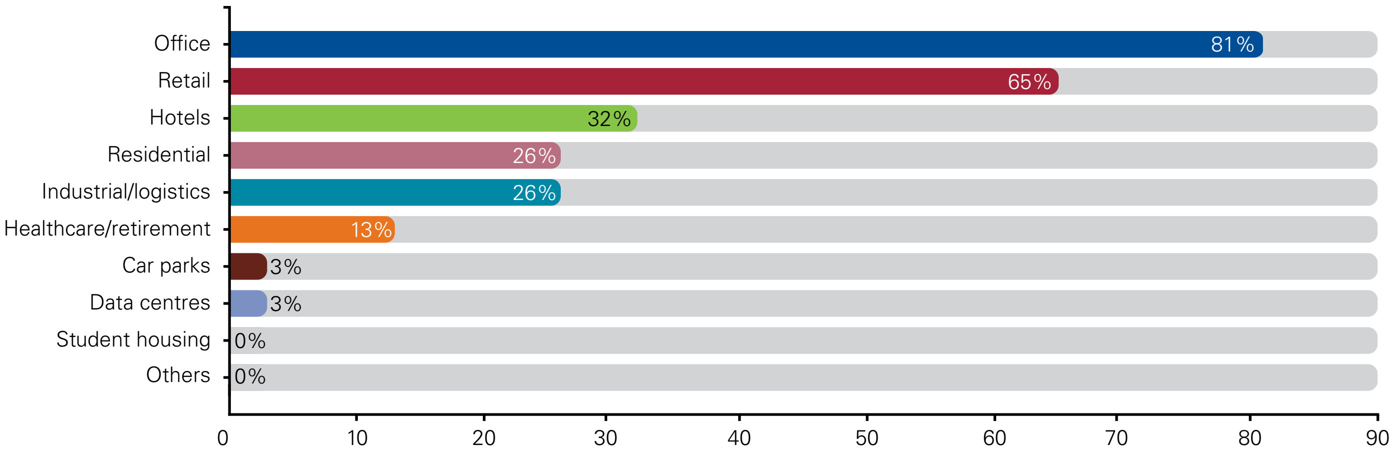
5) What parts of the real estate market are you targeting?

Investors appear to be shying away from prime or trophy properties, mainly due to high cost and low yield. Nearly an equal number of investors prefer core assets and core-plus assets, as compared with 67% core asset investment preference in last year's survey.



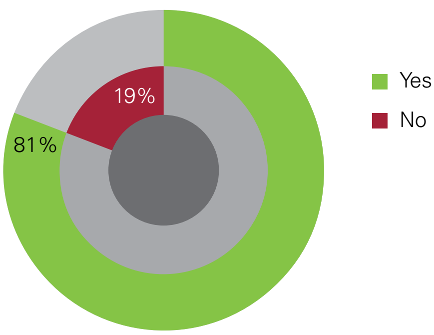
6) What property types are you most interested in?

The spectrum of investable property has widened to include car parks and student housing. Office property remains the most popular option, with 81% respondents preferring it, while 65% showed an interest in retail property.



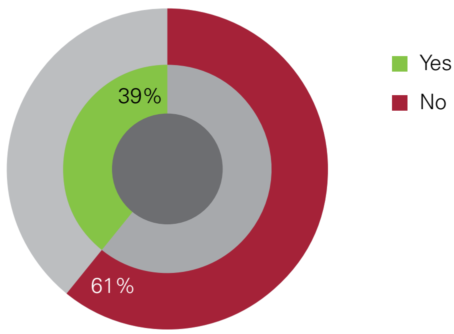
7) Are you planning to increase your real estate exposure in the next 12 months?

Following the incumbent trend, investors are expected to increase their investment in alternative assets, including real estate, with 81% expressing interest in doing so.



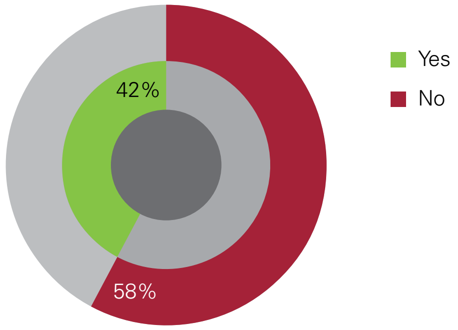
8) Are you investing in real estate as part of a wider real assets strategy?

