2024

28th Annual Investor Survey

Institutional Investors Real Estate Trends

Institutional Real Estate, Inc.

2024

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28th Annual Investor Survey

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Taking the pulse of investors

by Geoffrey Dohrmann

This survey is only one of the tools we employ to help our editors, conference team, managing directors and sponsors better understand where the investment community we serve is heading with their investment portfolios and to help identify the issues that are keeping those investors up at night.

The topics investors identify for discussion during our Editorial Advisory Board meetings also prove instructive in this regard. This is an era of deep uncertainty, and investors are grappling with many issues both within the industry and influenced by broader macroeconomic and geopolitical trends. Below are a few of the concerns investors have told us are top of mind these days.

The economy: Are we heading for a hard or soft landing? And, how have investors around the globe been positioning their portfolios to withstand whatever they see coming down the pike?

Interest rates: Will they come down and, if so, how much and for how long? And how should they be adjusting their plans accordingly?

Mortgage rollover exposure: What are investors' mortgage rollover exposures, and how are they dealing with the higher refinancing costs they are facing in their portfolios? What are the current terms for refinancing of existing debt in the portfolio — in the United States and elsewhere around the globe? How can investors and their investment managers capitalize on the strength of the investors' balance sheets? And what kinds of acquisition or partnership opportunities are unfolding within the banking sector?

Valuation practices: Do investors feel the process for valuing private real estate investments is working in the current environment? In what ways do investors feel the process needs to change in the future? How do investors feel their fund managers have performed in managing the valuation process over the past 12 to 18 months? Do investors believe their managers have properly adjusted their valuations to reflect the new lending and interest rate environment? To what extent do investors feel their managers have been reluctant to mark down assets? How do investors explain the discrepancies in valuations for different kinds of properties, geographic regions and managers in their portfolios?

Asset allocations and capital flows: Investor capital commitments slowed down to a trickle in 2023, but now that the denominator problem appears to have evaporated for most, investors are wondering how active their peers will be in making new commitments. Will the answers to this year's survey serve as a good indicator of how much capital is likely to be committed, or will events accelerate or put the brakes on new capital commitments as the year unfolds?

Potential trouble spots: What will the remainder of the year bring — particularly in terms of potential trouble spots? How long before the air clears surrounding the future of office and non-necessity-based retail formats?

Debt vs. equity: Should investors be expanding their exposure to debt, particularly if the upside on equity investing remains somewhat questionable for the time being, as well as in light of the hope that rates could be falling (and that the value of recently committed debt positions will rise)?

The role of REITs in the portfolio: Should REITs be playing a larger role in their portfolios, as an anchor position in the portfolio, or as a liquidity buffer, or as a place to park cash earmarked for future equity or debt investment commitments?

Liquidity: How have investors' liquidity needs changed over the past several months? And for those whose liquidity needs remain relatively high, where are those investors looking in the portfolio to meet those needs? Particularly with respect to the relatively slow pace with which open-end fund managers are meeting redemption requests, to what extent are investors turning to the secondary market for liquidity? What questions are investors most likely to ask the managers of closed-end funds who are asking for extensions of their holding periods? How are investors responding to requests for fund recapitalizations?

Investment manager selection: What are some investment manager characteristics that investors find particularly reassuring during periods of uncertainty? Global presence, long track record, careful transaction selection? When considering a manager, how do investors rank risk mitigation, compliance, value creation, access to data and acting responsibly? What, if anything, is most important? With hundreds of managers pursuing the same investment strategy of acquiring and repositioning assets in the industrial, residential and alternatives sectors, how do investors differentiate among managers, and to which should investors allocate capital?

Mega-funds and mega-firms: As mega-funds become increasingly larger and are constantly in-the-market, how concerned are investors that future returns will be more commoditized/market-like? As large AUM managers capture a disproportionate share of investor capital, what do investors think about mid-sized managers? What are the pluses and minuses of investing with a large AUM manager versus mid-sized manager?

Climate risk and ESG concerns: Do investors have a strategy in place to manage systemic climate risk? Are investors starting to consider the idea of "climate value at risk" in their portfolio? Do investors have an idea about how to quantify the cost of decarbonization of their portfolio? How are investors determining what constitutes "sustainable investments" for their portfolios? Which investors already have a "net zero investment policy" in place? Do any investors have a baseline carbon footprint for their portfolio? How do carbon footprint findings inform existing manager relationships and future fund commitments? Given that the United States is somewhat behind European investors with respect to the creation and implementation of formal ESG-related policies, how big of a problem is greenwashing within U.S. investment portfolios? Where do ESG and DEI stand in terms of investors' priorities today? Has that changed since the 2021/2022? Which investors would consider investing with a primarily ESG-focused investment manager?

Non-financial metrics: What non-financial metrics are most meaningful to the real estate portfolio for investors today?

International investing: Which investors require a "risk premium" to invest internationally (i.e., seek value-add returns, and risk)? To what extent is the benefit of diversification sufficient (i.e., high-quality core assets to provide regional market beta)? Which investors strongly believe that there will be divergence between geographies (United States versus Europe versus Asia) in both pace of recovery and forward performance in real estate? For those that believe this, where in the world do they expect to see outperformance, and why? How do investors currently feel about exposure to China and Hong Kong? To what extent do these investors feel that India can replace China?

Changing risk strategy definitions and property type preferences: How, if at all, are investors changing their definitions of "core" property types? What is investors' outlook for the U.S. office sector? How seriously are investors taking office as an investment sector today (if at all)? Is office in the process of becoming non-institutional for real estate investment? At what point will office present an opportunity for contrarian investors? Is there a place for an office-focused strategy in today's environment? Will industrial real estate continue to be a strong performer the next decade? Or will excess supply eventually make industrial an underperformer? How should investors think about navigating risks with residential investment? With the diminished investment in office and retail, is there another property type that joins the "big four main food group" sectors? What niche/alternative sectors are investors most interested in, and why? What is the most compelling "niche" sector in the market today from a risk-adjusted return perspective?

As always, the identification of these issues is helping to shape our editorial calendars, although the issues above only reflect the tip of the iceberg when it comes to the concerns raised by our board members over the past year. And the roundtable discussions at our Editorial Advisory Board meetings have been helping us further clarify and understand these concerns.

Hopefully, understanding the kinds of issues underlying the numbers reflected in this year's survey can only help everyone who is reading these survey results better understand how best to address them.

Whatever you do, however, be sure to remember to be careful. Be very, very careful. It's a wacky world out there. ❖

Geoffrey Dohrmann
Chairman and CEO
Institutional Real Estate, Inc.
Pompano Beach, Fla.
April 5, 2024

Executive summary

Institutional Real Estate, Inc.'s Annual Investor Survey assesses institutional investors' asset allocations, risk and return assumptions, expected capital flows, and real estate investment strategies for the coming year. The 2024 web-based survey was initially distributed on Nov. 28, 2023, supplemented by email reminders and phone calls, and feedback was collected through Jan. 31, 2024. A total of 173 responses were received; although fewer than the previous year, it was the largest number of respondents to any institutional real estate investor survey this year. The 124 U.S. respondents manage more than $584 billion in real estate holdings, a reduction from the previous year's $623 billion. The 49 non-U.S. respondents manage nearly $317 billion in real estate holdings, down from $570 billion in the 2023 survey.

The past year was a challenging investment environment, as higher interest rates and concerns about property valuations led many investors to pull back on activity until they could better understand the market dynamics. But real estate continues to have a key role to play in investors' portfolios, offering diversification, current income and attractive risk-adjusted returns, as well as serving as an inflation hedge.

Investors maintained their real estate return expectations for 2024, reporting a 6.7 percent expected total return, up slightly from an expected return of 6.6 percent in the previous year. Core/core-plus real estate remains the largest allocation of both U.S. and non-U.S. investors' real estate portfolios, but valuation concerns are encouraging investors to look for other opportunities as well. The past year was marked by large redemption queues for many open-end core funds, as investors headed for the exits. Core/core-plus comprised only 47 percent of the average U.S. investor's target portfolio and 51 percent of the average non-U.S. investor's portfolio.

Investors were significantly less active in 2023 than in the previous two years. According to the survey, actual capital flows in 2023 were the lowest they had been since 2011 — only $35 billion — and considerably below the $68 billion in new capital commitments that investors were projecting in the 2023 survey. In 2024, investors are projecting a total of $43 billion — an increase from the previous year but nowhere close to the $100 billion committed in 2022.

U.S. investors saw target allocations to U.S. value-added, opportunistic and real estate debt increase, while target allocations to international and core properties declined. And new capital flows by U.S. investors favored U.S. value-added investments (45 percent of actual capital flows in 2023).

When it comes to property type preferences, investors around the world have favored a "beds and sheds" strategy — leaning toward investment in residential and industrial property types. The top five most attractive property types for U.S. investors are warehouse distribution, market-rate multifamily, data centers, cold storage and manufacturing. For non-U.S. investors, the top five most attractive property types are warehouse/distribution, market-rate multifamily, cold storage, student housing and flex/R&D. For U.S. and non-U.S. investors alike, the bottom of the ranking comprises office (suburban and CBD) and regional malls.

The United States maintained its position as the most attractive property market globally, rising in attractiveness for U.S. investors and falling slightly in attractiveness for non-U.S. investors. For U.S. investors, other top markets are the United Kingdom, Canada, Japan and Australia/New Zealand. For non-U.S. investors, the other top markets are Japan, Australia/New Zealand, Northern Europe and the United Kingdom.

When it comes to environmental, social and governance (ESG) factors, non-U.S. investors continue to be more focused on sustainable or responsible investment policies. Some 78 percent of non-U.S. investor respondents reported having an ESG policy in 2024 (up from 65 percent in the previous year), compared with 47 percent of U.S. investors (unchanged from 2023). The same pattern held with diversity, equity and inclusion (DEI) policies. Nearly two-thirds (64 percent) of non-U.S. respondents have a diversity and inclusion policy, while an additional 11 percent have plans to implement one. By comparison, those figures were 40 percent and 5 percent, respectively, for U.S. investors.

Valuations, interest rates and legacy portfolio issues are the major challenges facing real estate investors around the globe. Distressed situations were identified as potentially presenting the most attractive opportunities for real estate investment in the year ahead. ❖

Survey methodology

Institutional Real Estate, Inc.'s 2024 Annual Investor Survey questionnaire included quantitative, open-ended and categorical questions focusing on the following topics:

- Plan type and fund size
- Allocations and return assumptions for investment vehicles
- Allocations and return assumptions for real estate investments
- Satisfaction with and future plans for real estate investments
- Expected capital flows to real estate and search plans for investment managers
- New capital allocations by global real estate strategies
- Property type and region interest for real estate investments
- Interest in and execution of ESG/diversity and inclusion policies

Survey objective and methodology

Identify and understand investment trends driving the decisions of the largest and most influential real estate investors

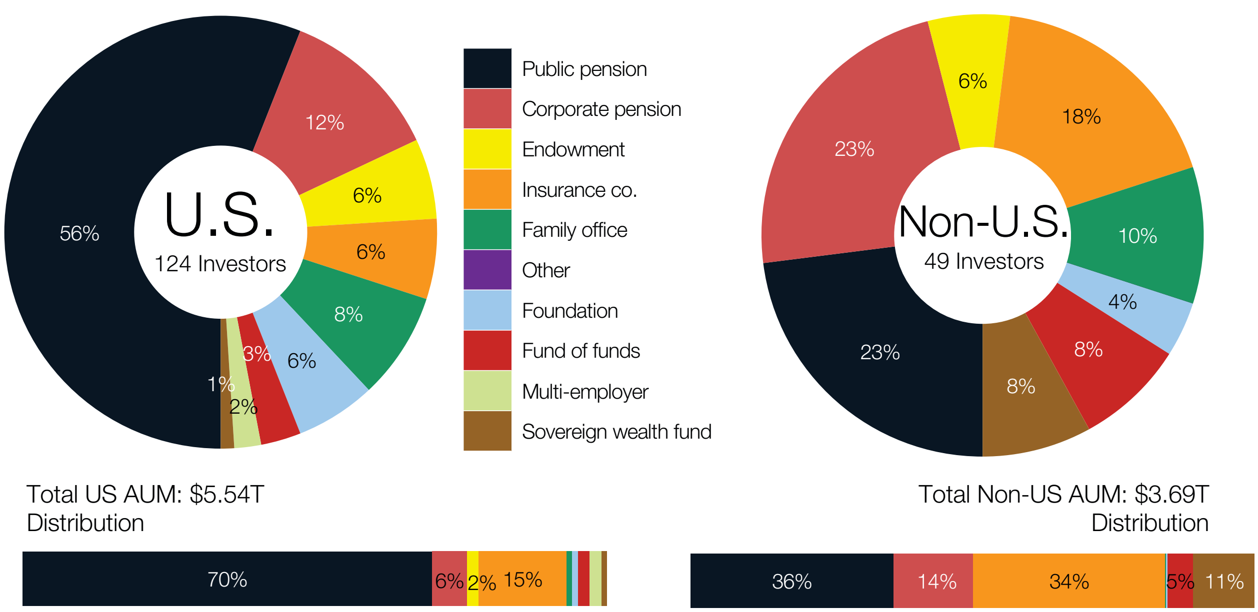
- 28th annual survey; 11th year as global initiative
- Second year the survey was conducted solely by Institutional Real Estate, Inc., without third-party assistance
- Web-based survey launched on Nov. 28, 2023, supplemented by email reminders and phone calls
- 173 responses received by January 31 (124 U.S., 49 non-U.S.)

