

Cornell University & Hodes Weill Institutional Real Estate Capital Allocations Monitor

Media Coverage: V2

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Coverage

Pensions & Investment

Real estate continues strong performance despite lower expectations — report

3rd December, 2015 | By Arleen Jacobius

Institutional investors' average target return for real estate is 8.2%, compared to average actual returns of 11.8% in 2014, 11.4% in 2013 and 9.6% in 2012, said a report released Wednesday on real estate investment by global asset owners from Cornell University's Baker Program in Real Estate and Hodes Weill & Associates, a real estate advisory firm.

Endowments and foundations have the highest average target return for real estate at 8.9%, followed by private pension plans with an 8.2% target return and public pension funds with an average target return of 7.9%, according to the report, the third annual Institutional Real Estate Allocations Monitor.

However, in 2014, sovereign wealth funds — which have a target return of 7.4% — had the highest actual real estate return at 14.1%, followed by endowments and foundations at 12.9% and private pension funds at 12.8%.

This was the first year the executives at Cornell University's Baker Program and Hodes Weill asked for return information, said Douglas M. Weill, managing partner based in the New York office of Hodes Weill & Associates, in an interview.

"I was surprised to see that returns have gone up each year," Mr. Weill said.

While in the U.S. the view is that real estate returns were moderating, on a global basis, real estate returns have continued momentum, with the pace of returns picking up, he said.

Sovereign wealth funds had the highest three-year average annualized return of 13.3%, compared to the three-year average for all institutions of 10.9%. Endowments and foundations earned the next highest three-year average return of 12.4%, followed by private pension funds with 11% and public pension plans with 10.9%.

However, Mr. Weill expects that institutions are likely to bring down their expected returns for real estate next year. However, expectations will most likely vary depending on the region with European institutions expecting stronger returns than U.S. institutions, Mr. Weill added.

Even with lower expectations, the global average target allocation is expected to rise in 2016 to 9.85%, the report shows. By comparison, the average target allocation to real estate is 9.56% this year, up from 9.3% in 2014 and 8.9% in 2013. Overall, 30% of survey participants increased their target allocations this year, while 13% decreased their targets.

The survey was conducted from May through October with 242 institutional investors responding.

Property Funds World

Institutional property portfolios averaging 10.9 per cent annual return

3rd December, 2015

Institutional real estate portfolios have generated an average investment annual return of 10.9 per cent over the past three years, with annual returns increasing substantially year-over-year since 2012.

That's according to the third annual Institutional Real Estate Allocations Monitor (the 2015 Allocations Monitor) by Cornell University's Baker Program in Real Estate and Hodes Weill & Associates.

The 2015 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, it is a comprehensive annual assessment of institutions' allocations to, and objectives in, real estate investments that analyses trends in institutional portfolios and allocations by region, type and size of institution.

According to the 2015 Allocations Monitor, target allocations continue to increase, albeit at a moderating pace, while Investors remain significantly under-invested in real estate. Institutions are increasingly concerned about asset pricing, rising interest rates and geopolitical risks. While appetite for core remains robust, investors are increasingly emphasising value-add strategies.

Institutions in APAC meanwhile, are focused on cross-border investments, while institutions in the Americas and EMEA continue to prioritise their home markets. Institutions everywhere remain cautious about allocating capital to emerging markets, given global market and currency volatility, an overall flight to safety and commodity price fluctuations, while ESG plays a more prominent role in the investment process for institutions in EMEA relative to institutions in APAC and the Americas.

Benefits and Pensions Monitor Online

Institutions Look To Increase Allocations

3rd December, 2015

Institutions are looking to increase their target allocations to real estate in 2016, although they are being cautious about interest rate increases. The '2015 Institutional Real Estate Allocations Monitor,' by Cornell University's Baker Program in Real Estate and Hodes Weill & Associates, found that target allocations continued to increase, albeit at a slowing pace. The average target allocation to real estate is 9.56 per cent, up 26 basis points from 2014, and up 66 bps from 2013. Next year, institutions are intending to increase their target allocations by an additional 29 bps to 9.85 per cent. However, institutions were "increasingly cautious," with fears of asset pricing and the potential for interest rate rises.

