The Real Estate Research Interests of the Plan Sponsor Community: A Research Agenda for the Future? 1

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The real estate industry has suffered a tremendous loss of credibility over the past five years. Commercial real estate values have fallen between 20% and 40%, and up to 50% in the case of some office properties. Against this backdrop, real estate has, in a sense, become a pariah asset class. The challenge ahead becomes one of re-establishing credibility of the asset class among plan sponsors. Toward that end, PREA and NCREIF joined forces to survey 685 plan sponsors, with gross assets in excess of $500 million. A total of 171 funds responded for a response rate of 25%. Respondents were split relatively equally by size of fund (31% were below $1 billion, 38% were between $1 and $4.9 billion, and 31% were over $5 billion). By type of fund, 45% of the respondents were Corporate, 40% were Government, and 5% were Taft-Hartley funds.

Not all of the funds were active investors in real estate, with 10% indicating they hold no real estate and another 39% holding less than $99 million in real estate. However, almost one quarter of the respondents hold over $500 million in real estate. To ascertain the experience of the plans with real estate investments, respondents were asked if they had in-house real estate expertise. Only 35% had dedicated real estate staff, and less than 10% of the funds employ real estate research professionals.

With respect to salient results among broad research areas, Real Estate's Role in a Mixed Asset Portfolio was clearly seen as the issue of greatest significance, with 31% ranking this topic as the most important, 52% ranking it in the top three, and 61% ranking it as one of the top 5 most important research topics. While the broad topic of Performance Measurement of Real Estate Assets was ranked as most important by only 14% of the respondents, 41% indicated it was in the top three, and more than two-thirds (67%) identified it as one of the top 5 most important research topics. Similarly, only 7% of respondents ranked Diversification of Real Estate Portfolios as the most important. However, 39% ranked it as one of the top three, and 52% ranked it in the top 5. Finally, slightly more than half indicated Alternative Real Estate Investment Vehicles/Strategies was chosen among the top 5 most important research topics.

Despite all of the recent research devoted to the role of real estate in a pension portfolio, the results of the Plan Sponsor Survey indicate that institutional investors want additional research to be convinced that real estate belongs in their portfolios. With the exception of the largest funds, the most frequently cited broad research interest is the Role of Real Estate in a Mixed-Asset Portfolio. One explanation for this size effect is that larger funds tend to have more real estate --73% of funds over $5 billion own over $500 million of real estate-- and larger funds have more real estate expertise, 77% have dedicated in-house real estate staff and 27% employ in-house research professionals.

There was considerable divergence when research subtopics were considered within the entire sample and when responses are examined by size and type of fund. For the aggregate sample, the most consistently ranked subtopic appears to be Real Estate Cycles and Their Predictability. When separated by size and type of fund, the largest funds (which typically tend to be government funds) are interested in subtopics relating to the performance of real estate, whereas smaller funds tended to show interest in how much real estate and which vehicle to use to make the real estate investments.

Recommendations from this research are twofold. First, survey findings can be used to guide real estate research over the near term and used as a benchmark to document how research interests change as plan sponsors gain experience with the real estate asset class. Secondly, it appears that a great deal of work on

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many of the important research topics identified by the respondents has already been completed. To better facilitate the transfer of knowledge from academics to practitioners, we suggest the on-going publication of "seminal" readings in real estate investment to better communicate the practical implications of real estate research findings to the plan sponsors. While challenging, addressing these issues is important for re-establishing the credibility of real estate as an asset.