Sample characteristics

Responses to the 2024 Annual Investor Survey were collected from 124 U.S. and 49 non-U.S. investors, representing a total of \$9.2 trillion in assets under management and \$901 billion in real estate assets under management. U.S. investor respondents have total assets under management of \$5.54 trillion and total real estate assets under management of \$584 billion, while non-U.S. investor respondents are responsible for \$3.7 billion in assets under management, including \$317 billion in real estate assets under management. The non-U.S. investors are, on average, larger than the U.S. investors and are more diversified across respondent type.

The average U.S. investor respondent has \$44.6 billion in assets under management and \$4.7 billion in real estate assets under management, while the average non-U.S. investor respondent has assets under management of

Respondent profile — distribution of investors by fund type

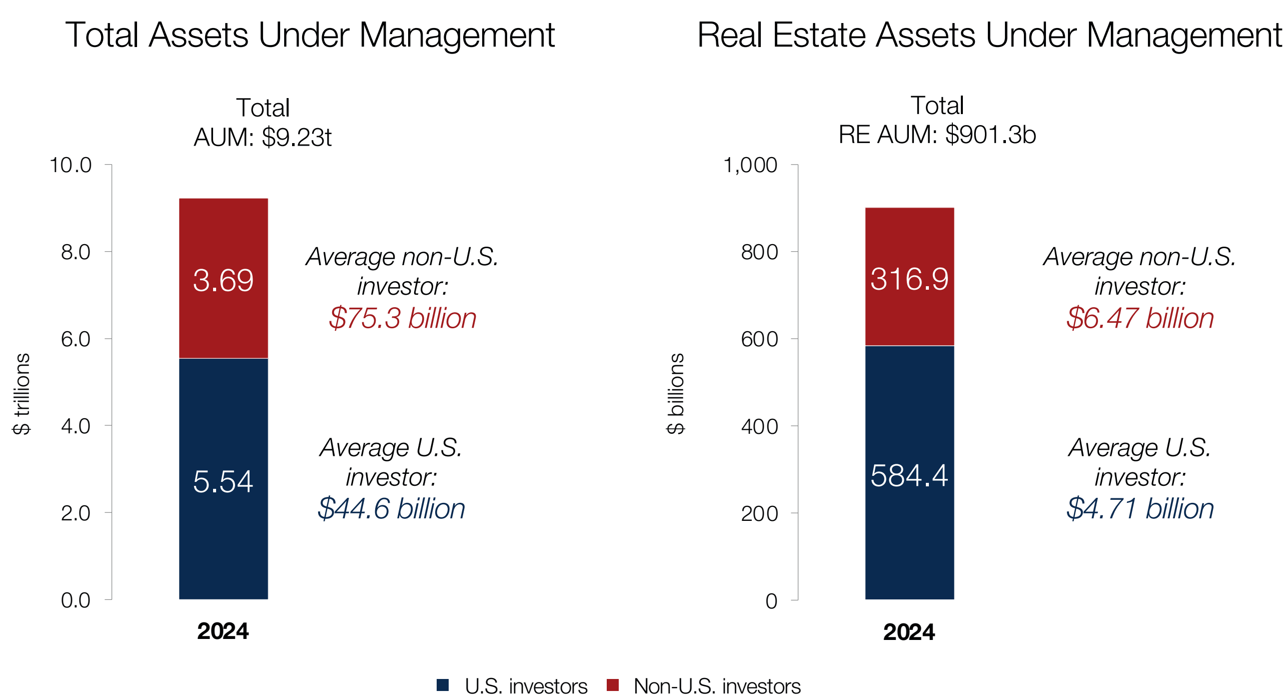


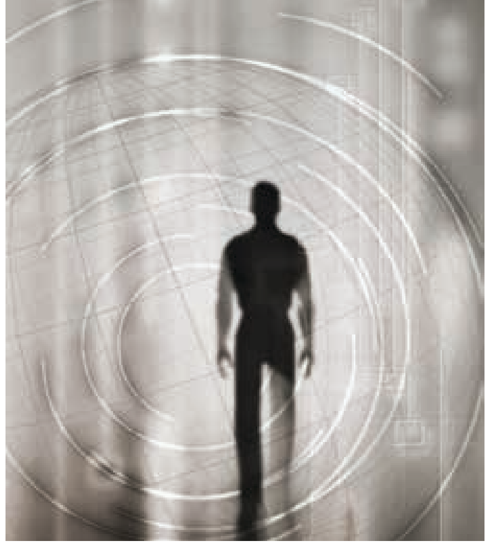
$75.3 billion and real estate assets under management of nearly $6.5 billion. Non-U.S. investors account for 28 percent of the respondents, and they manage 40 percent of the assets under management represented in the survey.

Public pension plans are heavily represented among the U.S. investor respondents, accounting for 56 percent of U.S.-based respondents and 70 percent of U.S. investor assets under management. Corporate pension plans comprise 12 percent of U.S. respondents, family offices represent 8 percent of U.S. respondents, and no other investor type accounts for more than 6 percent of U.S. investors. Insurance companies, which are typically larger than the average respondent, account for 6 percent of U.S. investor respondents and 15 percent of U.S. investors' assets under management.

Non-U.S. investor respondents are more diversified, with public and corporate pension plans each making up 23 percent of non-U.S. investor respondents (36 percent and 14 percent of non-U.S. assets under management, respectively). Insurance companies account for 18 percent of non-U.S. respondents, and 34 percent of non-U.S. assets under management.

Respondent profile





Findings

RETURN EXPECTATIONS—ALL INVESTMENTS

TALKING POINTS

- *2024 return expectations held steady for real estate and private equity*
- *2024 return expectations increased for equities, fixed income, cash, hedge funds and other real assets*
- *U.S. respondents have higher return expectations than non-U.S. respondents*
- *Performance versus benchmarks was better in 2023 than 2022 for most asset classes*

A little context

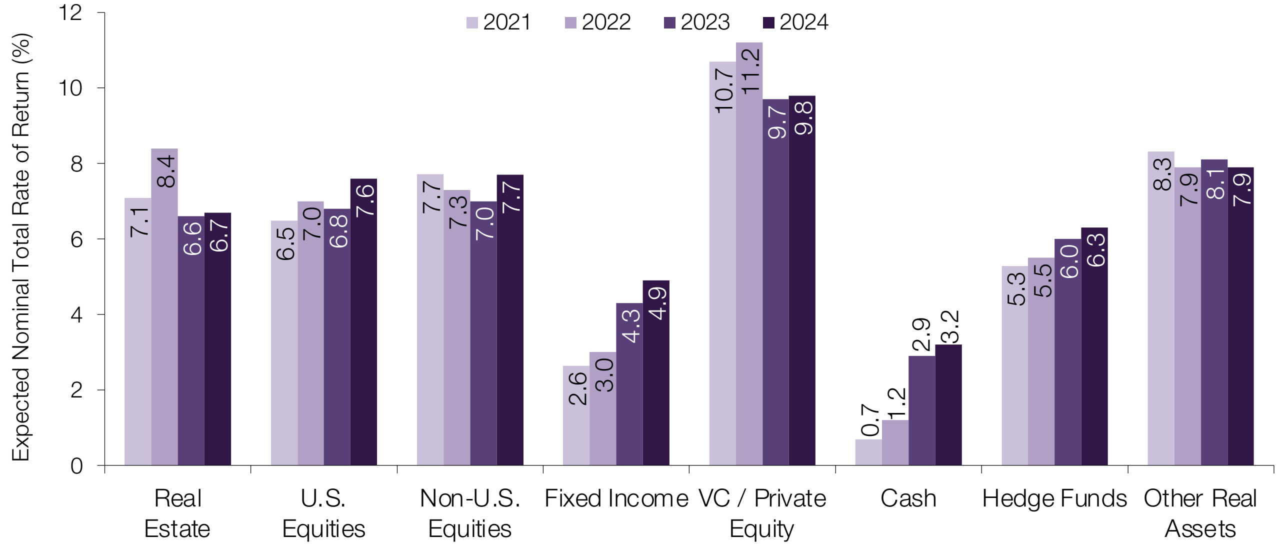
Was 2023 the year the Federal Reserve achieved its soft landing for the U.S. economy? At the beginning of the year, the conventional wisdom was that a recession was imminent, with the only difference of opinion whether it would be in the first or second half of the year. By year-end, however, the possibility that the Fed could tame inflation without incurring a recession was appearing more likely than not.

In January 2023, inflation was high (6.4 percent in the United States over the previous 12 months, according to the Consumer Price Index, with similar readings coming in around the globe), and central banks were acting to control the inflationary environment by tightening monetary supply.

The U.S. Federal Open Market Committee raised the target federal funds rate four times in 2023 (after raising it seven times in the previous year) to a reach a target range of 5.25 percent to 5.50 percent as of July 2023, where the federal funds rate remained at the beginning of 2024. And while inflation is still above the Fed's target (January 2024's annualized CPI reading was 3.1 percent), it has been substantially tamed without an economic recession in the United States. Real U.S. GDP rose 2.5 percent in 2023, up from an increase of 1.9 percent in 2022.

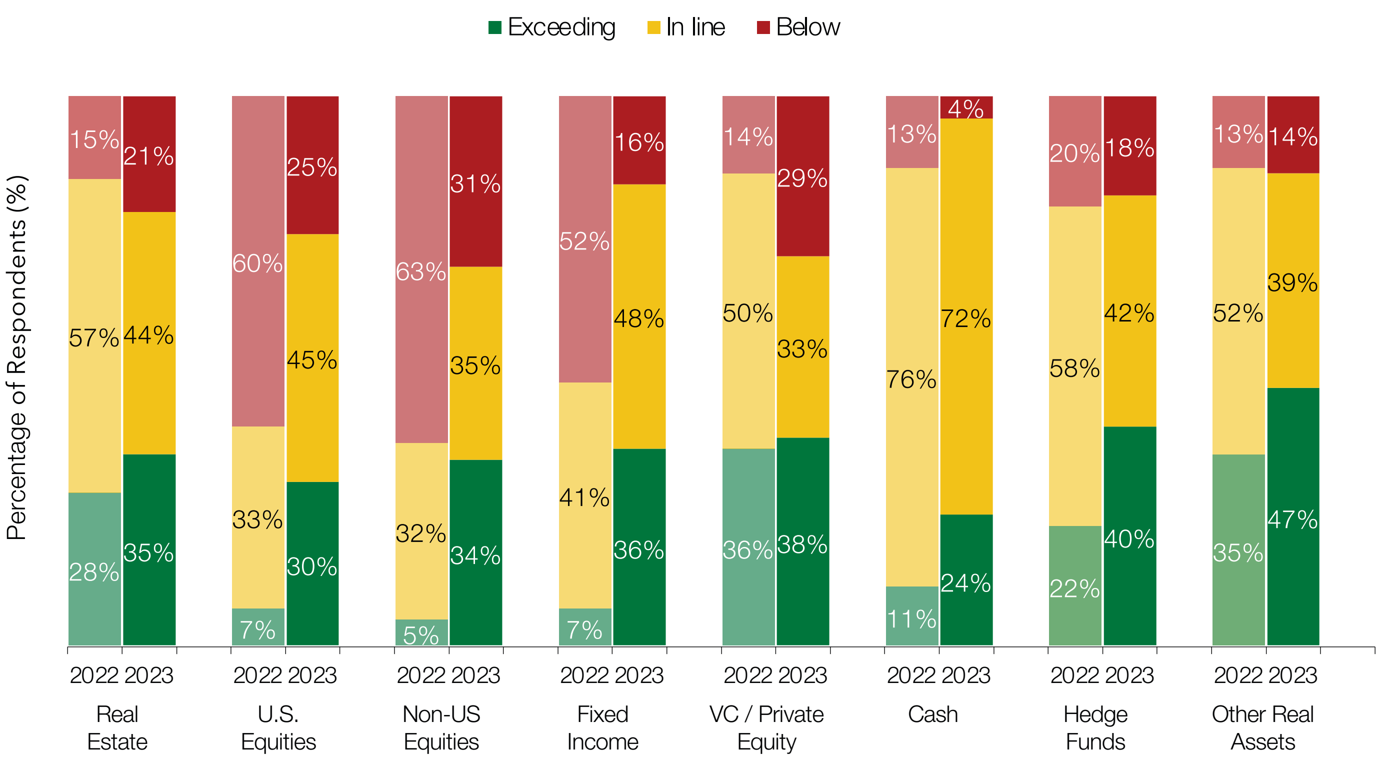
Looking ahead, investors expect interest rates to decline, though the timing of any rate cuts continues to be pushed further into the future. And politics casts a long shadow across the markets, as 2024 will be an election year for most of the globe.

