Pension Real Estate Association

INVESTOR REPORT

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The Pension Real Estate Association (PREA) is a nonprofit trade association for the global institutional real estate investment industry. PREA currently lists more than 700 corporate member firms across the United States, Canada, Europe, and Asia. Our members include public and corporate pension funds, endowments, foundations, Taft-Hartley funds, insurance companies, investment advisory firms, REITs, developers, real estate operating companies, and industry service providers.

PREA's mission is to serve its members engaged in institutional real estate investment through the sponsorship of objective forums for education, research initiatives, membership interaction, and the exchange of information.

The data represented in the PREA *Investor Report* are not necessarily indicative of the investment activity of the universe of US or foreign pension plans. PREA members are actively engaged in real estate investments or, if new to the asset class, are pursuing new allocations to commercial real estate; therefore, the plans that participated in the survey tend, on average, to have a higher allocation to real estate than do non-PREA members.

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Overview

This PREA *Investor Report* is designed to show the real estate investment activities of PREA member institutional investors, which include public and private retirement plans, endowments, foundations, and other funds. First published in 2003, this is the 11th edition of the PREA *Investor Report*. In the initial report, the assets of reporting PREA investor members amounted to $1.1 trillion. This year's report covers total assets of $2.7 trillion.

PREA would like to thank the investor members that took the time and made the effort to participate in the survey and thus make the *Investor Report* possible.

This PREA *Investor Report* Survey was conducted from April to June 2015 and collected data on investment strategy, property and geographic (both US and foreign) distribution, and target and actual allocations. In recent years, the survey has also included a question asking investors how satisfied they were with their real estate investments (see page 5). We also include a question each year covering a subject of topical interest to the PREA membership. This year we revisited a question from 2004 dealing with real estate benchmarks (see page 6).

The survey collected data from both PREA's US and international member investors. Investors were asked to report holdings for their two most recent fiscal years in order to make direct comparisons between the two most recent years easier. The bulk of the data is reported as of December 31, 2013, and December 31, 2014. However, because the reporting sample for the *Investor Report* differs year to year, data published in the current *Investor Report* may not match data shown in earlier reports.

Exhibit 1: Reporting Group Profile

	Assets ($ Millions)	Allocation (%)
Total Assets (Current)	2,676,922	
Total Assets (Previous Year)	2,600,580	
Asset Breakdown by Fund Size (Current Year)		
> $75B in Assets	1,902,859	71.1
< $75B in Assets	774,063	28.9
Breakdown by Fund Type		
State or Municipal		66.1
Corporate		6.3
Other		27.6
Total		100.0
Holdings in All Real Estate–Related Investments		
Current Year	226,109	8.4
Previous Year	207,526	8.0

Source: Pension Real Estate Association
Reporting Period: 96% of data reported (as a percentage of assets) are current as of December 31, 2014, or later; 25% of data are current as of March 31, 2015, or later. Because of survey sample changes, data reported in this *Investor Report* are not directly comparable with those in previous reports.

Highlights

■ All investors, except one fund, currently use a benchmark to evaluate their public and private real estate portfolios, and 74.3% of the investors were satisfied with the benchmarks. In 2004, PREA investor members were asked the same question, and 71.2% stated they were satisfied or partly satisfied with their real estate benchmarks (Exhibit 6).

■ PREA asked its investor members how satisfied they were with their real estate investments using a 1 to 5 scale, with 1 being very dissatisfied and 5 being very satisfied. The average score among all reporting was 4.00, an improvement over both 2012 and 2013. Given the recent boom in multifamily activity, it is not surprising that the majority of investors mentioned the property type as their best-performing type. Office was mentioned the most as the worst-performing property (Exhibits 3 and 5).

■ Real estate holdings (private and public) for the reporting group were estimated at 8.4% of total assets versus 8.0% in 2013 (Exhibit 1).

■ Total assets for the reporting group rose 2.9% in the most recent period versus an 11.0% increase for last year's reporting group. The cooling stock market over the past 18 months versus previous periods can explain much of this slowing growth (Exhibits 1 and 2).

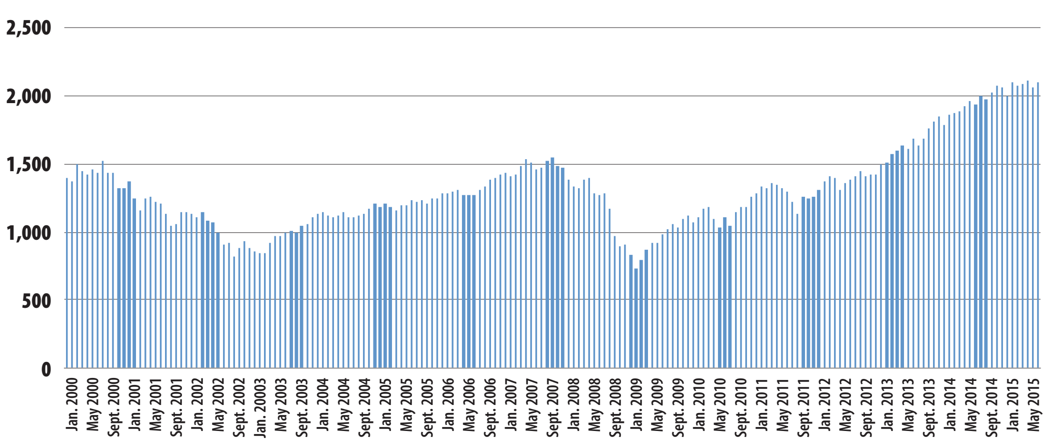
■ Three in ten investors said they expect to increase their allocations to real estate by the end of 2015 versus 2014. However, despite their favorable view of their real estate investments, nearly a quarter of those reporting indicated that they had decreased their allocations, as measured as a percentage of total assets, in the past year. This, of course, may have occurred because of an increase in value of other asset classes or as a result of an actual decrease in holdings, perhaps with the thought that real estate values have reached their peak (Exhibit 14).