PREA Industry News

Inclusion of IPE Real Estate article in news blast

2nd December, 2015



December 3, 2015

Industry News

Institutions to increase target real estate allocations for 2016

IPE Real Estate - December 2, 2015

Institutions are looking to increase their target allocations to real estate in 2016, with some caution over interest rate rises.

Single-Family REITs May See More M&A

GlobeSt.com - December 2, 2015

To date the single-family rental REIT sector has seen just one consolidation of note: the union of Starwood Waypoint Residential Trust and Colony American Homes, which will create a company with an aggregate asset value of \$7.7 billion. However, in view of activist investor Land and Buildings now putting pressure on American Residential Properties Inc., analysts at Keefe, Bruyette & Woods say that other such deals may be in the offing. The KBW report raises anew a possibility that has come up for discussion more than once in the past few months.

CMBS Delinquency Rate Posts Big November Improvement: Trepp

National Mortgage News - December 2, 2015

The commercial mortgage-backed securities delinquency rate improved by double-digit basis points in November, fulfilling Trepp's forecast for a large monthly improvement, according to Trepp.

McKinsey Makes First Overseas Investment With Ping An Unit Stake

Bloomberg - December 2, 2015

McKinsey & Co. bought a stake in the property e-commerce unit of Ping An Insurance (Group) Co., marking the U.S. consultancy's first investment in an overseas company in its more than 80-year history.

Public Pensions Face Imminent Funding Challenges

Plan Sponsor - December 1, 2015

Flat returns, lowered assumptions and changing participant demographics will erode funded ratios, according to a report from Milliman.

Prof. Britt Harris and His Army of Investing Titans

Chief Investment Officer - December 1, 2015

Texas Teachers' CIO imparts wisdom, grooming talent from the ground up.

Bloomberg Brief

TA Realty Alums Gear Up to Raise First Property Fund

2nd December, 2015 | By Ainslie Chandler

Bloomberg
BRIEF

Private Equity

NEWS, ANALYSIS AND COMMENTARY

Wednesday
Dec. 2, 2015

www.bloombergbriefs.com

TA Realty Alums Gear Up to Raise First Property Fund

BY AINSLIE CHANDLER, BLOOMBERG BRIEF

Longpoint Realty Partners, founded by four former TA Realty Associates partners, expects to raise its first fund in 2016.

Planning for the fundraising is underway, according to **Dwight Angelini**, Longpoint's managing partner. The target has not been set but will probably be under \$1 billion, he said in a phone interview yesterday — less than the sum TA Associates Realty is currently seeking. The firm [announced](#) today that its commencing operations.

Reid Parker, **Robert Provost** and **Nilesh Bubna** are the other founding partners. Bubna is also chief financial officer and portfolio manager.

The Boston-based firm will invest in middle-market industrial, retail, office and multi-family properties in major U.S. East Coast markets and Texas, where the team has extensive experience, Parker said on the call.

The average deal size will be around \$30 million, Angelini said. As investors turn to value-add and opportunistic real estate investments in pursuit of higher returns, they are looking for real estate managers who can boost properties' income, he added.

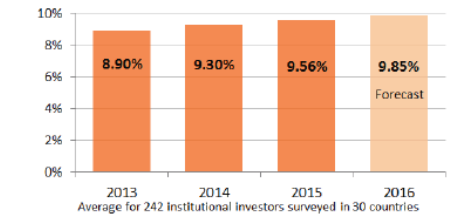
TA Associates is currently raising its 11th real estate fund with a \$1.5 billion target, Bloomberg Brief [reported](#) in October.

The launch of Longpoint comes as institutional demand for real estate investments continues to increase, according to a [report](#) released today by Cornell University's Baker Program in Real Estate and advisory firm Hodes Weill & Associates.

