Private Equity Real Estate Investors More Cautious In 2017

Concern over performance in 2017 leads investors to adopt a wait-and-see approach

Institutional investors in private real estate are generally positive about the performance of the asset class over the past 12 months. However, they are concerned about the prospect of maintaining the rate of return seen in recent years through 2017, and consequently some are choosing to limit their exposure to real estate over the short term. A Preqin survey of over 150 institutional investors finds that over a third think that the asset class will perform worse in the coming 12 months than it did in 2016, while just 9% believe that returns will improve. As a result, a quarter of investors plan to reduce their exposure in 2017, equal to those that plan to increase their commitments. In the long term, though, most investors still intend to maintain or expand their real estate portfolios.

To see more from the *Preqin H1 2017 Investor Outlook: Alternative Assets* please find the full report here:
https://www.preqin.com/docs/reports/Preqin-Investor-Outlook-Alternative-Assets-H1-2017.pdf

Other Key Real Estate Investor Facts:

- **Half of all investors surveyed view private real estate in a positive light**, while just 7% have a negative perception of the industry, down from 12% at the end of 2015.
- **Forty-two percent of real estate investors state that the asset class has exceeded their performance expectations over the past three years**, the highest proportion of any asset class.
- However, investors are concerned with valuations and performance in the year ahead, with these issues cited by 68% and 37% of respondents respectively.
- Additionally, **37% of investors expect their portfolios' performance to be lower in 2017**, compared to 9% which expect them to perform better.
- As such, **24% expect to invest less capital over the next 12 months** compared to the year before, on par with those that expect to increase their commitments (25%).
- **Investors are more likely to focus on strategies that offer regular income opportunities**.
- The proportion looking to target core and core-plus strategies in 2017 rose to 55% and 28% respectively. More investors are targeting core assets than any other strategy, a reversal from 12 months ago.
- At the same time, **the proportion targeting debt strategies more than doubled**, from 10% in December 2015 to 21% a year later.
- Overall, **investors remain committed to real estate in the longer term**: 36% intend to increase their allocations, compared to just 10% that aim to reduce them.

Andrew Moylan, Head of Real Estate Products:

"Institutional investors have continued to see strong returns from their real estate portfolios, and remain committed to the asset class as a result. Fundraising and deal flow has been robust in recent years and there remains substantial potential for the market to grow in the long term, with just under half of all investors below their target real estate allocation.

However, high asset pricing and a competitive market are causing concerns among the investor community that performance in 2017 may not match the returns they have seen in recent years. We are seeing a mixed response to these concerns: some investors are reducing their outlay to real estate in the short term, but others continue to see it as attractive relative to other asset classes, and will be increasing the capital they invest this year as a result. In the longer term, institutional investors certainly remain committed to real estate, and with many planning to expand their allocations the asset class has the potential to see further growth."

Preqin is the leading source of information for the alternative assets industry, providing insight and analysis gathered by its global teams of dedicated researchers. Founded in 2003, the company is a frequent source of intelligence used in the global financial press, through its online databases, regular publications and bespoke data requests.

For more information, contact our dedicated press team at press@preqin.com or call (+44) 20 3207 0265