Pension Real Estate Association

# INVESTOR REPORT


Published August 2016

The Pension Real Estate Association (PREA) is a nonprofit trade association for the global institutional real estate investment industry. PREA currently lists more than 725 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 participate in the survey tend, on average, to have a considerably 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 12th edition of the PREA *Investor Report*.

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 2016 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 explored the growing importance of real assets in the portfolios of PREA members and asked about the types of investments they are making and the reasons behind those investments (see page 7).

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 years easier. The bulk of the data is reported as of December 31, 2015, or later. While the large majority of investors report each year to the survey, the reporting sample for the *Investor Report* does differ slightly from year to year, and thus 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) | 2,509,125 | |
| Total Assets (Previous Year) | 2,534,584 | |
| **Asset Breakdown by Fund Size** (Current Year) | | |
| > $75B in Assets | 1,879,790 | 74.9 |
| < $75B in Assets | 629,335 | 25.1 |
| **Breakdown by Fund Type** | | |
| State or Municipal | | 69.3 |
| Corporate | | 3.4 |
| Other | | 27.3 |
| **Total** | | **100.0** |
| **Holdings in All Real Estate–Related Investments** | | |
| Current Year | 237,418 | 9.5 |
| Previous Year | 222,382 | 8.8 |

**Source:** Pension Real Estate Association

**Reporting Period:** 96% of data reported (as a percentage of assets) are current as of December 31, 2015, or later; 32% of data are current as of March 31, 2016, or later. Because of survey sample changes, data reported in this *Investor Report* are not directly comparable with those in previous reports.

## Highlights

- Investors continued to be very satisfied with their real estate investments. For the fourth consecutive year, 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 4.09, the highest in the four years studied. Less than 6.0% of investors were dissatisfied with their investments (Exhibits 3 and 4).

- For the first time, PREA surveyed investors about their real assets outside of real estate investments and found that 85.7% invested in real assets. Diversification from other asset classes was the main reason for investing in real assets, and infrastructure was the favorite real asset class for future investing (Exhibits 6 and 7).

- Total assets for the reporting group declined 1.0% in the most recent period versus a 2.9% increase for last year's reporting group. The slight decline in stock prices at year-end, the time most reporters submitted data, was likely the main reason for the decline (Exhibits 1 and 2).

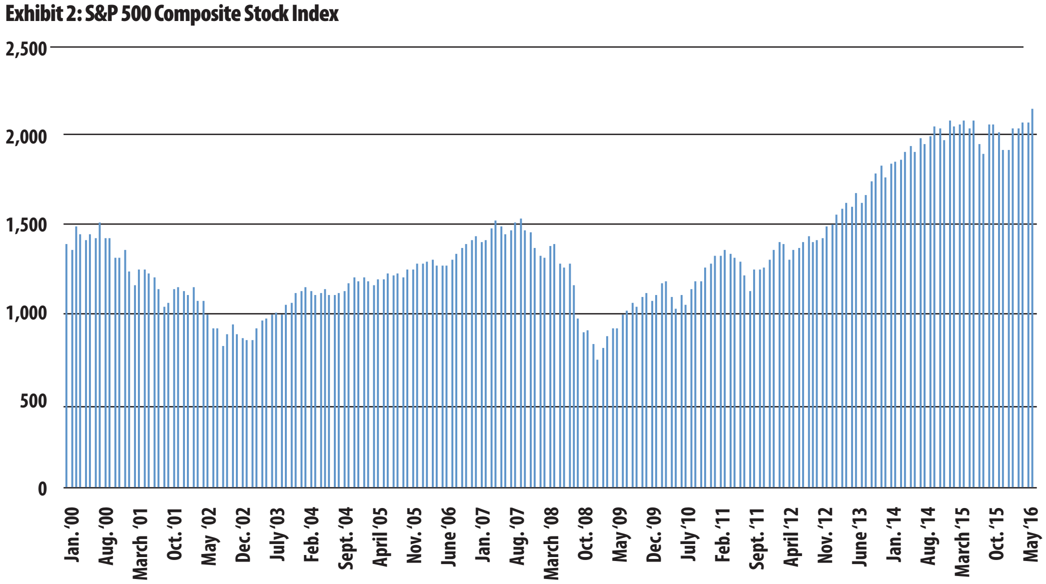
- For the latest reporting period, investors held 9.5% of their total assets in real estate–related investments, an increase from 8.8% at year-end 2014. Most investors (75.8%) indicated that their organizations did not make any changes in their real estate target allocations in the current year, but 18.2% reported an increase in allocation and 6.1% a decrease (Exhibit 10).

- Core investments continued to dominate the real estate portfolios of investors, with 57.6% of total holdings (Exhibit 17). Opportunistic was second, with a declining share of 23.7%, and value-added was third, with 18.7%.

- Office (29.0%), multifamily (22.4%), retail (21.2%), and industrial (11.8%) continued to dominate the property-type allocations of investors. Hotel investments dropped to 3.6% from 5.7% in 2014 but still within historical norms (Exhibit 20).