The survey shows 61% respondents saying "no" to investing in real estate as a part of their wider real assets strategy. As mentioned earlier, real estate may well be on its way to emerging as a stand-alone major asset class in a diversified portfolio.



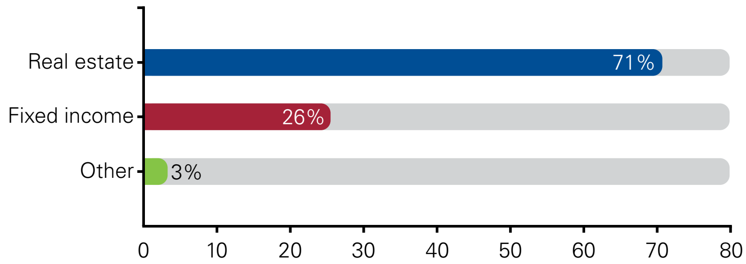
9) Are you investing in real estate debt?

Last year, respondents were split 50/50 over whether debt investments offered better risk-adjusted returns than traditional real estate (equity) investments. There is some amount of apprehension this year, with 58% respondents showing a lack of interest in investing in real estate debt.



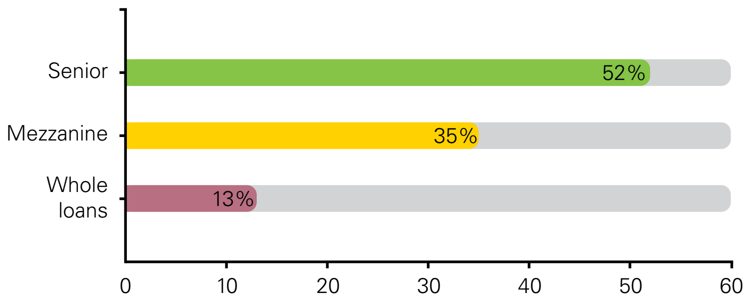
10) Where does real estate debt fit into a multi-asset portfolio?

Real estate asset classes include investments in both real estate debt and equity. A total of 71% respondents believe that any investment in real estate debt will be categorised under real estate rather than in any other fixed income category.



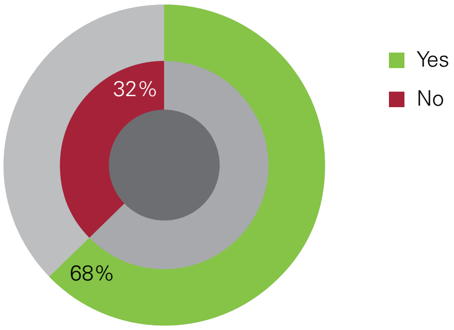
11) Where are the best debt investment opportunities?

There was a significant shift toward senior debt investment, which went from 33% last year to 52% this year. The preference for mezzanine debt decreased to 35% from 40% last year, indicating a trend of risk aversion, particularly in debt, with a cautious outlook on volatile markets.



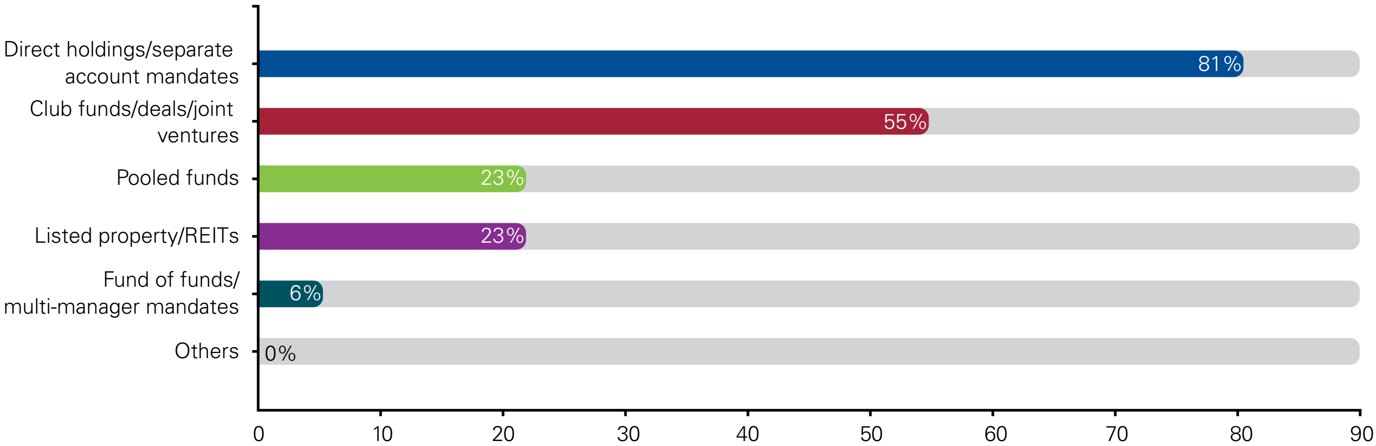
12) Will debt strategies become a much more significant part of institutional real estate portfolios in the future?