Return expectations for real estate remained the same as in 2023 — historical return expectations (all respondents)



U.S.	7.5%	7.8%	8.1%	4.9%	9.9%	3.3%	6.5%	8.1%
Non-U.S.	5.6%	7.2%	6.8%	4.7%	9.2%	3.3%	5.7%	7.7%

2023 performance vs. benchmarks increased for most asset classes — performance against benchmarks (all respondents)



A few highlights

Coming into 2024, investors expect rising total returns for both stocks and bonds, with expectations for U.S. equities rising to 7.6 percent and for non-U.S. equities rising to 7.7 percent. The higher interest rate environment has translated to higher expectations for fixed income as well, with investors expecting a total return of 4.9 percent in 2024. Cash returns are also higher, at 3.2 percent. Both fixed income and cash have shown a distinct step-up in expectations in the past two years, reflecting the impact of higher interest rates.

Return expectations for alternative assets have more or less held steady, with investors expecting 6.7 percent from real estate (up from 6.6 percent), 9.8 percent from venture capital/private equity (up from 9.7 percent) and 6.3 percent for hedge funds (up from 6.0 percent). Return expectations for other real assets (infrastructure, timber, agriculture, commodities, precious metals and natural resources) declined modestly from 8.1 percent to 7.9 percent.

Across the board, U.S. investors have higher return expectations than non-U.S. investors, and real estate is the asset class where those expectations are widest. Some 190 basis points separate U.S. investors real estate return expectations (7.5 percent) from those of non-U.S. investors (5.6 percent). As will be shown later in this report, non-U.S. investors allocate a larger portion of their portfolios toward core/core-plus assets compared with U.S. investors.

Unlike in 2022, when equities and fixed income performed significantly below benchmarks, the past year was one in which benchmark performance was exceeded more than it was fallen below. More than one-third of investors (35 percent) reported real estate performance that exceeded benchmarks, while 21 percent said real estate performance fell below. Hedge funds and other real assets had the greatest outperformance versus benchmarks, according to 40 percent and 47 percent of investors, respectively.

PORTFOLIO ASSET ALLOCATIONS— ALL INVESTMENTS

TALKING POINTS

- *The denominator effect eased in 2023 compared with 2022*
- *U.S. investors increased real estate allocation targets to 10.1 percent*
- *Non-U.S. investors maintained higher allocation targets to fixed income, real estate and other real assets*
- *U.S. investors were underallocated to real estate amid a bullish stock market*

A little context

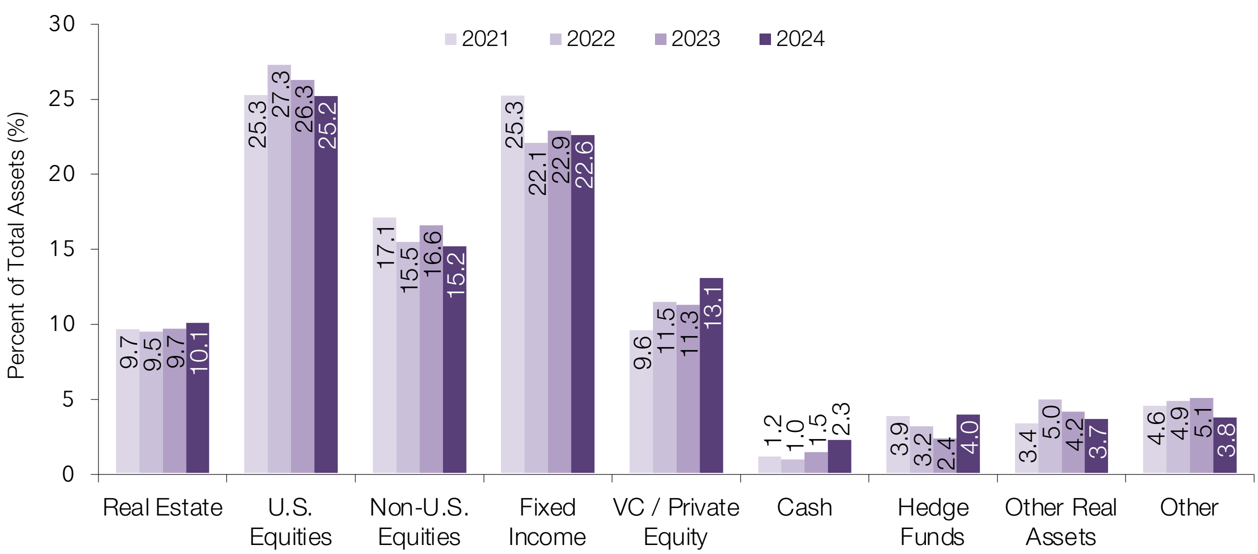
One of investors' greatest concerns at the beginning of 2023 was the lingering effect on portfolio allocations from the previous year's bearish stock market. The denominator effect — how target allocations to individual asset classes can get out of whack when valuations for one of those classes decline — posed a challenge for real estate, as many investors found themselves overallocated to real estate.

That situation had reversed by the end of the past year, as the stock market bounced back while real estate values declined. Investors who had been over their target allocation to real estate found themselves underallocated to the asset class.

A few highlights

U.S. investors continue to embrace the conventional wisdom that real estate should be about 10 percent of a portfolio. U.S. investors' target allocation to real estate ticked up slightly to 10.1 percent in 2024, following several years when the allocation target was between 9.5 percent and 9.7 percent. Non-U.S. investors are even more enamored with real estate and other real assets, with a target allocation to real estate of 11.1 percent and

U.S. investors slightly increase their real estate allocation targets — historical target allocations (U.S. respondents)



	Real Estate	U.S. Equities	Non-U.S. Equities	Fixed Income	VC / Private Equity	Cash	Hedge Funds	Other Real Assets	Other
Non-U.S. Investor Targets	11.1%	13.1%	15.0%	38.9%	8.1%	2.0%	3.0%	8.1%	0.7%

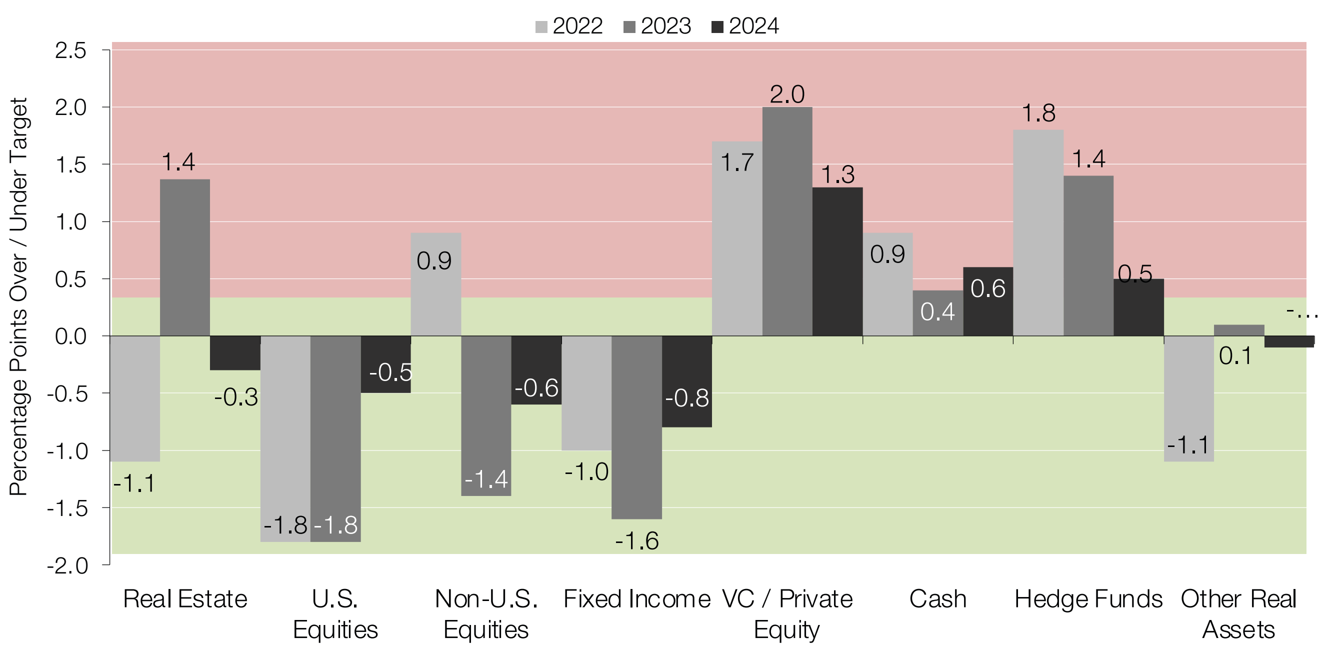
a target allocation of 8.1 percent to real assets (which includes infrastructure, timber, agriculture, commodities, precious metals and natural resources). Investors continue to appreciate real estate's role as a portfolio diversifier, an inflationary hedge and a generator of current income.

Investors are interested in other private market assets as well in 2024. U.S. investors increased their target allocation to venture capital/private equity to 13.1 percent, up from 11.3 percent in 2023. Non-U.S. investors are less focused on private equity, with a target allocation of 8.1 percent.

One area where U.S. and non-U.S. investors' allocation targets diverge is in the allocation to equities versus fixed income. U.S. investors have an average target allocation to equities (both U.S. and international) of 40.4 percent, and an average target allocation to fixed income of 22.6 percent. Those figures are nearly reversed for non-U.S. investors, who have an average target allocation to equities of 28.1 percent and an average target allocation to fixed income of 38.9 percent.

In the past year's survey, investors found themselves overallocated to real estate as the denominator effect played havoc with actual portfolio commitments. At the beginning of 2023, U.S. investors were, on average, overallocated to real estate by 1.4 percentage points. A decline in private real estate valuations — the question around write-downs shifted from "whether" to "how much" — went some way toward changing the situation. In 2024, U.S. investors are underallocated to real estate by an average of 30 basis points.

Real estate holdings dropped back below target allocations — difference— target vs. actual allocations (U.S. respondents)



INVESTMENT SATISFACTION—REAL ESTATE

TALKING POINTS

- *Investors remain satisfied with real estate, with 30 percent of U.S. investors very satisfied*
- *With the exception of core/plus real estate — which disappointed in 2023 — real estate performed in line with most investors' expectations*
- *Real estate debt and CMBS exceeded expectations in 2023, while REITs bounced back following a dismal 2022*

A little context

In the United States, core property investments had a poor showing in 2023. The NCREIF Fund Index – Open-end Diversified Core Equity (NFI-ODCE) recorded a total return of –12.7 percent in 2023. The NFI-ODCE had seen an unlevered valuation change of –16.8 percent, as of year-end 2023, since its peak.

Investors have voted with their feet — or at least attempted to do so — when it comes to investments in core property. Redemption queues for NFI-ODCE funds increased to 18 percent of NAV as of fourth quarter 2023, according to IDR.

While private real estate values fell in 2023, public real estate pricing increased. In the United States, the FTSE Nareit All Equity REITs Index rose more than 11 percent in 2023, following a decline of 25 percent in 2022. Globally, listed real estate recorded a strong year in 2023. The GPR 250 Index recorded a total return of 11.6 percent in 2023 (following a decline of nearly 22 percent in 2022), and continental returns of 17.4 percent for Europe, 12.1 percent for the Americas and 6.3 percent for Asia.

Selected comments from respondents who said they were "very satisfied"

"Real estate has provided excellent returns over the long run and has provided additional benefits, such as diversification and a hedge against inflation."

"Strong equity diversifier with correlation to inflation and high distributions."

"Long-term performance has achieved its goals as a diversifier with characteristics of both debt and equity."

"Good relative value to corporate IG debt, minimal delinquencies, strong returns through cycle."

"The real estate program is providing returns in line with expectations, while providing cash flow to fund pension benefits. We have been focused on the residential, industrial, life science and cold storage sectors, which have outperformed, while reducing exposure to traditional office and non-grocery-anchored retail. We've also decreased our leverage during the year as interest rates were rising."

"Has been a strong performer on a long-term basis and is performing in line with target."

"Good performance in a tough market environment. Well protected capital and opportunistic acquisitions/commitments."