- Nearly all reporting US investors held at least some non-US property, which, on average for the entire reporting group, accounted for 11.4% of their holdings. This represented an increase from 10.7% at year-end 2014 (Exhibit 22).

**Exhibit 2: S&P 500 Composite Stock Index**




**Sources:** S&P, Thomson Reuters Datastream. Last Observance: July 29, 2016

## 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 $2.5 trillion for the latest reporting period, a slight 1.0% drop from the previous year's report. This drop is likely because the stock markets were generally flat or posted equally minor declines in the period from January 2014 to early 2016, when surveys were being reported and thus before the recent run-up in those markets.

The Standard & Poor's 500 index dropped 0.7% in the calendar year 2015 versus a gain of 11.4% in 2014 (Exhibit 2) and a 30% increase in 2013. In the first seven months of 2016, the S&P recovered and then some, with a 6.3% gain in a volatile market.

Real estate–related assets for the reporting group were $237 billion, or 9.5% of assets, a marked increase from the 8.8% in real estate as a percentage of assets in 2015. This figure includes public and private REITs. Investors with more than $75 billion in assets accounted for 75% of all assets as well as 75% of the total private real estate equity holdings.

Data were reported by the real estate departments of PREA member retirement plans, endowments, and foundations. State or municipal plans represented 69.3% of the sample, with other investors accounting for the remainder (Exhibit 1). See the glossary (page 14) for a list of definitions used in the survey.

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 2015 and 2014, and comparative results are readily available for those years. Past reports are available on the PREA website at www.prea.org/research/investor-report.

## Satisfaction

For the fourth 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 4.09, on average. This was a tad higher than in 2015, when a similar sample group checked in with a 4.00 satisfaction level. In the four years the survey asked about satisfaction, the levels steadily increased from the initial 3.55 recorded in 2013 and 3.88 in 2014. Obviously, this is, in part, a result of the increasing returns recorded in real estate portfolios in recent years. If the real estate cycle peaks and returns are on the way down, satisfaction levels may follow.

No investors reported being very dissatisfied, and 32.4% reported being very satisfied. Again, across the board, investors had generally high levels of satisfaction with their commercial real estate investments. 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).

A review of data from only investors that reported in both years shows that 64.7% reported the same level of satisfaction, and 23.5% were more satisfied this year than in the previous year. Slightly less than 12.0% were less satisfied now (Exhibit 4).

We also asked investors to identify their best- and worst-performing property types in the past two years. In a romp, multifamily ranked first as the best property type in the latest reporting period and, in fact, was the top-ranked asset class in the four years satisfaction was surveyed. Industrial, retail, and office were also mentioned as top performers. On the down side, and in a switch from recent years, retail was named the property type with the least satisfaction among reporters, followed by office, which had been the worst class in the first three years of the survey. Hotel and industrial were also named as troublesome categories (Exhibit 5).

**Exhibit 3: Satisfaction**

| Overall, are you satisfied with the performance of your real estate investments? | | | | | |
|---|---|---|---|---|---|
| | (Very Dissatisfied) 1 | 2 | 3 | 4 | (Very Satisfied) 5 |
| | 0 | 5.9% | 11.8% | 50.0% | 32.4% |
| Average | | | | 4.09 | |

**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 |
| 64.7% | 23.5% | 11.8% |

**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–Retail |
| 2–Industrial | 2–Office |
| 3–Retail | 3–Industrial |
| 4–Office | 4–Hotel |

**Source:** Pension Real Estate Association

## Real Assets

Recently, the investor survey has asked investors special questions that covered an area of specific interest at the time of the survey. In 2015 and 2011, we repeated a survey we originally did in 2004 on the various real estate investment benchmarks investors use. In 2014, we covered emerging manager programs at our investor members. In 2013, we initiated coverage of investment satisfaction and made it a permanent part of the survey. In 2012, we focused on staffing levels at member firms.

With the industry increasingly focused beyond pure real estate assets, this year we turned to the broader "real assets" class to determine investor activity in assets such as infrastructure, timberland, agriculture, and natural resources.

**Exhibit 6: Investing in Real Assets**

| Does your organization invest in real assets? | |
|---|---|
| Yes | No |
| 85.7% | 14.3% |

| If your organization invests in real assets other than real estate, are real estate and the other real assets directed by the same person or department or by a different person or department? | |
|---|---|
| Same | Different |
| 50.0% | 50.0% |

As seen in Exhibit 6, the overwhelming number of investors brought in real assets as an investment option, but there is an equal split on who handles these investments within the organization. For exactly half the investors participating in the survey that invest in real assets, those assets are handled by the same person or department that handles their real estate investments. For the other half, real asset investments are handled by a different person or department. This was the first time PREA asked this question in the survey, so no trend analysis is possible. However, the acceptance of alternative assets such as infrastructure has been a recent trend, so the assumption is that activity in the asset class by investors has grown significantly in recent years.

A limited number of organizations were able to report accurate holdings in real assets, but for those that did, their holdings ranged from just a token amount as a percentage of their total assets to nearly 20% of total assets. The bulk of investors allocated less than 2% of assets into real assets.

