Survey Highlights

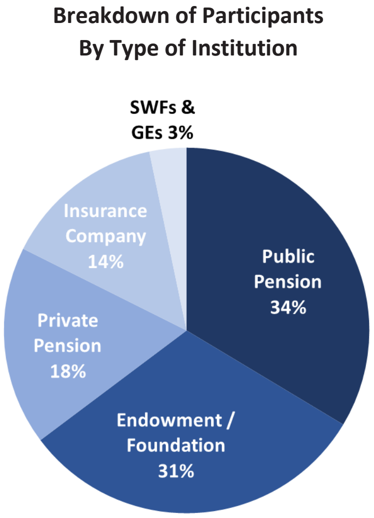
INTRODUCTION

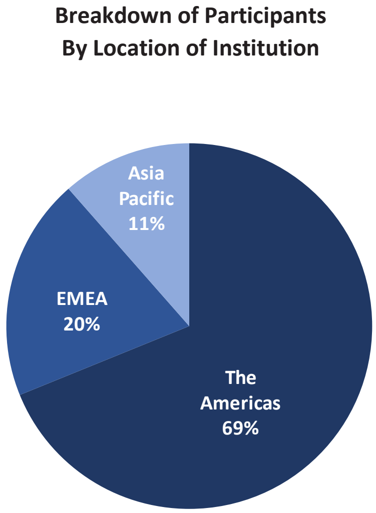
Cornell University's Baker Program in Real Estate and Hodes Weill & Associates are pleased to present the findings of the fifth annual Institutional Real Estate Allocations Monitor (the "2017 Allocations Monitor"). The 2017 Allocations Monitor focuses on the role of real estate in institutional portfolios, and the impact of institutional allocation trends on the investment management industry. Founded in 2013, the Allocations Monitor is a comprehensive annual assessment of institutions' allocations to, and objectives in, real estate investments. This report analyzes trends in institutional portfolios and allocations by region, type and size of institution.

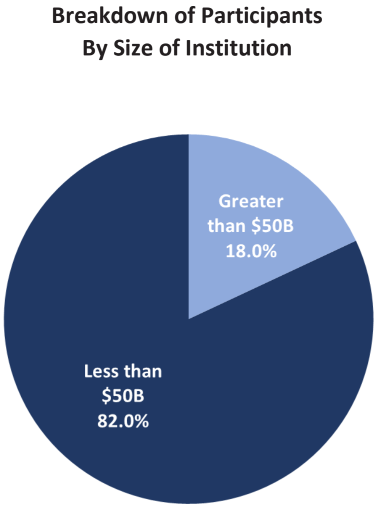
The 2017 Allocations Monitor includes research collected on a blind basis from 244 institutional investors in 28 countries. The 2017 participants hold total assets under management ("AUM") exceeding US$11.5 trillion and have portfolio investments in real estate totaling approximately US$1.1 trillion. Our survey consisted of 25 questions concerning current and future investments in real estate, portfolio allocations to the asset class, investor conviction, investment management trends and the role of various investment strategies and vehicles within the context of the real estate allocation (e.g., direct investments, joint ventures, private funds). We also included questions regarding historical and target returns as well as environmental, social and governance ("ESG") policies.

A full copy of the report is available online at:

http://www.hodesweill.com/research/allocations-monitor/







1. It's official… the target allocation to real estate in institutional portfolios has now surpassed the 10% threshold.Average target allocations to real estate increased to 10.1% in 2017, up 20 bps from 2016 and up approximately 120 bps since 2013. Approximately 44% of institutions now have a target allocation in excess of 10%, up from 18% and 27% in 2015 and 2016, respectively.

2. However, the annual pace of increase in target allocations appears to be moderating. The pace of increase in target allocations has moderated from 30-40 bps per year over the past four years to 20 bps in 2017. Further, approximately 24% of institutions expect to increase their target allocations over the next 12 months.

3. Actual allocations continue to lag target allocations, as institutions remain meaningfully under-invested. While 92% of institutions reported that they are actively investing in real estate, portfolios remain approximately 100 bps underinvested relative to target allocations. Approximately 60% of institutions are under-invested relative to target allocations, up from 50% in 2016.