■ Core investments continued to dominate the real estate portfolios of investors, with 54.0% of total holdings (Exhibit 16). Opportunistic was second but with a declining share of 27.9%, and value-added was third with 18.1%. Non-public funds (corporates, endowments, foundations) reported a higher allocation in core, at 66.2%, at the expense of opportunistic, which held only 11.9%, a significant drop from the 17.2% held in the previous reporting period.

■ Despite the huge popularity of multifamily properties in recent years, holdings in the property type fell slightly to 22.1% of the portfolio versus 22.4% in 2013 for all reporters. Office remained on top but with a declining share of 26.9%. Alternative investments, such as agriculture and timber, continued to show signs of growth (Exhibit 19).

■ Nearly all the reporting US investors held some non-US holdings, which accounted for about 12% of their total real estate allocations for those investors that could fully allocate holdings by region (Exhibit 21).

Exhibit 2: S&P 500 Composite Stock Index



Sources: S&P, Thomson Reuters Datastream

PREA *Investor Report Survey*

The PREA *Investor Report* Survey has been conducted since 2002 and was first published in March 2003, although full comparative tables are not available for all years in part because of survey sample changes. However, a core group of investors has reported in most years, and the data are considered reflective of the market of public and private pension funds, endowments, foundations, and other investors. ***It should be stressed that the investors surveyed and reporting are limited to PREA member firms, which are more active in commercial real estate investing. Thus, overall, allocations to real estate by this survey group are larger as a percentage of total assets than would be seen in the universe of pension funds, endowments, foundations, and other investors.*** Historically, the survey concentrated on basic real estate investment data, breaking down the category into private and public sectors. Private holdings were in turn allocated by property type and geographic region, both US and international. Because of the lack of conformity in reporting standards, several plans were unable to provide detailed asset breakdowns.

Total assets for the reporting group were $2.7 trillion, and real estate–related assets were $226 billion, or 8.4% of assets. This figure includes public and private REITs. About 25% of the reporting investors held two-thirds of the total assets in the survey. Year over year, total assets increased 2.9%, which is largely assumed to be a result of the run-up in the equity markets, although at a slower rate than in recent years. The Standard & Poor's 500 index posted gains of nearly 11.4% in calendar year 2014 (Exhibit 2) versus nearly 30% at year-end 2013. In the first six months of 2015, the S&P was flat. At the same time, total real estate dollar holdings increased 9.0% for the group.

Data were reported by the real estate departments of PREA member retirement plans, endowments, and foundations. State or municipal plans represented 66.1% of the sample; corporates, 6.3%; and all others, 27.6% (Exhibit 1). See the glossary (page 14) for a list of definitions used in the survey.

In previous years, PREA published data from Standard & Poor's Money Market Directories, which indicated that real estate equity accounted for 4.1% of assets for all plan sponsors in 2012. This allocation has grown steadily from just under 3.0% of assets from 1996 to 2001 to a peak of 4.6% in 2009. The percentage allocation changes over the years because of alterations in both the allocations to real estate investments as well as the valuations of those assets plus the allocations and valuations of other asset classes, such as equities and fixed income investments held by pension funds.

By contrast, the current reporting sample in the *Investor Report,* which includes the largest pension plans in the US, most with sizable commitments to real estate, held 8.4%, about double the national rate, in both public and private real estate.

Because of changes in the survey sample and the timing when the survey was conducted over the years, comparisons to past results are kept to a minimum in the report. However, this past year investors reported results for both 2014 and 2013, and comparative results are readily available for those years. Past reports are available on the PREA website at www.prea.org/research/investors_report.cfm.

Satisfaction

For the third straight year, PREA asked investor members how satisfied they were with their real estate investments. On a scale of 1 to 5, with 5 being very satisfied and 1 being very dissatisfied, investors ranked their real estate satisfaction level as 4.00, on average. In words, investors were mostly satisfied. A slightly different reporting group last year reported a 3.88 satisfaction level, and our initial survey posted a 3.55 satisfaction level. Given the recent high return numbers from MSCI and NCREIF, shown later in the report, it would have been a surprise if satisfaction levels had not increased.

Exhibit 3: Satisfaction

Overall, are you satisfied with the performance of your real estate investments?				
(Very Dissatisfied)				(Very Satisfied)
1	2	3	4	5
2.8%	0	19.4%	50.0%	27.8%
Average			4.0%	

Source: Pension Real Estate Association

Exhibit 4: Change in Satisfaction

Current Versus Previous Year		
Reported the Same Level of Satisfaction	Reported More Satisfied Now	Reported Less Satisfied Now
79.4%	17.6%	2.9%

Source: Pension Real Estate Association
Note: Based on only those investors that reported both years.

