

Sovereign Wealth Funds Seek Safer Real Estate Strategies

Core real estate is most targeted strategy, while distressed opportunities see large decline

In its latest review, Preqin finds that sovereign wealth funds investing in real estate in 2016 have moved away from higher risk investment strategies, and are increasingly targeting strategies with a lower risk profile. Core real estate is now the most utilized strategy, employed by 72% of sovereign wealth funds, up from 57% in 2015. Similarly, core plus investments are now sought by 44% of sovereign wealth funds, up from 39% a year ago.

Value added strategies are being targeted by 66% of sovereign wealth funds, down from the 75% that were targeting them last year, and marking a return to levels seen in 2013. Opportunistic strategies, meanwhile, saw one of the largest decreases in interest, with the proportion of sovereign wealth funds targeting the strategy falling from 71% in 2015 to 59% in 2016. Distressed real estate opportunities are being targeted by just 38% of sovereign wealth funds in 2016, a fall of 23 percentage points from the 61% targeting them a year ago. The proportion of sovereign wealth funds targeting debt strategies fell to 50%, down from 54%, while secondaries (6%) and fund of funds (6%) remained level.

Other Key Facts on Sovereign Wealth Funds Investing in Real Estate:

- **SWFs and Real Estate:** The proportion of sovereign wealth funds investing in real estate rose to 62% in 2016, equalling infrastructure as the asset class most invested in by these funds. This represents an increase in the proportion of SWFs active in real estate from 54% in 2014 and 59% in 2015.
- **Regional Focus:** Over half of sovereign wealth funds (58%) target real estate investments globally. The more mature real estate markets of North America and Europe are targeted by 56% of sovereign wealth funds each, while 52% target investments in Asia.
- **Investor Location:** Of all sovereign wealth funds that invest in real estate, 27% each are based in the Middle East and Asia. North America-based funds also account for a large proportion (19%), but just 8% are based in Europe.
- **Fund AUM:** All sovereign wealth funds with over \$100bn in assets under management (AUM) invest in real estate while, in contrast, only half of sovereign wealth funds with assets between \$1bn and \$10bn invest in the asset class, dropping to less than a third (30%) for investors with under \$1bn in AUM.
- **Route to Market:** Eighty-five percent of sovereign wealth funds seek direct investment in real estate, the most attractive route to market. Two-thirds (67%) of funds invest in the asset class through private real estate funds and 31% access real estate via listed investments.

To access further information and analysis, please see the full report below:
<https://www.preqin.com/docs/newsletters/re/Preqin-Real-Estate-Spotlight-May-2016.pdf>

Comment:

“Real estate remains a staple element in the portfolios of many sovereign wealth funds, due to its ability to provide risk-adjusted returns and a relatively stable income stream. This has been increasingly important over the past year with the drop in oil and commodity prices threatening the income of some of these investors, and encouraging them to further diversify their holdings.

Sovereign wealth funds are known for acquisitions of core ‘trophy’ assets in major markets, and it appears that while competition for core real estate has pushed pricing up for these assets, sovereign funds will continue to focus on assets that will generate reliable income over a long period, rather than seeking to move up the risk/return curve.”

Andrew Moylan – Head of Real Estate Products, Preqin

Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q', the company name being an amalgamation of the former name, Private Equity Intelligence.

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

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