Exhibit 3: Weighted Average Target Allocation to Real Estate, All Institutions

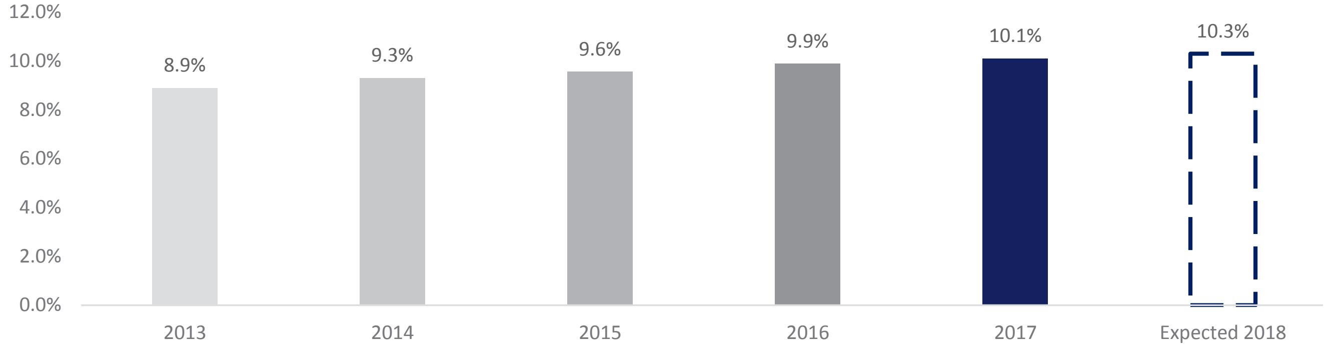


Exhibit 4: Range of Target Allocations (2016 vs. 2017), All Institutions

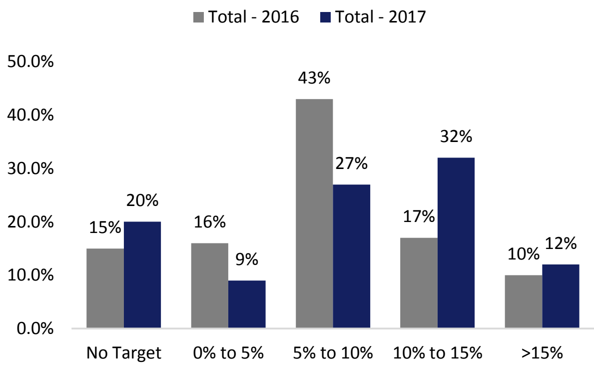
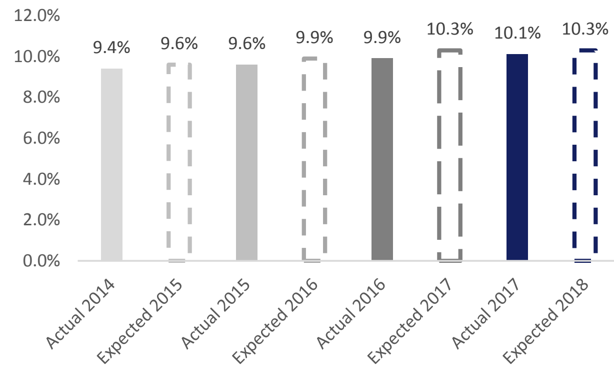


Exhibit 5: Actual vs. Expected Target Allocations, All Institutions



4. The average investment performance for institutional real estate portfolios decelerated to high single digits in 2016. Real estate portfolios generated an average annual investment return of 8.6% in 2016, down from 11.0% in 2015 and the prior five-year average of 10.4%. Investment returns were slightly in excess of target returns (by approximately 20 bps) and remain well in excess of global return indices for real estate. Institutions in APAC edged out their peers in the Americas, and get this year's trophy for the highest average annual return at 9.3%.

5. Institutional conviction for the asset class has declined significantly year-over-year. Led by institutions in APAC, market sentiment has declined over the past 12 months from "moderately optimistic" to "slightly pessimistic". Between 2016 and 2017, our "Conviction Index", which measures institutions' view of real estate as an investment opportunity from a risk return standpoint, declined from 5.4 to 4.9. The combination of rising target allocations, continued underinvestment relative to target allocations and declining conviction is resulting in a perception of a "weight of capital" for the asset class.

6. Value-add strategies remain the strong preference for institutions, followed by opportunistic and core. Investors continue to favor alpha-generating strategies for property investments. As an alternative to core investing, institutions are showing increased interest in debt and credit strategies. Approximately 60% of institutions report that they are actively investing in debt strategies (up from 52% in 2016).