Average target allocations among the 242 investors surveyed reached 9.56 percent for 2015 and are expected to rise 29 basis points to 9.85 percent in 2016, according to the survey. Thirty percent of the respondents said they expect to increase their allocations in 2016, while only 8 percent expected real estate's share of assets would decline. The remainder expected their allocations to remain remain flat.

Within real estate, closed-end private equity funds are the preferred vehicle for institutional investors, the survey found, with 79 percent of the investors reporting they had such holdings this year.

Target Allocations for Real Estate Are Rising



Source: Cornell University/Hodes Weill

BloombergBriefs.com

QUOTED

"There's no logical way that I can justify why the returns that we earn managing other people's money should get capital gains treatment."

— Sam Altman, president of Silicon Valley startup accelerator Y Combinator, discussing tax rates on carried interest

WEEK IN NUMBERS

■ \$700 million — target allocation for private equity in 2016 at **Arizona State Retirement System**

■ 2.2% — Amount by which Asia-Pacific investors have fallen short of their real estate allocations

MEETING TO WATCH

Teachers' Retirement System of Louisiana will discuss potential investments with **Thomas H. Lee** and **Technology Crossover Ventures** tomorrow.

IN THIS ISSUE

EXCLUSIVE. Odewald has set a \$425 million target for a renewable energy fund.

TURNAROUND. Stephen Blyth is trying to lift the Harvard endowment's returns, which have lagged those of Ivy League peers.

INVESTING. Carlyle expects to invest in Sub-Saharan Africa in 2016; Actis is looking at Nigerian consumer companies; General Atlantic sees opportunities in the Middle East.

Q&A. Investors are looking at "core-plus" infrastructure opportunities as there is stiff competition to invest in conventional projects, says Ardian infrastructure head Mathias Burghardt.

Bloomberg Brief

Investors Want More Property and Closed-End Funds; Some Accept Risk for Returns

2nd December, 2015 | By John E. Morris and Ainslie Chandler

Dec. 2, 2015

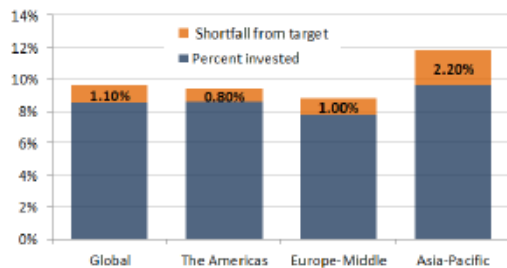
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REAL ESTATE BY JOHN E. MORRIS AND AINSLIE CHANDLER, BLOOMBERG BRIEF

Investors Want More Property and Closed-End Funds; Some Accept Risk for Returns

Investors Fell Short of Targets



Source: Cornell University/Hodes Weill BloombergBriefs.com

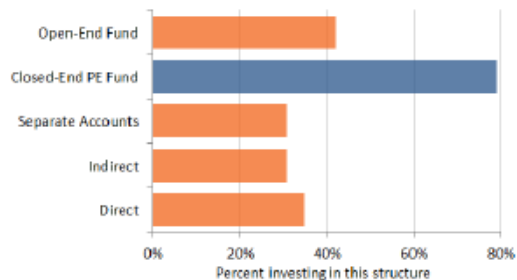
Institutional investors are boosting the portion of their assets they plan to invest in real estate, according to a report released today by Cornell University's Baker Program in Real Estate and advisory firm Hodes Weill & Associates.

Still, in every region, investors this year are on average falling short of their targets. Investors in the Asia-Pacific region have the highest average target allocation, at 11.8 percent, and are also the furthest from their target. For the 31 Asia-Pacific investors that participated in the survey, real estate averaged 9.6 percent of assets.

Public pension systems and sovereign wealth funds were forecast to have the highest target allocations of all institutional investors by the end of 2016, at 10.4 percent and 10.2 percent, respectively, up from an average each of 9.3 percent for 2015.