**Exhibit 7: Real Asset Investments**

| What are the reasons you invest in real assets outside of real estate? | |
|---|---|
| Diversification from Other Asset Classes | 100.0% |
| Inflation Hedge | 82.1% |
| Stable Income Flows | 60.7% |
| Overall Higher Returns | 39.3% |

All those organizations that invest in real assets stated that diversification from other asset classes was a reason for their investment. (Investors were asked to choose all reasons for investing in real assets, not just the primary reason.) Use as an inflation hedge (82.1%) was also widely cited as a reason for investment, as was stable income flows (60.7%). Interestingly, overall higher returns of real assets was the least cited reason for investments in other alternatives (Exhibit 7).

**Exhibit 8: Real Asset Investments by Type**

| If your organization invests in real assets other than real estate, indicate how you are currently invested by type. | |
|---|---|
| Timber | 70.4% |
| Infrastructure | 66.7% |
| Natural Resources | 51.9% |
| Agriculture/Farm | 25.9% |
| Other | 14.8% |

While real assets, as a total asset class, has been generally a recent development, investors have been allocating funds in the underlying asset classes for a number of years. The Summer 2003 issue of the *PREA Quarterly* covered both farmland and timberland investments, and the NCREIF Timberland Property Index reports returns starting in 1987. Given this history, it isn't surprising that those investors with real asset holdings were primarily invested in timber (70.4%), with infrastructure (66.7%) and natural resources (51.9%) also popular (Exhibit 8).

**Exhibit 9: Future Investing**

| If your organization plans to invest in real assets in the next 24 months, indicate how you plan to invest in the future. | |
|---|---|
| Infrastructure | 94.1% |
| Natural Resources | 70.6% |
| Agriculture/Farm | 52.9% |
| Timber | 47.1% |
| Other | 17.6% |

## Real Estate Allocations

For the year ending 2015, PREA member investors reported $237 billion in real estate holdings (both private and public), or 9.5% of their total assets. This represents an increase from 8.8% reported at year-end 2014. Part of the increase is likely because of the slight decrease in the denominator, or total assets, because of the slight decline in the equity markets, discussed earlier, and the increase in the numerator, real estate values, which continue to rise, although water-cooler discussions of an overheated market are increasing, which may result in a future decline of real estate assets as a percentage of total assets.

Recently published data (July 2016) by Green Street Advisors, Inc. (Exhibit 11), show that US commercial property prices have continued to increase steadily since the Great Recession lows recorded in May and June 2009. The NCREIF Property Index (Exhibit 12) posted double-digit returns for the past six years (2010–2015), but the streak may come to an end in 2016; first-quarter returns were 2.21%, and the second-quarter figure was 2.03%. IPD's all-property index (Exhibit 13) posted positive returns in the past three years for all 25 countries shown, and 20 reported higher returns in 2015 than in 2014. REIT returns continued to behave like a roller coaster but on an annual basis have handsomely rewarded investors since 2009 (Exhibit 14).

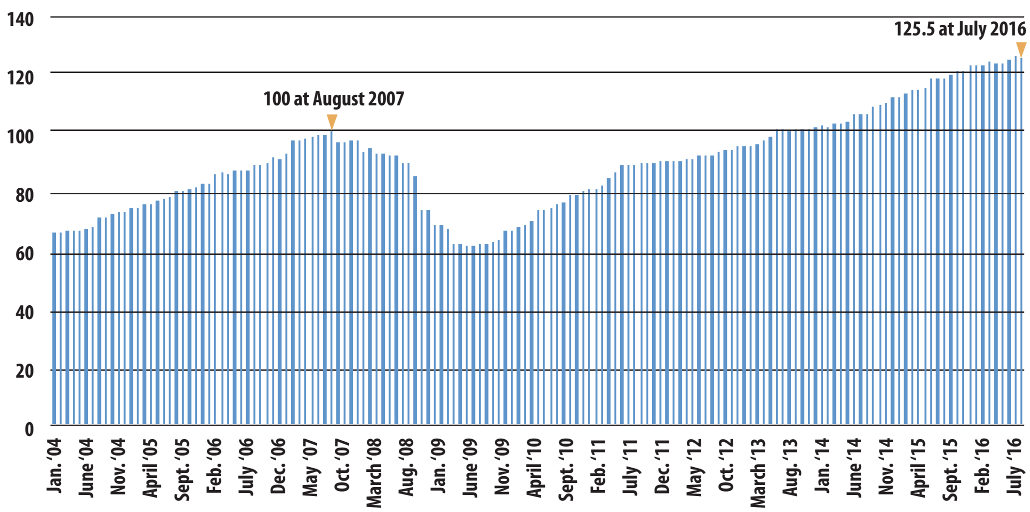
Investors reported a slight increase in higher real estate target allocations in comparison to the previous year. For the most current year, 24.2% of investors stated that their targets were greater than 10% versus 21.2% in 2014. The increase was solely attributed to a decrease in the lower bucket, where 51.5% of investors stated their target allocations to real estate were less than or equal to 8.0% of total assets versus 54.5% in the previous year. Three of every four investors reporting changed their allocations year over year, but 18.2% increased their targets and 6.1% decreased their targets (Exhibit 10).