Investors continue to express a growing consensus that debt strategies will become a significant part of real estate portfolios; 68% respondents believe that it will play a bigger role, as against 62% last year.



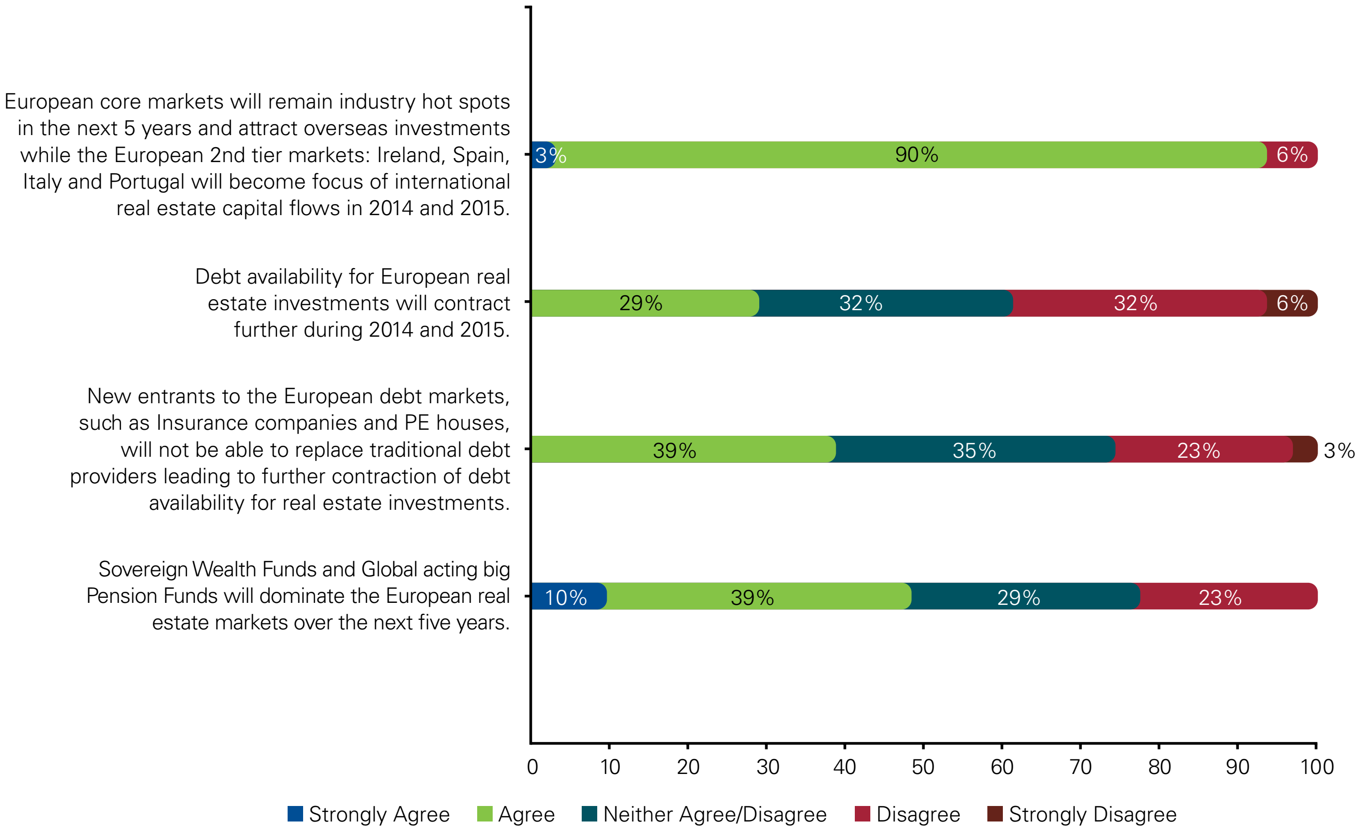
13) Which of the following structures do you employ for real estate investments?