A few highlights

U.S. investor satisfaction with real estate remains relatively strong, though more investors are dissatisfied than in the previous few years. Some 70 percent of U.S. investors remain "somewhat" or "very" satisfied with their real estate programs, down from 81 percent in 2023. In addition, 18 percent remain neutral on the asset class, while 11 percent are somewhat dissatisfied and 1 percent are very dissatisfied. Non-U.S. investors had similar levels of dissatisfaction, but the number of non-U.S. investors who are somewhat or very satisfied with real estate investment was only 51 percent of respondents, with 37 percent feeling neutral on the asset class.

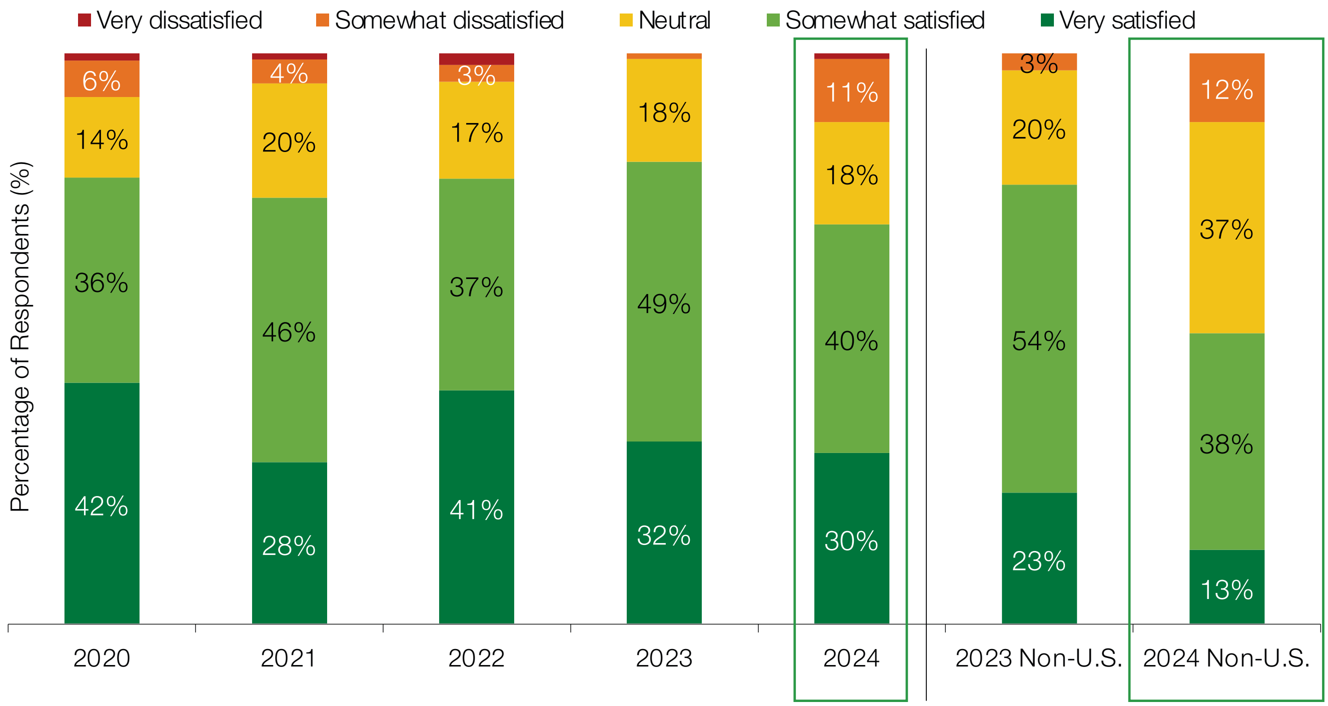
Perhaps the reason most investors are satisfied with their real estate investments is that they met expectations. However, although investors generally state their real estate investments panned out as expected, not all investments performed equally well.

As has been well-documented this past year, given the substantial redemption queues for open-end core real estate funds, investor satisfaction with core/core-plus property has been waning. Some 32 percent of U.S. investor respondents reported their core/core-plus real estate investment performance fell below benchmarks in 2023 — up from only 4 percent in 2022.

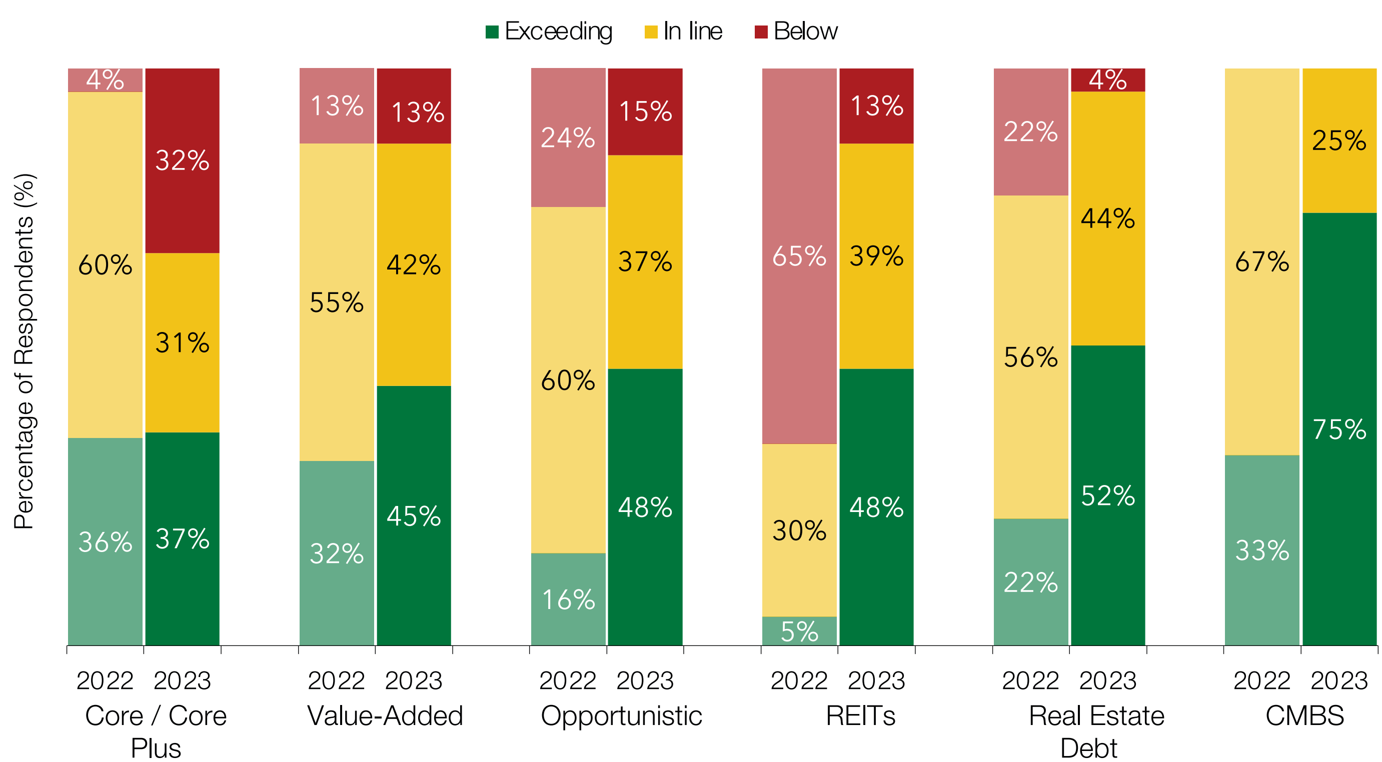
While private real estate valuations were slow to record write-downs, the opposite was the case for public market real estate, which meant REITs came into the year having already taken their lumps. Nearly half of U.S. respondents said REIT investments exceeded their benchmarks in 2023 — a reversal from the previous year, when nearly two-thirds said REIT performance had fallen below benchmarks.

Both private real estate debt investments and commercial mortgage–backed securities outperformed against expectations in 2023. Three-quarters of U.S. investor respondents said CMBS investment performance exceeded expectations, while 52 percent of U.S. investor respondents said real estate debt investment outperformed benchmarks.

Investors remain relatively satisfied with real estate — investors' satisfaction with real estate (U.S. respondents)



2023 performance (except for core/core-plus) was mostly in line with benchmarks Performance against expectations (U.S. respondents)



NEW CAPITAL ALLOCATIONS—REAL ESTATE

TALKING POINTS

- *2024 planned commitments of new capital are expected to be higher than actual commitments in 2023*
- *Actual capital flows in 2023 were the lowest since the aftermath of the GFC*
- *U.S. investors' new capital flows favor value-added strategies*
- *Non-U.S. investors' new capital flows favor core/core-plus strategies*

A little context

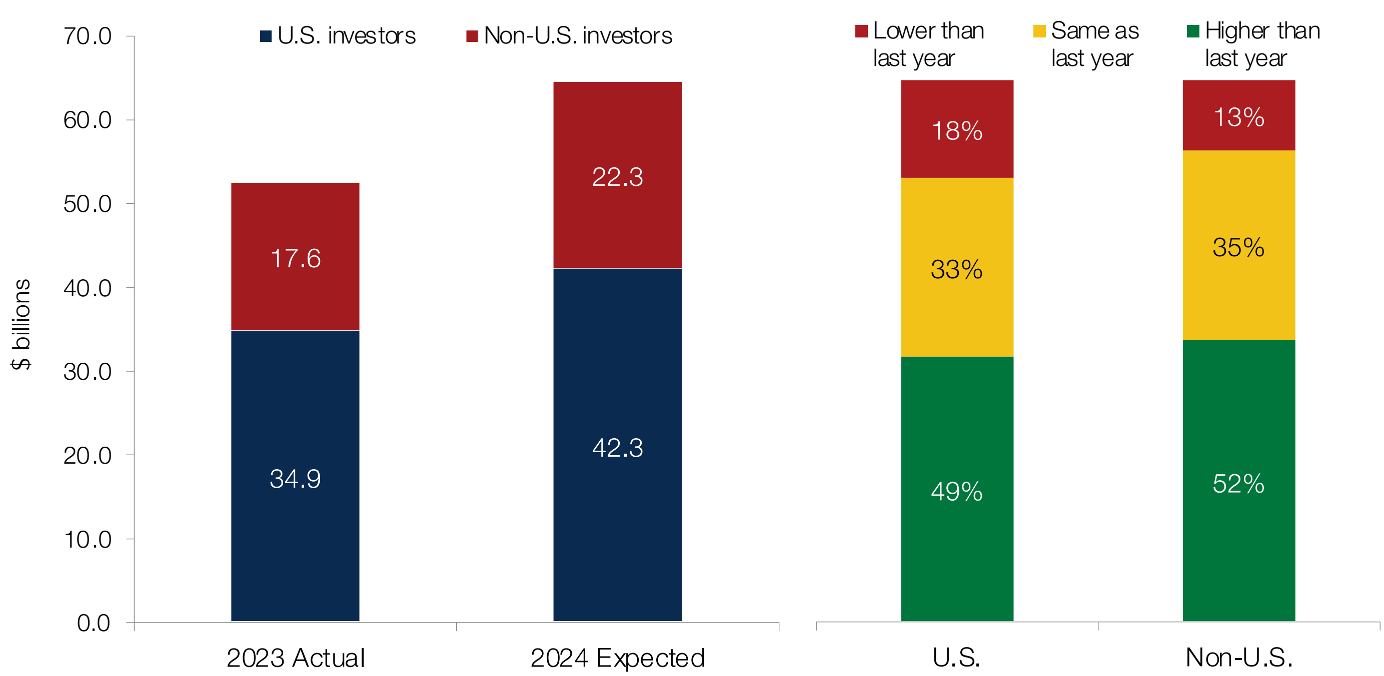
At the beginning of 2023, the denominator effect was limiting investors' opportunities for new capital commitments, as many were over their target allocations to real estate. As the year progressed, and the stock market rebounded, the denominator effect was less of an issue. Instead, investors were filled with uncertainty about the value of their existing holdings.

The NCREIF Property Index reported negative returns in every quarter of 2023, with an unlevered return in 2023 of –7.95 percent. As of fourth quarter 2023, the index had declined 14.4 percent since its peak in second quarter 2022.