**Exhibit 10: Private Real Estate Equity Allocations as Reported by PREA Members**

| By Number of Plans | | | |
|---|---|---|---|
| Target Allocations (% Distribution) | | | |
| | 2015 | 2014 | |
| Greater Than 10.0% | 24.2 | 21.2 | |
| Greater Than 8.0% and Less Than or Equal to 10.0% | 24.2 | 24.2 | |
| Less Than or Equal to 8.0% | 51.5 | 54.5 | |
| **Actual Allocations–All Reporting** (As a % of Assets) | **8.7** | **8.0** | |
| | **No Change** | **Increase** | **Decrease** |
| Change in Target Allocation from 2014 to 2015 | 75.8% | 18.2% | 6.1% |

**Source:** Pension Real Estate Association
**Note:** Allocations exclude real estate investment trusts.

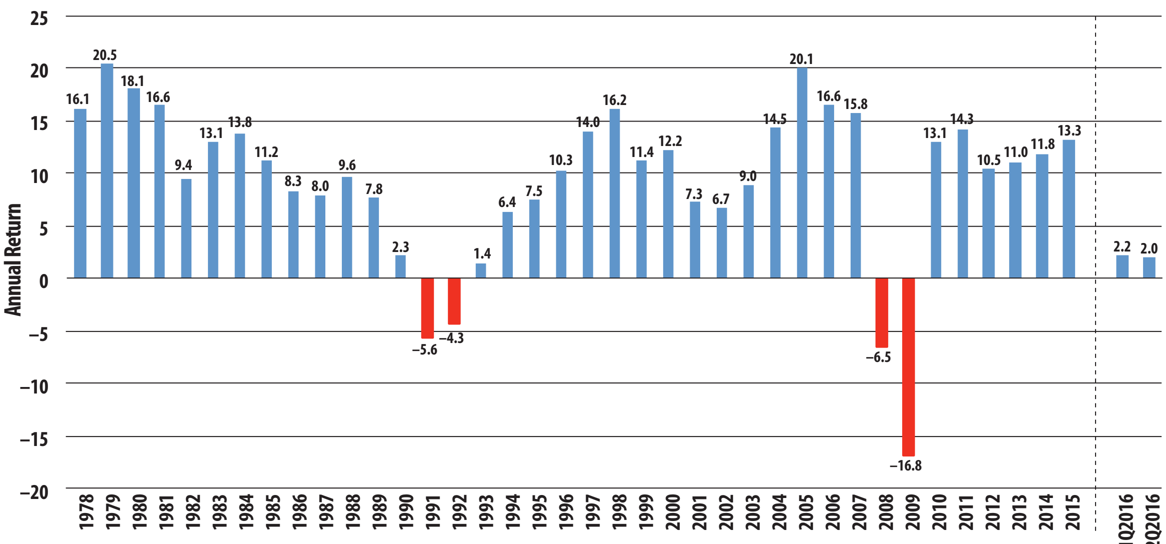
**Exhibit 11: Green Street Commercial Property Price Index**




**Source:** Green Street Advisors. Inc.
**Note:** Property indices are indexed to 100 at their peaks.

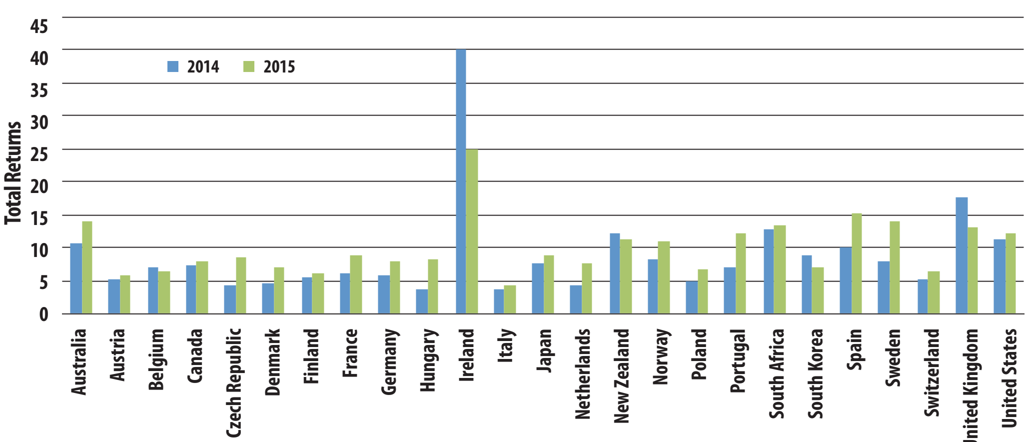
Despite the generally rosy picture still painted by valuation and return indices, those water-cooler conversations have taken note of the considerable slowdown in transaction activity. Data from Real Capital Analytics (Exhibit 15) show that sales in 2015 reached $545 billion, just shy of the pre-recession record of $572 billion posted in 2007. However, first-half activity in 2016 documents the downturn in volume; only $219 billion of transactions were recorded, down 15.7% from the $260 billion tracked in the first six months of 2015. If the trend continues throughout 2016, it will mark the first year since real estate transactions tanked in 2009 (with just $69 billion in volume) that annual activity declines.