Exhibit 5: Satisfaction

Best	Worst
In the past two years, what has been your best-performing property type?	In the past two years, what has been your worst-performing property type?
1–Multifamily	1–Office
2–Retail	2–Retail
3–Industrial	3–Hotel
4–Other	4–Multifamily

Source: Pension Real Estate Association

Exhibit 6: Benchmarks

Do you utilize a benchmark for your public and private real estate portfolio?		
	2015	2004
Yes	97.4%	96.2%
No	2.6%	3.8%

Do these benchmarks meet your needs?		
Yes	74.3%	71.2%
No	25.7%	25.0%
NA		3.8%

Source: Pension Real Estate Association
Notes: Yes includes investors that were partially satisfied in the benchmarks used. Survey results for 2015 and 2004 were based on different sample groups, although the majority of investors reported in both surveys.

Only one investor reported being very dissatisfied, and none were moderately dissatisfied. On the positive side, 27.8% were very satisfied and half were moderately satisfied. We did not ask chief investment officers at the various public and private plan sponsors, endowments, and foundations about their satisfaction levels of other asset classes, so how real estate stacks up with stocks, bonds, and alternatives is unknown (Exhibit 3).

An analysis of data from only investors that reported in both years shows that 79.4% reported the same level of satisfaction, and 17.6% were more satisfied this year than in the previous year. Only 3% were less satisfied now (Exhibit 4).

We then asked investors to identify their best- and worst-performing property types in the past two years. In a repeat from the past two years, multifamily ranked first as the best. Retail and industrial were also mentioned as top performers. On the down side, and also in a repeat from the previous two years, office was named the worst performer (Exhibit 5).

Benchmarks

In June 2004, PREA conducted a survey on the various real estate investment benchmarks investors use. In 2015, PREA requested an update of this information from investors in the *Investor Report* Survey. As can be seen in Exhibit 6, use of some sort of real estate benchmark is nearly universal among investors. In addition, the large majority of investors continued to be satisfied (74.3% in 2015 and 71.2% in 2004) that the benchmarks they use meet their needs.

Investors were asked which benchmarks they used; because investors tend to customize their benchmarks—using pieces of different indices plus some adjustment in basis points—it is difficult to simply state that X percent of investors uses one index as a benchmark while Y percent use another.

However, as Exhibit 7 shows, it is clear that PREA members use the NCREIF Fund Index—Open End Diversified Core Equity (NCREIF-ODCE) and the NCREIF Property Index (NPI) for tracking their domestic portfolios. Canadian investors, of which there are a limited number reporting in the survey, often use the IPD Canadian Index. The NAREIT Equity Index is cited often for US REITs, as is the FTSE EPRA/NAREIT Index for non-US REITs. Other benchmarks mentioned include the MSCI US Real Estate Index, the MSCI All Country World Real Estate Index, MSCI REIT Index, Wilshire US REIT, Cambridge, and the NCREIF Timberland index.

Exhibit 7: Investor Responses on Benchmarking

Identify the benchmark(s) utilized. (Randomly listed)
NCREIF-ODCE
FTSE EPRA/NAREIT Developed Real Estate Index for REITs; NCREIF-ODCE, net of fees, for private real estate
NPI for the total real assets portfolio
NPI for private; NAREIT for public
Cambridge Universe
Core: NCREIF-ODCE, overall: NPI
NCREIF-ODCE for domestic core
NCREIF-ODCE +100 bps for value-added funds
NCREIF-ODCE +300 bps for opportunistic funds
NCREIF Timberland South for timber investments
Wilshire US REIT for domestic REITs—total return strategy
75% FTSE EPRA/NAREIT/25% FTSE EPRA/NAREIT Preferred Blend for domestic REITs—income strategy
FTSE EPRA/NAREIT Preferred for domestic REITs—preferred strategy
FTSE EPRA/NAREIT Global (excluding US) Unhedged for international REITs
NPI
NCREIF-ODCE
NCREIF-ODCE
NPI for domestic private; FTSE EPRA/NAREIT NA for domestic REITs
76.5% NCREIF-ODCE; 13.5% NCREIF-ODCE + 150 bps; 10% FTSE EPRA/NAREIT Global
Cambridge custom RE benchmark
NCREIF-ODCE, net of fees
NCREIF-ODCE; NCREIF CEVA
NPI for separately owned equities; NCREIF-ODCE for commingled equities; FTSE EPRA/NAREIT Developed Index for REITs
NPI
NPI for domestic; FTSE EPRA/NAREIT excluding US for non-US
Core = REITs + private core: 80% NCREIF-ODCE/20% FTSE EPRA/NAREIT; Non-core = value + opportunistic: Private iQ 20% US/80% non-US
NCREIF-ODCE
NCREIF-ODCE, NAREIT
NCREIF-ODCE, NPI
FTSE EPRA/NAREIT for public real estate; a combination of NCREIF-ODCE, INREV Core, and ANREV for private real estate
Private: NCREIF-ODCE Public: FTSE EPRA/NAREIT Developed REIT Index (net)
Public: FTSE EPRA/NAREIT; private; NCREIF-ODCE
Composite index comprising 50% MSCI US Real Estate Index and 50% MSCI All Country World Real Estate Index
MSCI/IPD Canadian Benchmark
NCREIF-ODCE for core direct
NCREIF-ODCE + 1.5% for value-added and opportunistic direct
DJ US Select RE securities index for US REIT Securities
FTSE EPRA/NAREIT Developed Index for Global REIT Securities
NCREIF-ODCE + 40 bps
Core: NCREIF-ODCE; non-core: NCREIF-ODCE +200 bps; overall portfolio: NCREIF-ODCE = 80 bps
Total portfolio: NPI + 50 bps; global REIT managers: FTSE EPRA/NAREIT Developed Index
NCREIF-ODCE, NAREIT
65% IPD Canada + 35% NCREIF-OCDE
Stylized benchmark combining NPI, NPI Timber, and FTSE EPRA/NAREIT Global
NCREIF-ODCE + 100 bps
IPD Canada
MSCI REIT Index for public real estate portfolio