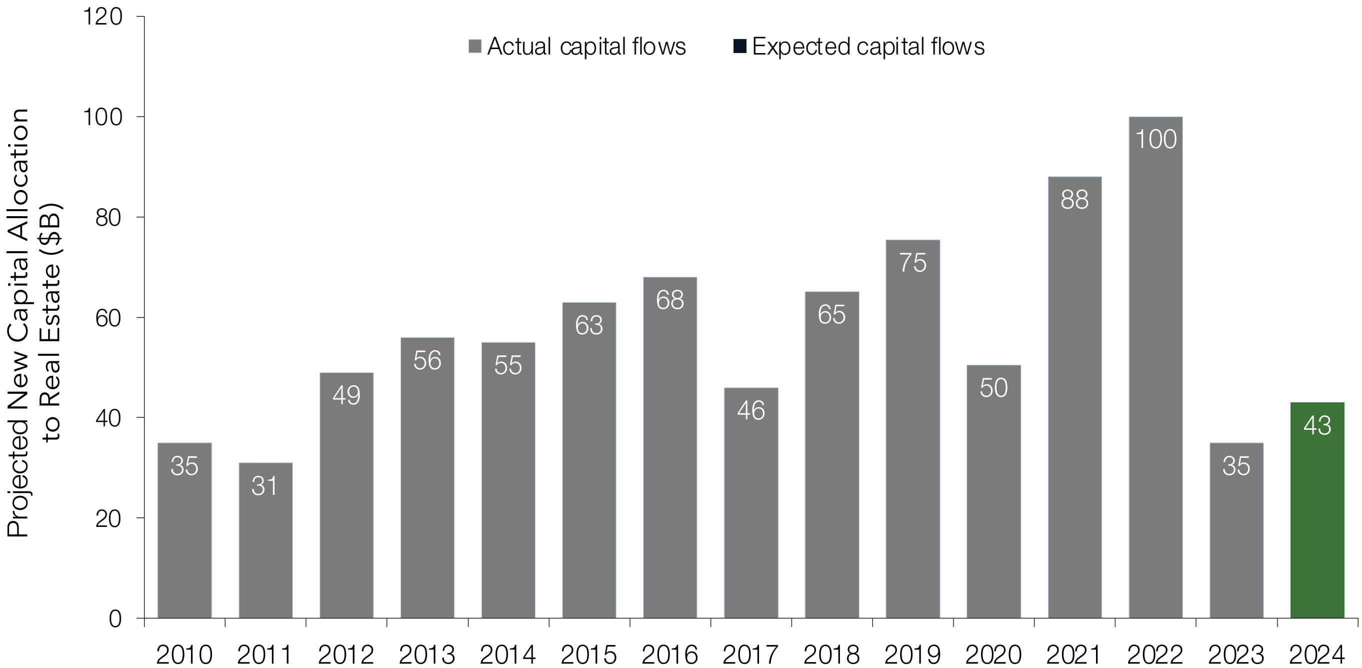
With investors filled with uncertainty — about the likelihood of recession, the future direction of interest rates, the pace of write-downs required — it was a year in which not taking any action often seemed the safest course. Real estate fundraising slowed in second half 2023, according to Institutional Real Estate, Inc.'s proprietary database, IREI.Q, when 35 closed-end real estate funds held a final close with total equity commitments of $29 billion. The year as a whole saw $104 billion raised by 77 funds holding a final close in 2023 — down from $138 billion in 2022 and $169 billion in 2021.

Will 2024 be the year in which investors shift

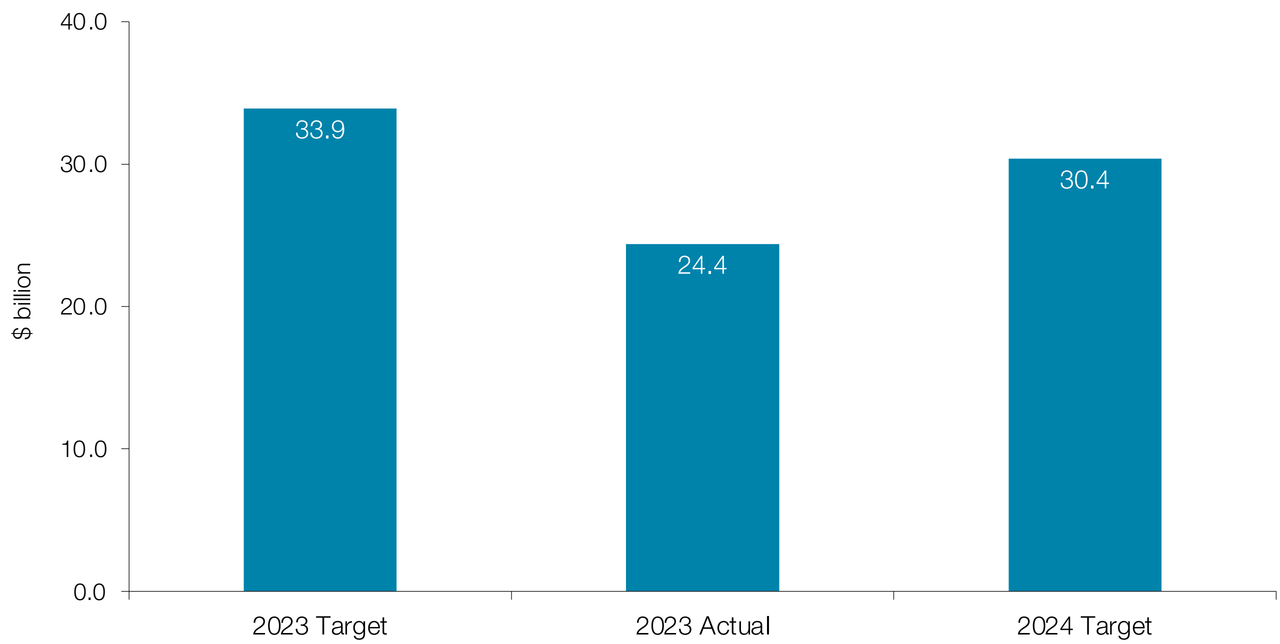
U.S. investors' planned new capital commitments were up 18 percent from 2023 actual commitments; Non-U.S. investors up 21 percent — capital flows to real estate



$43b in new capital commitments projected for 2024
Projected new capital commitments (U.S. respondents)



U.S. investors committed less capital in 2023 than they had planned
Planned capital commitments (U.S. respondents) — only respondents who completed 2023 and 2024 surveys



out of wait-and-see mode? Or will investors continue to "survive until '25"?

A few highlights

U.S. investors expect to commit 18 percent more new capital to real estate in 2024 than they did in 2023 — when their actual commitments were the lowest since 2011 — and non-U.S. investors are looking at increasing new commitments by 21 percent. Extrapolating from the capital actually committed in 2023, investors expect to commit approximately $43 billion in new capital in 2023.

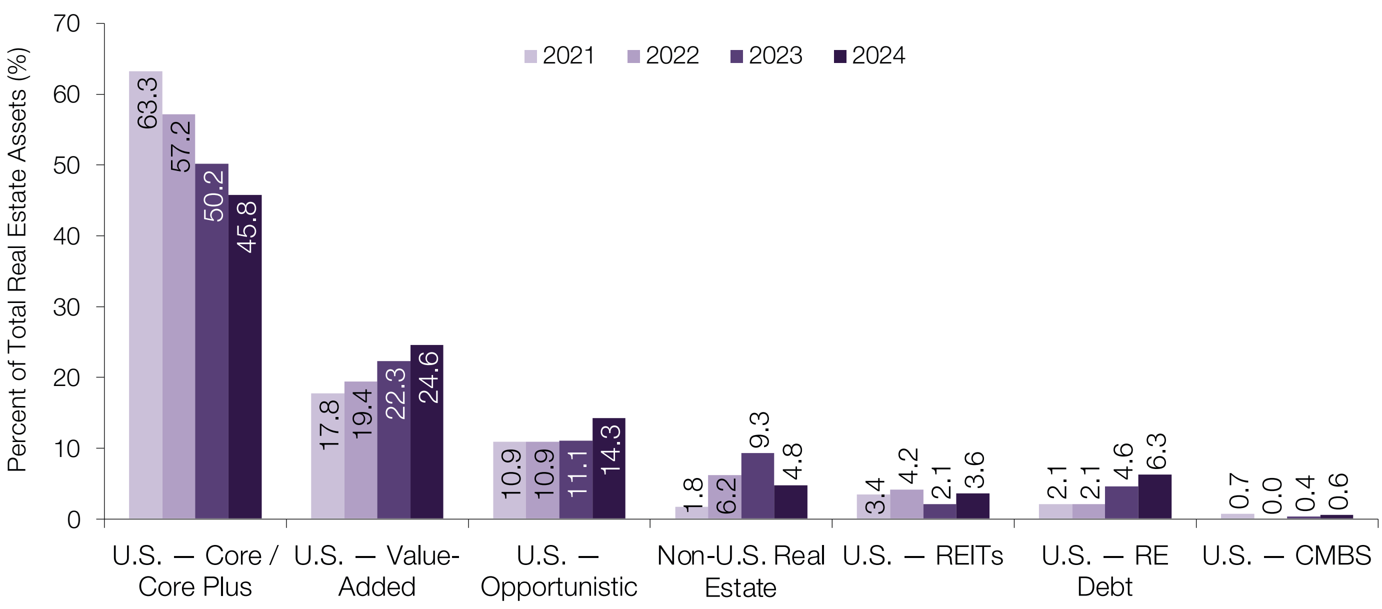
Half of investor respondents (49 percent of U.S. investors and 52 percent of non-U.S. investors) said their planned new capital commitments to real estate will be higher than the previous year, with another third (33 percent of U.S. investors and 35 percent of non-U.S. investors) indicating that capital commitments to real estate would stay the same.

Of course, given that actual capital commitments to real estate in 2023 were the lowest since 2011, and on par with commitments in 2010, it will not be difficult for investors to put more capital out this year than the previous.

Given concerns regarding legacy issues in open-end core funds (primarily related to office and retail assets), it is no surprise that U.S. investors' average target allocation to domestic core/core-plus strategies has been trending down in the past few years. U.S. investors' target allocation to U.S. core/core-plus property has declined from 63 percent in 2021 to 57 percent in 2022 to 50 percent in 2023, and now 46 percent in 2024. That is a big drop in only four years, and the beneficiaries of that trend have been higher-return strategies, on one hand, and real estate debt investments on the other.

Value-added and opportunistic strategies have both benefited from the search for more

Target allocations to U.S. value-added, opportunistic and debt grew while allocations to U.S. core and non-U.S. real estate declined — historical real estate target allocation (U.S. respondents)



Non-U.S. Targets	14.9%	12.2%	3.9%	66.2%	0.7%	2.0%	0.1%

return. Three years ago, U.S. investors on average allocated 18 percent of their real estate portfolio to U.S. value-added strategies. That rose to 19 percent in 2022 and 22 percent in 2023. In 2024, U.S. investors are targeting U.S. value-added real estate for one-quarter of their real estate allocation — 24.6 percent. U.S. investors are allocating an additional 14.3 percent toward U.S. opportunistic real estate, up from 11 percent in the previous three years.

Although U.S. investors were intrigued by international real estate in the previous year — rising from a target allocation of less than 2 percent in 2021 amid the height of the COVID-19 pandemic to more than 9 percent in 2023 — that has fallen back to a target of only 4.8 percent in 2024.

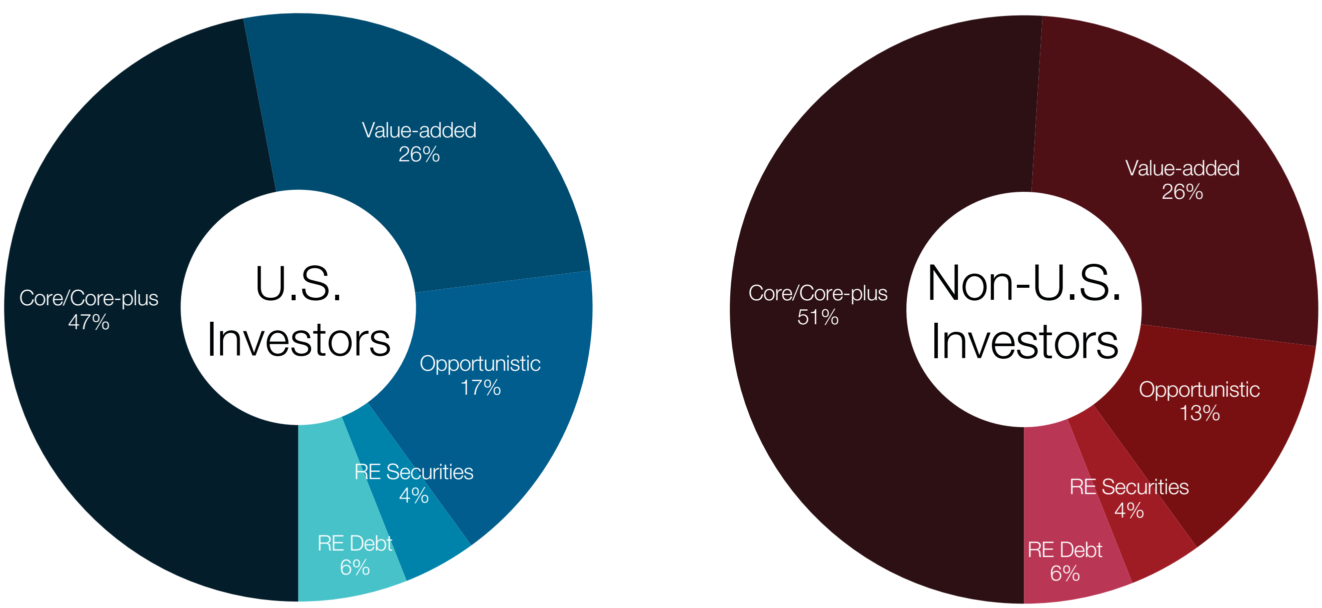
Real estate debt allocations saw a an increase to 6.3 percent in 2024, reflecting U.S. investors satisfaction with the performance of the asset class amid the higher-interest-rate environment. For many investors, real estate debt is being considered as an alternative to core property.