Direct holding or separate account mandates emerged as the preferred investment structure, with 81% respondents preferring this compared with 41% last year. The preference for club funds/deals/joint ventures also increased from 18% in 2013 to 55% this year.



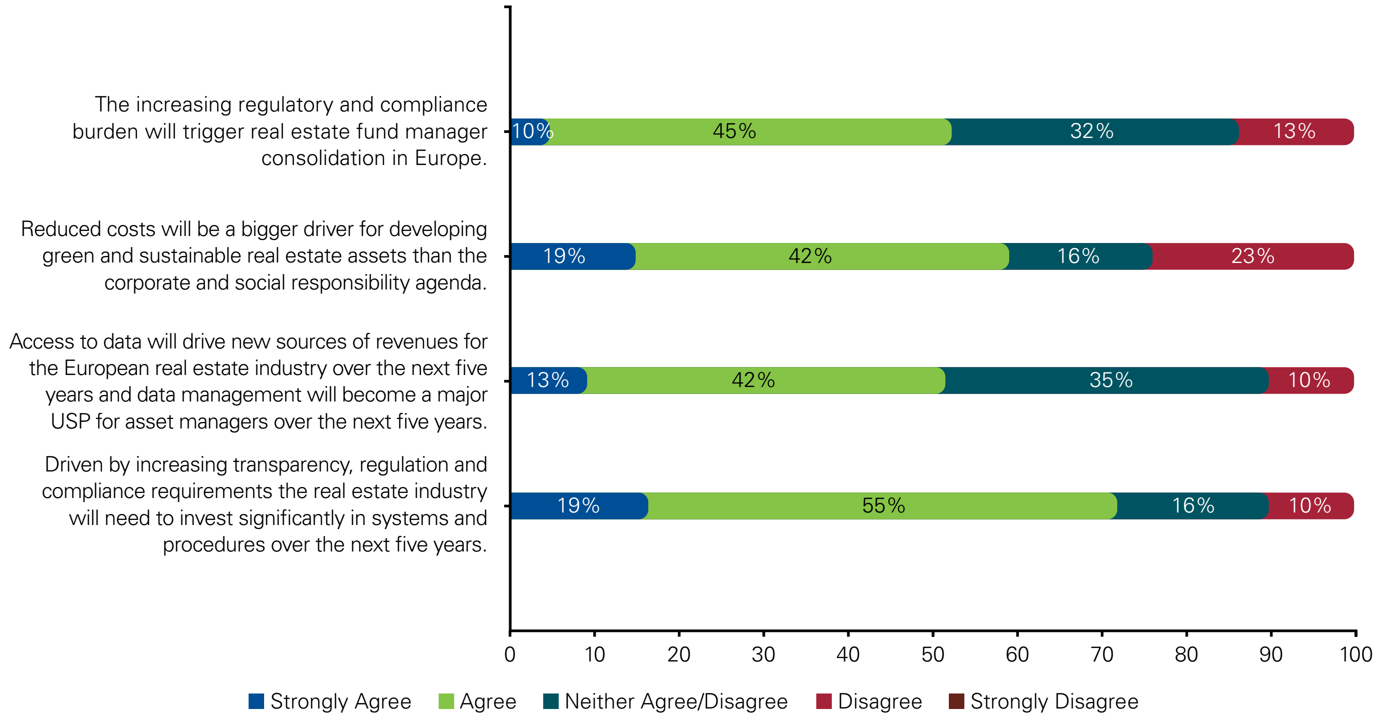
14) Europe as a major investment hub

With second-tier European markets, such as Spain and Italy, regaining economic stability, most respondents agree that risk-averse investors will continue to consider Europe a major investment hub over the next five years. This is encouraged by a gradual improvement in the debt scenario across Europe and a growing interest from sovereign wealth funds and pension funds.



15) Shift in the European real estate market

The survey results indicate that respondents expect a systemic shift in the European real estate market. There will be a significant increase in compliance costs, particularly for private fund managers, following the emergence of regulations such as the Alternative Investment Fund Managers Directive (AIFMD). The finance market is already affected by the Basel III and Solvency II directives, which make raising money a challenge. Owing to this, 45% respondents believe that European real estate fund managers will witness increased consolidation and operation optimisation.



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