Source: Pension Real Estate Association

Real Estate Allocations

PREA member investors continued to benefit from a robust commercial real estate market. Total holdings for the reporting group for year-end 2014 came to $226.1 billion, a significant increase of 9.0% reported by the same group at year-end 2013. As already noted, some of this growth came from investors' increased allocations to real estate, although investors typically do not change asset allocation targets frequently, and when they do, they tend to change allocations in small steps. The same number of investors, 23.5% reported a target allocation of greater than 10%, the same as in 2013 (Exhibit 8). Reviewing the same data, 71% of investors reported the same target allocation this year as in the immediate past reporting period. However, 26.5% of investors reported an increase in their targets by an average of 1.3% on an unweighted basis. Only one investor reported a decrease in the real estate allocation target. Thus, assuming that at least some of this added allocation had been put to work, an increase in holdings was to be expected.

Exhibit 8: Private Real Estate Equity Allocations As Reported by PREA Members

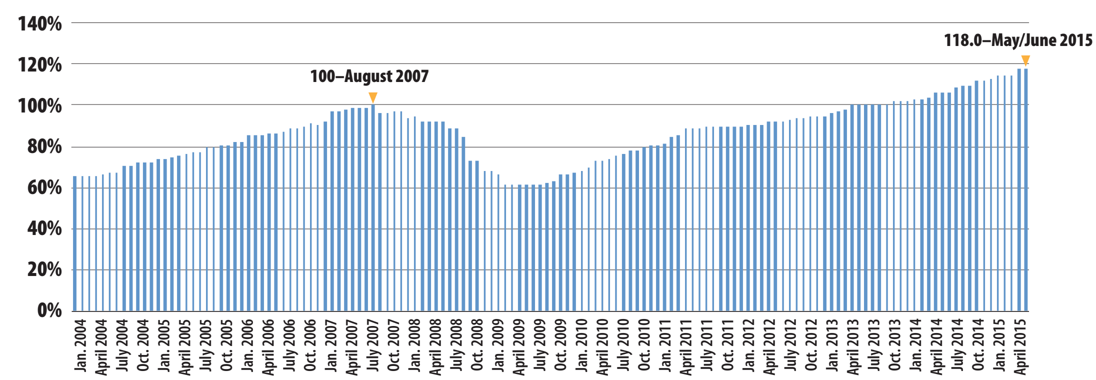
By Number of Plans		
Target Allocations (% Distribution)		
	2014	2013
Greater Than 10.0%	23.5	23.5
Greater Than 8.0% and Less Than or Equal to 10.0%	29.4	23.5
Less Than or Equal to 8.0%	47.1	52.9
Actual Allocations—All Reporting (as a % of Assets)	8.0	7.6

Source: Pension Real Estate Association

Valuations have also increased. Recently published data (July 2015) by Green Street Advisors, Inc., show that US commercial property prices have blown by the prerecession highs recorded in mid-2007 (Exhibit 9). In addition, returns have continued to be strong. The NCREIF Property Index (Exhibit 10) posted double-digit returns for the past five years (2010–2014) and is on pace to do the same in 2015; first-quarter returns posted at 3.6%, and second-quarter at 3.1%. IPD's all-property index (Exhibit 11) was positive in the past three years for all 25 countries shown except Hungary and Spain, and 19 reported higher returns in 2014 than in 2013. Even among the six that reported declines, three nevertheless still posted double-digit returns for 2014.

In recent months, the media have not missed an opportunity to document the considerable increase in capital flows into commercial real estate in the past year that are supported in part by foreign money. Data from Real Capital Analytics (Exhibit 13) show that sales in 2014 hit $430 billion, surpassing 2006 levels and approaching the peak of $574 billion set in 2007. As of June 30, sales for 2015 have hit $257 billion, thus likely to result in the sixth consecutive annual increase in sales but still possibly short of the 2007 high-water mark.

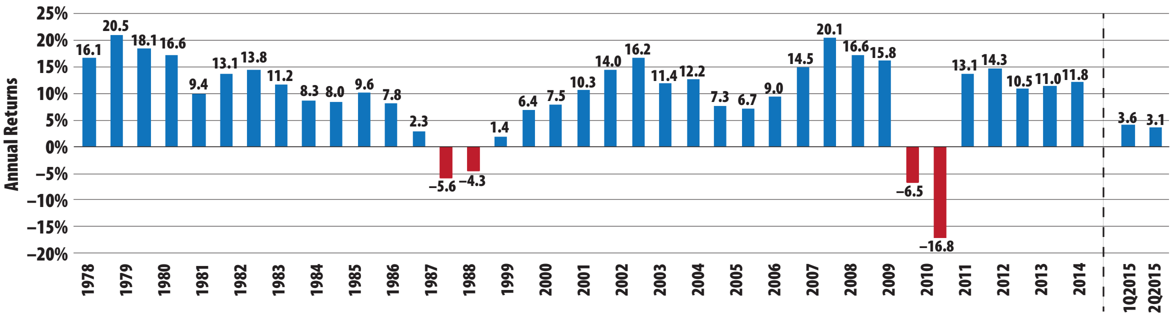
Exhibit 9: Green Street Commercial Property Price Index



Source: Green Street Advisors, Inc.

