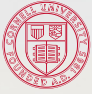
2024 Institutional Real Estate Allocations Monitor



Cornell Baker Program in Real Estate

HODES WEILL & ASSOCIATES

Dear Industry Friends,

Cornell University's Baker Program in Real Estate and Hodes Weill & Associates are pleased to present the findings of the 12th annual Institutional Real Estate Allocations Monitor (the "**2024 Real Estate Allocations Monitor**"). The 2024 Real Estate Allocations Monitor focuses on the role of real estate in institutional portfolios, and the impact of institutional allocation trends on the investment management industry. Launched in 2013, the Real Estate Allocations Monitor is a comprehensive annual assessment of institutions' allocations to, and objectives in, real estate investments. This report analyzes trends in institutional portfolios and allocations by region, type and size of institution.

The 2024 Real Estate Allocations Monitor includes research collected on a blind basis from 186 institutional investors in 25 countries. The 2024 participants hold total assets under management ("**AUM**") exceeding US$13.6 trillion and have portfolio investments in real estate totaling approximately US$1.4 trillion. Our survey was conducted between June 2024 to October 2024 and consisted of 26 questions concerning portfolio allocations to the asset class, current and future investments in real estate, investor conviction, investment management trends and the role of various investment strategies and vehicles within the context of the real estate allocation. We also included questions regarding historical and target returns as well as environmental, social and governance ("**ESG**") policies.

Key Findings of the 2024 Allocations Monitor

(1) **Institutions held target allocations flat for the second consecutive year but expect to lower target allocations over the next 12 months.** Target allocations remained at 10.8% in 2024, marking the second consecutive year that target allocations were flat year-over-year. Moreover, institutions expect to lower target allocations by an average of 10 bps over the next 12 months. Overall, target allocations are up 190 basis points since 2013, representing an increase of over 20%.

(2) **Over the past 12 months, institutional portfolios have shifted from over- to under-allocated to real estate, as the denominator effect has reversed.** As public equities and other asset allocations saw strong performance in 2024 and write-downs in real estate portfolios continued, institutional portfolios swung to 60 bps under-allocated (as compared to 2023 when the majority of institutions were at or over-allocated). Approximately 27% of institutions remain over-allocated to real estate, down from 39% in 2023.

(3) **Institutional real estate portfolios delivered negative returns in 2023, which followed a 10-year period of substantial outperformance relative to target returns.** As real estate portfolios took continued write-downs in 2023, institutions reported an average real estate portfolio return of -1.4%. This follows 10 years of strong outperformance, a period of time during which portfolios delivered an average return of 10.1%, 180 bps in excess of the average target return.

(4) **Conviction remains moderately positive, albeit down slightly year-over-year, as institutions are optimistic about investment opportunities over the next several years.** Institutions have remained largely on the sidelines over the past 24 months due to persistent concerns regarding inflation, high interest rates, low transaction volumes and uncertainty as to the direction of the economy. As transaction volumes rebound, institutions report that they are gaining conviction about a market bottom and the opportunity to allocate capital to new investments.

(5) **While a growing number of institutions are moving portfolio management in-house, the vast majority of institutions are reliant on third-party managers and continue to allocate to commingled funds.** Overall, 93% of institutions report outsourcing all or a portion of their portfolio to third-party managers. Approximately 64% of investments are expected to be allocated to existing manager relationships, continuing a trend of consolidation in the industry. Emerging managers are at a particular disadvantage, as a nominal 13% of institutions expect to allocate to first-time managers.

(6) **Institutions in the Americas and APAC continue to favor higher return strategies, including value-add and opportunistic, while interest in core strategies remains high in EMEA.** Return expectations have risen, driven by

appetite to take advantage of market distress and dislocation. Value-add continues to be the preferred strategy, with 79% of institutions planning to invest in the strategy, followed by opportunistic strategies at 73%.

(7) **North America remains the preferred destination for capital allocations; however, appetite for investing cross-border has decreased across all regions.** Institutions in APAC continue to be the most active cross-border allocators, with 80% of APAC-based institutions intending to invest outside of their domestic markets, followed by 75% of EMEA-based institutions and 65% of institutions in the Americas.

(8) **As transaction volumes remain at a cyclical low, capital allocations have shifted to direct investments, joint ventures and separate accounts.** While the percentage of institutions investing in closed-end funds stayed the same year-over-year, institutions reported increased appetite for direct investments, joint ventures and separate accounts. Appetite for open-end funds decreased slightly year-over-year.

(9) **Institutions were more active allocating capital to REITs in 2023, as investors looked to capitalize on discrepancies between public and private market valuations.** Approximately 39% of institutions actively invested in REITs in 2023, with a notable increase from SWFs & GEs.

(10) **European and Australian institutions continue to lead the market in terms of implementing ESG policies.** Institutions in the US lag behind their peers, with only 23% reporting their investment processes are influenced by their ESG policies.

The 2024 Real Estate Allocations Monitor leverages the academic resources of Cornell University and the global institutional relationships and real estate expertise of Hodes Weill & Associates. We hope this report provides unique insight into the institutional investment industry, serving as a valuable tool for institutional investors in the development of portfolio allocation strategies and peer benchmarking of returns, and for investment managers in business planning and product development. With this goal in mind, please feel free to contact us with any comments, questions or suggestions.

This year we would again like to extend special thanks to Nareit for their guidance and contributions with respect to the REIT section of our report.

We look forward to sharing additional insights and our perspective on the industry with you more directly in the near future. Again, we would like to express our sincere appreciation to everyone that participated in this year's survey.

Cornell Baker Program in Real Estate

Cody A. Danks Burke
Acting Director of the Baker Program
cad54@cornell.edu

Kai Yang
MBA/MPS in Real Estate, 2025
ky432@cornell.edu

Hodes Weill & Associates, LP

Douglas Weill
Managing Partner
doug.weill@hodesweill.com

David Hodes
Managing Partner
david.r.hodes@hodesweill.com

Peyton Dandridge
Associate
peyton.dandridge@hodesweill.com

Daniel M. Cashdan III
Analyst
daniel.cashdan@hodesweill.com

Max Levy
Analyst
max.levy@hodesweill.com

Special thanks to:
Nareit

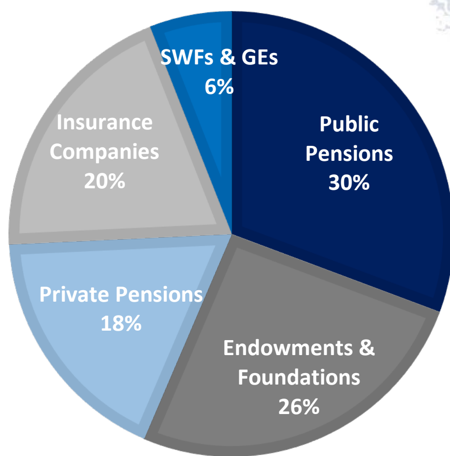
John Worth
EVP, Research and Investor Outreach
jworth@nareit.com

David Sullivan
SVP, Investment Affairs
dsullivan@nareit.com

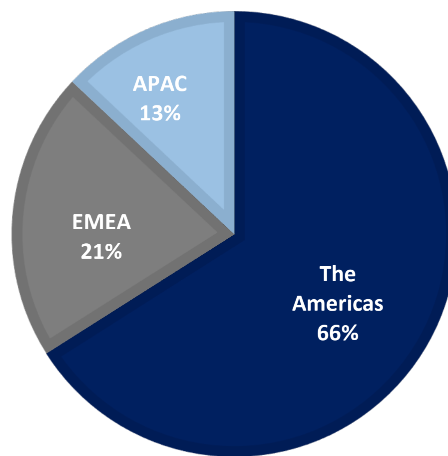
Global Institutional Participants

186 participants in 25 countries representing US$13.6 trillion in AUM and US$1.4 trillion in Real Estate.

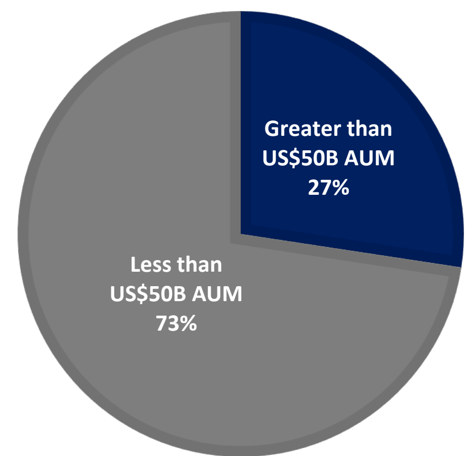
Breakdown of Participants By Type of Institution



Breakdown of Participants By Location of Institution



Breakdown of Participants By Size of Institution



List of Participating Institutions

Americas

Boston Foundation
Catholic Order of Foresters
Church Pension Group
Employees' Retirement System of Rhode Island
Employees' Retirement System of Texas
Federated Hermes
Healthcare of Ontario Pension Plan
Holland Bloorview Kids Rehabilitation Hospital Foundation
HRM Pension Plan
Maryland State Retirement and Pension System
Massachusetts Pension Reserves Investment Management Board
Mendocino County Employees' Retirement Association
MetLife Insurance Company
Mount Auburn Cemetery
New Jersey Division of Investment
North Carolina Department of State Treasurer
Northwestern Memorial Healthcare
Novant Health
Nucleos
Oklahoma Teachers Retirement System
Ontario Power Generation Pension
Régime de Retraite de Personnel des CPE GQ
Sacramento County Employees' Retirement System
Société de transport de Montréal
State of Wisconsin Investment Board
Teachers' Retirement Allowances Fund
Tennessee Consolidated Retirement System
University of Northern Iowa Endowment
University of Washington Investment Management
Utah Retirement Systems
Virginia Retirement System
Waterloo Science Endowment Fund
Wawanesa General Insurance Company
Wingate University Endowment
And 88 Anonymous Participants

APAC

Dai-ichi Life Insurance
Victorian Funds Management Corporation
And 23 Anonymous Participants

EMEA

ASR Real Assets Investment Partners
bpfBOUW
Harel Insurance Investments
MAIF
Mandatum Asset Management Ltd
Norges Bank Investment Management
Previs
Zurich Insurance Group
And 31 Anonymous Participants

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Participation & Methodology

We wish to thank the 186 institutional investors that participated in the Allocations Monitor survey this year. The survey participants are from 25 countries and represent institutions with over US$13.6 trillion in total assets and real estate assets of approximately US$1.4 trillion. In its twelfth year of publication, the Allocations Monitor continues to be one of the industry's most comprehensive global surveys of institutional allocations and intentions in real estate.

We distributed the survey to approximately 2,500 institutional investors. Our survey includes only primary allocators to investments, such as pension plans, insurance companies, sovereign wealth funds, and endowments and foundations. Approximately 7% of institutions that were contacted completed the survey, and the participation rate was greater than 5% across a range of regions, investor types and size of institutional portfolios. We believe that this participation rate has resulted in a representative sampling of the real estate institutional investor universe from a statistical standpoint.

Notes to readers regarding methodology:

- We conducted the survey over an approximately four-month period from June 2024 to October 2024.
- Target and estimated future allocations, actual allocations and the margin between target and actual allocations are presented on a weighted average basis by total AUM. We believe this provides the most relevant presentation of the quantum and directional trend of investable capital.
- To calculate weightings for AUM for each investor, we utilized the midpoint of each investor's AUM range. For example, investors that indicated an AUM range of US$10 billion to US$25 billion were counted as US$17.5 billion. All investors with AUM greater than US$200 billion were weighted at their listed AUMs – there were 13 such investors in 2024.
- Unless otherwise stated, all other figures are based on straight averages by number of participants, including figures for investment activity, intentions, target returns and risk/return objectives.

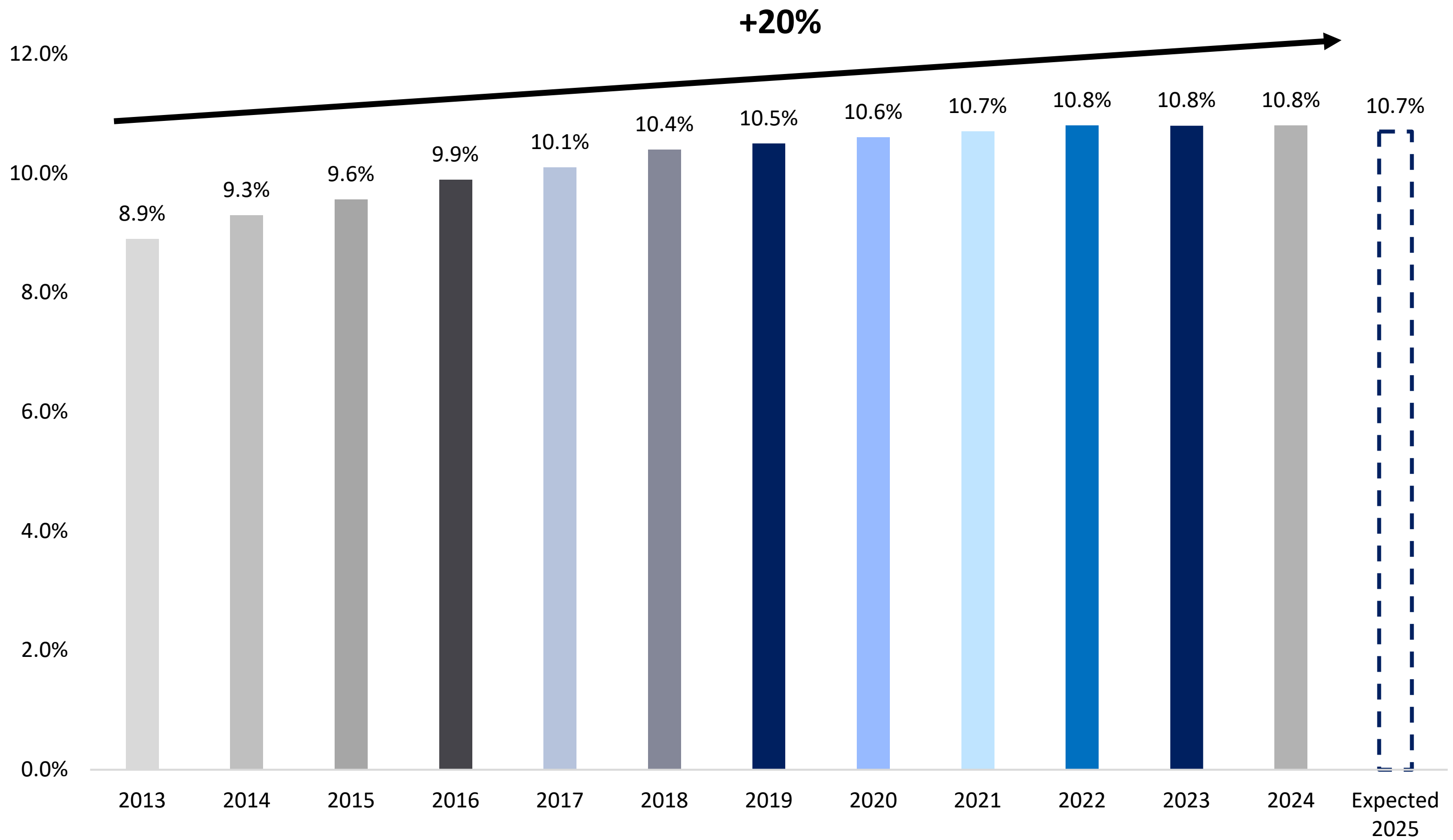
Definitions Guide

"**APAC**" refers to Asia Pacific and includes institutions located in Asia, The Caucasus and Australia
"**EMEA**" includes institutions located in Europe, the Middle East and Africa
"**The Americas**" includes institutions located in North and South America
"**SWFs & GEs**" refers to sovereign wealth funds and government-owned entities
"**Large Institutions**" includes institutions with AUM greater than US$50 billion
"**Small Institutions**" includes institutions with AUM less than US$50 billion
"**ESG**" refers to environmental, social and governance

Target Allocations to Real Estate

Institutions held target allocations flat for the second consecutive year but expect to lower target allocations over the next 12 months.

Exhibit 1: Weighted Average Target Allocation, All Institutions



Target Allocations to Real Estate

Target allocations remained at 10.8% in 2024, marking the second consecutive year that target allocations were flat year-over-year. Moreover, institutions expect to lower target allocations by an average of 10 bps over the next 12 months, in favor of other allocations including private credit and infrastructure. Overall, target allocations are up 190 basis points since 2013, representing an increase of over 20%.