It is also important to note the reported allocation targets likely underweight the actual positions of REITs and real estate debt within many investors' portfolios, as exposure to these strategies is often accomplished through general public equities and fixed-income or private credit allocations, respectively.

U.S. and non-U.S. investors' target allocations, by strategy, are very similar, though non-U.S. investors have a slightly higher target allocation to core/core-plus property (51 percent) and a slightly lower target allocation to opportunistic real estate.

In 2023, U.S. investors strongly favored value-added real estate investments (45 percent of actual capital flows in the past year) and expect to continue to do so in 2024 (32 percent of projected capital flows). Unsurprisingly, actual capital flows to core/core-plus real estate by

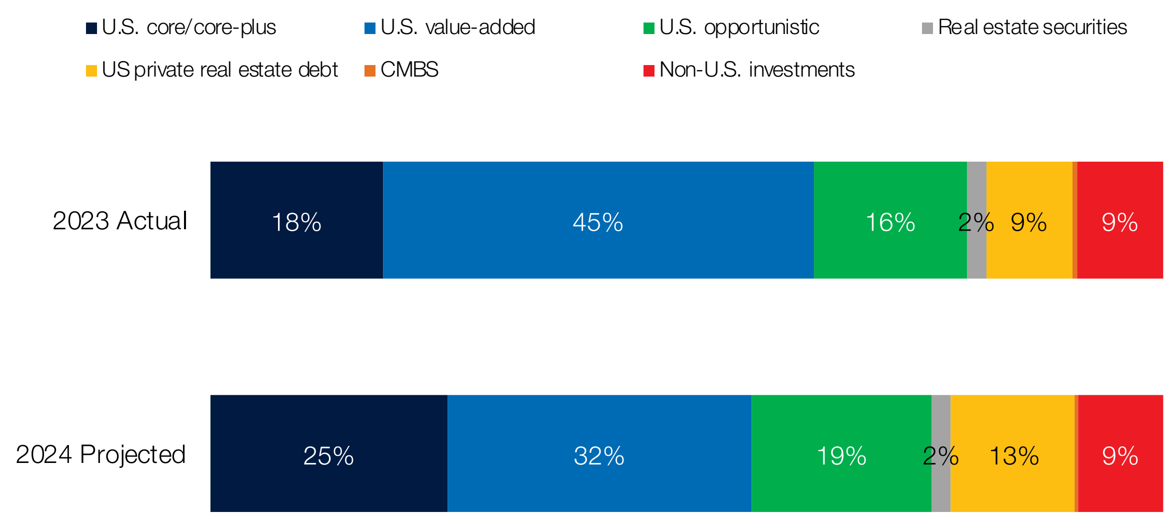
Investors this year continued to focus on core/core-plus strategies
Distribution target allocations by real estate strategy



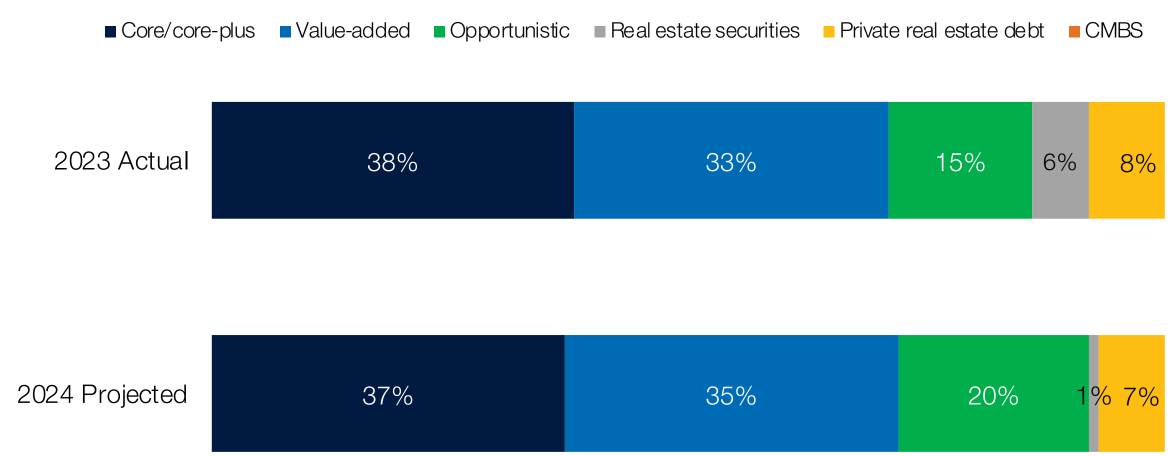
U.S. investors was only 18 percent of the total in 2023. U.S. investors are expecting to allocate one-quarter of their capital flows toward core/core-plus real estate in 2024. Private real estate debt captured 9 percent of actual capital flows, according to U.S. investor respondents, and is projected to account for 13 percent in 2024.

By contrast, non-U.S. investors allocated 38 percent of actual capital flows toward core/core-plus real estate in 2023, and expect to match that with a projected 37 percent of capital flows to real estate in 2024. Value-added capital flows are also expected to be similar. Non-U.S. investors are projecting an increase in their investments in opportunistic real estate (20 percent of projected capital flows in 2024, up from 15 percent

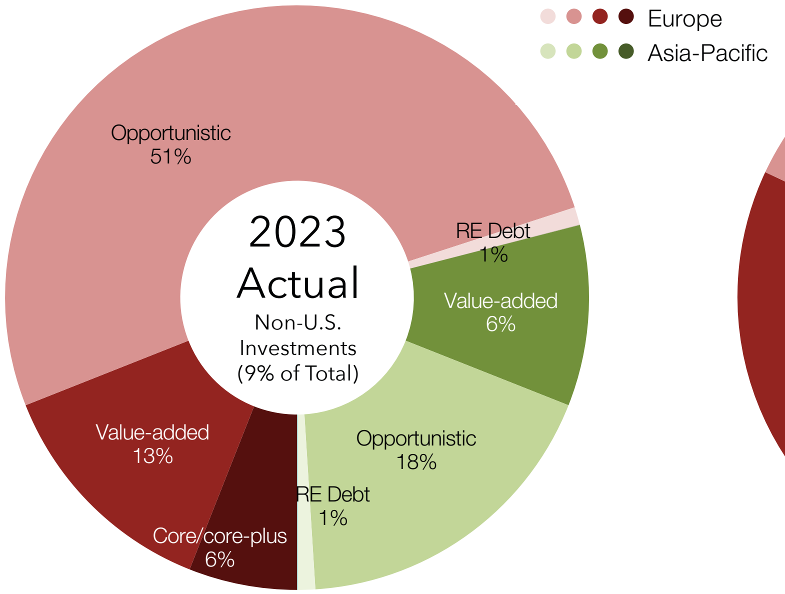
Actual 2023 and projected 2024 new capital flows both favored value-added investment strategies
Expected capital flows to real estate (U.S. respondents)

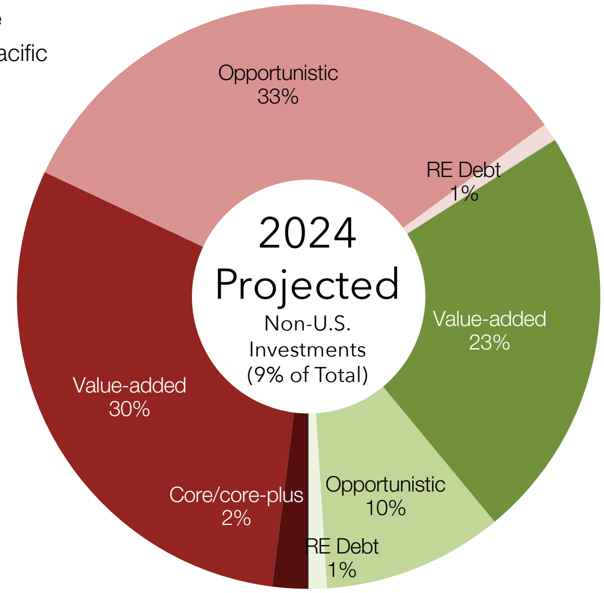


Non-U.S. investors planned to diversify their investment strategies
Expected capital flows to global real estate (non-U.S. respondents)

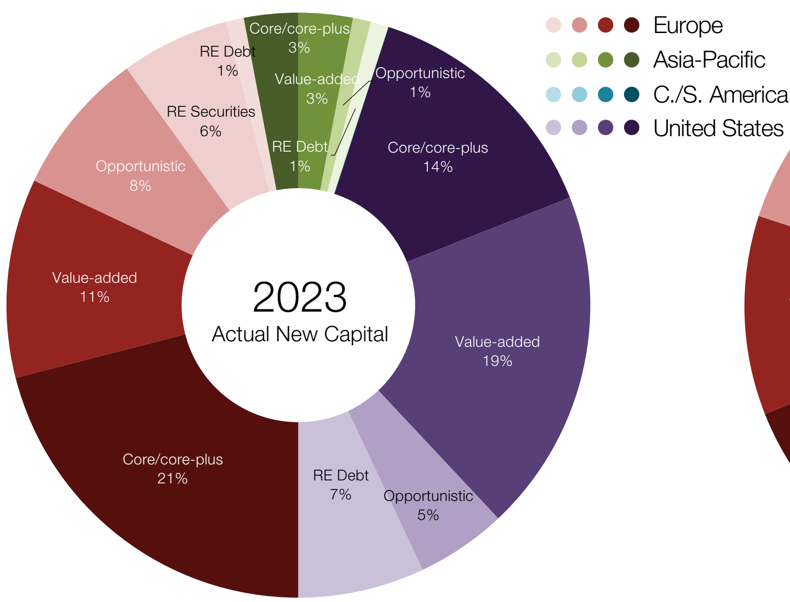


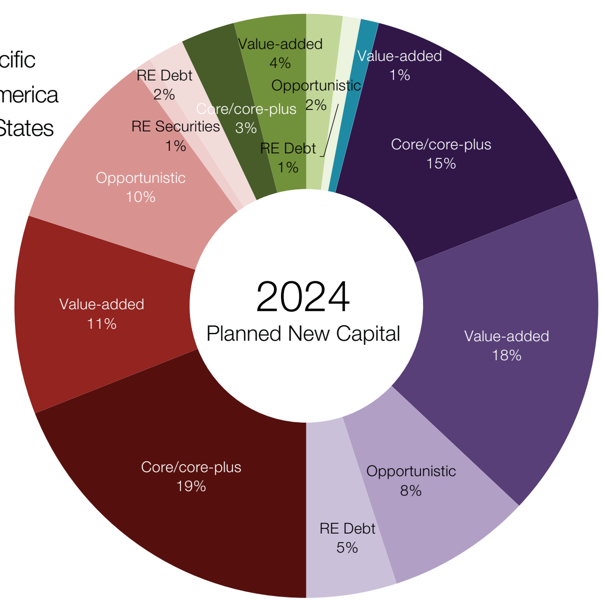
U.S. investors continue to favor value-added and opportunistic strategies for non-U.S. investments
Expected capital flows to real estate (U.S. respondents)





Non-U.S. investors increased their emphasis on U.S. real estate
Expected capital flows to real estate (non-U.S. respondents)





of capital flows in 2023). Non-U.S. investors are expecting to dial back their investment in real estate securities, such as REITs, from an actual capital flow of 6 percent in 2023 to a projected investment of 1 percent in 2024. This reflects the tactical movement of many investors into listed real estate in 2023, given the repricing in global REIT markets, which happened more swiftly than that in private real estate.

Those U.S. investors planning to commit capital overseas will focus on European opportunities (66 percent), with an emphasis on European opportunistic (33 percent) and value-added (30 percent) strategies. U.S. investors continue to demand a premium for going overseas, even if the market is mature with multiple core-type opportunities. European opportunistic investments captured the lion's share of U.S. investor's actual capital flows to overseas property (51 percent). Non-U.S. investors saw actual capital flows to U.S. real estate of 45 percent of total capital flows, and estimate they will invest 47 percent of their new capital in the United States. Non-U.S. investors are projecting an additional 43 of capital flows will go to European real estate. The remainder (approximately 10 percent of capital flows, will be allocated to Asia Pacific and Central and South America.