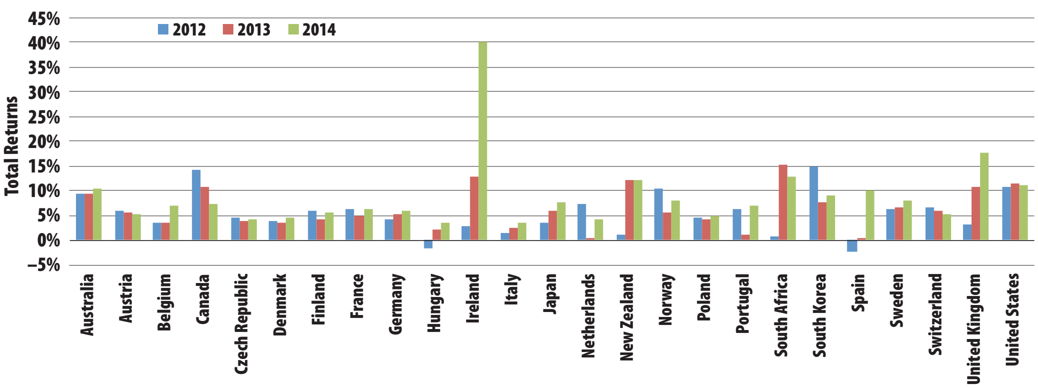
Note: Property indices are indexed to 100 at their peaks.

Exhibit 10: US Property Returns



Source: NCREIF

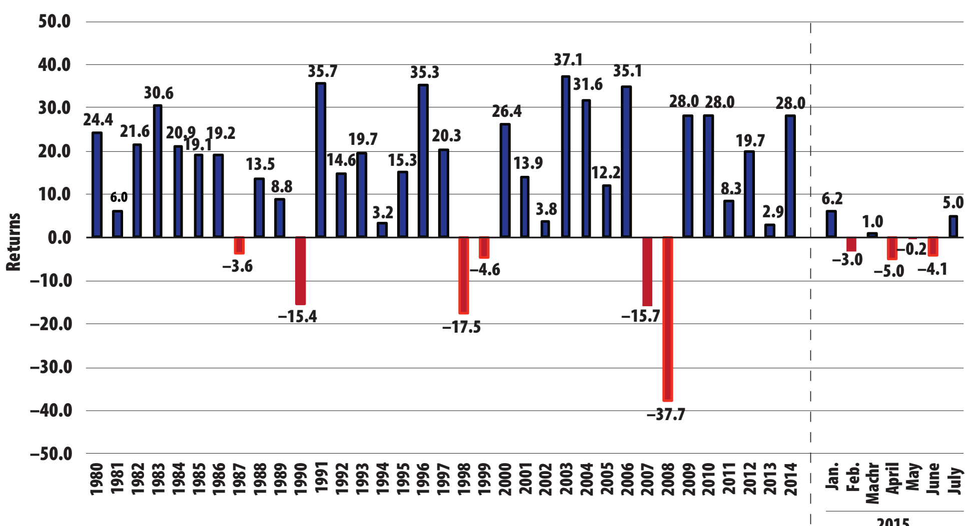
Exhibit 11: IPD All Property Index Returns by Country



Source: MSCI

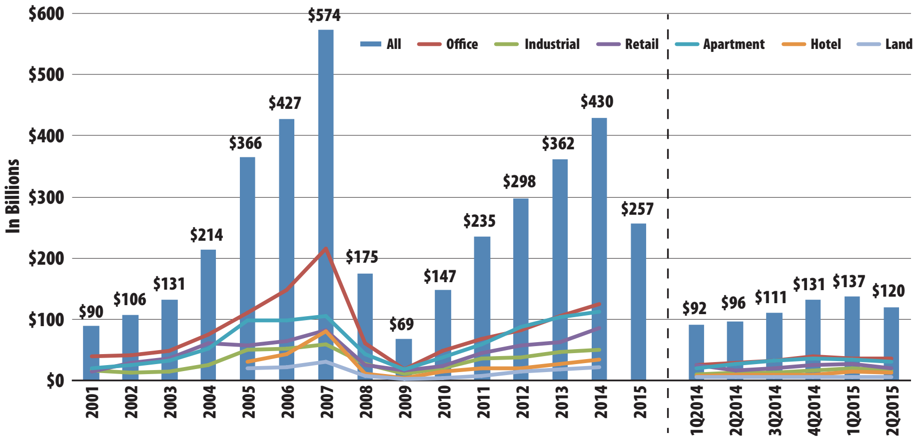
Notes: The IPD Indices are neither appropriate nor authorized by MSCI for use as a benchmark for portfolio or manager performance. More information from MSCI is available on PREA's website.

Exhibit 12: Equity REIT Returns



Sources: FTSE NAREIT, Thomson Reuters Datastream

Exhibit 13: Scale of Large Commercial Properties



Source: Real Capital Analytics

Notes: Limited to properties of $2.5 million or greater. Data for 2015 as of June 2015. Data from past periods may differ from previous reports because of updated information and methodology revisions. (This exhibit is updated monthly in the PREA *Compendium of Statistics,* which can be found on the PREA website.)