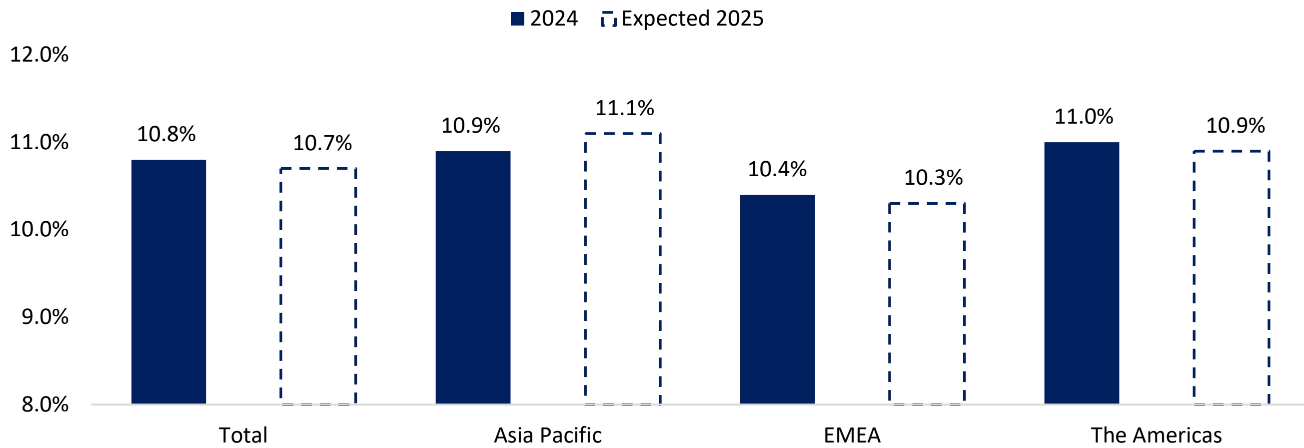
While institutions continue to maintain relatively high conviction for investing in real estate over the next several years, they have remained largely on the sidelines since mid-2022. This has been attributed to persistent concerns, including high interest rates, lack of transparency on pricing, and low transaction volumes. Given this cautious mindset many investors have continued to adopt a "wait and see approach".

Real estate remains an important allocation in institutional portfolios, and investors generally believe that real estate is cyclical in nature and likely to deliver strong performance over the next cycle. A SWF in the Americas commented "[we are] neutral next 12 months, bullish next 12 – 36 months." Though real estate returns have been under pressure over the last 12 – 24 months, this follows 10+ years of outperformance relative to target returns.

While 83% of institutions expect to either increase or hold their target allocations flat over the next 12 months, 17% of institutions expect to lower target allocations by an average of 140 bps. Some of these allocations may be diverted to infrastructure and other real assets and end up invested in the types of assets (e.g., data centers) previously pursued by traditional real estate investors.

Institutions in the Americas reported the highest target allocation at 11.0%, followed by APAC-based institutions at 10.9% and EMEA-based institutions at 10.4%. While institutions in the Americas and EMEA noted plans to reduce allocations in 2025 by 10 bps, APAC-based institutions reported an intention to raise target allocations by 20 bps.

Exhibit 2: Weighted Average Target Allocation, By Location of Institution



Target Allocations by Type of Institution

Pensions continue to have the highest target allocations to real estate, with Private and Public Pensions reporting allocation targets of 13.3% and 12.4%, respectively. Insurance Companies reported the lowest target allocation at 6.7% and noted an intention to hold allocations flat in 2025, while Endowments & Foundations and SWF & GEs reported intended decreases of 20 bps and 10 bps, respectively. *Kansas Public Employees' Retirement System announced plans in August to reduce its real estate allocation 300 bps from 15% to 12%, adding 300 bps to its infrastructure portfolio and bringing its total infrastructure allocation to 6%.*[1] *Following a year-long strategic portfolio review conducted by its investment consultant, Colorado Public Employees' Retirement Association raised its real estate target allocation from 8.5% to 10%, commenting that the increase is intended to provide "greater diversification by reducing the percentage allotted to global equity and investing more in private asset classes, with the goal to slightly lower risk and add potential for higher returns throughout time for the entire investment portfolio."*[2] *Other Public Pensions, including Los Angeles Fire and Police Pension System (LAFPP) and Malaysia's Kumpulan Wang Persaraan (KWAP) have increased or are planning to increase allocations to real estate.*

Exhibit 3: Weighted Average Target Allocation, By Type of Institution

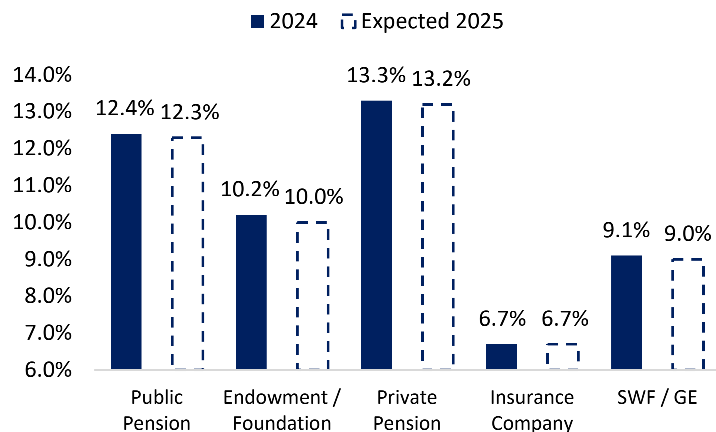
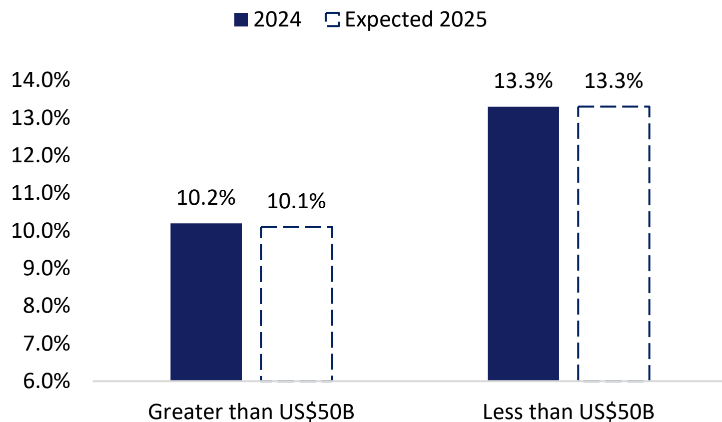


Exhibit 4: Weighted Average Target Allocation, By Size of Institution



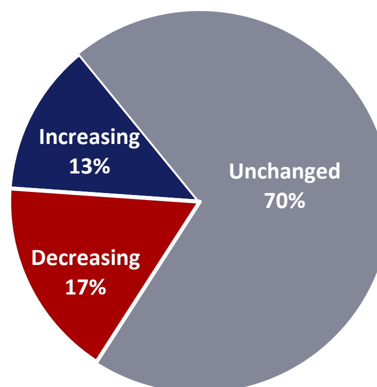
[1] Peterson, Jon. "Kansas PERS backs Ventas life-science and healthcare property fund," IPE Real Assets Daily News, July 2024.

[2] Persall, Kali. "Colorado PERA raises real estate allocation to 10%," Institutional Real Estate Newsline, October 2024.

Target Allocations by Size of Institution

Consistent with findings from prior years, Small Institutions reported a considerably larger target allocation of 13.3%, compared to Large Institutions at 10.2%, likely reflecting the maturity of the portfolios held by Large Institutions. While Small Institutions intend to hold their target allocation at 13.3% in 2025, Large Institutions reported an expected 10 bps decline. *Alaska Permanent Fund Corporation is considering lowering their target allocation to real estate from 13% to 11%. While the change is not expected to affect private and direct real estate, it would reduce the $80 billion SWF's exposure to REITs in Q1 2025, driving a decrease in overall allocation.*[3]

Exhibit 5: Expected Change in Target Allocations, All Institutions



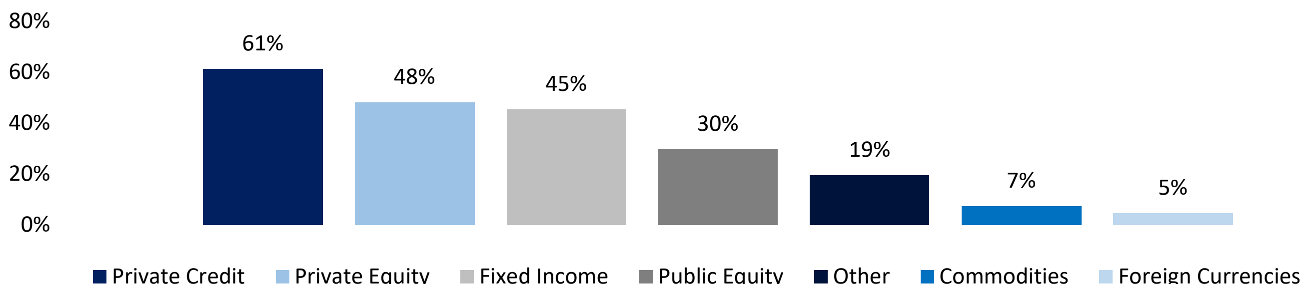
Expected Change in Target Allocations

Looking to 2025, approximately 70% of institutions expect to hold their target allocations flat, while 13% expect to increase targets and 17% expect to decrease targets. This compares to last year's survey when approximately 68% of institutions reported intentions to maintain their current target allocations, while 18% planned to increase targets and 14% expected to decrease targets.

Exhibit 6: Notable Increases / Decreases to Real Estate Target Allocations[4]

Institution	AUM (bn)	Target Allocation		Change
		Prior	New	
Kumpulan Wang Persaraan (KWAP)	$38.7	5.0%	10.0%	↑500 bps
Colorado Public Employees' Retirement Association	$64.6	8.5%	10.0%	↑150 bps
Los Angeles Fire and Police Pensions System	$31.3	7.0%	8.5%	↑150 bps
Ohio School Employees' Retirement System	$18.4	10.0-15.0%	10.0-15.0%	↔
Zusatzversorgungskasse des Baugewerbes (ZVK)	€9.8	25.0%	25.0%	↔
Alaska Permanent Fund Corporation	$80.5	13.0%	11.0%	↓200 bps
Kansas Public Employees' Retirement System	$27.0	15.0%	12.0%	↓300 bps
Texas Municipal Retirement System	$41.2	12.0%	8.0%	↓400 bps

Exhibit 7: Asset Classes Competing with Allocation to Real Estate, All Institutions



[3] Peterson, Jon, "Alaska Permanent mulls real estate reduction in asset allocation mix," IPE Real Assets, May 2024.

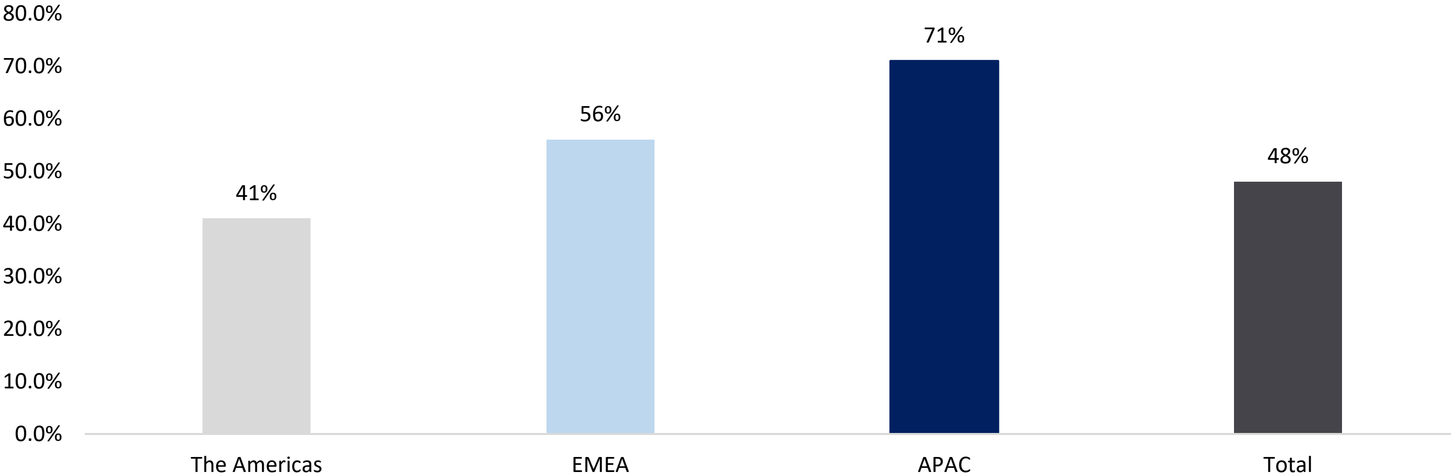
[4] Based on public disclosures.

When asked which strategies were competing with real estate for allocations, the most reported response was private credit, at 61%. Following private credit, approximately 48% of institutions indicated private equity was competing with their real estate allocation, and 45% selected fixed income. However, responses varied across regions, and institutions in APAC reported that private equity was given just as much consideration as private credit, with each asset class selected by 62% of respondents in the region. *One EMEA-based Insurance Company noted that "[alternative] asset classes are competing for real estate allocations as valuation uncertainty persists."*

Allocations to Real Estate and Infrastructure

For many institutions real estate and infrastructure are adjacent allocations as they share certain investment attributes including low correlation to other strategies, high component of income yield and both hedge against inflation. Further, several sectors straddle real estate and infrastructure, including data centers, student housing and life sciences. Approximately 48% of institutions include real estate and infrastructure within a broader definition of real assets. Roughly 71% of institutions in the APAC region include real estate as part of a broader real assets allocation, compared to 56% of EMEA-based institutions and 41% of institutions in the Americas. *Texas Municipal Retirement System recently restructured its real assets portfolio, increasing its target to infrastructure and carving out a dedicated natural resources allocation at the expense of its real estate allocation.*[5]

Exhibit 8: Institutions Including Real Estate as Part of Real Assets Location, By Location of Institutions



Hodes Weill & Associates, in partnership with Cornell University's Program in Infrastructure Policy ("CPIP") released the second-annual Institutional Infrastructure Allocations Monitor in June 2024. The report on infrastructure noted the following key findings from the survey, which was conducted over an approximately four-month period from February 2024 to May 2024:[6]

(1) Average target allocations to infrastructure are at 5.50%, up 42 bps in 2024.

(2) Institutions remain under-allocated to infrastructure, at 123 bps below target allocations.

(3) Infrastructure portfolio returns moderated to 7.1% in 2023, amidst a challenging macroeconomic environment.

(4) Globally, higher returning Value-Add and Core+ infrastructure strategies remain in favor.

(5) North America remains the region of investment preference for global infrastructure investors.

[5] Hooper, Samuel. "Texas Muni 1bn underweight after infra target hike," IPE Real Assets, September 2024.

[6] Rudovic, M., & Gould, J., (2024). 2024 Institutional Infrastructure Allocations Monitor. Ithaca, NY: Cornell University's Program in Infrastructure Policy and Hodes Weill & Associates, LP, June 2024. [34pp.].

(6) Asset valuations are the top concern for infrastructure investors, with concerns regarding interest rates and capital markets volatility declining year-over-year.

(7) Institutions are most likely to increase exposure to Digital Infrastructure among the four major infrastructure verticals.

(8) Appetite for energy transition infrastructure remains strong and is expected to grow over the next several years.

(9) Institutions continue to show preference for established managers, with appetite for first-time funds and emerging managers remaining limited.

(10) While fundraising has remained challenging, allocations to co-investments remain robust.

(11) Investor sentiment, measured through average conviction, remains strong. Institutions indicated an average conviction score of 7.0 out of 10, a slight increase compared to 2023 despite continued market volatility.

(12) Globally, 89% of institutions consider ESG at least "slightly important" in their investment decisions, reflecting a 5% year-over-year increase.