RELATIVE ATTRACTIVENESS—REAL ESTATE

TALKING POINTS

- *Multifamily and warehouse sectors deemed most attractive sectors by U.S. investors*
- *Office and malls once again rank at bottom for attractiveness*
- *The United States is ranked the most attractive market by both U.S. and non-U.S. investors*
- *China's attractiveness waned among U.S. and non-U.S. investors*

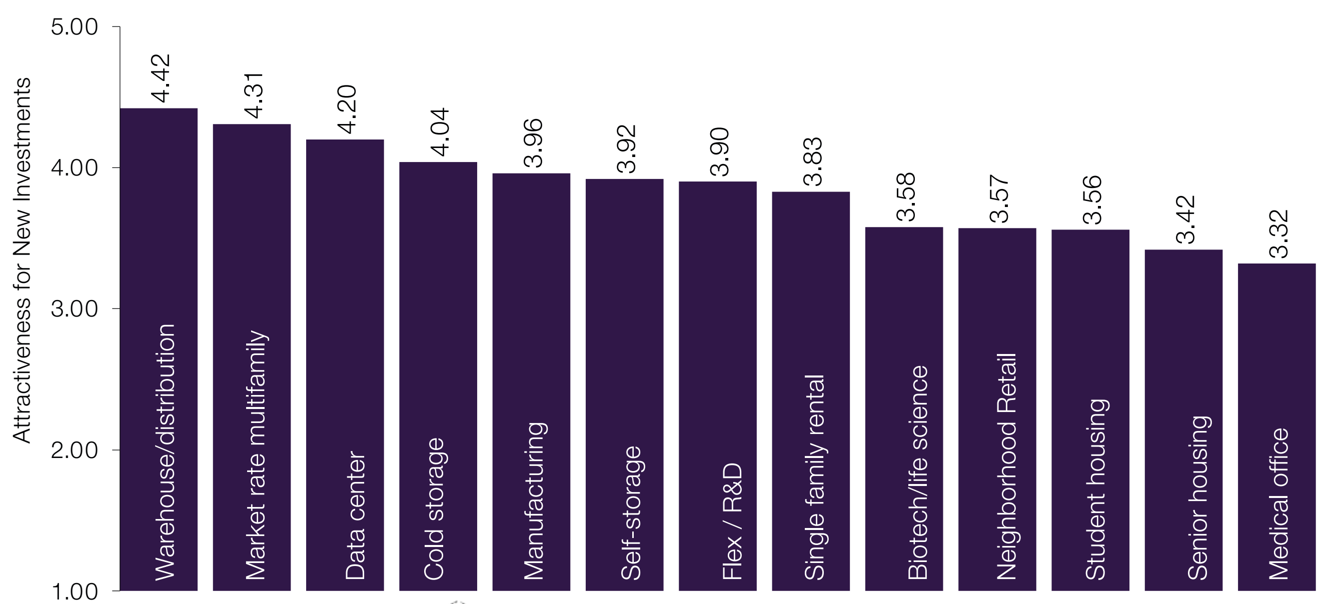
A little context

Commercial property prices declined in 2023, but with significant variation by property type. In the United States, commercial property prices fell nearly 6 percent in 2023, according to MSCI's RCA Commercial Property Price Indexes. The biggest drops were recorded by office properties, with CBD office declining 29.2 percent in 2023 and suburban office falling 13.2 percent. U.S. industrial was the only property type to eke out a gain, with an increase of 0.5 percent. Retail property prices fell 5.5 percent, while apartment property prices dropped 8.4 percent.

A few highlights

Investors were asked to rank the attractiveness of 23 property types on a 1 to 5 scale. Those rankings were then averaged to find out the relative attractiveness of traditional and alternative property types. The results indicate investors around the world favor a "beds and sheds" strategy

Relative attractiveness of property types
Attractiveness of property types — top 13 (U.S. respondents)



2023 U.S.	4.21	4.25	3.57	3.97	4.01	3.71	3.82	3.37	3.60	3.46	3.72	3.32	3.42
Non-U.S.	4.39	3.97	3.64	3.97	3.67	3.67	3.85	3.54	3.58	3.42	3.96	3.58	3.42

— leaning toward investment in residential and industrial property types.

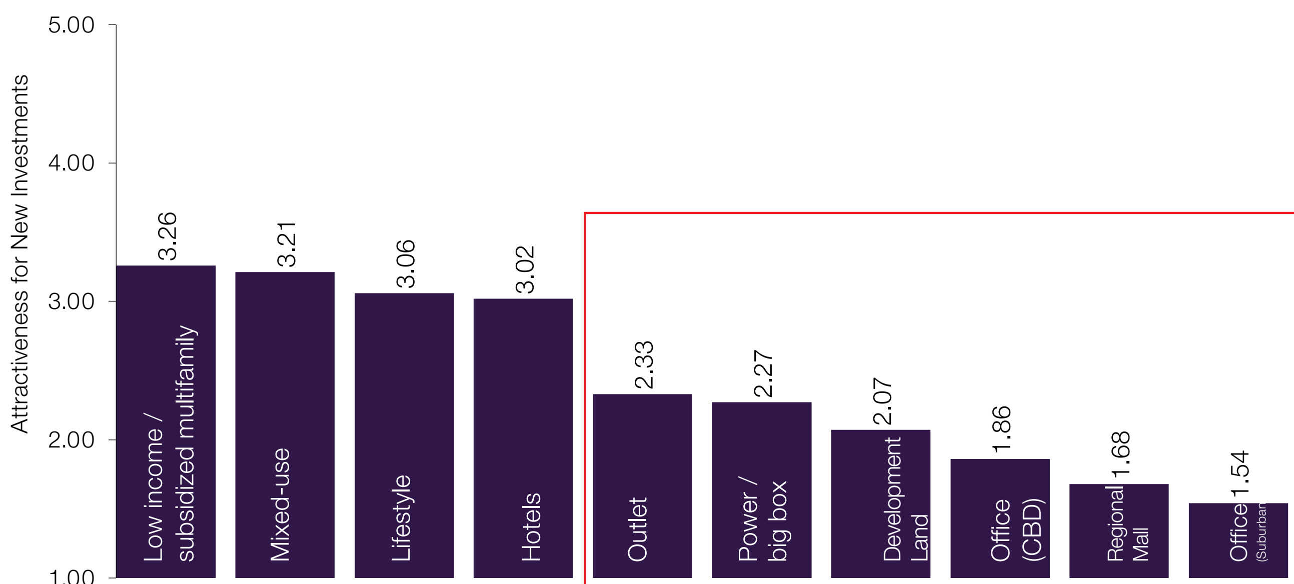
The top five most attractive property types for U.S. investors are warehouse distribution, market-rate multifamily, data centers, cold storage and manufacturing. For non-U.S. investors, the top five most attractive property types are warehouse/distribution, market-rate multifamily, cold storage, student housing and flex/R&D. For U.S. and non-U.S. investors alike, the bottom of the ranking comprises office (suburban and CBD) and regional malls. Neighborhood retail, i.e., grocery-anchored retail properties, was the only retail sector to achieve a score in the top half of property types, with a rank of 3.57 by U.S. investors and 3.42 by non-U.S. investors.

Industrial property has been buoyed by a number of tailwinds in the post-pandemic era, as ecommerce continues to grow and supply chains continue to realign. That has propelled the warehouse/distribution sector to the top of the relative attractiveness rankings, with a score of 4.42 among U.S. investors and 4.39 among non-U.S. investors.

On the residential front, rising mortgage rates have priced many first-time buyers out of the housing market, which has supported the attractiveness among U.S. investors of the market-rate (4.31) and low-income/subsidized (3.26) multifamily as well as single-family rental (3.83) sectors. (Non-U.S. investors also ranked those sectors highly, at 3.97, 3.04 and 3.54, respectively.)

With two of the "four food groups" — the core property types of industrial, multifamily, office and retail — out of favor, alternative or niche property types have had the opportunity

Relative attractiveness of property type
Attractiveness of property types — bottom 10 (U.S. respondents)



	Low income / subsidized multifamily	Mixed-use	Lifestyle	Hotels	Outlet	Power / big box	Development Land	Office (CBD)	Regional Mall	Office (Suburban)
2023 U.S.	3.69	3.14	2.71	2.56	2.19	2.39	2.18	1.82	1.60	1.79
Non-U.S.	3.04	3.60	2.79	2.79	2.68	2.58	2.80	2.50	2.30	1.42

to shine.

The United States maintained its position as the most attractive property market globally, rising in attractiveness for U.S. investors and falling slightly in attractiveness for non-U.S. investors. For U.S. investors, other top markets are the United Kingdom, Canada, Japan and Australia/New Zealand. For non-U.S. investors, the other top markets are Japan, Australia/New Zealand, Northern Europe and the United Kingdom.

The United States was the only country or region to score more than 4.0 on the five-point attractiveness scale — hitting 4.72 among U.S. investors, though it fell to 3.97 among non-U.S. investors. India's demographics make it too interesting to ignore, yet few managers have been able to crack the code and actually succeed in the country. Interest in the country went up slightly among non-U.S. investors, but its attractiveness declined among U.S.-based investors. Both U.S. and non-U.S. respondents reported dwindling interest in China, with the market's relative attractiveness falling among both investor groups.

The relative attractiveness of geographic property markets shifted — attractiveness of real estate by region — U.S vs. non-U.S. respondents

Region	U.S.	Non-U.S.
U.S.	4.72 ▲	3.97 ▼
Canada	3.63 ▲	3.48 ▼
Mexico	2.21 ▲	2.08 ▼

Region	U.S.	Non-U.S.
United Kingdom	3.87 ▲	3.67 ▲
Northern Europe	3.02 ▼	3.68 ▲
Southern Europe	3.27 ▲	3.15 ▲
Central / Eastern Europe	2.86 ▲	2.79 ▲

Region	U.S.	Non-U.S.
Brazil	1.46 ▼	1.90 ▲
South America	1.68 ▲	1.93 ▼
Central America	1.57 ▲	1.79 ▼

Region	U.S.	Non-U.S.
Japan	3.55 ▲	3.79 ▲
Australia / N.Z.	3.38 ▲	3.76 ▲
China	1.56 ▼	1.83 ▼
India	1.83 ▼	2.41 ▲

▲ Increase from 2023

▼ Decrease from 2023

Region shading based on ranking of attractiveness within U.S. and non-U.S. respondent pools

ESG AND DEI POLICIES

TALKING POINTS

- *U.S. investors remain less focused on sustainable/responsible investment policies than non-U.S. respondents*
- *U.S. investors are less focused on diversity and inclusion investment policies than non-U.S. respondents*

A little context

Environmental, social and governance (ESG) initiatives have become a mainstream talking point in recent years. That also has meant greater attention has been paid to the politics of ESG. In the United States, ESG has become another front in the culture wars, with politicians from both major parties using ESG to push forward their own ideological ends. But, away from the heated rhetoric, the commercial real estate industry has quietly acted to ensure asset resilience amid the threats of increased weather volatility and climate change.