Rising allocations may reflect investors moving money out of fixed income investments and into core real estate and real estate debt, which share some characteristics with fixed income, said David Hodes, managing partner of Hodes Weill, in a phone interview.

Private Equity-Style Funds Gain Favor



Source: Cornell University/Hodes Weill BloombergBriefs.com

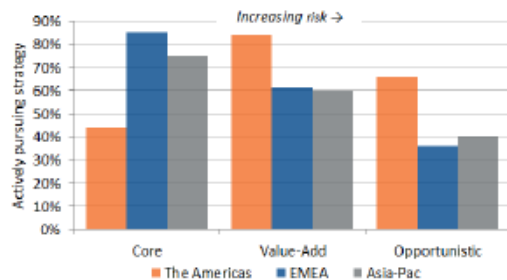
Investors deploy their capital to the asset class through a variety of structures. By far, the most common is a closed-end private equity-style fund, with 79 percent of the investors reporting they held such investments in 2015. That figure was up from 61 percent in 2013 and 73 percent in 2014.

Investors doing straightforward investments in core strategies can invest directly in properties or joint ventures, Hodes said. Opportunistic and value-add investments are harder for investors to make themselves, so they tend to look to funds for those strategies, he said. Most of these are closed-ended.

Open-ended funds are also increasingly popular, he said, with larger investors also looking to invest in those vehicles as they try to lift their allocations to the asset class, and smaller investors traditionally have used them.

The survey obtained responses from 242 investors in 30 countries with \$11.2 trillion of assets under management, including \$950 billion in property assets.

Investors in Americas Seek Higher Returns



Source: Cornell University/Hodes Weill BloombergBriefs.com

Because so-called "core real estate" — well-situated, well-leased properties with stable prospects — is perceived to be expensive, investors are looking to riskier categories of property, where improvements or a turnaround may be necessary. Those categories, known as "value-add" and "opportunistic" have attracted particular interest among investors in the Americas, the survey found, in part because those investors have higher return expectations. Investors in EMEA and the Asia-Pacific region prefer safer core assets.

The difference may be even greater than these figures indicate, as European investors frequently use "value-add" for properties that would be dubbed "core plus" in the U.S. market — within the broader "core" category.

PERE

Hodes Weill: RE target returns likely to decline**2nd December, 2015 | By Evelyn Lee**

With real estate valuations at a high point in the cycle, hitting targets may become more challenging over the next five years, said the New York-based advisory firm's annual investor allocations report.

The average target return currently stands at 8.2 percent globally, but that figure is expected to be reduced over the coming years, according to the 2015 Institutional Real Estate Allocations Monitor from New York-based advisory firm Hodes Weill & Associates and Cornell University's Baker Program in Real Estate.

"It may be expected that target returns will decrease over the coming years as institutions reassess their long-term return expectations for their investments, including real estate," the report's authors, Cornell's Dustin Jones and Hodes Weill's Douglas Weill and David Hodes, wrote. The California Public Employees Retirement System, for example, currently is considering a reduction in its overall target return on investments from 7.5 percent to 6.5 percent over the next 20 years, which would in turn affect its target returns in real estate, the writers noted.

"Institutions have significantly outperformed target returns in the last cycle, but maybe in the next 4 to 5 years, it's going to become more challenging, given how far real estate has come from valuation standpoint," Weill said in an interview with PERE.

The institutions with the highest target returns were endowments and foundations, with current target returns averaging 8.9 percent, while the investors targeting the lowest returns were sovereign wealth funds (SWFs), at 7.4 percent, according to the report. Interestingly, SWFs actually achieved the highest three-year average return at 13.3 percent, or 590 basis points over their current target return.

According to Weill, the high returns were partly the result of when the capital was deployed, since annual returns have increased significantly over the past three years. Another factor was the fact that sovereign wealth funds typically have invested in hard-to-access markets like New York, Paris and San Francisco. "You need scale in those markets and that's where yields have compressed the most," he said.