Exhibit 9: Actual vs. Target Infrastructure Allocation, All Institutions

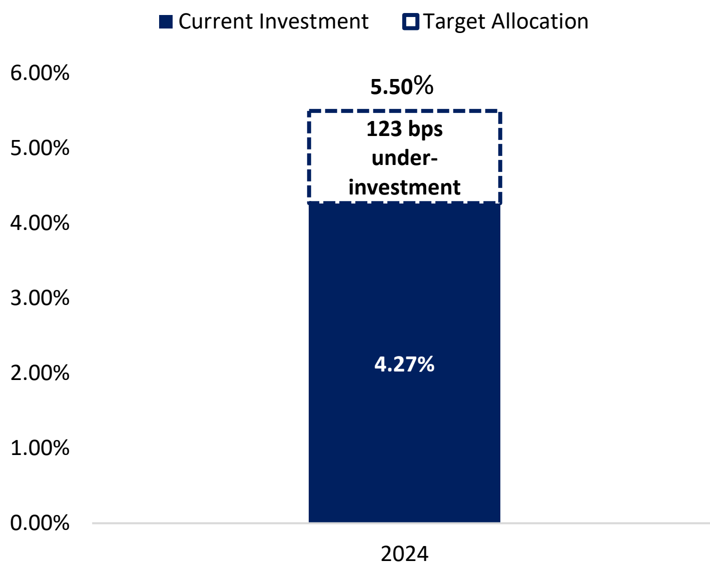
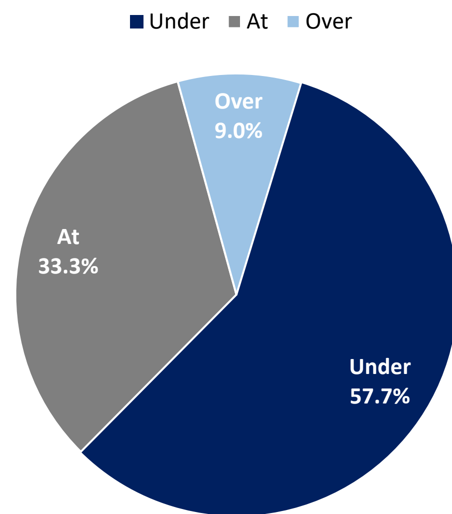


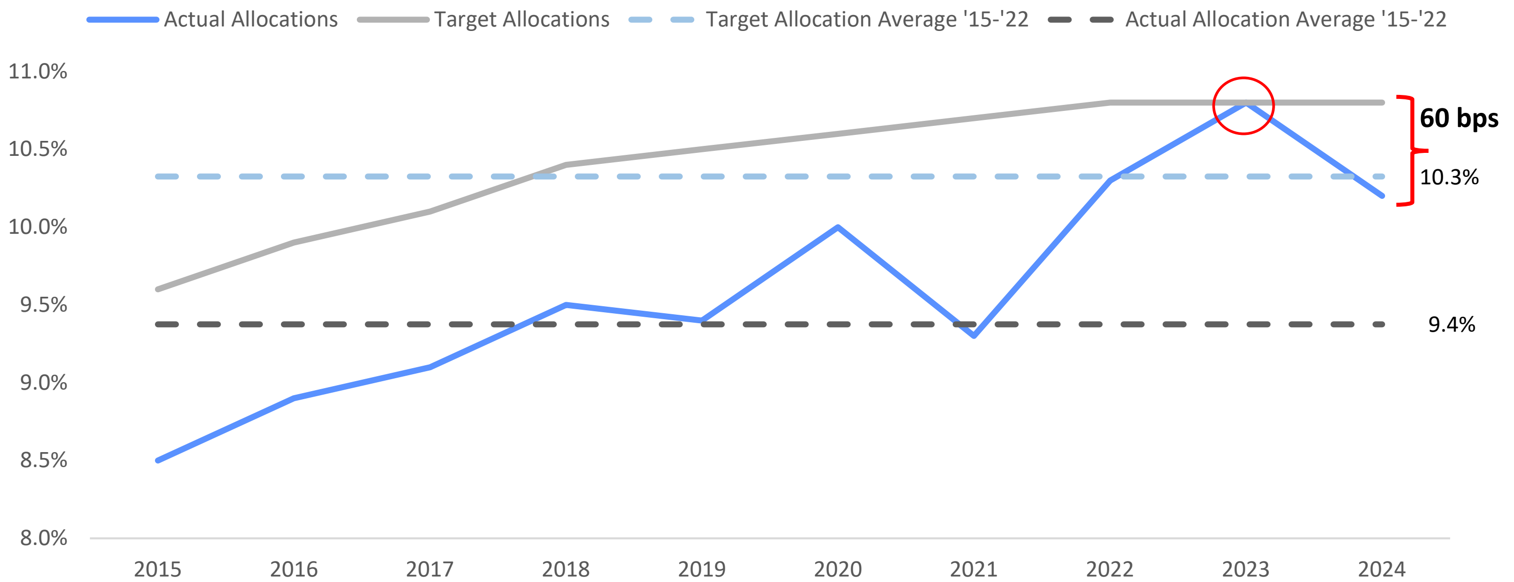
Exhibit 10: Over-Under Allocation to Infrastructure, Percent of Institutions



Current Investments

Over the past 12 months, institutional portfolios have shifted from over- to under-allocated to real estate, as the denominator effect has reversed.

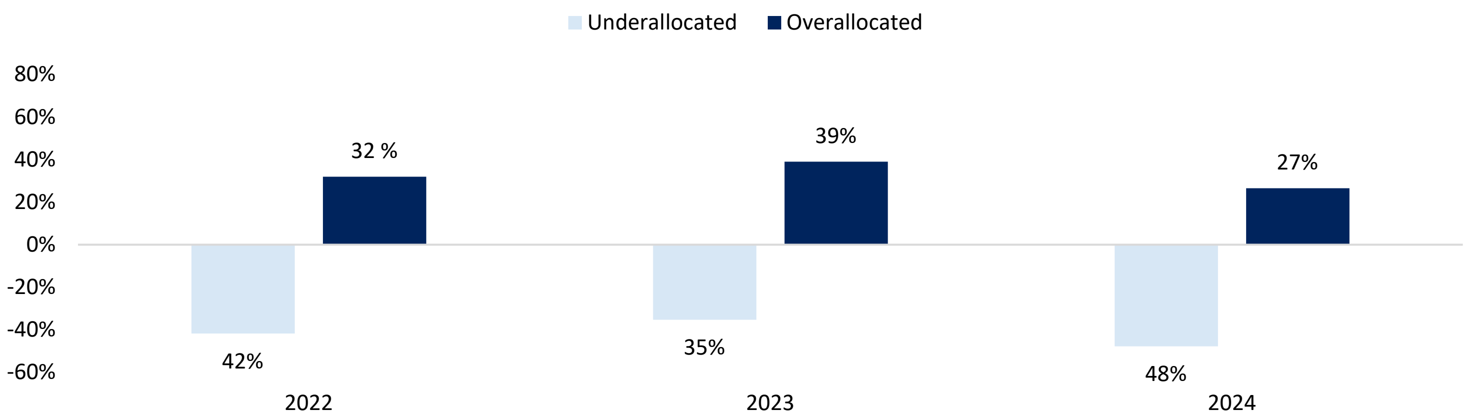
Exhibit 11: Actual vs. Target Allocation, 2015-2024



Following an eight-year period when institutions were under-allocated to real estate by an average margin of 100 bps, institutions faced a denominator effect in 2023 and while on average, actual allocations were at target allocations, approximately 39% of institutions reported being over-allocated. Approximately 48% of institutions reported being under-allocated in 2024, while 26% reported being at allocation and 27% were over-allocated (down significantly from 39% in 2023).

As target allocations remained flat at 10.8% year-over-year, actual allocations decreased 60 bps from 10.8% to 10.2% in 2024. The reversal of the denominator effect can be attributed largely to the continued strong performance of public equities, which achieved multiple highs over the past 12 months. During this period of time, real estate portfolios have continued to take write-downs from 2022 peaks, with asset valuations decreasing anywhere between 20-25% since mid-2022.[7] This combination of both the denominator and numerator effects has resulted in a significant shift in actual allocations year-over-year.

Exhibit 12: Institutions Above and Below Target Allocations, 2022-2024



[7] Raimondo Amabile as referenced in Jacobius, "In another down year for real estate managers, Fed rate cut sparks optimism for a rebound," Pensions & Investments, October 2024.

California State Teachers' Retirement System ("CalSTRS"), the second largest pension fund in the United States releases quarterly portfolio updates which demonstrate the volatile impact of the denominator effect. Based on public disclosures, CalSTRS's allocation to real estate trended from 12.9% in Q4 2021 to a peak of 17.2% in Q3 2022; a period of time during which the Dow Jones Industrial Average ("DJIA") declined ~20%, while the NCREIF Fund Index–Open End Diversified Core Equity ("NFI-ODCE") delivered a total positive return of 12.4%. Since the 17.2% peak, CalSTRS's allocation has trended down to 13.3%.[8] This has coincided with the continued strong performance of public equities since Q3 2022 and write-downs in real estate portfolios as demonstrated by the NFI-ODCE, which delivered a cumulative negative return of ~21% during this time period. CalSTRS approved seven new real estate commitments totaling $1.1bn in H1 2024, comprising three fund investments and four controlled investments.[9]

Exhibit 13: Indexed Returns for DJIA and NFI-ODCE, EOQ Q4 2021 to EOQ Q3 2024[10]

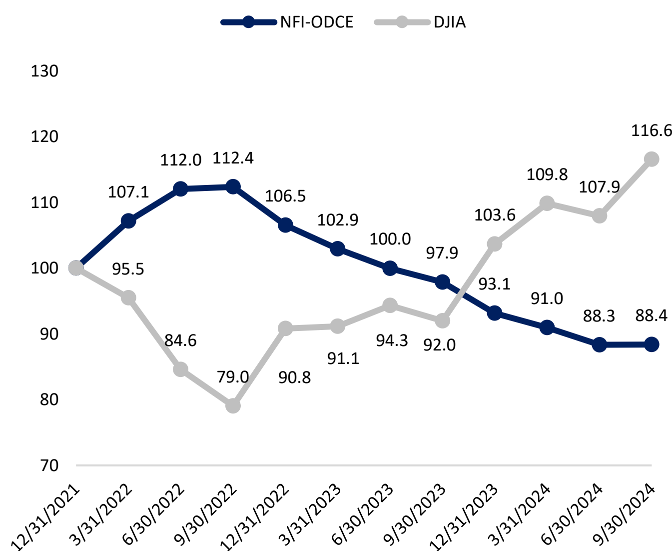
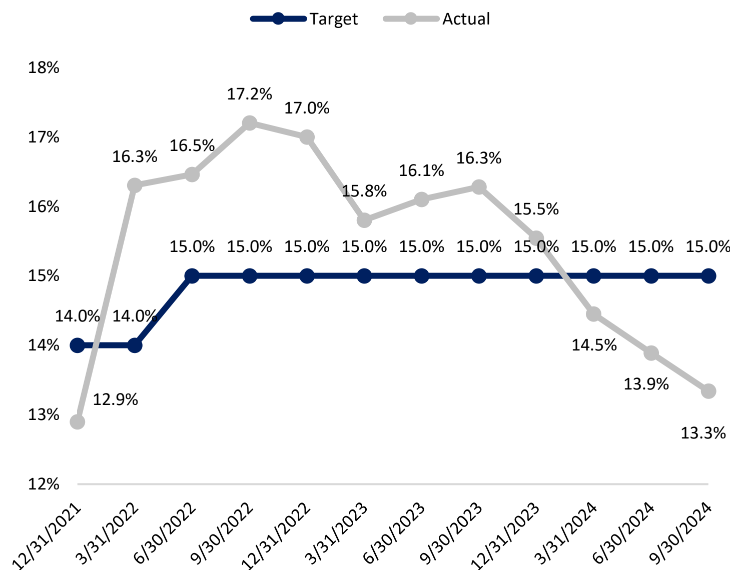


Exhibit 14: CalSTRS Real Estate Portfolio Allocation, Actual vs. Target, EOQ Q4 2021 to EOQ Q3 2024[11]



While 41% of investors have allocations to make additional real estate investments, many institutions have remained on the sidelines throughout 2024. This can be attributed to market sentiment, as investors remain cautious due to persistent concerns regarding high interest rates, inflation, risk of a recession and lack of pricing transparency due to cyclically low transaction volumes. *An EMEA-based Public Pension noted "many markets are still rather illiquid, and appraisal effects are still felt in the portfolio. It remains to be seen if the trough has already been seen or if more downward adjustments of valuations are to come."* However, institutions report that market sentiment is showing signs of improvement as transaction volumes accelerate, and that they expect to be more active in allocating to new investments in 2025. Investors must also factor undrawn commitments into their 2025 placement plans, as real estate fund managers continue to sit on approximately $370 billion of dry powder.[12]

Inflows and outflows in core open-end institutional funds are a barometer of market sentiment. As of Q2 2024, NFI-ODCE funds had an approximate average redemption queue of ~17.3% of NAV; this compares to the GFC when queues peaked at approximately 15% of NAV.[13] Recently some managers have noted that investors have begun to rescind redemption requests as portfolios come back into balance. *Cathy Marcus, co-CEO and global chief operating officer of PGIM noted "the flurry of withdrawal requests was driven by the denominator effect in which public equities and bonds pushed investors' real estate portfolios above their target allocations [and] the public market recovery has reversed that effect."[14] This sentiment was echoed*

[8] Reported on September 30th, 2024.
[9] Peterson, Jon, "CalSTRS commits $1.1bn to real estate in first half of 2024," Investments & Pensions Europe, September 2024.
[10] National Council of Real Estate Investment Fiduciaries (NCREIF).
[11] Based on public disclosures.
[12] Preqin. Accessed November 2024.
[13] Iman, Munir & Quach, Aaron, "Private Real Estate Income Is Positive, but Appreciation Falls," Callan Associates, August 2024.
[14] Jacobius, Arleen. "Longer exit lines building at open-end real estate funds," Pensions & Investments, June 2024.

by a Public Pension based in the Americas which noted in early Q3 that "institutional investors continue to have large redemption requests to the OECF, but we suspect these will shrink in the near term given a bottoming of prices combined with investors being under-allocated due to a shrinking numerator (write-downs) and growing denominator (equity market rally driven)."

In addition to managers reporting that there are signals that redemption levels may trend down over the coming quarters, there have also been a number of new allocations to core funds. *Most recently, Los Angeles Fire and Police Pensions (LAFPP) reported that it will commit additional capital into core and/or core-plus funds next year, according to 2025's pacing plan.*[15]

Current Investments and Target Allocations by Location and Size of Institution

Institutions in APAC report being under-allocated by 160 bps in 2024, with a target of 10.9% and actual allocation of 9.3%. Notably, APAC-based institutions were the only institutions that reported under-allocation in 2023 at a margin of 70 bps. This had been attributed to a number of new allocations and portfolios that were still being established in the region.

Institutions in the Americas and EMEA are moderately under-allocated at margins of 50 bps and 10 bps, respectively. However, this represents a significant shift from 2023 when institutions in the Americas were 50 bps over-allocated and EMEA institutions reported being at target allocations.

While Small Institutions have a target allocation that is 310 bps higher than that of Large Institutions, Large and Small Institutions are both under-allocated to real estate by a similar margin of 50 and 60 bps, respectively.