**Exhibit 12: US Property Returns**




**Source:** NCREIF

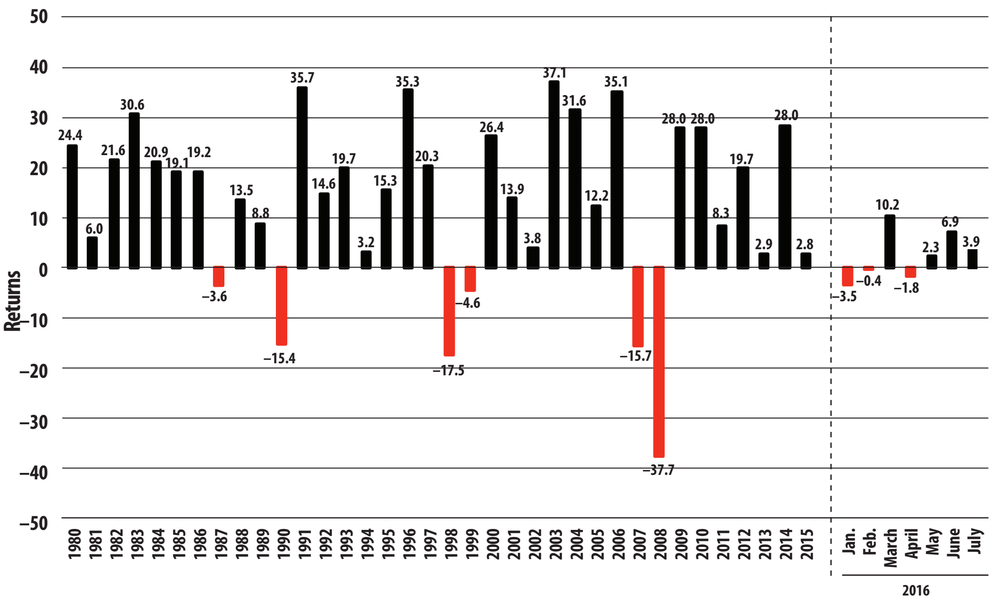
**Exhibit 13: IPD All Property Index Returns by Country**




**Source:** MSCI

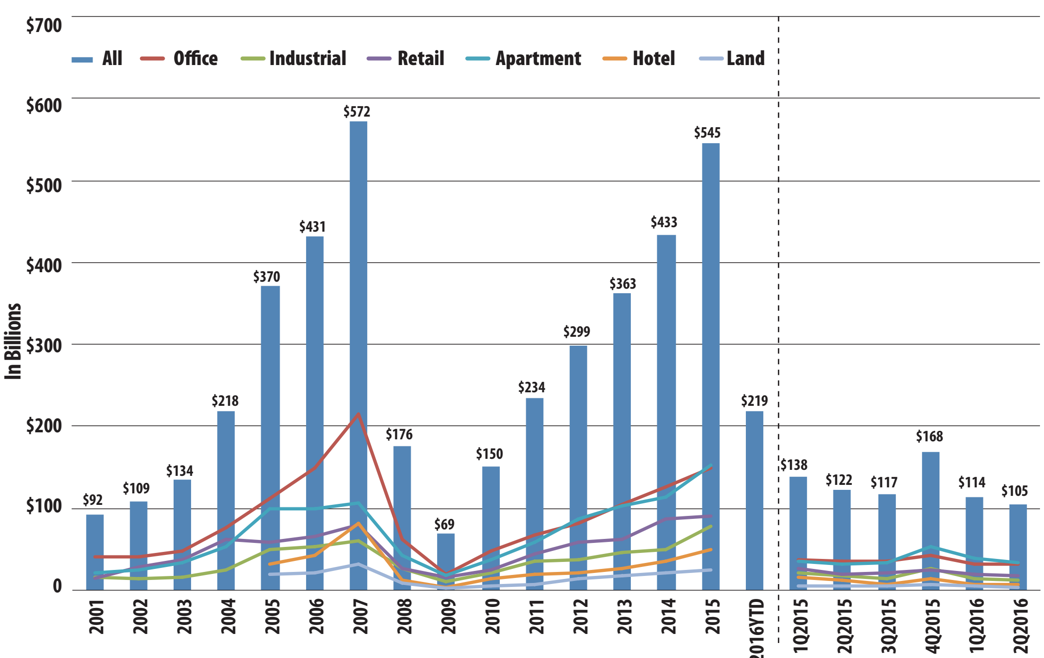
**Note:** The MSCI Index is neither appropriate nor authorized by MSCI for use as a benchmark for portfolio or manager performance. More information from MSCI is available on PREA's website: http://prea.org/research/ipd-intro/.

