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<u>Empira Institutional Trends Survey</u>

Institutional Investors: Sustainable investments of very great importance

- **Nearly 70% consider ESG to be (very) important in real estate investments**
- **Up to 60% of investors aim to invest in Article 8 or Article 9 funds**
- **Real estate still popular: 56% want to invest more, only 11% less**
- **Significant interest in develop-and-hold projects**

Zug, Switzerland; November 18, 2021 – ESG criteria are important or very important for investment decisions for nearly 70 percent of institutional investors. Article 8 and Article 9 funds are also attractive: By the end of 2022, between 55% and 60% of investors intend to invest in these funds. In contrast, Article 6 funds are on their way out: Only 26 percent of respondents intend to invest in them. However, the majority of fund products currently available are still classified under Article 6 and do not yet pursue any sustainability goals. These are among the results of the Empira Institutional Trends Survey. Institutional investors such as pension funds (*Pensionsfonds*) and pension plans (*Pensionskassen*), pension funds for professions (*Versorgungswerke*), insurance companies, foundations, and family offices were surveyed by consulting firm bulwiengesa.

"ESG criteria have become an integral part of real estate investments – both in terms of the initial transaction and during ongoing management. And their importance will grow. In this respect, the effects on real estate market players are considerable and range from regulatory issues to strategic planning and corporate governance," explains Lahcen Knapp, Chairman of the Empira Group's Board of Directors.

Significant interest in develop-and-hold projects

In the context of equity investments, 56 percent of investors surveyed plan to increase their real estate investment volume in the next 18 months, some substantially. Only 11 percent plan to reduce their investments. A total of 37 percent of the respondents intend to invest in real estate in Europe (outside of Germany) and 22 percent in the United States by the end of 2022.

Investors showed particular interest in develop-and-hold projects for their own portfolios. Two thirds of the survey participants are interested in this investment strategy and are open to becoming involved in project development at an early stage. Almost none of the respondents ruled this out completely. "There is still considerable surplus demand in major cities.

Development projects in Class-A cities are a stable, long-term investment for investors with a low risk appetite, such as pension plans and insurance companies. And they benefit from more attractive returns," says Knapp.

Continued growth in real estate debt funds

Of the investors surveyed, 22 percent invest in stock and the same proportion in real estate (equity), with 15 percent investing in real estate debt funds. These investors wish to further increase their participation in real estate financing. A total of 22 percent of institutional investors intend to increase their real estate financing investments, while only 11 percent plan a reduction. Mezzanine real estate debt funds are considered potential investments for 33 percent, whereas whole loan real estate debt funds appeal to nearly one fifth of investors (18 percent). However, 40 percent of respondents reject an investment in real estate debt funds in the mezzanine financing segment entirely.

Regarding the question of which structure investors prefer under the applicable regulatory guidelines, 41 percent of respondents indicated that they prefer direct real estate investments. The low cost of this approach and having the sole decision-making authority are the main advantages. Open-ended special funds and club deals are viewed as the preferred structure by 33 percent. Fungibility and minimal management effort on the investor's part are the key factors here. Only every ninth investor is interested in closed-end special AIFs. Many institutional investors have already reached their real estate quota and therefore cannot purchase any more properties.

In answer to a question about structures that make applying investments to the real estate quota unnecessary, around one third of investors showed interest, while half were more likely than not to reject this option. "Bonds are an interesting option. They can be classified as listed securities and as such are not applied to the real estate quota in accordance with the Investment Regulation (*Anlageverordnung*). Thanks to their fixed return over a specified term and an investment-grade rating, these structures often feature a solid and predictable risk-return profile," explains Knapp.

The complete survey can be downloaded here.

The Empira Group at a Glance

With an investment volume of almost €5.5 billion, the Empira Group is a leading manager of institutional real estate investments in German-speaking Europe. The company specializes in developing innovative and highly profitable investment approaches and offers institutional investors in-house solutions in areas such as project development and land banking. Marketing mezzanine and whole loan products, Empira is a leader in real estate debt funds in the German-speaking world.

The Empira Group's real estate and capital market experts offer one-stop shopping for the entire value creation process: from identifying first-rate investment properties in all classes of use to a smooth acquisition process and tried-and-tested asset management. Empira's customers are institutional investors in Germany, Austria, and Switzerland. The company is headquartered in Zug, Switzerland, with additional branch offices located in Luxembourg and Frankfurt/Main, Berlin, Munich, and Leipzig, Germany.

Press contact
Holger Friedrichs
PB3C GmbH
Rankestr. 17
10789 Berlin, Germany
Phone: +49 (0) 30 726276-157
E-mail: friedrichs@pb3c.com