Exhibit 15: Actual vs. Target Allocation, By Region of Institution

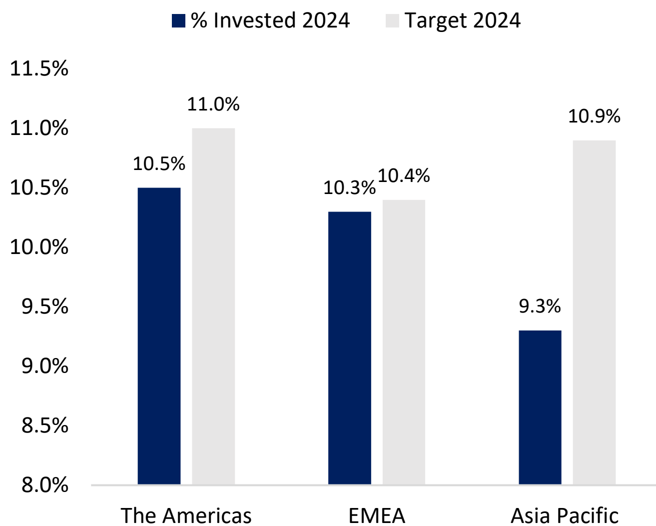
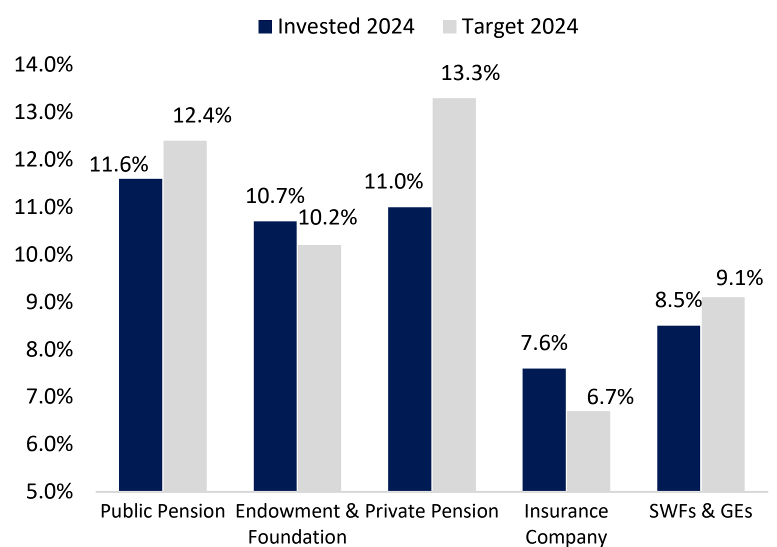


Exhibit 16: Actual vs. Target Allocation, By Type of Institution



Current Investments and Target Allocations by Type of Institution

Public and Private Pensions and SWFs & GEs reported being under-allocated to real estate, while both Endowments & Foundations and Insurance Companies reported actual allocations that exceed target allocations by 50 bps and 90 bps, respectively.

[15] Persall, Kali, "LAFPP unveils 2025 real estate investment plan," Institutional Real Estate Newsline, October 2024.

Historical & Target Returns

Institutional real estate portfolios delivered negative returns in 2023, which followed a 10-year period of substantial outperformance relative to target returns.

	2024 Target Return	Actual 2023	Actual 2022	Actual 2021	Actual 2020	Actual 2019	Actual 2018	Actual 2017	Actual 2016	Actual 2015	Actual 2014	Actual 2013	Actual 2012	Actual 3-Year Average	Actual 5-Year Average
All Institutions	8.6%	-1.4%	9.5%	17.1%	5.9%	8.5%	8.8%	9.1%	8.7%	11.0%	11.8%	10.8%	9.6%	8.4%	7.9%
By Type															
Public Pension	8.0%	-5.1%	10.9%	19.2%	5.4%	8.3%	8.4%	9.2%	8.8%	11.6%	11.7%	10.0%	10.3%	8.4%	7.8%
Endowment & Foundation	8.5%	0.6%	11.8%	18.0%	7.5%	8.0%	9.1%	8.9%	9.1%	10.9%	13.0%	13.9%	9.3%	10.2%	9.2%
Private Pension	7.8%	-1.4%	7.8%	16.8%	4.8%	9.4%	9.0%	8.9%	8.2%	11.2%	12.6%	10.5%	9.1%	7.7%	7.5%
Insurance Company	9.9%	0.6%	6.4%	12.4%	6.3%	10.2%	8.7%	9.9%	9.1%	9.6%	8.3%	7.3%	6.8%	6.5%	7.2%
SWFs & GEs	9.6%	3.2%	8.7%	9.3%	5.8%	7.9%	9.3%	8.9%	8.1%	10.0%	11.4%	11.4%	14.4%	7.1%	7.0%
By Location															
The Americas	9.1%	-2.3%	10.7%	19.2%	5.5%	8.6%	9.2%	9.3%	8.7%	11.7%	12.6%	12.5%	10.6%	9.2%	8.3%
EMEA	7.0%	-2.5%	5.8%	13.7%	6.2%	8.3%	7.5%	8.5%	8.4%	9.5%	10.4%	6.2%	5.9%	5.7%	6.3%
Asia Pacific	8.6%	4.0%	9.2%	10.4%	7.8%	8.3%	9.1%	9.1%	9.2%	10.0%	9.5%	9.3%	9.4%	7.9%	7.9%
By Size															
Greater than US$50 billion	8.3%	-2.8%	8.6%	18.6%	4.2%	8.4%	9.2%	9.6%	9.4%	11.2%	11.1%	10.1%	10.2%	8.2%	7.4%
Less than US$50 billion	8.7%	-0.9%	9.9%	16.7%	6.2%	8.5%	8.7%	9.0%	8.6%	11.0%	12.0%	10.9%	9.5%	8.6%	8.1%

Institutions reported average real estate portfolio returns of -1.4% in 2023, following strong outperformance for the 10-year period ended 2022. During this period of time, real estate delivered an average annual return of 10.1%, 180 bps in excess of average target returns of 8.3%. This included 2021 and 2022 when institutions reported returns of 17.1% and 9.5%, respectively. CalSTRS recently reported that its real estate portfolio outperformed its target benchmark during the past decade and has outperformed inflation over the 5- and 10-year time horizons.[16]

Negative returns in 2023 were expected, as portfolios began to take write-downs beginning in mid-2022 and continuing through 2023. The NFI-ODCE began reporting negative returns in Q4 2022 which continued for seven straight quarters through Q3 2024. The index reported positive gross returns of 0.25% in Q3 2024, signaling a potential inflection point.[17]

Further, industry CPPI data suggests that real estate valuation metrics have bottomed, and in some cases have begun to show signs of rebounding. The three major indexes from MSCI Real Assets, CoStar and Green Street each showed an increase in CPPI in August 2024 and remained unchanged in September.[18] However, investors expect that negative quarterly returns in their portfolios may persist over the near-term, as portfolios are marked to market. *A Public Pension in the Americas noted "[our greatest concern is what will happen] to private market valuations as the appraisal "lag" will eventually be corrected when transaction volume picks up."*

A strong catalyst for a reversion to positive returns would be a continuation of interest rate cuts on a global basis. Given a heavy reliance on leverage, the rapid rise in interest rates and credit spreads in 2022-2023 has had a significant impact on real estate valuations. Further relief on borrowing costs would have a direct impact on returns and is a crucial step in real estate's road to recovery. In addition to decreasing borrowing costs and signaling lower inflation, further rate cuts are expected to spur

[16] Persall, Kali, "CalSTRS real estate portfolio outperforms benchmark," Institutional Real Estate Newsline, October 2024.
[17] "NFI-ODCE Press Release - Core real estate fund total returns in positive territory for first time since third quarter 2022". NCREIF, October 2024.
[18] Mattson-Teig, Beth, "October '24 Economist Snapshot: Green Street CPPI Data," Urban Land, October 2024.

transaction activity, which institutions expect would help stabilize valuations. *Norges Bank Investment Management recently announced Q3 2024 portfolio returns of 4.4%, crediting its listed equity portfolio for strong returns which the sovereign wealth fund attributed to a stock market boost from falling interest rates. Its unlisted real estate portfolio, slower to react to the changing monetary policy, reported a small return of 0.84%, though notably this is a slight increase from the real estate portfolio's 0.04% return in Q2.*[19]

Exhibit 17: Actual Return Quartiles 2023, By Institution Type

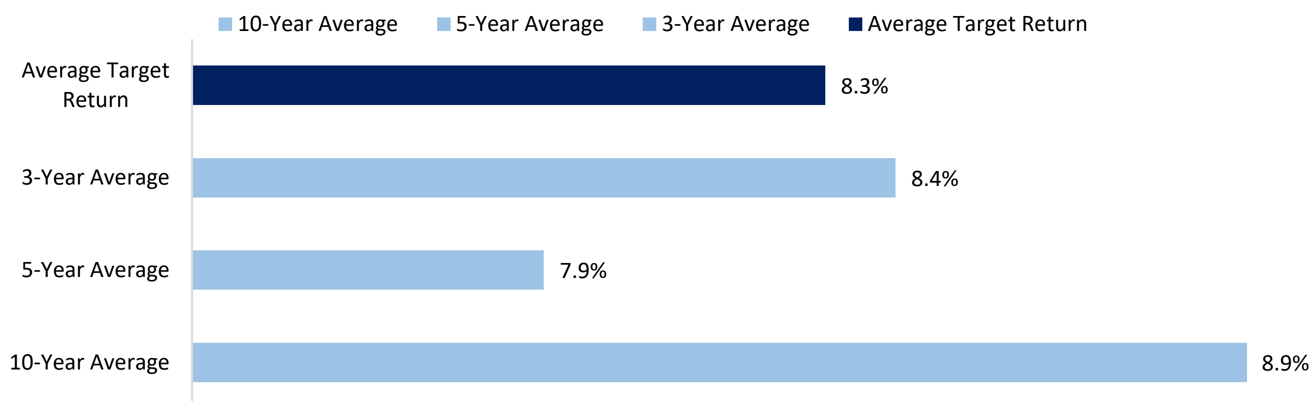
Quartile	Endowments & Foundations	Private Pensions	Public Pensions	Insurance Companies	SWFs & GEs	All Institutions
1st Quartile	6.6%	4.3%	-2.3%	5.3%	11.1%	4.5%
Median	-1.0%	-2.4%	-6.2%	2.3%	2.0%	-2.6%
Mean	0.6%	-1.4%	-5.1%	0.6%	3.2%	-1.4%
3rd Quartile	-5.0%	-5.4%	-9.0%	-2.4%	-4.0%	-7.0%

Public Pensions reported the lowest returns in 2023, with an average of -5.1%. *According to public disclosures, California Public Employees' Retirement System's ("CalPERS") real estate portfolio recorded a one-year net return of -11.6%. Performance varied greatly among sectors, with the pension's core office, multifamily, and industrial portfolios producing returns of -31.1%, -15.5% and -6% respectively.*[20] SWF & GEs reported the highest returns in 2023 at 3.2%, which may be attributed to their preference for higher returning opportunistic strategies. Interestingly, performance varied the most among SWF & GEs, with first and third quartile returns of 11.1% and -4.0%, respectively.

In 2023, institutions in APAC reported the highest average annual returns at 4.0%, significantly outperforming the real estate portfolios of institutions in the Americas and EMEA, which reported returns of -2.3% and -2.5%, respectively. Institutions in the Americas had reported the highest returns in most recent years, with returns of 10.7% in 2022 and 19.2% in 2021.

Despite negative investment returns in 2023, returns have generally outperformed over the last 10+ years. While investment returns have fallen short of target returns on a trailing 5-year basis, returns have outperformed on a trailing 3- and 10-year basis. *When Ontario Teachers' Pension Plan reported a -5.9% return for its real estate in 2023, a spokesperson from the pension acknowledged that the last few years have been challenging in real estate but noted "for a long-term investor, real estate can deliver stable cash flows, while also offering a hedge against inflation. Continuing to strengthen and diversifying our real estate portfolio will help ensure we can deliver pension security to members over the long term."*[21]

Exhibit 18: Average Target Return vs. Average Actual Returns, All Institutions

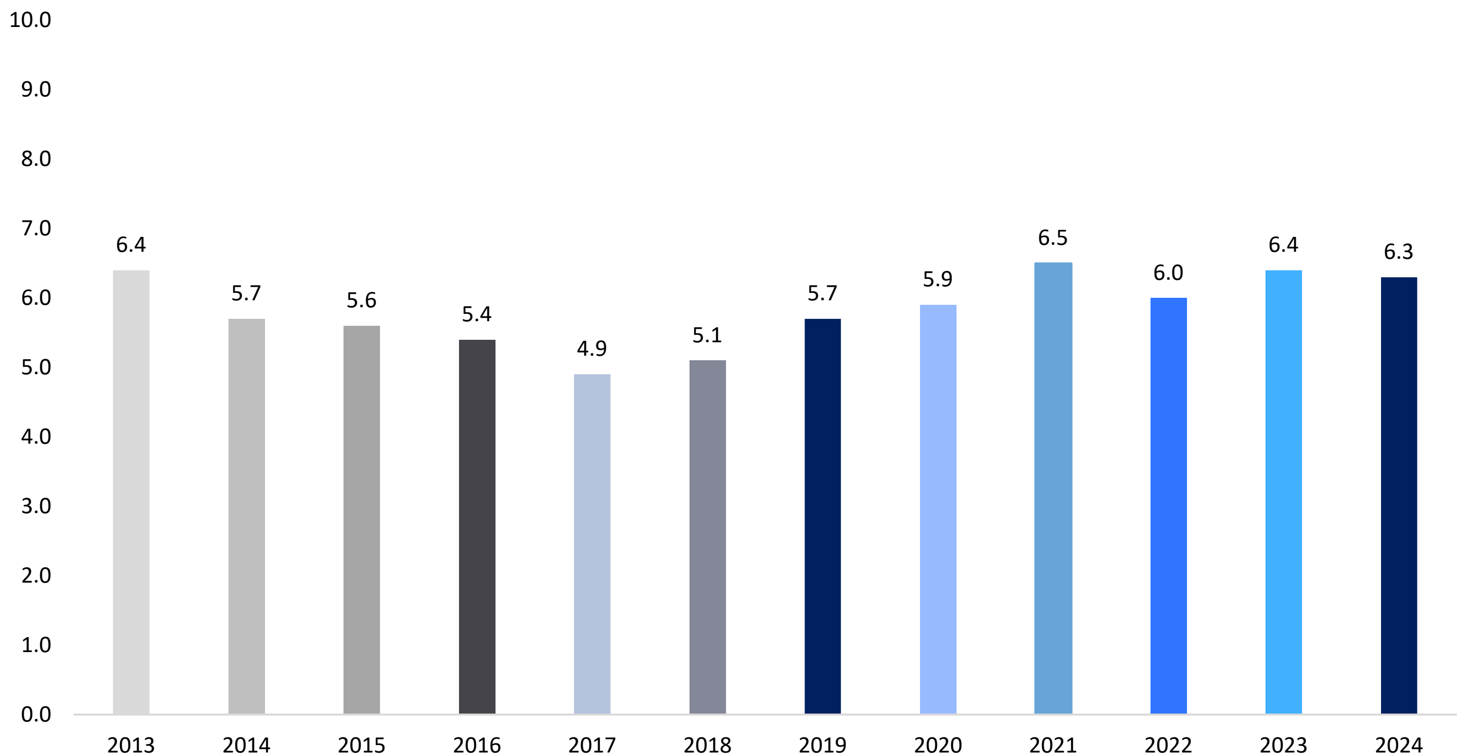


[19] "Key Figures 3Q 2024", Norges Bank Investment Management, October 2024.
[20] Jon Peterson, "CalPERS Posts -11.6% Real Estate Return," IPE Real Assets Daily News, June 2024.
[21] Rubin, Josh. "Canada's largest pensions bet big on commercial real estate — now offices are emptying and valuations are crashing," Toronto Star, March 2024.

Conviction Index

Conviction remains moderately positive, albeit down slightly year-over-year, as institutions are optimistic about investment opportunities over the next several years.

Exhibit 19: Conviction Index, All Institutions



The Allocations Monitor asks investors to rate on a scale of one to ten their view of the investment opportunity in real estate from a risk/return perspective (one being the least favorable, ten being the most favorable). While investors reported a significant increase in conviction in 2023, conviction is down slightly this year, with an average conviction index of 6.3 (as compared to 6.4 in 2023). Notably, 6.3 is the third highest level of conviction reported since 2013, indicating that investors are relatively opportunistic about the opportunity to invest in real estate in the near-term.

Headwinds persisted in 2024 including inflation, high interest rates and credit spreads, low transaction volumes and lack of pricing transparency and continued concerns regarding the direction of the economy. These concerns have left institutions largely on the sidelines over the past 12-24 months, as reflected by cyclical low allocations to closed-end funds.