**Exhibit 14: Equity REIT Returns**




**Sources:** FTSE NAREIT, Thomson Reuters Datastream

**Exhibit 15: Sales of Large Commercial Properties**




**Source:** Real Capital Analytics

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

## Real Estate Investment Strategy and Structure

Investors were asked if they planned to allocate new capital in the next 12 months, and if so, how they anticipated allocating those funds by strategy: core, value-added, or opportunistic. 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 an extremely low interest rate environment, prompting them to seek the higher returns promised in potentially riskier real estate. The pressure to seek higher returns is real. The *Wall Street Journal* recently reported that long-term returns for US public pension funds will drop to a survey record of 7.47% for 2016, based on a study from Wilshire Trust Universe Comparison Service.[1] Wilshire has been conducting the survey for 16 years.

The bulk of investors planning to invest in real estate in 2016 spread their allocations among core, value-added, and opportunistic investments. A handful said they would invest solely in a single strategy. As seen in Exhibit 16, how investors allocated their investments was fairly consistent for the past two years, with valued-added leading the way but with core and opportunistic getting their fair share. Readers should note that PREA does not provide definitions of *core, value-added,* and *opportunistic* to the reporting organizations. Reporters allocate their holdings based on their own internal classification.

For those investors making core investments, slightly more than half placed between 25% and 75% of their total pots into that strategy in the most current reporting year.

Similarly, slightly less than half of value-added investors planned to place 25% to 75% of their real estate investments in that class. Those moving out to opportunistic played it somewhat closer to the vest, with 45.8% of investors planning to allocate less than 25% to that strategy.

By total dollar holdings, core increased at the expense of opportunistic (Exhibit 17). Core represented 57.6% of holdings by strategy versus 53.0% in 2014. Opportunistic dropped to 23.7% from 28.7%, and value-added was largely unchanged at 18.7%. The distribution in the past two years compared with those reported in 2009, keeping in mind that the sample groups reporting in each year were slightly different, shows allocations by strategy have changed very little in the past six years.

The current survey also reveals no significant differences between smaller plans (those with assets less than $75 billion) and larger plans (assets more than $75 billion) regarding core, value-added, and opportunistic investments. Large investors held 59.4% in core versus 52.8% for smaller funds, and in opportunistic, larger plans held 23.3% versus 24.6% for investors with less than $75 billion in assets (Exhibit 18).

Recent surveys have shown, and the current report confirms, that investors continued to move toward direct investments and away from closed commingled funds. As shown in Exhibit 19, direct investments climbed to 33.5% of holdings for US members versus only 29.8% in 2014. The bulk of the increase came from commingled closed-end funds, which slipped to 32.9% from 38.7%.

1. Timothy Martin, "Why Pensions' Last Defense Is Eroding," The *Wall Street Journal,* July 25, 2016.

**Exhibit 16: Distribution of New Capital by Strategy**
% Distribution by Number of Funds Planning Allocation to a Strategy

| By Number of Plans | | | | | | |
|---|---|---|---|---|---|---|
| **Investors Planning to Invest In** | **Core** | | **Value-Added** | | **Opportunistic** | |
| 2015 | 63.3 | | 83.3 | | 80.0 | |
| 2014 | 70.6 | | 82.4 | | 79.4 | |
| **Allocation** (Limited to Funds Actually Planning to Invest by a Particular Strategy) | | | | | | |
| | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| Less Than 25% | 21.1 | 16.7 | 36.0 | 25.0 | 45.8 | 33.3 |
| 25% to 75% | 52.6 | 70.8 | 48.0 | 67.9 | 37.5 | 51.9 |
| More Than 75% | 26.3 | 12.5 | 16.0 | 7.1 | 16.7 | 14.8 |

**Source:** Pension Real Estate Association
**Note:** Survey results for 2015 and 2014 were based on different sample groups than the current report's groups, although the majority of investors reported in all surveys.

**Exhibit 17: Distribution of Private Real Estate Investments by Strategy—All Plans**

Excludes Debt and Investments Not Readily Allocable by Strategy

| | 2015 | | 2014 | | 2009 | 2004 |
|---|---|---|---|---|---|---|
| | $ Millions | % of Private RE Equity | $ Millions | % of Private RE Equity | % of Private RE Equity | |
| Core | 107,560.2 | 57.6 | 91,797.0 | 53.0 | 53.2 | 70.4 |
| Value-Added | 34,961.7 | 18.7 | 31,681.6 | 18.3 | 20.1 | 17.4 |
| Opportunistic | 44,153.2 | 23.7 | 49,796.0 | 28.7 | 26.7 | 12.2 |
| **Total** | **186,675.1** | **100.0** | **173,274.6** | **100.0** | **100.0** | **100.0** |
| **Breakdown by Strategy** | | | | | | |
| *State or Municipal* | | | | | | |
| Core | 91,255.1 | 56.4 | 78,215.2 | 51.8 | 50.2 | 72.2 |
| Value-Added | 29,872.7 | 18.5 | 26,203.9 | 17.4 | 20.3 | 17.4 |
| Opportunistic | 40,725.2 | 25.2 | 46,566.4 | 30.8 | 29.5 | 10.4 |
| **Total** | **161,853.0** | **100.0** | **150,985.5** | **100.0** | **100.0** | **100.0** |
| *Other* | | | | | | |
| Core | 16,305.1 | 65.7 | 13,581.8 | 60.9 | 63.6 | 67.8 |
| Value-Added | 5,089.0 | 20.5 | 5,477.7 | 24.6 | 19.4 | 17.5 |
| Opportunistic | 3,428.0 | 13.8 | 3,229.6 | 14.5 | 17.1 | 14.7 |
| **Total** | **24,822.1** | **100.0** | **22,289.1** | **100.0** | **100.0** | **100.0** |