Geographically, institutions in the Americas had the highest target returns at an average of 8.6 percent, compared with institutions in Europe, the Middle East and Africa, at 7.1 percent. "This may be attributed to institutions in the Americas investing higher up the risk curve and institutions in EMEA investing in real estate as an alternative to fixed income and preferring lower levels of leverage," the report said.

One consequence of the expected moderation in real estate returns is that some institutions have been shifting away from real estate and into alternative asset classes, with a noticeable increase in allocations to energy. In fact, energy was an alternative strategy to real estate for 30 percent of institutions with less than \$50 billion in assets under management (AUM) and 36 percent of institutions with more than \$50 billion of AUM.

Institutions have found energy to be an attractive alternative because of the repricing of assets and expectations of distress in the asset class over the past year, according to Hodes. "For people chasing yield, they've backed off of real estate and pivoted to energy," he said. "They're saying, 'there's nothing wrong with real estate, the returns will be okay, but we're targeting 20 percent returns, and we're not convinced real estate is the best place to do that right now.'"

The Institutional Real Estate Allocations Monitor, which will be widely released later Wednesday, was based on survey responses from 242 institutional investors in 30 countries. In addition to historical and target returns, the research also covers target and current allocations to real estate, investor sentiment, risk preferences, investment product trends, investment strategy preferences, as well as environment, social and governance policies.

REIT Zone

2015 Survey Says

2nd December, 2015

Cornell University's Baker Program in Real Estate and Hodes Weill & Associates have released the findings of their third annual Institutional Real Estate Allocations Monitor.

"The 2015 Allocations Monitor focuses on the role of real estate in institutional portfolios, and the impact of institutional allocation trends on the investment management industry," today's report notes. "This year's report includes research collected on a blind basis from 242 institutional investors in 30 countries. The 2015 Participants hold total assets under management exceeding US\$11.2 trillion and have portfolio investments in real estate totaling approximately US\$950 billion." The survey included "... 34 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, private funds, real estate securities, real estate debt and real assets). In 2015, the survey was expanded to include questions regarding historical and target returns as well as environmental, social and governance policies."

The survey highlighted a number of key findings:

1. Target Allocations continue to increase, albeit at a moderating pace. The average target allocation to real estate now stands at 9.56%, up 26 bps from 2014, and up 66 bps from 2013. Institutions have indicated an intention to increase target allocations by an additional 29 bps to 9.85% in 2016.
2. Investors remain significantly under-invested in real estate. On average, institutional portfolios are 8.5% invested in real estate, or approximately 110 bps below target allocations. Despite the robust level of investment activity in the market and favorable investment performance, the Current Allocation Margin has increased over the past 12 months, from an average of -80 bps in 2014 to -110 bps in 2015.
3. Institutional real estate portfolios have generated an average annual investment return of 10.9% over the past three years, with annual returns increasing substantially year-over-year since 2012. This compares favorably to the average current target return of 8.2%, as well as various property return indices over the same time period.
4. Institutions are increasingly concerned about asset pricing, rising interest rates and geopolitical risks. Between 2013 and 2014, investor sentiment declined meaningfully as the Conviction Index declined from 6.4 to 5.7. In 2015, the Conviction Index continued on a downward trend to 5.6, although institutions in EMEA and APAC have exhibited an improvement in sentiment over the past 12 months.
5. While appetite for core investments remains robust, investors are increasingly emphasizing value-add strategies. Institutions in the Americas are most focused on value-add strategies, while institutions in Asia Pacific and EMEA are emphasizing core strategies. This increased appetite for higher yielding strategies is resulting in an acceleration in capital raising volumes for private funds.

PropertyWeek

Institutional allocations to real estate continue to climb

2nd December, 2015 | By Guy Montague-Jones

Institutional investors around the world are increasing their target allocations to real estate, resulting in a widening of the gap between actual allocations and targets, a new survey of 242 investors with real estate assets of \$950bn (£632.32bn) has found.