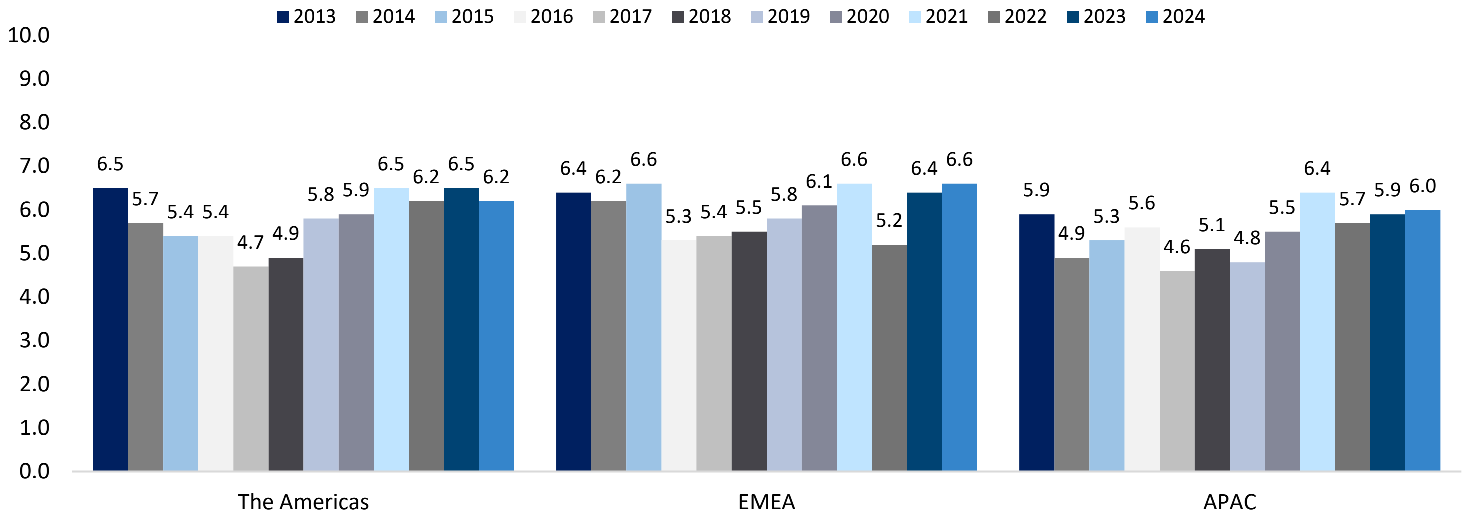
Institutions expect that future interest rate cuts may serve as a catalyst for transaction activity. *An EMEA-based Public Pension noted in early July that many institutions are "waiting for encouraging policy and loosening from the bank side". More recently, one industry observer said that the market is shifting from FOMAM to FOMO – from "fear of making a mistake" to "fear of missing out."*

Many investors look to signals from their fund managers regarding transaction activity. *Blackstone was one of the first managers to call a bottom during a Q4 2023 earnings call in January. The firm has since announced a number of large-scale transactions. On the firm's most recent earnings call in October 2024, Blackstone announced deployment of nearly 40% of its $30 billion flagship real estate fund, commenting "while the recovery will play out over time, the combination of lower base rates, lower borrowing spreads and lower new supply makes the direction of travel quite positive for our real estate business."*[22] For many institutions, this marked an "all-clear signal."

[22] Grey, Jonathan as quoted by Motley Fool Transcribing, "Blackstone (BX) Q3 2024 Earnings Call Transcript," The Motley Fool, October 2024.

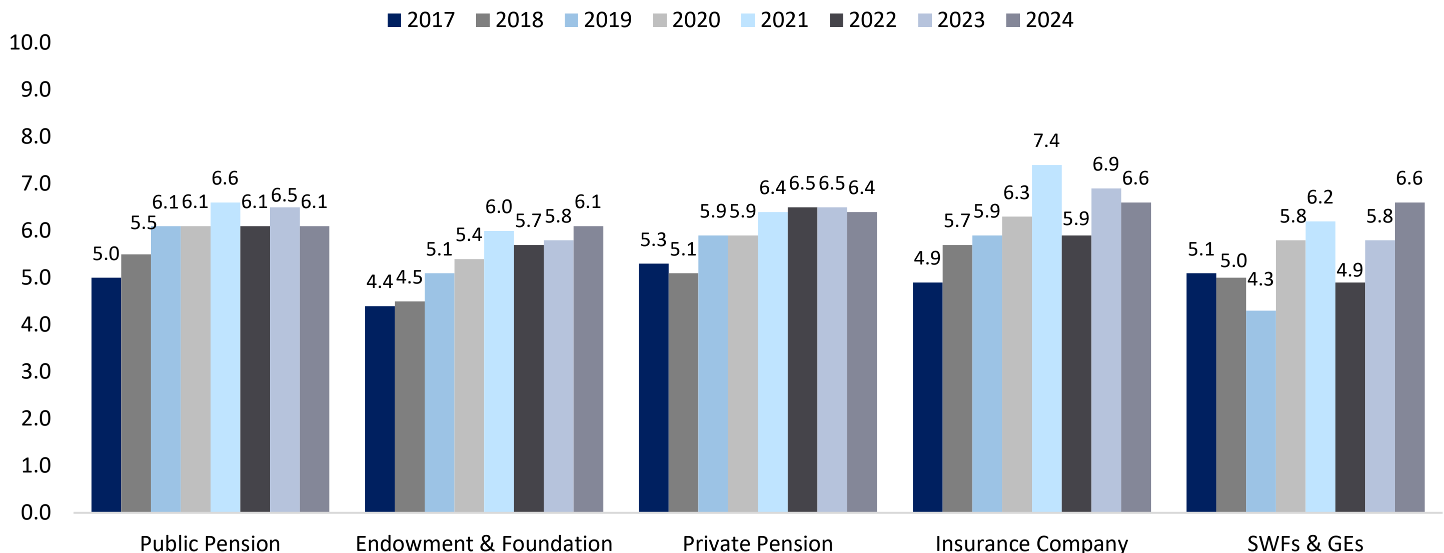
Other managers have followed with similar messaging. *On KKR's Q2 2024 earnings call, co-CEO Scott Nuttal shared the firm's view that the market bottomed in the first half of 2024 and now is an opportune time to be investing in real estate. KKR deployed $10 billion into real estate equity during Q2 2024, its highest level of investment in over two years. In addition, Nuttal noted "we're starting to have more conversations with investors that understand, although it may be perceived as a bit contrarian, that this is a really good time to invest in real estate equity."*[23] This market sentiment has been echoed by other managers including Ares, Caryle, TPG and PGIM.

Exhibit 20: Conviction Index, By Location of Institutions



Conviction trended up for both EMEA- and APAC-based institutions, whereas conviction declined moderately in the Americas. This moderation of conviction in the Americas may be attributed to economic uncertainty due to the Federal Reserve's recent interest rate movements.

Exhibit 21: Conviction Index, By Type of Institutions

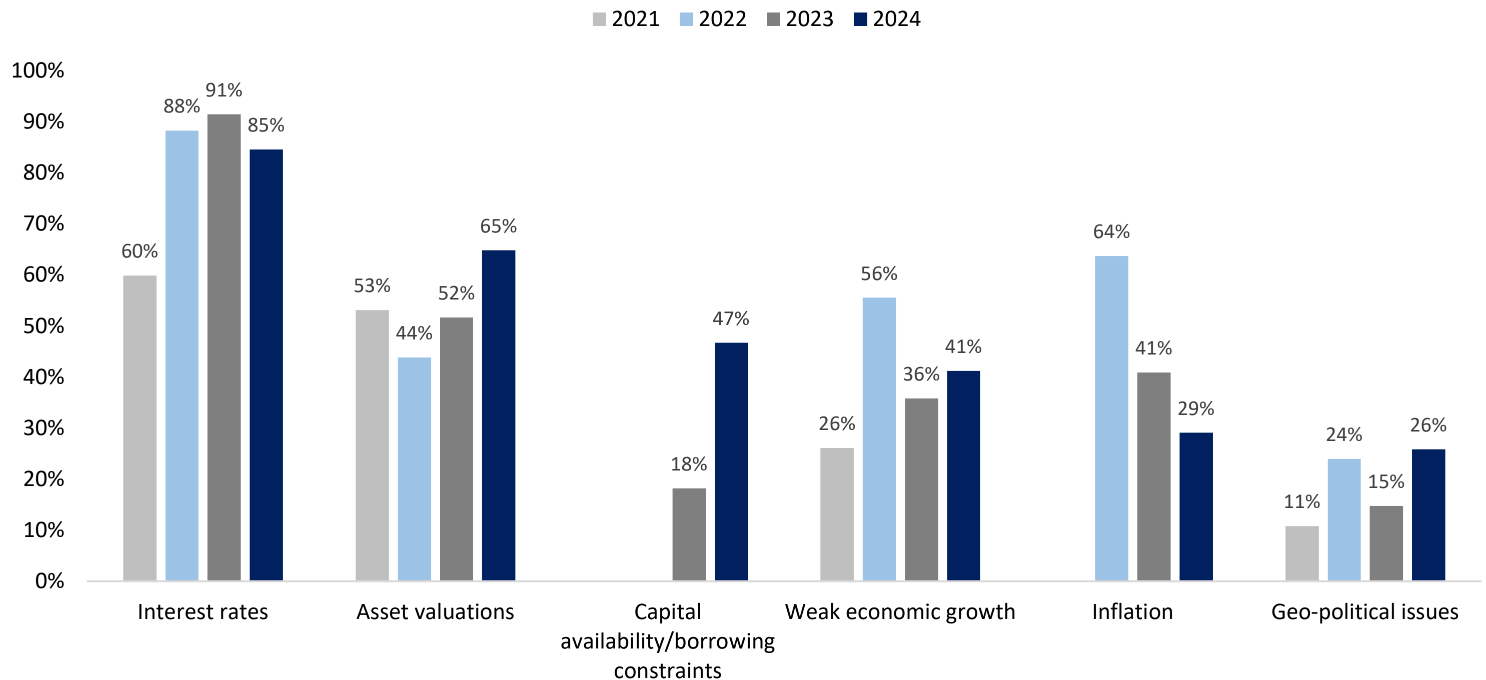


SWF & GEs and Insurance Companies report the highest level of conviction, and year-over-year SWF & GEs and Endowment & Foundations were the only institutions that demonstrated an increase in conviction. Public Pensions reported the greatest decline in conviction (this may be attributed to investment performance which at -5.1% in 2023 was the lowest performance by type of institution). *John McCallion, CFO of MetLife Inc., noted on the insurer's Q3 2024 earnings call in October that healthy*

[23] Connery, Harrison. "KKR's Nuttal: 'This is a really good time to invest in real estate equity,'" PERE, August 2024

economic growth, potentially declining interest rates and stronger transaction activity contribute to a better real estate backdrop, noting "we're not going to see a V-shaped recovery per se, but it's certainly setting up for a more positive 2025 environment."[24]

Exhibit 22: Real Estate Investment Risks, 2021 – 2024*



**Please note that institutions were not asked about capital availability & borrowing constraints in the 2021 or 2022 Institutional Real Estate Allocations Monitor surveys or about inflation concerns in 2021.*

When asked what risks are expected to have the greatest impact on investment decisions in 2024, interest rates remained the single greatest concern. However, the percentage of institutions citing interest rates as a concern decreased slightly from 91% to 85% year-over-year, perhaps as there seems to be more clarity over the direction of rates. Asset valuation levels were the next biggest concern, which increased in significance year-over-year (65% of institutions, up from 52% in 2023). Concerns regarding capital availability and borrowing constraints grew significantly in 2024, at 47% of institutions, up from 18% in 2023.

COVID-19 fell off the list of top concerns in 2024, following last year's survey when only 2.3% of investors cited the virus as a concern in 2023 (down from 88% in 2020).

Exhibit 23: Range of Conviction Index 2023 & 2024, All Institutions

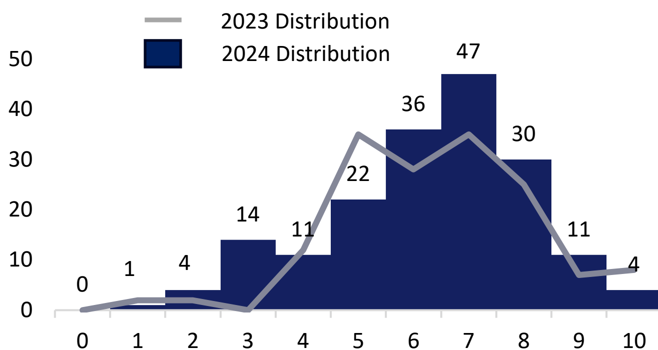
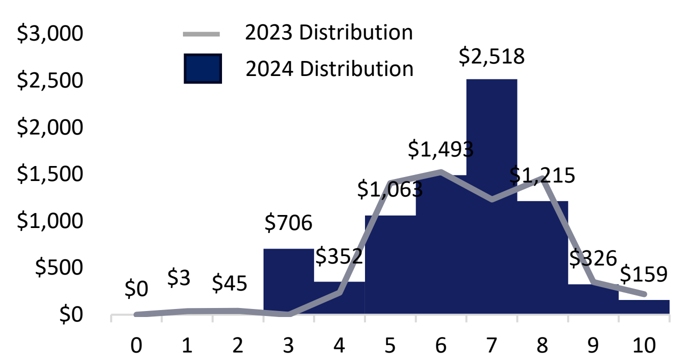


Exhibit 24: Range of Conviction Index 2023 & 2024, By AUM Midpoint (US$ Billions)



[24] Rajbhandari, Alexandre. "Commercial Real Estate Outlook Will Improve in 2025, MetLife Says," Bloomberg, October 2024.

“A challenging period in history as the market continues to digest monetary policy direction and post pandemic structural norms, particularly in office.”

- Public Pension, The Americas

“We are looking at a lot of opportunities because the rise in interest rates has stressed owners, but we are just not seeing a lot of compelling deal flow relative to other asset classes.”

- Endowment/Foundation, The Americas

“Real estate generally also has a lot of bad press at the moment which makes it challenging to defend its place in a multi-asset portfolio.”

- Insurance Company, EMEA

“Patiently waiting for cracks of distress to materialize. Investing selectively in niche segments in the interim.”

- Endowment/Foundation, the Americas

“With interest rates stabilizing/declining, we expect property values to stabilize or climb.”

- Endowment/Foundation, The Americas

“Recent interest rate cuts in the US, Europe and the UK, provide greater potential for future borrowing and greater potential for buyers to meet seller pricing of assets. Real estate transactions should pick up over the next 12 months. The narrowed selection of property types (to mostly residential and industrial) means that too much capital is chasing the same assets, making pricing in those sectors often too high for a deal to pencil out. Buyers need to be quite selective regarding location and quality of properties in today's investment environment. Diversifying acquisitions on an international basis may contribute to a healthier real estate portfolio.”

- Public Pension, The Americas

Third-Party Management

While a growing number of institutions are moving portfolio management in-house, the vast majority of institutions remain reliant on third-party managers and continue to allocate to commingled funds.

Existing Investments

Consistent with findings in recent years, nearly two thirds of institutions report outsourcing their entire real estate portfolio to third-party managers. Overall, 93% of institutions report outsourcing all or a portion of their portfolio to third-party managers, while 7% report managing their entire real estate allocation in-house.

With less infrastructure and leaner teams, approximately 67% of Small Institutions outsource the management of their entire real estate portfolio, compared to just 46% of Large Institutions. Institutions moving their portfolio management in-house frequently point to cost reductions. *Canadian pension fund manager, Caisse de dépôt et placement du Québec ("CDPQ") absorbed its subsidiaries, Ivanhoé Cambridge and Otéra Capital earlier in 2024. The integration of the subsidiaries with Caisse's investment and corporate services team is expected to save the pension fund manger $100 million annually.*[25] *Similarly, an EMEA-based Insurance Company noted "in-sourcing of mandates has become attractive to us from a fee perspective."*

On the opposite end of the spectrum, the amount of Insurance Company assets outsourced to third-party managers has more than doubled over the past decade, reaching $3.5 trillion from $1.4 trillion in 2014.[26] In 2024, 48% of Insurance Companies noted outsourcing 100% of their portfolio management to third-party managers, up from 43% in 2023 and 39% in 2022. Some of this movement can be attributed to increased appetite for niche strategies, which can be more complex and may require expert knowledge.

