Findings from the 2015 Institutional Real Estate Capital Allocations Monitor

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Abstract
Since 2013, the Baker Program in Real Estate and Hodes Weill & Associates have co-sponsored the Institutional Real Estate Capital Allocations Monitor (the "Allocations Monitor"). The Allocations Monitor was created to conduct a comprehensive annual assessment of institutional allocations to real estate investments through analyzing trends and collecting survey responses of institutional portfolios and allocations by region, type, and size of institution. The Allocations Monitor reports on the role of real estate investments in institutional portfolios, and the impact of institutional allocation trends on the investment management industry.

Keywords
Cornell, real estate, capital, allocation, capital allocation, monitor, Hodes Weill, Cornell, institutional, institution, investor, participant, target, investment, asset, APAC, average, manage, market
Introduction

Since 2013, the Baker Program in Real Estate and Hodes Weill & Associates have co-sponsored the Institutional Real Estate Capital Allocations Monitor (the “Allocations Monitor”). The Allocations Monitor was created to conduct a comprehensive annual assessment of institutional allocations to real estate investments through analyzing trends and collecting survey responses of institutional portfolios and allocations by region, type, and size of institution. The Allocations Monitor reports on the role of real estate investments in institutional portfolios, and the impact of institutional allocation trends on the investment management industry.

Each year’s report leverages the deep academic resources of Cornell University and the global institutional real estate experience of Hodes Weill & Associates. Specifically, the survey provides a valuable tool for institutional investors in the development of portfolio allocation strategies, and for investment managers in business planning and product development. Since each subsequent survey can be compared to previous ones, investors and market participants may observe trends between each year that display shifts in investor sentiment and intentions. With this in mind, Cornell and Hodes Weill look forward to developing the content of the survey in the future, as well as building its stature within the institutional investing sector.

242 participants from 30 countries completed the 2015 survey. Participants included insurance companies, private pension funds, endowments, foundations, public pensions, family offices, and more. In aggregate, survey participants manage more than $11.2 trillion and currently have more than $950 billion in real estate assets under management. In the first three years of the survey, the number of participants has increased by more than 20% each year, and the collective real estate assets under management by the participants has more than doubled.

The 2015 Allocations Monitor consisted of 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 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 (“ESG”) policies.

A full copy of the report is available online at: http://www.hodesweill.com/research/allocations-monitor/
I. 2015 CORNELL-HODES WEILL INSTITUTIONAL REAL ESTATE ALLOCATION MONITOR KEY FINDINGS

A. 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.

B. 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 (“Current Allocation Margin”). Despite the robust level of investment activity in the market and favorable investment conditions.
performance, the Current Allocation Margin has increased over the past 12 months, from an average of -80 bps in 2014 to -110 in 2015.

C. 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.

D. 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.

E. 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.

F. Institutions in Asia Pacific (APAC) Are Focused On Cross-Border Investments, While Institutions in The Americas and Europe, Middle East and Asia (EMEA) Continue to Prioritize Their Home Markets.

Outbound capital flows from APAC are expected to remain strong over the coming years as institutions have substantial negative Current Allocation Margins and remain focused on U.S. and European gateway markets.

Approximately 21% of institutions globally are actively allocating capital to emerging market strategies in 2015. Roughly 30% of larger institutions are focused on emerging market real estate as compared to 18% of smaller institutions.

H. Environmental, Social and Governance (ESG) Plays a More Prominent Role in The Investment Process For Institutions in EMEA Relative To Institutions in APAC and The Americas.

Approximately 61% of institutions in EMEA have a formal ESG policy, which is significantly higher than in APAC and the Americas, at 38% and 24%, respectively.