**Source:** Pension Real Estate Association

**Note:** Survey results for 2004 and 2009 were based on different sample groups than the current report's groups (data for 2014 and 2015), although the majority of investors reported in all surveys.

**Exhibit 18: Distribution of Private Real Estate Investments by Strategy—By Plan Size**

Excludes Debt and Investments Not Readily Allocable by Strategy

| | % Distribution | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2009 | | 2004 | |
| | Assets > $75B | Assets < $75B | Assets > $75B | Assets < $75B | Assets > $45B | Assets < $45B | Assets > $25B | Assets < $25B |
| Core | 59.4 | 52.8 | 55.7 | 46.1 | 46.5 | 65.1 | 72.0 | 66.3 |
| Value-Added | 17.3 | 22.6 | 15.5 | 25.4 | 20.4 | 19.4 | 16.2 | 20.5 |
| Opportunistic | 23.3 | 24.6 | 28.8 | 28.5 | 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

**Note:** Survey results for 2004 and 2009 were based on different sample groups than the current report's groups (data for 2014 and 2015), although the majority of investors reported in all surveys.

**Exhibit 19: PREA US Members Only—Real Estate Investment Structure**

| | Reporting Group | | By Total Assets | | | |
|---|---|---|---|---|---|---|
| | % of Total Private | | 2015 | | 2014 | |
| Private | 2015 | 2014 | > $75B | < $75B | > $75B | < $75B |
| Direct Investment | 33.5 | 29.8 | 39.5 | 17.8 | 34.4 | 17.9 |
| Commingled Fund (Closed) | 32.9 | 38.7 | 31.2 | 37.4 | 36.0 | 45.7 |
| Commingled Fund (Open) | 18.4 | 15.6 | 13.4 | 31.6 | 11.7 | 25.4 |
| Joint Venture | 14.0 | 14.4 | 14.9 | 11.9 | 16.5 | 9.0 |
| Other | 1.1 | 1.5 | 1.0 | 1.3 | 1.3 | 2.0 |
| **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 properties—in this case, office, multifamily, retail, and industrial—will for the foreseeable future remain a significant part of the real estate portfolios of PREA member investors, although our earlier discussion regarding real assets indicates that some movement into alternatives can be expected—slowly. Looking at the full sample group, office captured 29.0% of property holdings, a tad higher than in 2014 and thus a possible indication that despite all the discussion of working from home and shared work spaces, investors are not quick to abandon the asset class.

Multifamily posted a slight decline to 22.4%, which may be a sign that the hot apartment market is cooling as rents and valuations stabilize. Retail accounted for 21.2% of all property holdings, and industrial filled out the main course, with an 11.8% allocation (Exhibit 20).

Geographically, the West (40.8%) and the East (29.7%) continued to attract the bulk of holdings (Exhibit 22) when looking at US member holdings in the US only. PREA's US members reported 11.4% holdings in non-US regions, up from 10.7% in 2014. Data were reported to PREA before the "BREXIT" vote, but significant property shifts, should they occur, in or out of the UK or EU will nevertheless take time to develop.

**Exhibit 20: Property-Type Allocation**
% Distribution

| | PREA Investor Survey—All Reporting (US Members Only) | | PREA Investor Survey—All Reporting |
|---|---|---|---|
| | **2015** | **2014** | **2004** |
| Office | 29.0 (29.7) | 28.5 (29.0) | 33.3 |
| Multifamily | 22.4 (23.4) | 23.3 (24.4) | 18.6 |
| Retail | 21.2 (18.6) | 20.4 (18.1) | 20.3 |
| Industrial | 11.8 (11.5) | 12.9 (12.8) | 16.2 |
| Hotel | 3.6 (4.0) | 5.7 (6.4) | 3.2 |
| Senior/Assisted Living | 0.5 (0.6) | 0.6 (0.7) | NA |
| Single Family | 0.2 (0.2) | 0.3 (0.3) | NA |
| Other | 11.4 (12.1) | 8.5 (8.4) | 8.4 |
| **Total** | **100.0** | **100.0** | **100.0** |