Future Allocations

Allocations to existing manager relationships remained consistent in 2024, at 64%. Approximately 22% of 2024 investments are expected to be allocated to new manager relationships, a figure that is relatively flat year over year. As institutions have had less capital to commit, they have consolidated their relationships and decreased the number of managers in their portfolios. Approximately 16% of participants

Exhibit 25: Percentage of Portfolio Outsourced to Third-Party Managers, All Institutions

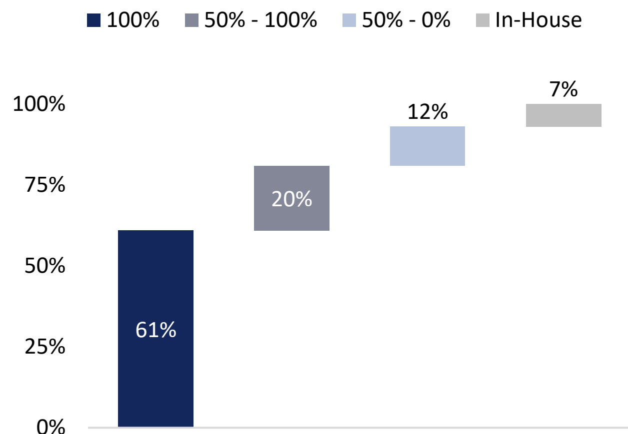


Exhibit 26: Allocations to Managers in 2024, All Institutions

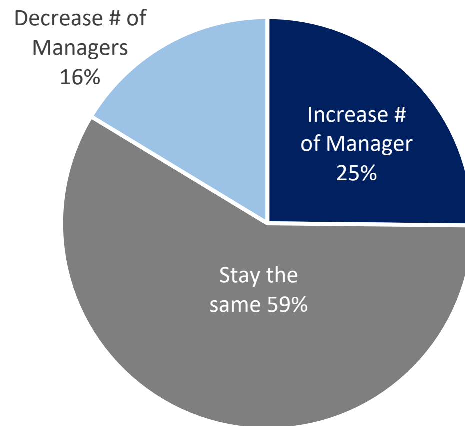
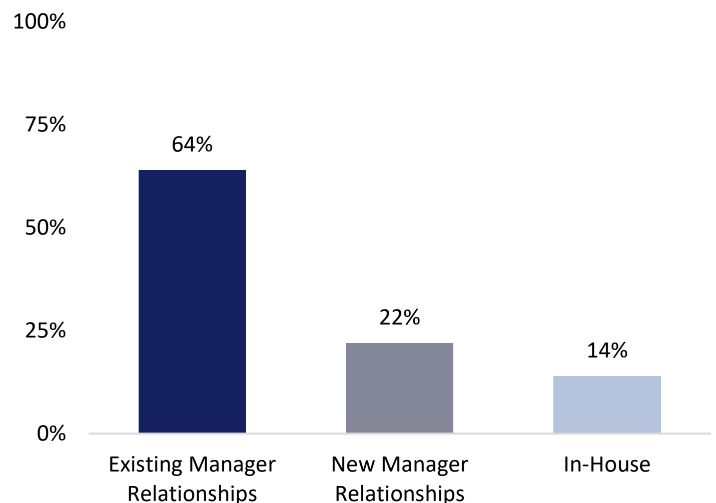


Exhibit 27: Estimated Breakdown of 2024 Investments, All Institutions



[25] Bradshaw, James. "Quebec pension manager's head of real estate departs as Caisse consolidates operations," The Globe and Mail, July 2024.
[26] Thrasher, Michael. "How More Asset Managers Are Getting Their Claws Into Insurance Portfolios," Institutional Investor, May 2024.

anticipate decreasing the number of managers in their portfolios in the near term, up from 8% in 2022. Further demonstrating the consolidation trends, approximately 25% of participants expressed interest in increasing their roster of managers over the next 12 months, down from 28% in 2023 and from 41% in 2021. As a result, larger managers continue to command an increasing share of annual allocations. Notably, out of the 200 largest capital raisers for the private equity real estate industry since 2019, the top 25 have accounted for ~50% of the total capital raised.[27] *However, some investors recognize the unique qualities held by smaller managers, with one Private Pension based in the Americas noting "while large players certainly have some advantages, smaller-to-mid-sized funds that have had fewer vintages tend to be hungrier and have a greater chance of outperformance."*

Managers competing for allocations and "shelf space" are challenged to differentiate themselves from incumbent managers in institutional portfolios. Operator-sponsored, sector-specific funds continue to secure commitments, in particular for niche strategies (e.g., data centers, self-storage, industrial outdoor storage). Institutions are also favoring managers that have proven track records over multiple cycles and demonstrated self-discipline. In addition to internal rates of returns (IRRs) and estimated multiples on invested capital (MOICs), distributions to paid-in capital (DPIs) is an increasingly important metric for institutions evaluating potential managers.

Emerging managers continue to face significant challenges in attracting institutional capital, with the bar for first-time funds remaining particularly high. Approximately 13% of institutions are willing to invest with first-time fund managers in 2024, up slightly from 11% in 2023. Institutions cite lack of attributable track record as a fiduciary and lack of experience navigating through previous market cycles as causes for concern. *An EMEA-based Private Pension noted "it is a very difficult market for new managers with no track record."* However, as in prior downturns, this market environment can be conducive to the formation of new businesses, as is evidenced by several new firms that have recently been formed and have had successful fundraises.

[27] PERE Staff. "PERE 100 and PERE 200: New paths to fundraising dominance," PERE, June 2024

Risk Preferences

Institutions in the Americas and APAC continue to favor higher return strategies, including value-add and opportunistic, while interest in core strategies remains high in EMEA.

Exhibit 28: Risk Preference, All Institutions

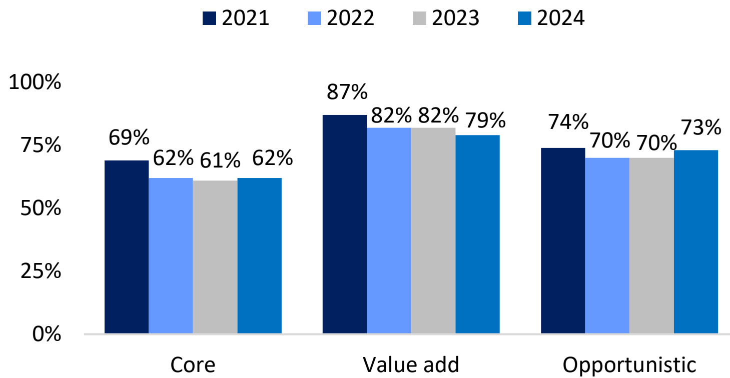


Exhibit 29: Risk Preference, By Location of Institution

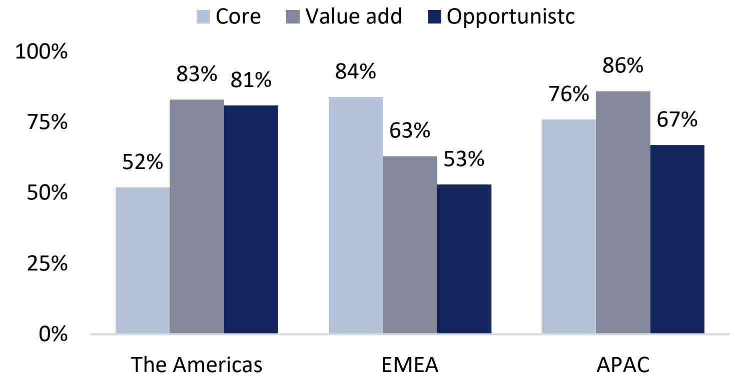
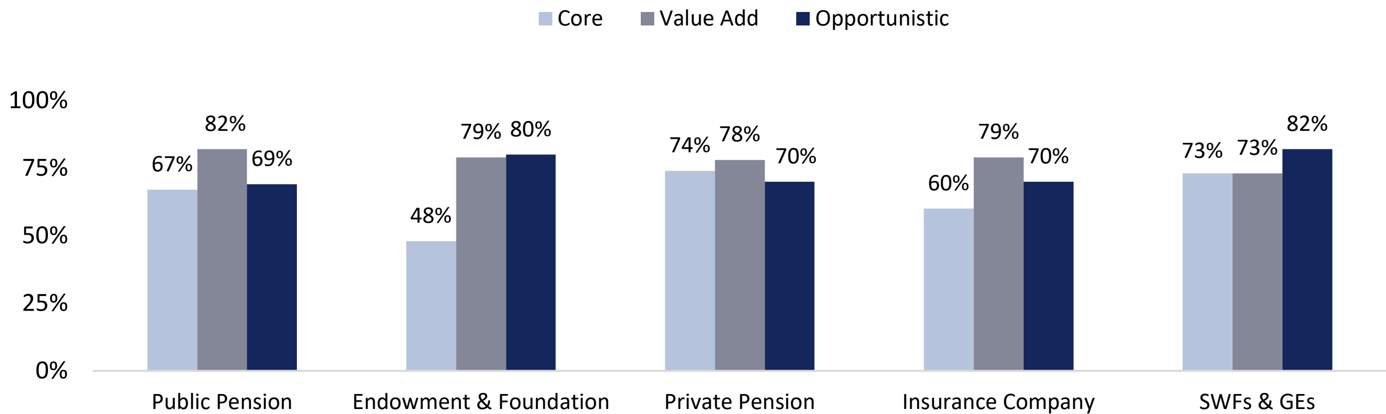


Exhibit 30: Risk Preference, By Type of Institution



Investor appetite continues to be strongest for high-return strategies, including opportunistic and value-add. Value-add remained the most favored strategy in 2024, with 79% of institutions reporting that they are actively allocating capital to value-add investments, followed by opportunistic at 73% and core at 62%. The interest in value-add and opportunistic strategies has been driven by appetite to take advantage of market distress and dislocation. *Tim Graham, Global Lead for International and Strategic Capital at JLL, noted, "momentum has been building for capital to be deployed into value-add and opportunistic strategies. Investors have been focused on allocating capital to strategies that promise to deliver strong risk-adjusted returns, as return requirements have risen due to higher debt costs."*[28] Investors also hope to capitalize on the "inflection point" in the cycle and many believe opportunistic strategies are best positioned to benefit from the anticipated upswing.

Regionally, institutions in the Americas show the greatest preference for opportunistic strategies at 81%, compared to 67% in APAC and 53% in EMEA. EMEA investors remain the most active in core investments, with 84% of EMEA institutions reporting that they are actively allocating capital to core real estate. Core strategies are more popular among European institutions, specifically, at 90%.

Notably, while Endowments & Foundations continue to favor higher-yielding investments, the percentage actively allocating capital to core real estate increased dramatically from 26% in 2023 to 48% in 2024, possibly reflecting a desire to balance their

[28] "Real estate value-add funds rake in fresh capital," JLL, August 2024.

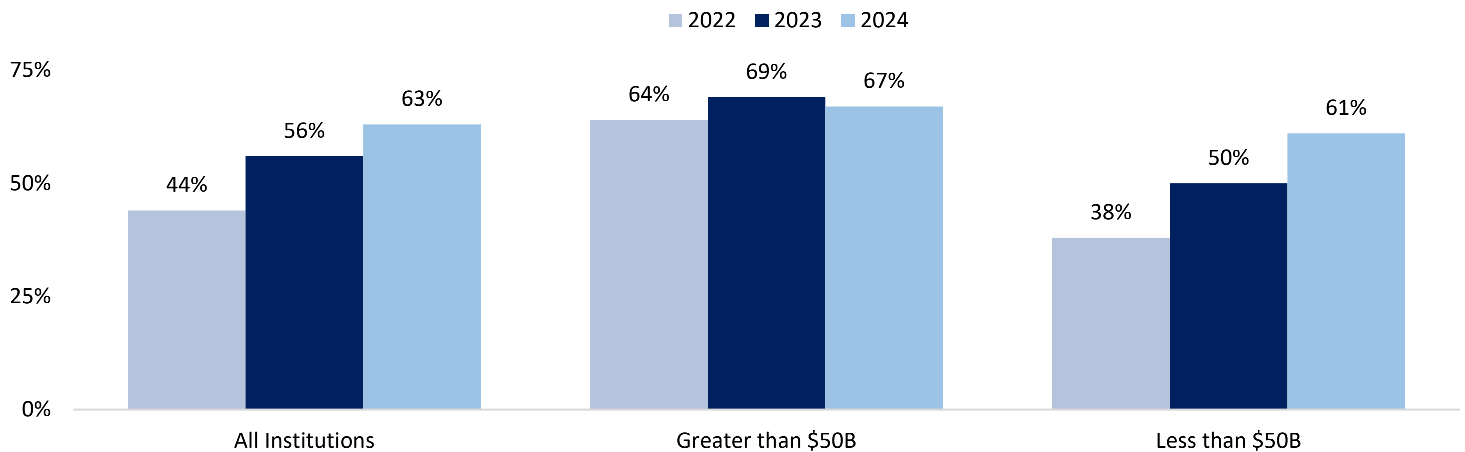
portfolios which had historically limited interest in lower yielding strategies. In contrast, however, core investment activity for SWFs & GEs and Insurance Companies dropped in 2024, signaling a discrepancy in market sentiment across various types of institutions. Both SWFs & GEs and Endowments & Foundations had the strongest preference for opportunistic strategies.

Credit Strategies

As observed in 2023, there is a growing interest in real estate credit. Approximately 63% of institutions note that they are actively allocating capital to credit strategies, up from 56% in 2023 and 44% in 2022. This is in part driven by what institutions are hearing from their managers. *Bryan Donohoe, co-head of Ares US Real Estate noted "reduced capital supply on the credit side of the real estate market, owing to diminished or changing participation from the banking sector, means those with capital and the ability to deploy it will have a strong hand as it relates to pricing and structure."*[29]

Large Institutions have greater appetite for debt investments than Small Institutions; however, appetite amongst Small Institutions is growing with 61% indicating that they are planning to invest in real estate debt, up from 50% in 2023, and 38% in 2022.

Exhibit 31: Investing in Real Estate Debt, By Size of Institution



[29] Rowman, Samantha. "Full spectrum portfolio: Why debt is a must-have for investors," PERE Credit, August 2024.

Geographic Preferences

North America remains the preferred destination for capital allocations; however, appetite for investing cross-border has decreased across all regions.

Exhibit 32: Geographic Focus, All Institutions

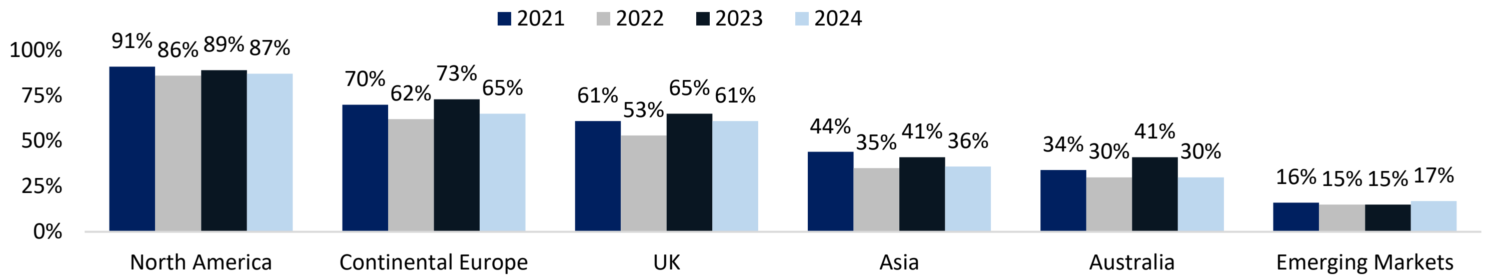
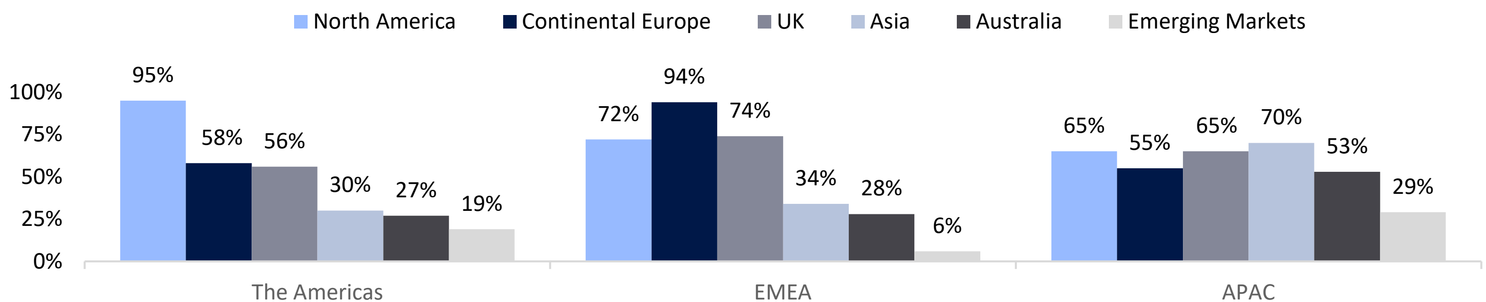


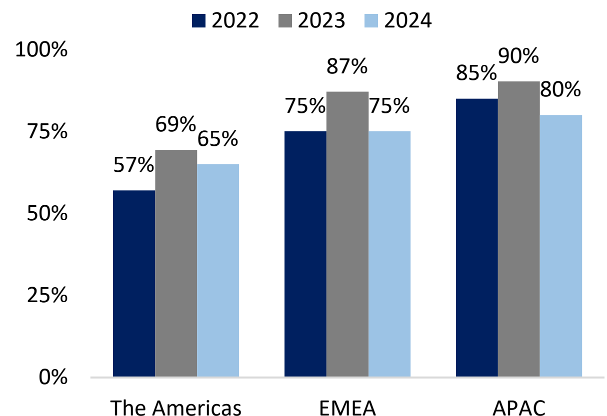
Exhibit 33: Geographic Focus, By Location of Institution



North America continues to be the largest recipient of capital flows with 87% of institutions actively allocating to the region, followed by Continental Europe at 65% and the United Kingdom at 61%. The percentage of institutions planning to invest in Emerging Markets increased slightly from 15% to 17%, led by Endowments and Foundations based in the Americas.

