

Information transparency, document standardisation and increased market size will improve indirect real estate liquidity

- > Timing and pricing are key aspects to liquidity
- > Relative importance of timing and pricing changes at different points in the cycle
- > Trading in or out of a position within 12 months of deciding to do so is desirable

Investors identified timing and pricing as two key aspects of indirect real estate liquidity. Entry timing is constrained by the time it takes to underwrite an investment in a non-listed vehicle, capital queues in popular commingled funds and the pace of deployment of capital of closed end funds. Exit timing is impacted by the lock up periods of closed end funds and the ability of open end funds to meet or suspend redemptions.

Investors' perception on the importance of timing and pricing fluctuates over time. During periods of economic distress, the requirement for cash increases and thus investors

prioritise timing and become less price sensitive. As one investor surmised, *'In different parts of the cycle, either pricing or timing becomes more important'*. In essence, it is the trade-off between timing and pricing that is crucial.

'Investors consider timing and pricing to be the two key aspects of liquidity.'

Figure 1: The most important aspects of liquidity by investor location

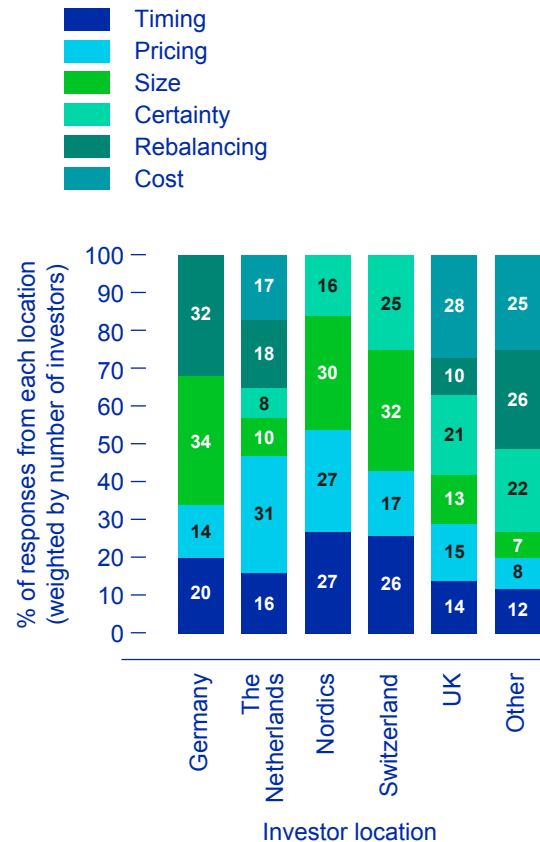
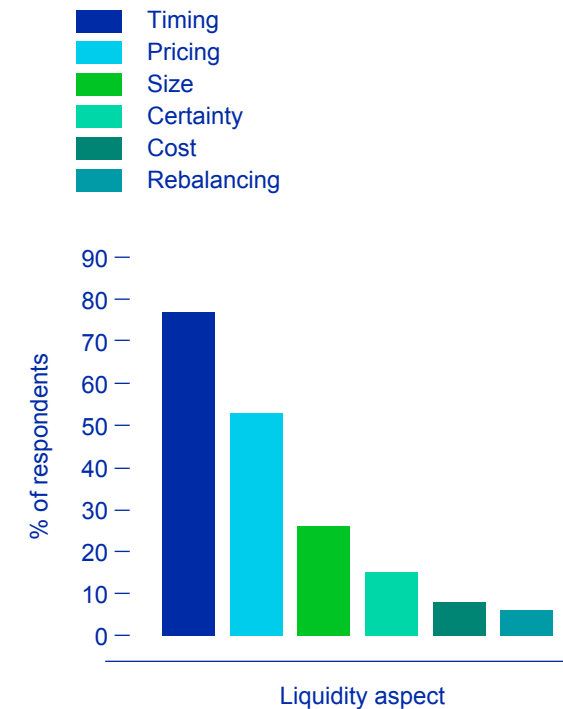


Figure 2: The most important aspects of liquidity according to indirect real estate investors



Market size is the next most important aspect of liquidity for investors. This reflects a number of indirect real estate characteristics including fund size, the number of primary fund raises, the size of primary and secondary market investor pool and the volume of trading on the secondary market. With one investor commenting *'The number of investors is important because if one or two investors with large holdings have a change in strategy and decide to redeem, the fund may be forced to sell significant assets'*. The general view is that the greater each of these underlying features becomes, the more liquid the indirect real estate market will become.

Nonetheless investors accept the inherent illiquidity of the asset class, as one investor commented: *'If we want liquidity we sell treasuries or corporate bonds'*. For one investing for the long term, *'We accept real estate is illiquid because we are focused on long term income'*. However, *'Liquidity allows us to tilt the portfolio and manage country and sector exposure'* noted by another investor using indirect real estate for portfolio rebalancing.

Being able to trade in or out of position within twelve months of deciding to do so is

considered as a valuable and effective risk management tool. Tactically trading between indirect real estate vehicles also provides opportunities to enhance returns.

Commenting on the short term desire for liquidity, investors said *'We get liquid exposure from other asset classes but would like to have annual liquidity from real estate'*, *'We recognise the illiquidity of real estate but*

we would like to be able to liquidate part of our portfolio within a year' and *'We'd like the ability to be able to make portfolio changes over the course of a year, even though it not a criteria that we do so'*.

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Figure 3: Time period over which investors desire liquidity from indirect real estate investments

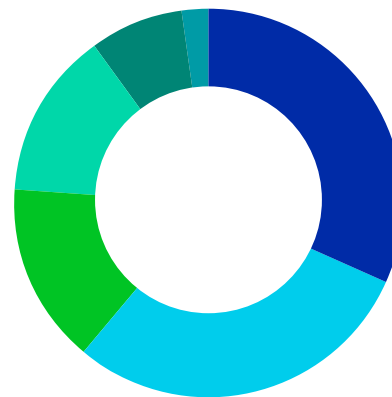
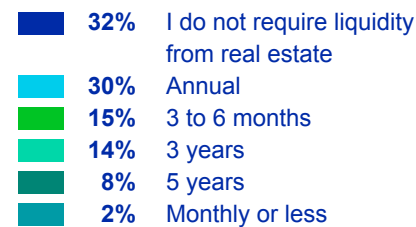


Figure 4: Most popular investor suggestions for improvements that would increase indirect real estate liquidity