Exhibit 9: Percent Invested vs. Target Allocation, By Location of Institution

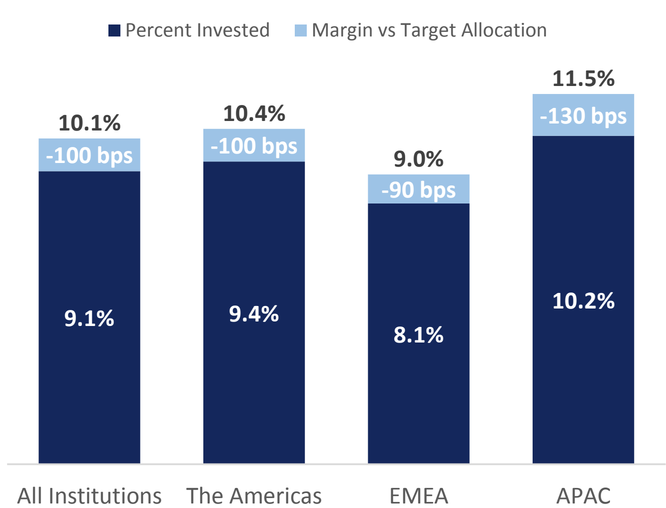
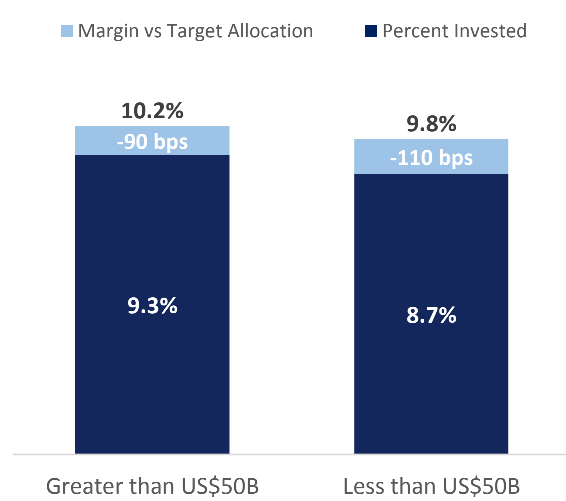


Exhibit 10: Percent Invested vs. Target Allocation, By Size of Institution



The average investment performance for institutional real estate portfolios decelerated to high single digits in 2016

	Target Returns		Actual Returns					
	2016 Target Return	***2017 Target Return***	***Actual 2012***	***Actual 2013***	***Actual 2014***	***Actual 2015***	***Actual 2016***	***Actual 5-Year Average***
All Institutions	8.4%	8.2%	9.6%	10.8%	11.8%	11.0%	8.6%	10.4%
By Type								
Public Pension	7.9%	7.6%	10.3%	10.0%	11.7%	11.6%	9.0%	10.5%
Endowment & Foundation	9.6%	9.5%	9.3%	13.9%	13.0%	10.9%	8.1%	11.0%
Private Pension	7.8%	7.9%	9.1%	10.5%	12.6%	11.2%	8.8%	10.4%
Insurance Company	7.8%	7.5%	6.8%	7.3%	8.3%	9.6%	8.6%	8.1%
SWFs & GEs	8.8%	9.6%	14.4%	11.4%	11.4%	10.0%	8.8%	11.2%
By Location								
The Americas	8.5%	8.5%	10.6%	12.5%	12.6%	11.7%	8.7%	11.2%
EMEA	8.0%	6.9%	5.9%	6.2%	10.4%	9.5%	7.9%	8.0%
APAC	8.4%	8.8%	9.4%	9.3%	9.5%	10.0%	9.3%	9.5%
By Size								
Greater than US$50 billion	7.7%	7.7%	10.2%	10.1%	11.1%	11.2%	9.8%	10.5%
Less than US$50 billion	8.5%	8.3%	9.5%	10.9%	12.0%	11.0%	8.4%	10.3%