The average target allocation to real estate now stands at 9.56%, up 26 basis points (bps) from 2014, according to the 2015 Allocations Monitor, which is produced by Cornell University and Hodes Weill & Associates.

However, institutional portfolios are currently 8.5% invested in real estate, meaning that investors are, on average, 110 bps below target. The gap is highest among investors based in the Asia Pacific who are 220 bps under allocated to real estate relative to their targets.

“It is natural that Asian-based institutions are more under-invested because even though they have been quite active recently many, such as Chinese insurers, are at the early stages of building up global real estate portfolios,” said Hodes Weill & Associates partner Will Rowson.

Institutions have seen strong returns from real estate, with their portfolios delivering average annual returns of 10.9% over the past three years.

However, investor confidence is starting to slip, particularly in the Americas where the prevailing view is that real estate is looking fully priced.

Among larger institutions, appetite for opportunistic investment strategies has fallen in favour of core strategies. European investors remain much more favourable to core than their US counterparts.

In terms of geographic focus, investor interest in the UK and continental Europe has increased compared with last year, while Asia has become a lower priority.

IPE Real Estate

Institutions to increase target real estate allocations for 2016

2nd December, 2015 | By Russell Handy

Institutions are looking to increase their target allocations to real estate in 2016, with some caution over interest rate rises.

Findings from the 2015 Institutional Real Estate Allocations Monitor, conducted by Cornell University's Baker Program in Real Estate and Hodes Weill & Associates, were presented today.

The report, which surveyed 3,000 institutions, found that target allocations continued to increase, albeit at a slowing pace.

The average target allocation to real estate is 9.56%, up 26 basis points from 2014, and up 66bps from 2013.

Next year, institutions are intending to increase their target allocations by an additional 29bps to 9.85%.

The report found that institutions were "increasingly cautious", with fears of asset pricing and the potential for interest rate rises.

The company said investor sentiment declined from 6.4 to 5.7 between 2013 and 2014.

This year, investor sentiment has continued on a downward trend to 5.6.

Results of the survey indicate that public pension funds and sovereign wealth funds have increased their allocations to the sector.

Speaking on a webinar, Doug Weill, co-founder and managing partner at Hodes Weill & Associates, said investors remained "significantly underinvested in real estate".

Institutional portfolios are 8.5% invested in the asset class, or approximately 110bps under-invested relative to target allocations.

Weill said that, despite the robust level of investment activity in the market and favourable investment performance, the amount by which institutions are under-allocated has increased over the past 24 months, from an average of 90bps in each of 2013 and 2014.

Investors are increasingly emphasising value-add, with institutions in the Americas the most focused on those strategies.

Institutions in Asia Pacific and the EMEA are emphasising core strategies.

Weill said institutions were generally decreasing their number of managers and "prioritising existing relationships".

Institutions in APAC are focused on cross-border investments, while institutions in the Americas and EMEA continue to prioritise home markets.

Outbound capital flows from APAC are expected to increase over the coming years as institutions remain focused on US and European gateway markets.

“European institutions are the most bullish of institutions in the world today,” Weill said.

Institutional real estate portfolio allocations generated an average annual return of 10.9% over the past three years, with annual returns increasing since 2012.

The figure compares favourably with the current 8.2% average target return.

Weill said institutions were still cautious about allocating capital to emerging markets due to global market volatility, an overall flight to quality, currency depreciation and commodity price fluctuations.

Around 20% of institutions globally are actively allocating capital to emerging market strategies in 2015, while 30% of larger institutions are focusing on emerging market real estate, compared with 18% of smaller institutions.

Weill said the company was “surprised to see that smaller institutions have reduced their allocation so much”.

He added: “Endowments and foundations are perhaps finding less value in the market today.”

EMEA institutions are the biggest uptakers of ESG compared with institutions in APAC and the Americas, according to partner Will Rowson.

He said approximately 60% of institutions in the EMEA had a formal ESG policy, significantly higher than the 38% reported for APAC and 24% for the Americas.