Exhibit 14: Allocation Changes to Real Estate Equity in the Next 12 Months

% Distribution			
	By Number of Plans		
	No Change	Increase	Decrease
At year-end 2014, did your organization have an increase or a decrease in real estate as a percentage of assets versus 2013 or no significant change?	42.5	35.0	22.5
At year-end 2015, do you expect your organization to have an increase or a decrease in real estate as a percentage of assets versus 2014 or no significant change?	60.0	30.0	10.0

Source: Pension Real Estate Association

Real Estate Investment Strategy and Structure

Investors were asked if their plans were allocating new capital in the next 12 months, how did they anticipate allocating those funds by strategy: core, value-added, or opportunistic. Obviously, how to invest is critical to investors as they debate whether to be more risk-averse and move toward core or voice dissatisfaction in returns in a low interest rate environment, prompting them to seek the higher returns promised in potentially riskier real estate.

Two-thirds of investors responded that they planned to invest 25% to 75% of their new investments in core funds. Slightly less, 61.3%, planned to target the same for value-added funds, and 48.3% were focused on opportunistic (Exhibit 15).

By holdings, core continued a recent growth trend, with 54.0% of all private real estate holdings versus 51.4% reported last year. All the growth in core came at the expense of opportunistic, which fell to 27.9% from 30.4%. Value-added holdings remained largely unchanged (Exhibit 16).

Breaking down the strategy allocation by state and municipal funds versus corporates, endowments, and foundations, we find that the latter had a much greater appetite for opportunistic but at a declining rate, with 30.9% allocation. Non-state or municipal funds reported only 11.9% in opportunistic but also with a sharp decline from 2013. Both groups strongly favored core funds.

The current survey reveals no significant differences between smaller plans (those with assets less than $75 billion) and larger plans (assets over $75 billion) regarding core, value-added, and opportunistic investments. Large players held 54.0% in core versus 53.9% for smaller funds, and in opportunistic, larger plans held

Exhibit 15: Distribution of New Capital by Strategy
% Distribution by Number of Funds Planning Allocation to a Strategy

	By Number of Plans					
Allocation	**Core**		**Value-Added**		**Opportunistic**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Less Than 25%	20.8	22.2	32.3	39.3	37.9	33.3
25% to 75%	66.7	48.1	61.3	50.0	48.3	55.6
More Than 75%	12.5	29.6	6.5	10.7	13.8	11.1

Source: Pension Real Estate Association
Note: Survey results for 2014 and 2013 were based on different sample groups, although the majority of investors reported in both surveys.

Exhibit 16: Distribution of Private Real Estate Investments by Strategy—All Plans
Excludes Debt and Investments Not Readily Allocable by Strategy

	2014		2013		2009	2004
	$ Millions	**% of Private RE Equity**	**$ Millions**	**% of Private RE Equity**	**% of Private RE Equity**	
Core	96,230.7	54.0	85,580.5	51.4	53.2	70.4
Value-Added	32,326.7	18.1	30,326.1	18.2	20.1	17.4
Opportunistic	49,654.1	27.9	50,649.0	30.4	26.7	12.2
Total	**178,211.5**	**100.0**	**166,555.6**	**100.0**	**100.0**	**100.0**
Breakdown by Strategy						
State or Municipal						
Core	77,385.8	51.7	67,730.9	49.0	50.2	72.2
Value-Added	26,068.4	17.4	24,775.9	17.9	20.3	17.4
Opportunistic	46,277.1	30.9	45,787.0	33.1	29.5	10.4
Total	**149,277.1**	**100.0**	**138,293.8**	**100.0**	**100.0**	**100.0**
Other						
Core	18,844.9	66.2	17,849.6	63.2	63.6	67.8
Value-Added	6,258.3	22.0	5,550.2	19.6	19.4	17.5
Opportunistic	3,377.0	11.9	4,862.0	17.2	17.1	14.7
Total	**28,480.2**	**100.0**	**28,261.8**	**100.0**	**100.0**	**100.0**

Source: Pension Real Estate Association
Note: Survey results for 2014 and 2013 were based on investors reporting in the most recent survey. Data for 2009 and 2004 were based on investors reporting for those years. The majority of investors participating in the surveys reported in all three periods.

29.5% versus 24.8% for investors with less than $75 billion in assets (Exhibit 17).

Readers should note that PREA does not provide definitions of *core, value-added,* and *opportunistic* to the reporting organizations. Reporters allocated their holdings based on their own internal classifications. Some investors that do not distinguish between core and value-added split their allocations between the strategies.

Investors continued to show movement toward direct investments and away from closed commingled funds. As shown in Exhibit 18, direct investments climbed to 32.9% of holdings for US members versus only 29.5% in 2013. Almost all the increase in direct came at the expense of commingled closed-end funds, which slipped to 37.8% from 41.9% This movement was slightly more prominent with comparative smaller funds, but the trend was clear regardless of size.

Exhibit 17: Distribution of Private Real Estate Investments by Strategy—By Plan Size
Excludes Debt and Investments Not Readily Allocable by Strategy

	% Distribution 2014		2013		2009		2004	
	Assets > $75B	Assets < $75B	Assets > $75B	Assets < $75B	Assets > $45B	Assets < $45B	Assets > $25B	Assets < $25B
Core	54.0	53.9	50.6	53.0	46.5	65.1	72.0	66.3
Value-Added	16.5	21.2	16.6	21.3	20.4	19.4	16.2	20.5
Opportunistic	29.5	24.8	32.9	25.7	33.0	15.5	11.8	13.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Pension Real Estate Association
Notes: Survey results for 2014 and 2013 were based on investors reporting in the most recent survey. Data for 2009 and 2004 were based on investors reporting for those years. The majority of investors participating in the surveys reported in all three periods.