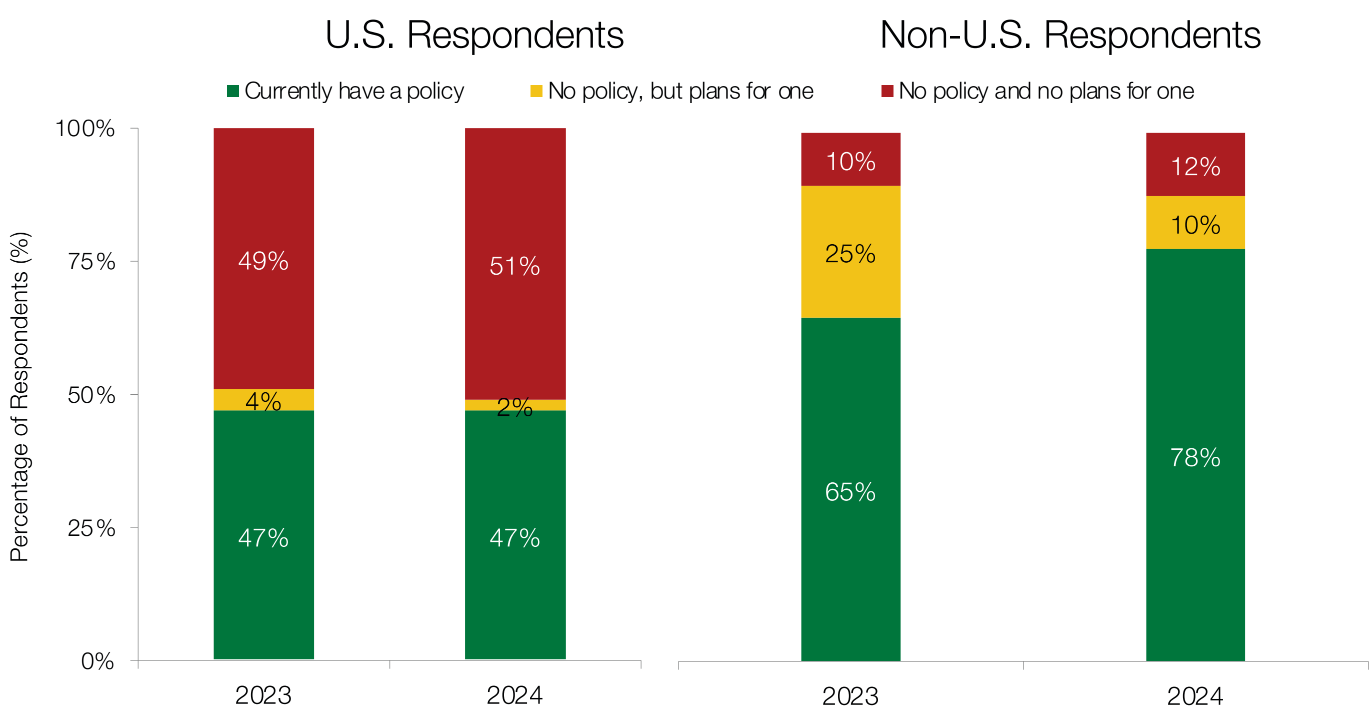
Diversity, equity and inclusion (DEI) is another area where the real estate investment industry is reflecting the expectations of the culture at large. The most recent Global Real Estate DEI Survey found nearly all of the commercial real estate firms surveyed (95.8 percent) have either a formal DEI program or some initiatives and/or policies in place. To some extent, that reflects the changing expectations, globally, of investors in real estate.

A few highlights

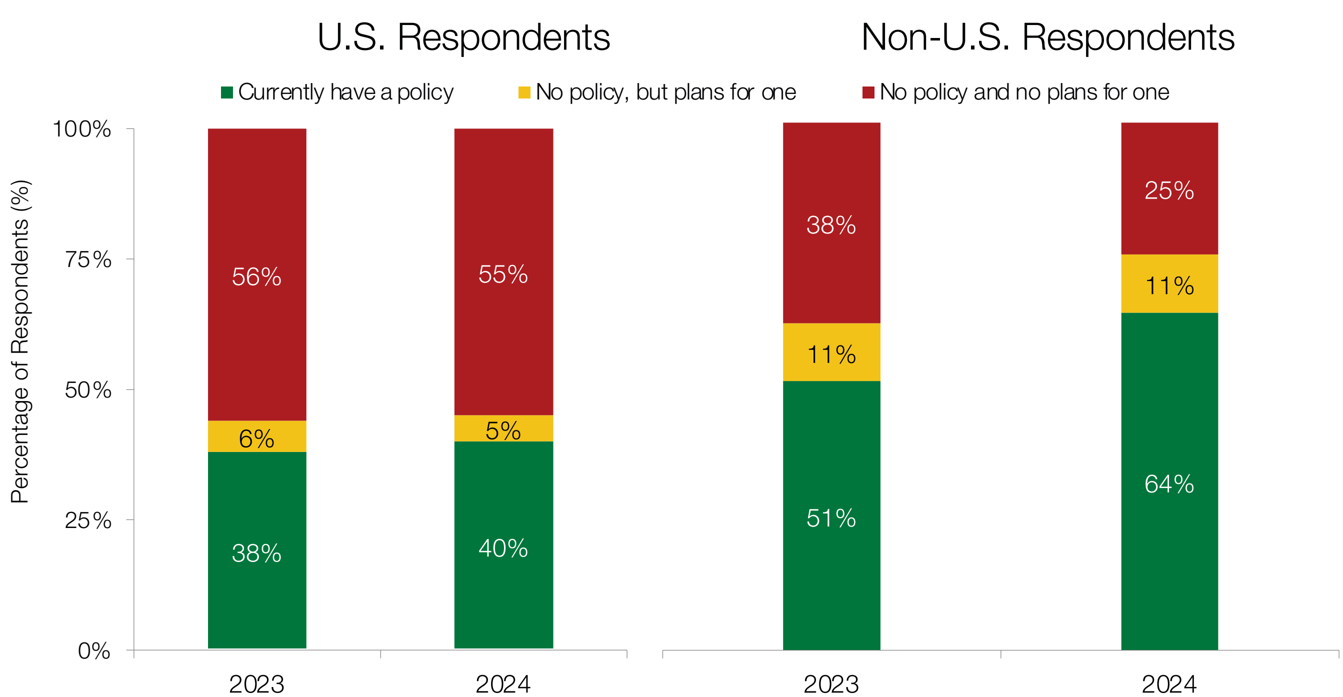
When it comes to ESG, non-U.S. investors continue to be more focused on sustainable or responsible investment policies. Some 78 percent of non-U.S. investor respondents reported having an ESG policy in 2024 (up from 65 percent in the previous year), compared with 47 percent of U.S. investors (unchanged from 2023).

The same pattern held with DEI policies. Nearly two-thirds (64 percent) of non-U.S. respondents have a diversity and inclusion policy, while an additional 11 percent have plans to implement one. By comparison, those figures were 40 percent and 5 percent, respectively, for U.S. investors. ❖

U.S. investors continued to be less focused on sustainable/responsible investment policies than non-U.S. respondents



Investors around the globe increased their focus on diversity and inclusion investment policies



Options respondents would like to see added to the market

- Unlevered core real estate fund offerings with no legacy issues
- Lower-fee open-end specialists without a 20 percent carry
- More retirement homes, self-storage, manufactured housing investment programs
- Core-plus grocery-anchored fund offerings
- Open-end fund offerings dedicated to alternative property types
- More listed REITs in Europe
- Shorter duration closed-end fund offerings
- More interesting fund mandates that focus on product designed for the future use of space, as opposed to just re-hashing the same tired investment programs with minor updates
- Core impact funds such as cost-effective housing options for seniors and other groups capitalizing on the advantages presented by aging populations in developed markets

Best real estate investment opportunities today

- Liquidity crunch in the macro market, stricter underwriting standards, higher interest rates, and wave of pending maturities will create excellent opportunities to acquire or recapitalize generational real estate at discounted and distressed pricing.
- Targeting strategies with resilient cash flow and areas of distress where demand recovery can be quantified, particularly in niche sectors
- Investing globally in developed markets continues to provide the best risk-adjusted returns. Japan and the U.S. currently have the strongest real estate fundamentals, but the dislocation in Europe should also lend to the ability for discerning investors to find attractive opportunities.
- Using separate accounts and co-investment sidecars to access opportunities
- Investing with seasoned operators in asset classes that are out of favor such as office and retail
- Best property types: warehouse/distribution, data centers, residential

Greatest challenges facing investors in managing their real estate portfolios

- Valuations on existing assets that are taking too long to be marked down to market
- Debt maturities
- Dealing with existing assets in separate accounts, most specifically debt issues
- Interest rate on debt exceeding year one income return projections (i.e., negative leverage)
- Higher interest rates have negatively affected valuations in the portfolio. Of concern is the managers' ability to meet debt service requirements and ability to regear loans to ride out the period until rates begin to stabilize.
- The transaction volume decline impacting appraisers' ability to value properties has made it challenging to determine whether the bottom has been reached.
- Office repositioning
- Uncertainty around tenant demand for office space
- Concerns regarding valuations of office properties due to lack of investor demand, lack of transactions, and lack of financing
- Legacy, underperforming managers
- Being able to rebalance within investors' core portfolios. Overweight positions to certain property types and the risk this presents to the portfolio.
- Refinancing portfolios with moderate leverage, cost-effectively decarbonizing assets, revaluations and navigating regulations on residential rental prices.
- Energy-efficient refurbishment of existing buildings
- Insurance pricing and property tax increases driving up operating costs and lowering projected returns
- Hedging costs against inflation
- Geopolitical threats
- Long overdue correction for U.S. property markets and weakness in the Chinese market
- Capital return projections remaining subdued after the most recent year(s) of market volatility and higher interest rates. Liquidity needs to return to much healthier levels.

List of respondents

Accord Equity Advisors
AFIAA Real Estate Investment AG
AISIN Employees' Pension Fund
Alameda County Employees Retirement Association
Alan Biller & Associates
Alaska Electrical Pension Fund
Alberta Investment Management Corporation (AIMCo)
Alfred I. duPONT Charitable Trust
Almazara Real Assets Advisory
Ameren Corp.
Arizona PSPRS
Arkansas Public Employees' Retirement System
Bank of Ireland
Berkshire Pension Fund
BLG Capital Advisors
Boston Foundation
Boston Retirement System
Bouwinvest
California Public Employees' Retirement System (CalPERS)
California State Teachers' Retirement System (CalSTRS)
Callahan Family Investments
Catholic Order of Foresters
Chevron Corp.
Chicago Teachers' Pension Fund
Citi U.S. Pension Investments
City of Milwaukee Employees' Retirement System
City of Phoenix Employees' Retirement System
City of Quincy Contributory Retirement System
CNP Assurances
Colorado Public Employees' Retirement Association
Conrad N Hilton Foundation
Consolidated Edison Company of New York
Constellation Energy Generation
Contra Costa County Employees' Retirement Association
Coral Gables Retirement System
Cox Enterprises
Coöperatie DELA
Dai-ichi Life Insurance Co.
Delaware Public Employees Retirement System
Deutsche Finance Group
Dicoval AG
E.ON SE
Employees Retirement System of Texas
Employees Retirement System of the City of Baton Rouge & Parish of East Baton Rouge (CPERS)
Employees' Retirement System of the City of Baltimore
Ergoneon GmbH
Exelon Corp.
Fidelidade
Foley Private Client Services
GCM Grosvenor
Healthcare of Ontario Pension Plan
HighGround Advisors
Hillcrest Finance
Holyoke (Mass.) Retirement System
Hong Kong Baptist University
IBM Retirement Funds
Illinois Municipal Retirement Fund
ImmoFinRE
Iowa Public Employees Retirement System (IPERS)
Jacksonville Police & Fire Pension Fund
Japan Science and Technology Agency

Jasper Ridge Partners
Kiri Capital
Liberty Mutual Group
Los Angeles Department of Water & Power Employees Retirement Plan
Maine Public Employees Retirement System
Makena Capital Management
Manchester (NH) Employees Contributory Retirement
Maryland State Retirement and Pension System
Massachusetts Pension Reserves Investment Management Board
Mayo Clinic
Meiji Yasuda America
Michigan Office of Retirement Services
Minnesota State Board of Investment
Mitsubishi HC Capital
MN Services N.V.
Mobius Benefits Administrators
Montana Board of Investments
National Pension Service
National Railroad Retirement Investment Trust
Nationwide Mutual Insurance Co.
NAV Canada Pension Plan
New Jersey Division of Investment
New Mexico Educational Retirement Board
New Mexico State Investment Council
New York Life Real Estate Investors
New York State Teachers' Retirement System (NYSTRS)
Nippon Life Global Investors Americas
NN Group
North Carolina Department of State Treasurer
The Office of the New York City Comptroller
Ohio Police & Fire Pension Fund
Oklahoma Police Pension & Retirement System
OP Real Estate Asset Management
Oregon Public Employees Retirement Fund
ORIX Life Insurance Corp.
P+
Pension Protection Fund
Providence St. Joseph Health
PSP Investments
Public Employees' Retirement System of Nevada
Public Officials Benefit Association
Public School Retirement System of Missouri
Realdania
Richard King Mellon Foundation
Rotary Foundation
Royal Bank of Canada
Saban Capital Group
Sacramento County Employees' Retirement System
San Antonio Fire & Police Pension Fund
San Joaquin County Employees Retirement Association
School Employees Retirement System of Ohio
Seattle City Employees' Retirement System
Shelter Insurance
Singapore University of Social Sciences
Smithsonian Institution
Southern Co.
State Board of Administration of Florida
State Of Idaho Endowment Fund Investment Board
State of Wisconsin Investment Board
State Teachers Retirement System of Ohio
Stichting Nedlloyd Pensioenfonds
Teacher Retirement System of Texas
Teachers' Retirement System of Louisiana
Teachers' Retirement System of the State of Illinois (ITRS)
Temasek
Tennessee Consolidated Retirement System
Texas Municipal Retirement System
Textron Inc
The Campanile Foundation
The Church Pension Fund
The Pennsylvania State University
Tokio Marine Asset Management
Tsao Family Office
Universiti Teknologi MARA (UiTM)
UPS
Utah Retirement Systems
Ventura County Employees' Retirement Association
Victorian Funds Management Corporation (VFMC)
Virginia Retirement System
VKB Versicherungskammer Bayern
Wespath Benefits and Investments
West Virginia Investment Management Board
Zurich Insurance

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