Institutions across the Americas, EMEA and APAC regions, have shown decreased appetite for cross-border investments year-over-year, each showing a preference to allocate within their home markets. Similar to prior years, institutions based in APAC continue to be the most active cross-border allocators, with 80% of institutions in the region looking to invest outside of their domestic markets in 2024, compared to 75% and 65% of institutions from EMEA and the Americas, respectively.

Exhibit 34: Institutions Investing Outside of their Domestic Region, By Location of Institution



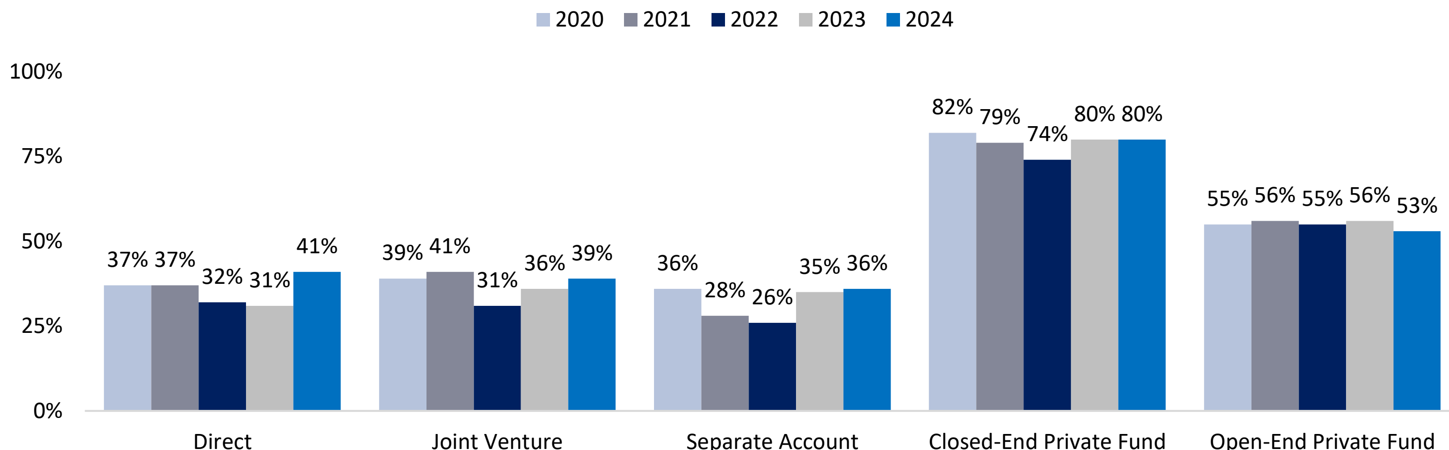
Interestingly, 65% of institutions in APAC plan to invest capital in North America in 2024, down from 91% in 2023. While North America has been the preferred investment market for APAC investors since 2016, APAC-based institutions seem to have shifted towards investing within the region, with 70% of such investors planning to invest in Asia, up from 55% in 2023. This change may be due in part to economic growth prospects in Asia, as well as foreign exchange risk and hedging costs, which rose to nearly 6% at a given point during the year for investors looking to hedge yen against the US dollars. *As noted in the Summer 2024 PREA Quarterly publication, "an additional challenge specific to foreign investors is short-term US interest rates have stayed elevated, increasing prospective hedging costs; a factor related to this is that the US dollar has been strong, potentially causing some to question the entry point timing from a foreign-exchange risk perspective."*[30]

[30] Klinksiek, Brian. "PREA Quarterly: Outside looking in: How foreign investors see the US real estate market today," LaSalle Investment Management, August 2024.

Investment Product Trends

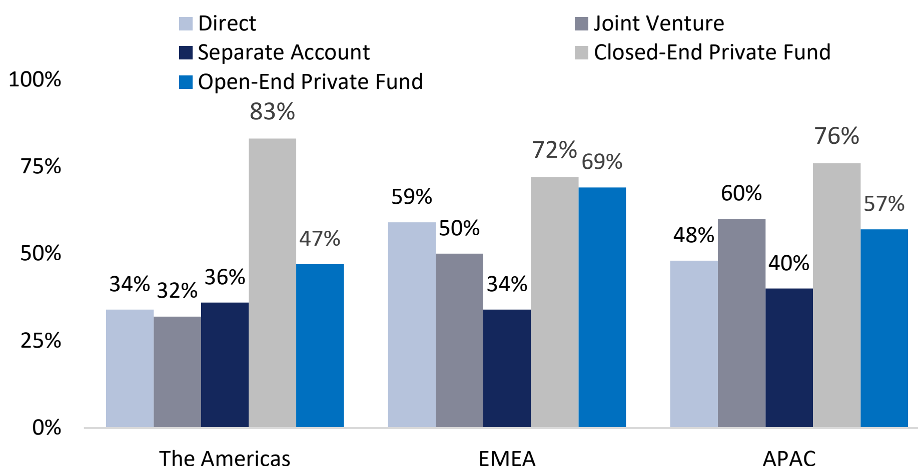
As transaction volumes remain at a cyclical low, capital allocations have shifted to direct investments, joint ventures and separate accounts.

Exhibit 35: Investment Product Preferences, All Institutions



The private real estate fundraising environment remained challenged throughout the first three quarters of 2024. Approximately $94.1 billion of capital was raised for private real estate throughout Q1-Q3 of 2024, which marked the first year since 2012 when capital raising volumed failed to reach $100 billion during the first nine months of the year.[31] The lack of new commitments has granted investors more negotiating power when it comes to fees, as managers are eager to attract new capital. Though there may be some ability to influence fund terms, this type of fee negotiation is more typically seen in separate accounts and joint ventures.

Exhibit 36: Investment Product Preferences, By Location of Institution



Though the percentage of institutions planning to invest in closed-end private real estate funds remained at 80%, institutions highlighted a shift in preference toward direct investments, joint ventures, and separate accounts, which can offer greater control and tailored investment strategies. Appetite for direct investments increased by ten percentage points, with 41% of institutions investing on a direct basis. This is largely attributed to Large Institutions that have been more active in deploying capital over the past 12-24 months; approximately 70% of Large Institutions are actively allocating on a direct basis. Regionally, preference for direct investments increased by twenty-five percentage points to 48% in APAC and by ten percentage points to 34% in the Americas. Appetite for joint ventures and separate accounts increased marginally as well. In a capital constrained market, this may be driven by increased preference and opportunity for institutions to dictate structures and terms.

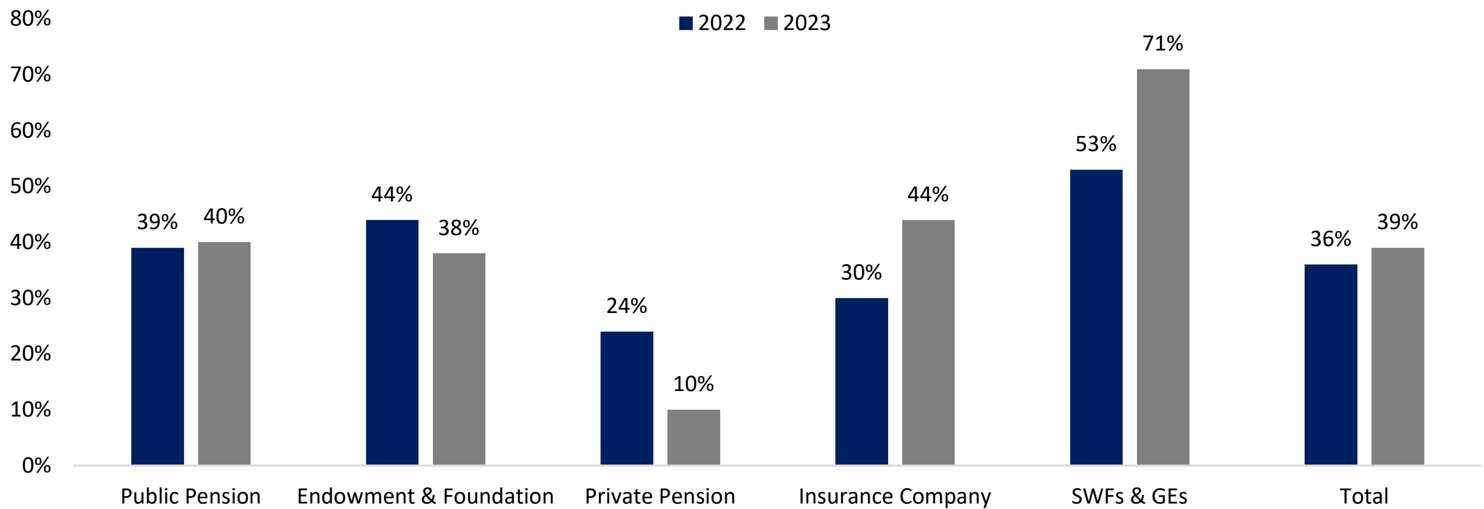
Appetite for open-end funds declined from 56% to 53%, as institutions continue to contend with unfulfilled redemption requests. As redemptions recede, sentiment towards OEFs may rebound, as was the case following the GFC. Open-end funds remain in favor with both Public and Private Pensions.

[31] Lee, Evelyn, "Q2 Fundraising Report," PERE, October 2024.

Real Estate Investment Trusts (REITs)

Institutions were more active allocating capital to REITs in 2023, as investors looked to capitalize on discrepancies between public and private market valuations.

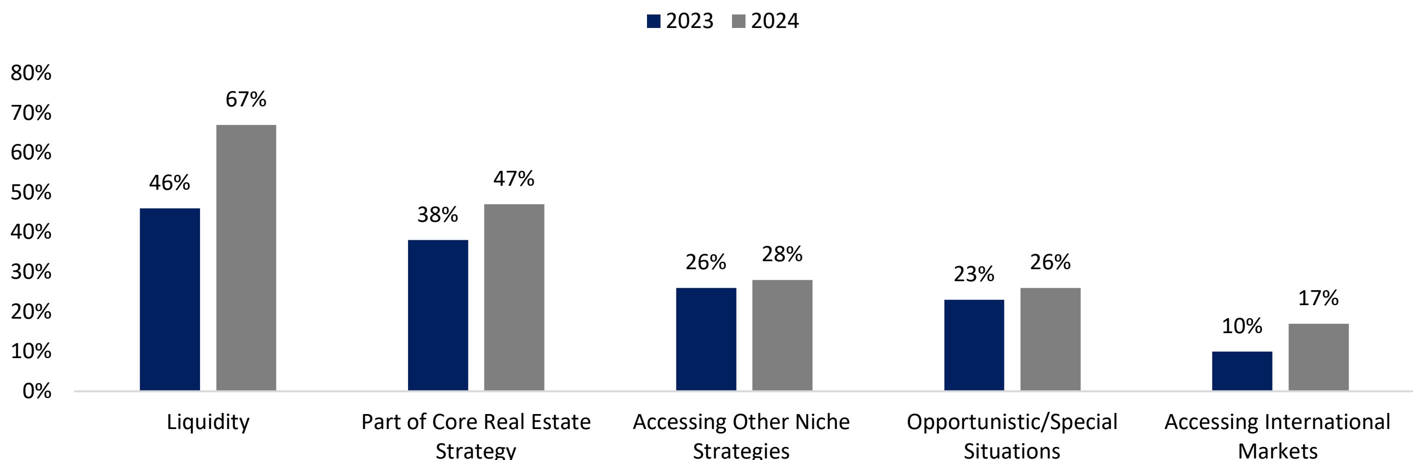
Exhibit 37: Institutions Invested in REITs in 2022 and 2023, By Institution Type



REITs and other real estate public equities continue to be an important component of institutional portfolios with 39% of institutions investing in REITs in 2023, up from 36% in 2022. While reasons for investing in REITs vary across type of institution, approximately 67% of institutions cited liquidity as the primary consideration. This is a meaningful increase from last year at 46% and may be correlated to the lack of distributions investors are receiving from their private market investments.

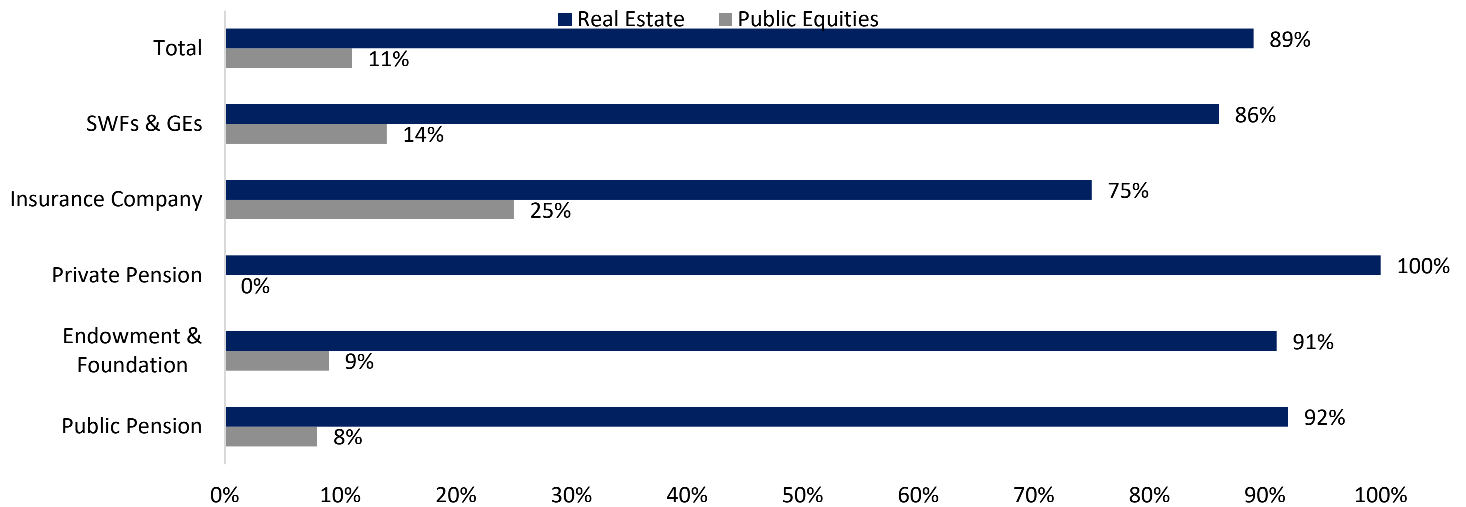
In addition to providing a liquid alternative for private real estate, REITs also provide exposure to opportunistic and special situations. *As an example of a tactical allocation, New Mexico State Investment Council (SIC), is considering allocating up to 10% of its ~$3.6bn real estate portfolio to invest in REITs to capitalize on the perceived valuation gap between public and private real estate valuations in the short term.*[32] *Other public pensions, such as Teacher Retirement System of Texas have already executed successful tactical strategies. In 2023, the $200 billion pension made a $400 million commitment for a tactical investment in US public equity REITS, seeking to capitalize on pricing discrepancies between public and private market valuations. The pension sold its position in Q1 2024, yielding a 17.1% IRR with $47 million in profit.*[33]

Exhibit 38: Reasons for Investing in REITS, All Institutions



[32] Peterson, Jon, "New Mexico SIC sets fiscal 2025 real estate pacing at $1bn," Investment & Pensions Europe, Pension Real Estate Association, September 2024.
[33] Pierzak, Edward F., "Taking Action When Opportunity Knocks: Tactical REIT Investment by Teacher Retirement System of Texas," Nareit, March 2024.