**Source:** Pension Real Estate Association

**Exhibit 21: PREA | IPD U.S. Property Fund Index—Total Return**
Core Diversified Open-End Funds

| | 2Q2016 | 1 Year | 3 Year | 5 Year |
|---|---|---|---|---|
| Retail | 2.07% | 10.42% | 11.41% | 11.59% |
| Office | 1.78% | 9.49% | 11.30% | 10.68% |
| Industrial | 3.02% | 13.54% | 13.67% | 12.80% |
| Apartment (Multifamily) | 1.92% | 9.99% | 10.12% | 10.72% |
| Self-Storage | 4.02% | 17.99% | 19.11% | 19.60% |
| Hotel | 0.98% | 9.19% | 8.77% | 7.62% |
| Other | 2.43% | 13.30% | 9.70% | 9.35% |
| **Total Return** | **2.08%** | **10.51%** | **11.40%** | **11.21%** |

**Sources:** Pension Real Estate Association, MSCI

**Exhibit 22: Geographic Distribution**
US Members Only

| | % Distribution | | | |
|---|---|---|---|---|
| | 2015 US Allocation Only | 2014 US Allocation Only | 2015 With Global Allocation | 2014 With Global Allocation |
| East | 29.7 | 31.2 | 26.3 | 27.2 |
| Midwest | 10.0 | 9.8 | 8.8 | 8.7 |
| South | 19.5 | 19.5 | 17.2 | 17.4 |
| West | 40.8 | 39.5 | 36.2 | 35.3 |
| **US Total** | **100.0** | **100.0** | **88.6** | **89.3** |
| Non-US Total | | | 11.4 | 10.7 |
| **Grand Total** | | | **100.0** | **100.0** |

**Source:** Pension Real Estate Association
**Notes:** 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

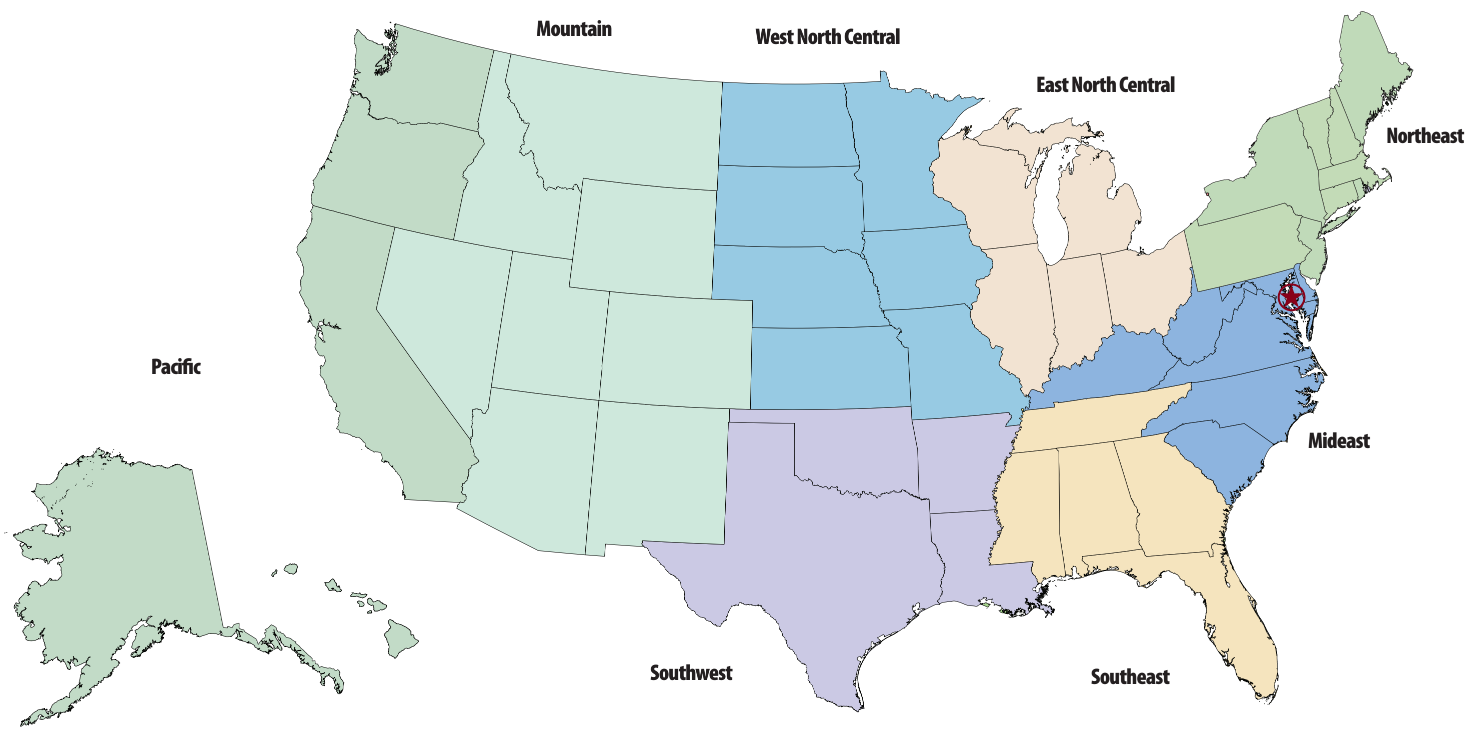
**West North Central:** Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota

### 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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