Exhibit 18: Conviction Index, By Location of Institution

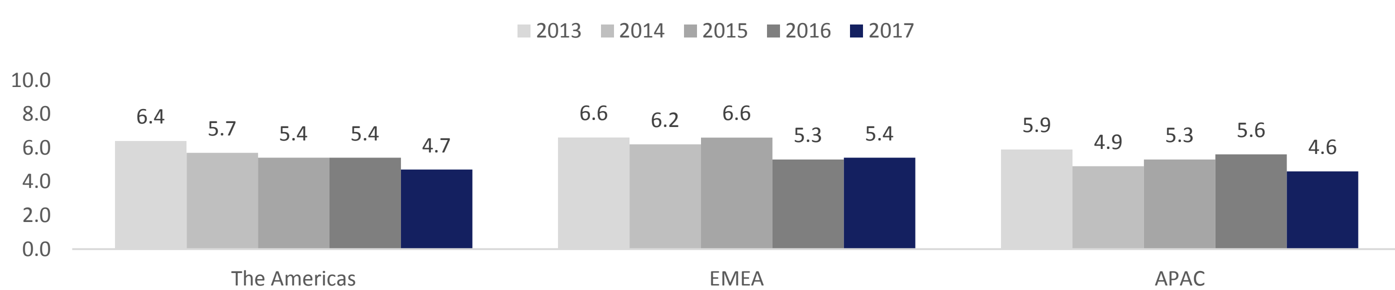
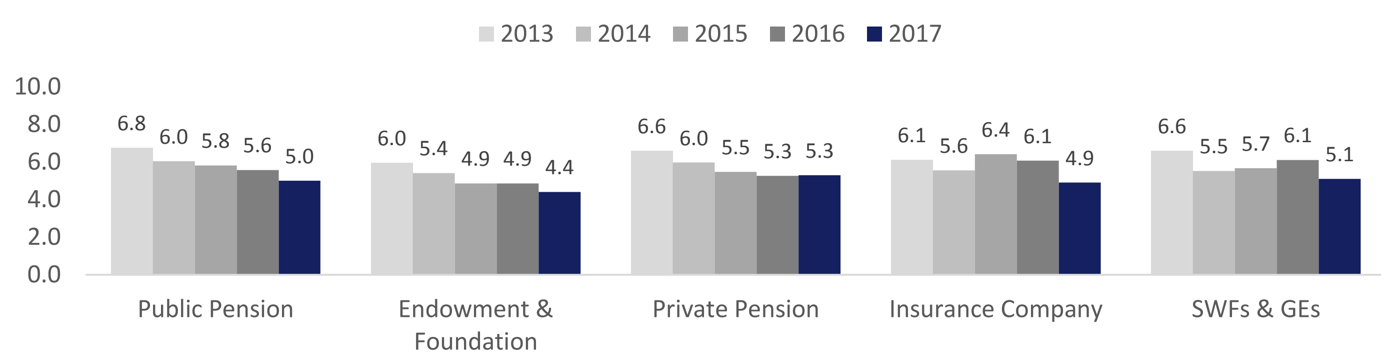


Exhibit 19: Conviction Index, By Type of Institution



7. Third-party managed AUM continues to trend upward. Institutions are allocating the substantial majority (approximately 84%) of their new investment allocations to third-party managers. This trend, in combination with rising allocations and capital appreciation, is driving strong growth in industry-wide AUM. This is the case, in particular, for Smaller Institutions (i.e., institutions with AUM less than US$50 billion) that do not have the resources to internalize management functions, as well as for institutions that are allocating investments cross border.

8. Institutions continue to favor allocating to existing manager relationships. Approximately 64% of new allocations are expected to be awarded by institutions to existing manager relationships. As a result, a small number of large-cap managers continue to garner more than 50% of new allocations. Emerging managers are at a disadvantage, as less than 20% of institutions are willing to invest with first time managers.

9. Demand for real estate private funds continues to rise. Approximately 87% of institutions are actively investing in closed-end private funds, up from 79% in 2016. Closed-end funds are the preferred product type for most institutions, followed by open-end funds in which 55% of institutions are actively investing. Approximately two-thirds of the Larger Institutions (i.e., institutions with greater than $50 billion of AUM) are actively investing on a direct basis, in joint ventures and/or separate accounts.

10. Environmental, Social & Governance (ESG) policies are an increasingly important objective for institutions. The percentage of institutions with formal ESG policies has increased to 36%, led by EMEA based institutions at 70%. Importantly, 31% of institutions report that their investment processes are now influenced by ESG considerations. We look forward to sharing additional insights and our perspective on the industry with you more directly in the near future. Again, we would like to express sincere appreciation to everyone that participated in this year's survey.

Hodes Weill
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2017 Institutional Real Estate Allocations Monitor