Exhibit 39: Portfolio Allocation for REIT Investments, By Type of Institution



Similar to credit, institutions may invest in REITs out of different portfolio allocations. The vast majority of institutions (approximately 89%) invest in REITs out of their real estate allocation, while 11% invest in REITs out of their public equities allocation. Approximately 25% of Insurance Companies include REITs within their public equities allocation, while 100% of Private Pensions include REITs within their real estate allocation. Interestingly, investment appetite for REITs varies slightly between institutions depending on the allocation in which their REIT investments sit. Approximately 41% of institutions that included REITs within their real estate allocation invested additional capital into REITs in 2023, compared to 33% of institutions that include REITs within their public equities allocation. *Uma Moriarity, senior investment strategist and global ESG lead at CenterSquare Investment Management, noted "generalists remain underweight or completely unexposed to the REIT sector — which we anticipate changing here as the Fed continues down its rate-cutting cycle — so we are expecting capital flows to also benefit the REIT sector as generalists move into the space."*[34]

Large Institutions continue to allocate capital into REITs, with 52% reporting they invested additional capital in 2023, compared to 32% of Small Institutions. This can be attributed to Large Institutions taking a more tactical approach to investing.

Exhibit 40: Management of REIT Portfolio, By Location of Institution

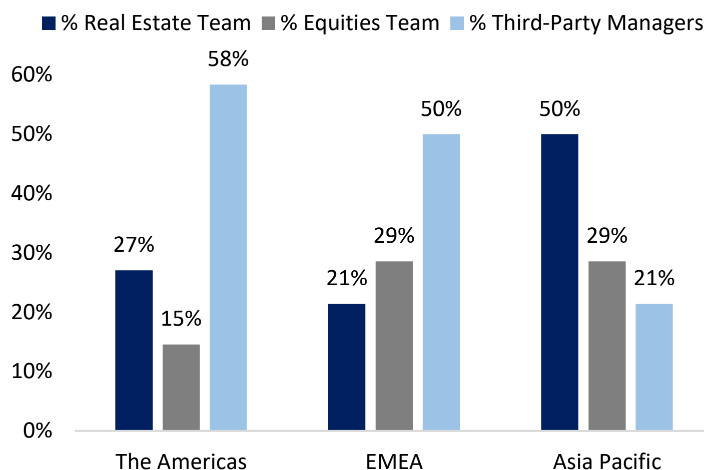
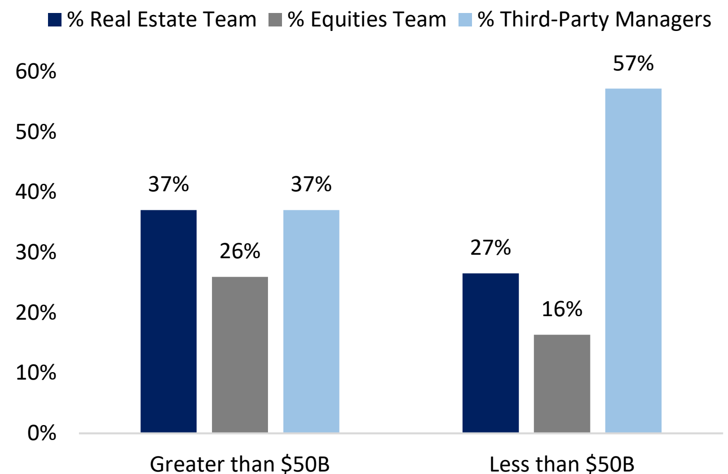


Exhibit 41: Management of REIT Portfolio, By Size of Institution



On average, approximately 50% of institutions reported that their REIT portfolios are managed by third-party managers, while 30% and 20% are managed in-house by their real estate and public equity teams, respectively. The management of REITs varies

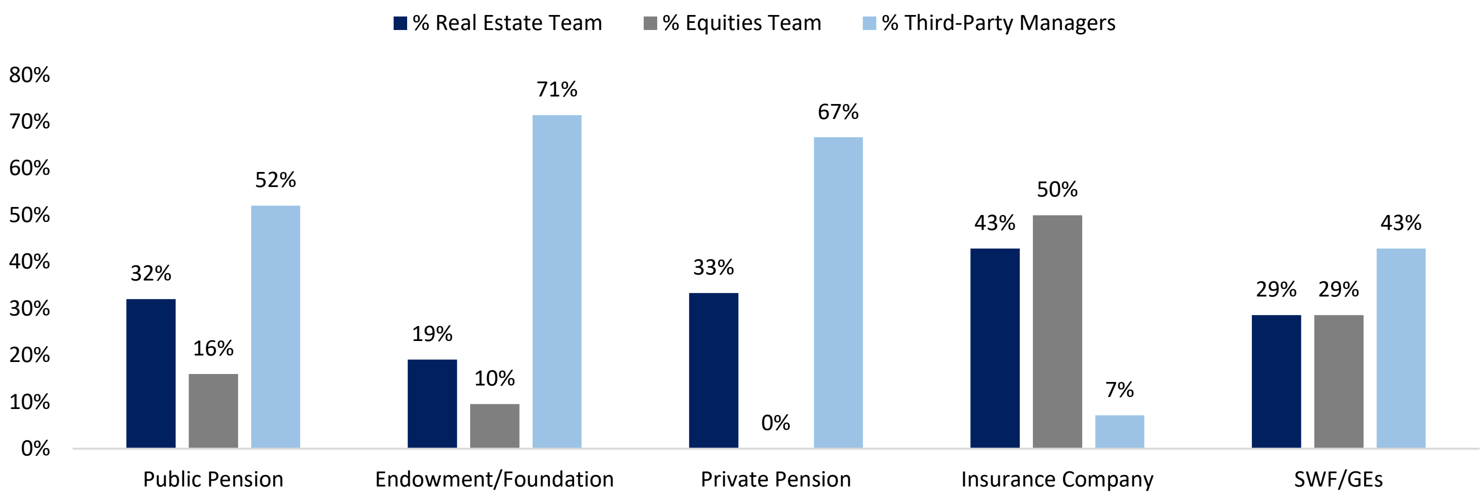
[34] Clodfelter, Loretta. "REITs offer compelling investment opportunity compared to private real estate," Institutional Real Estate, October 2024.

across location, type and size of institution. The majority of institutions in the Americas outsource REIT portfolio management to third-party managers at 58%. APAC-based institutions rely heavily on their internal teams, with 50% of institutions in the region reporting their portfolios are managed by their real estate teams and 29% by their public equity teams.

Similar to the trend reported in the Third-Party Management section, Small Institutions rely more heavily on third-party managers for their REIT portfolios at 57% as compared to 37% of Large Institutions.

Interestingly, the majority of institutions by type reported reliance on third-party managers for REIT portfolio management, outside of Insurance Companies. Only 7% of Insurance Companies outsource to third-party managers; approximately 50% report that their portfolios are managed by their equities team, and 43% by their real estate teams.

Exhibit 42: Management of REIT Portfolio,
By Type of Institution



Environmental, Social & Governance (ESG)

European and Australian institutions continue to lead the market in terms of implementing ESG policies.

Exhibit 43: Formal ESG Polices, 2017 – 2024

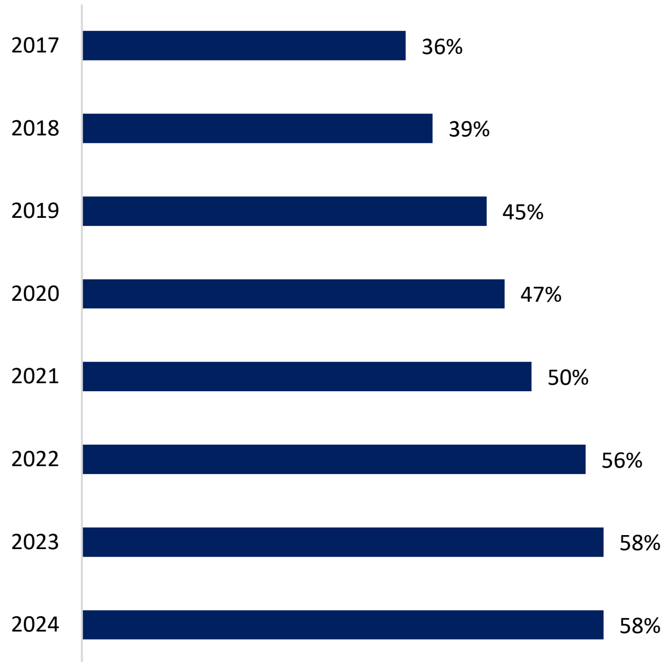
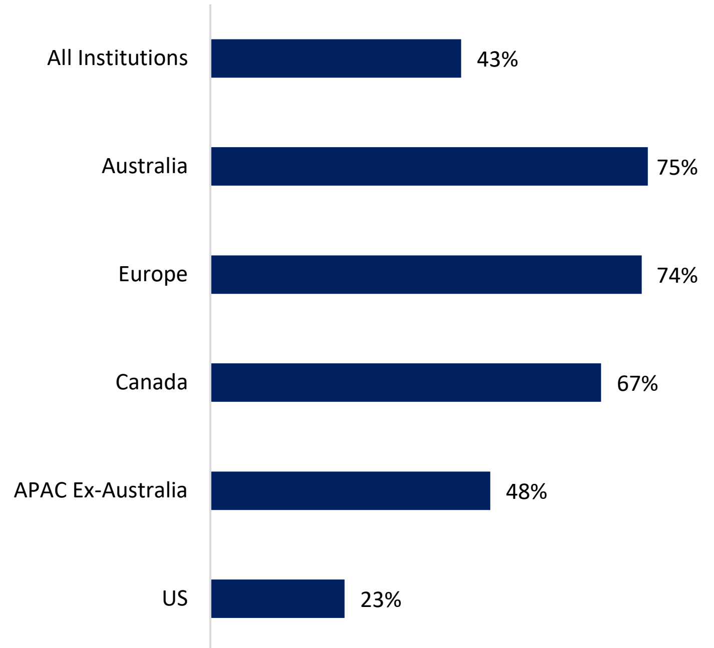


Exhibit 44: Investment Process Influenced by ESG Policies, By Location of Institution



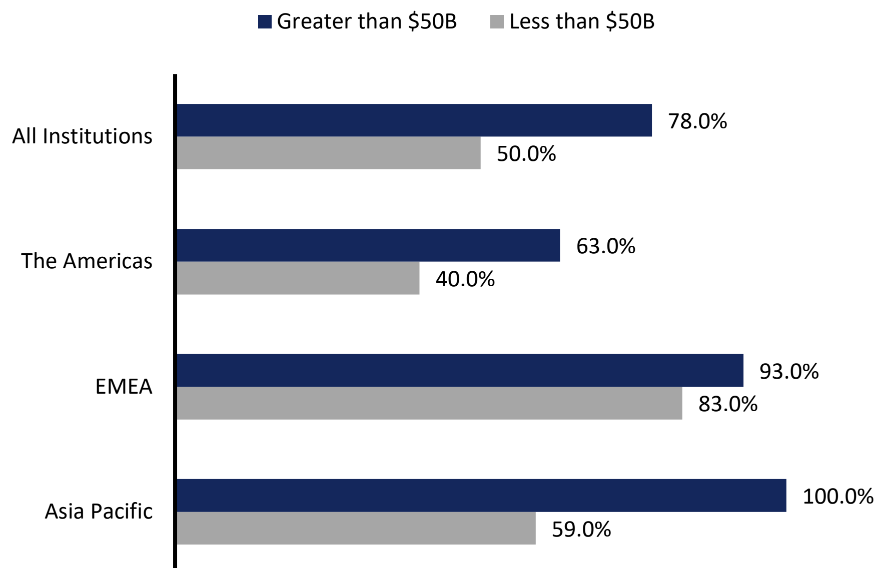
ESG Considerations

The percentage of institutions with formal ESG policies remained at 58% in 2024. While flat year-over-year in aggregate, this number has grown significantly from 36% in 2017.

Implications of these policies on investment decisions vary across location, type, and size of institution. European and Australian institutions continue to lead the market in terms of implementing policies, with 75% of Australian institutions and 74% of European institutions reporting their investment processes are influenced by ESG policies. *In fact, in Australia, Australian Prudential Regulation Authority specifically requires that superannuation funds incorporate climate risk and ESG factors into the formulation and implementation of investment strategy.* The US continues to lag its peers in policy implementation, with 23% of institutions reporting their policies affect their investment decisions, down from 28% in 2023.

European institutions are much more engaged with ESG initiatives in part due to the region's advanced policies and priorities. By way of example, England launched a new biodiversity credit scheme in 2024 which demands biodiversity net gain (BNG) for all building projects. Under BNG, developers must not only replace plants and wildlife habitats affected by building construction, but also enhance

Exhibit 45: Formal ESG Policy, By Region & Size of Institution



biodiversity in the area by 10% compared to its previous state.[35] While unlikely that the US will carry out similar schemes any time soon, it will be interesting to see if other countries follow suit.

In terms of size, approximately 78% of Large Institutions have formal ESG policies in place, compared to 50% of Small Institutions.

Investment Mandate Considerations

While the US lags its peers in traditional ESG implementation, ESG policies in the US are advanced in terms of social and diversity directives. Of those institutions that have ESG policies in place, only those in the Americas have specific mandates to invest with minority- or women-owned managers. Approximately 9% of institutions with ESG policies in the Americas reported having a specific mandate for minority- or women-owned investments. Yet, the vast majority of these institutions do not have diversity directives included in their ESG policies, with only 18% of Endowments & Foundations and 7% of Public Pensions reporting a mandate.

As the push for diversity and ESG integration continues to grow, managers may see an increase in the importance of social and governance standards to their institutional clients.

[35] PERE Staff, "Sustainable Investing Report," PERE, December 2023.

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Baker Program
in Real Estate

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The Cornell Baker Program in Real Estate boasts the largest full-time real estate faculty in the country. Comprising faculty from four colleges at Cornell, the Baker Program includes experts to research, advise, and teach real estate classes in any specialty within the industry. The core courses in the Baker Program in Real Estate are drawn from each of the colleges to create a multidisciplinary educational experience that utilizes the full resources at Cornell. Students in the program receive broad exposure to real estate, from real estate finance & investment to real estate development, and asset management to deal structuring, as part of their core coursework.

The two month internship after the first year and the ability to specialize in one of six real estate niches during their second year create the opportunity to maximize Cornell's extensive real estate offerings in sculpting a concentration ideally suited to the individual student's interests. A weekly Distinguished Speaker Series that attracts global industry leaders and alumni to campus is another highlight of the program. This provides the students valuable industry connection and exclusive opportunity to interact with recognizable figures from diverse fields of real estate.

Cornell is also home to the Cornell Real Estate Council (CREC), a non-profit, volunteer-led organization which is one of the largest university-based real estate alumni networks in the world. CREC represents the many voices of 'real estate at Cornell,' including current and former members of Cornell's world-renowned graduate and undergraduate schools of business, real estate, hotel administration, architecture, art, and planning, engineering, law, industrial and labor relations, and more. The annual Cornell Real Estate Conference is a highlight event organized by CREC.

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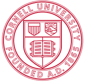

Cornell
Baker Program
in Real Estate

114 W. Sibley Hall
Ithaca, NY 14853
United States of America
+1 (607) 255-7110
real_estate@cornell.edu

HODES WEILL
& ASSOCIATES

HodesWeill.com
info@hodesweill.com

NEW YORK
825 Third Avenue
15th Floor
New York, NY 10022
United States of America
+1 (212) 867-0888

DENVER
100 Fillmore Street
5th Floor
Denver, CO 80206
United States of America
+1 (720) 305-8990

LONDON
18 Pall Mall
London SW1Y 5LU
United Kingdom
+44 (0)20 7389 5094

AMSTERDAM
Barbara Strozzilaan 201
1083 HN
Amsterdam
Netherlands
+31 2 0240 2246

HONG KONG
2102 Two Exchange Square
8 Connaught Place Central
Hong Kong
+852 3589 6940

TOKYO
Spaces Otemachi
1F-3F Otemachi Building
1-6-1 Otemachi, Chiyoda-ku
Tokyo 100-0004
Japan
+81 (0)3 6841 3986