Exhibit 18: PREA US Members Only—Real Estate Investment Structure

	Reporting Group % of Total Private		By Total Assets 2014		2013	
Private	**2014**	**2013**	**> $75B**	**< $75B**	**> $75B**	**< $75B**
Direct Investment	32.9	29.5	31.3	35.9	29.2	30.1
Commingled Fund (Closed)	37.8	41.9	38.9	35.7	42.8	40.1
Commingled Fund (Open)	14.4	13.8	11.7	19.5	10.9	19.8
Joint Venture	11.6	11.4	14.3	6.8	13.1	7.9
Other	3.2	3.4	3.9	2.1	4.1	2.1
Total Private	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Pension Real Estate Association

Property-Type and Geographic Allocation

By property, the big four—in this case, office, multifamily, retail, and industrial—properties will for the foreseeable future remain a significant part of the real estate portfolios of PREA member investors, but there is little doubt that real estate is now defined to include a broader spectrum of investments (Exhibit 19).

A quick look at "other" property types investors reported in their portfolios included infrastructure, data centers, parking lots, as well as more traditional other types, such as self-storage and student housing. In total, other real estate holdings accounted for 12.6% of the portfolio in 2014, up from 11.5% in 2013. (For US investors only, 13.1% reported holding other.) And these figures do not include agricultural, timber, senior living, and single-family investments, which all rose compared with 2013 and when combined, totaled 1.3% of real estate. Thus, together, nontraditional investments amounted to 13.9% of investors' holdings.

Office properties continued to command the top spot in the portfolios of investors, with 26.9% of holdings, but that represented a 0.5% drop in coverage from 2013. Multifamily, the current darling in the industry, posted a somewhat surprising slight decline to 22.1%, perhaps because of sell-offs of properties that appreciated significantly in value in recent years. Retail (19.8%) and industrial (11.8%) remained largely unchanged. In addition, recent data from the PREA | IPD U.S. Property Fund Index show that returns on multifamily now lag retail, office, and industrial properties on both a one-year and a three-year basis (Exhibit 20). (Note that IPD's "other" investment category includes but is not limited to debt investments in real estate or minority interest positions in other vehicles such as public REITs.)

Geographically, the West (39.7%) and the East (30.9%) continued to hold the lion's share of funds (Exhibit 21) when looking at US holdings only. Expanding to show global allocations, PREA's US members that were able to report complete regional allocations reported 12.0% holdings in non-US regions, up from 11.2% in 2013.

Exhibit 19: Property-Type Allocation
% Distribution

	PREA Investor Survey—All Reporting (US Members Only)		PREA Investor Survey—All Reporting
	2014	2013	2004
Office	26.9 (27.2)	27.4 (27.9)	33.3
Multifamily	22.1 (23.0)	22.4 (23.5)	18.6
Retail	19.8 (17.2)	19.6 (16.8)	20.3
Industrial	12.0 (11.8)	12.3 (12.4)	16.2
Hotel	5.4 (6.1)	6.0 (6.7)	3.2
Agricultural & Timber	0.6 (0.7)	0.3 (0.4)	NA
Senior/Assisted Living	0.4 (0.5)	0.2 (0.2)	NA
Single Family	0.3 (0.3)	0.3 (0.3)	NA
Other[1]	12.6 (13.1)	11.5 (11.8)	8.4
Total	**100.0**	**100.0**	**100.0**

Source: Pension Real Estate Association
1. Other property types include data centers, entertainment, gaming, infrastructure, land, medical office, mixed use, parking, residential, self-storage, and student housing.

Exhibit 20: PREA | IPD U.S. Property Fund Index—Total Return
Core Diversified Open-End Funds

Property Type	1Q2015	1 Year	3 Year	5 Year
Retail	3.05%	11.67%	11.54%	12.40%
Office	3.19%	12.80%	11.11%	12.17%
Industrial	3.52%	13.92%	12.35%	12.60%
Apartment (Multifamily)	2.43%	10.20%	10.10%	13.94%
Self-Storage	5.00%	17.30%	20.06%	18.82%
Hotel	0.86%	10.34%	7.66%	8.64%
Other	1.86%	8.06%	11.22%	7.25%
Total Return	**3.00%**	**12.07%**	**11.18%**	**12.66%**

Sources: Pension Real Estate Association, MSCI

Exhibit 21: Geographic Distribution
US Members Only

	% Distribution			
	2014	2013	2014	2013
	US Allocation Only		With Global Allocation	
East	30.9	30.8	27.2	27.3
Midwest	9.9	9.9	8.7	8.8
South	19.4	19.7	17.1	17.5
West	39.7	39.7	35.0	35.2
US Total	**100.0**	**100.0**	**88.0**	**88.8**
Non-US Total			12.0	11.2
Grand Total			**100.0**	**100.0**

Source: Pension Real Estate Association
Note: Excludes funds not allocable to a specific region. Global allocation includes investors that did not have international holdings.

Glossary
Private Real Estate

Commingled Funds: A term applied to all open-end and closed-end pooled investment vehicles designed for institutional tax-exempt investors. A commingled fund may be organized as a group trust, a partnership, a corporation, an insurance company separate account, or another multiple ownership entity.

Open-End Fund: A commingled fund with no finite life that allows continuous entry and exit of investors and typically engages in ongoing investment purchase and sale activities.

Closed-End Fund: A commingled fund with a stated maturity (termination) date with few or no additional investors after the initial formation of the fund. Closed-end funds typically purchase a portfolio of properties to hold for the duration of the fund and, as sales occur, typically do not invest the sales proceeds. (Source: Real Estate Information Standards)

Direct Investments: Investments that involve the outright purchase of properties not done through other investment vehicles and include any co-investments. (1) Co-investment occurs when two or more pension funds or groups of funds share ownership of a real estate investment. There are several ways that co-investment can occur: (a) a commingled fund investing with a single investor, a group of investors, an individual fund, or a group of funds; or (b) operating companies (such as a qualified REIT or limited partnership) investing with commingled funds, individual funds, or other operating companies. (2) Also refers to an arrangement in which an investment manager or advisor co-invests its own capital alongside the investor, either on an equal (pari passu) or a subordinated basis. (Source: Institutional Real Estate, Inc.)

Joint Venture: A venture formed with an entity that is not an institutional investor but rather a developer or private party.

Real Estate Investment Trust (REIT): A corporation or business trust that combines the capital of many investors to acquire or provide financing for all forms of income-producing real estate. (Source: National Association of Real Estate Investment Trusts)

Geographic Regions

East Region

Northeast: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont

Mideast: Delaware, Kentucky, Maryland, North Carolina, South Carolina, Virginia, Washington, DC, West Virginia

South Region

Southeast: Alabama, Florida, Georgia, Mississippi, Tennessee

Southwest: Arkansas, Louisiana, Oklahoma, Texas

Midwest Region

East North Central: Illinois, Indiana, Michigan, Ohio, Wisconsin

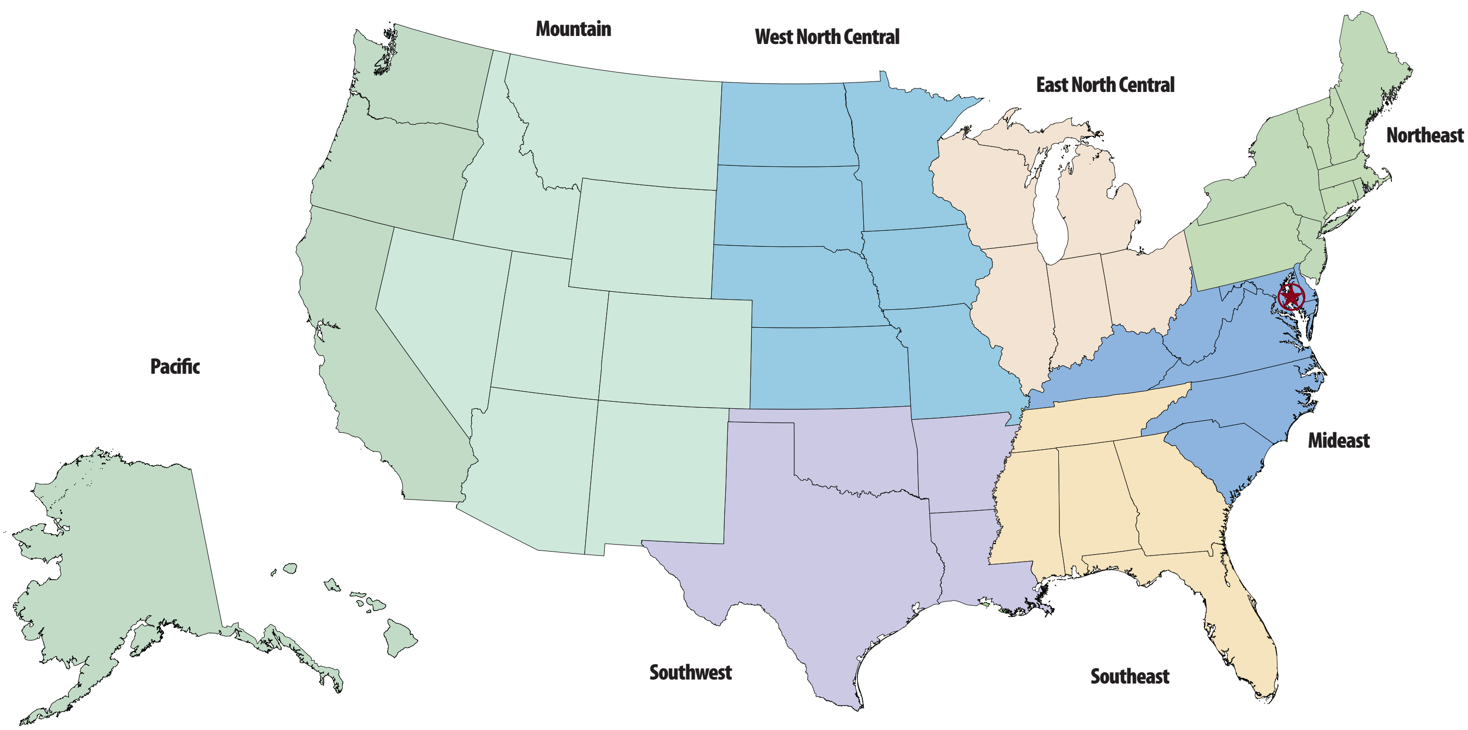
West North Central: Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota

West Region

Mountain: Arizona, Colorado, Idaho, Montana, New Mexico, Nevada, Utah, Wyoming

Pacific: Alaska, California, Hawaii, Oregon, Washington

Not-allocable holdings, whether by investment strategy, structure, property type, or geographic region, were reported as not allocable by reporters and were excluded from any percentage distribution calculations.



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