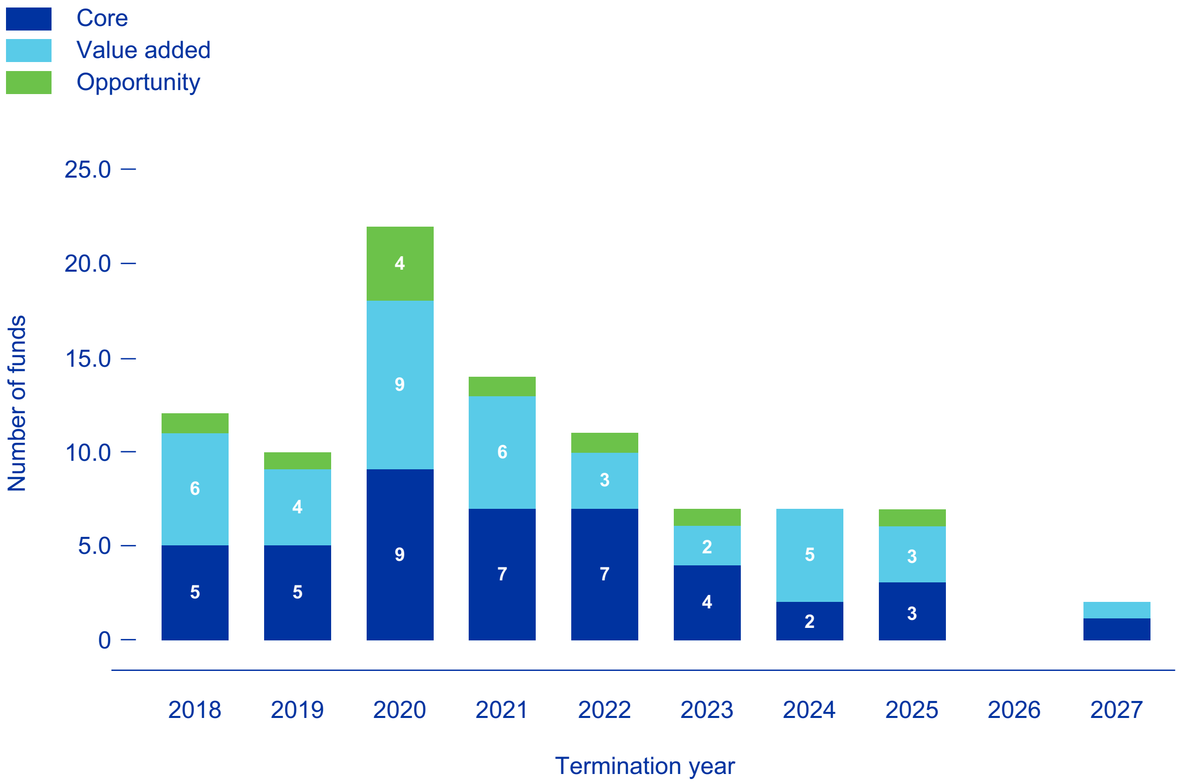
Liquidation is the preferred form of termination

- Funds with assets of €9.6 billion are approaching their end of life in the period 2018 to 2020
- The Brexit deadline coincides with €337.8 million of UK assets potentially coming to market
- Struggles in the retail sector are faced with €5.0 billion of retail scheduled for termination

Figure 1: Number of funds terminating between 2018 and 2027 by style



Over the next 10 years there are 92 European closed end non-listed real estate funds that are scheduled to terminate. Collectively they represent €20.9 billion of assets that could potentially be placed onto the market.

In the more immediate future, between 2018 and 2020, 44 funds owning €6.9 billion of assets are due for termination. A peak of terminations is expected in 2020 when the termination dates of 22 funds are scheduled.

The majority of funds that are due to terminate over the coming three year period are core and value added in style, though the precise proportions of each style varies from year to year. Corresponding gearing levels of these 44 funds are mostly below 60%. Only one fund has more than 60% gearing and is due to terminate in 2020.

UK strategy funds comprise half of the single sector funds due to terminate in 2019, coinciding with the Brexit deadline. This could potentially place €337.8 million of UK assets onto the market. Beyond 2019, 2020 could see a further €1.8 billion of UK assets coming the market.

Similarly the retail sector, which comprises the majority of funds due to terminate in 2018 and 2019, could potentially bring €5.0 billion of retail assets to the market in the coming three years. This comes at a time when the sector is faced with challenges from multiple angles.

A notable number, 47.8%, of funds that are due to terminate between 2018 and 2020 are already in liquidation. Meanwhile 30.4% of funds have decided to extend and 8.7% chose to rollover to a new fund structure.

Funds that are in liquidation have historically performed better than funds in extension. Over the 10 year period to end 2017, liquidating funds delivered 2.95% per annum to their investors, while extending funds delivering just 0.28% per annum.

However, returns were higher for both groups of funds in the most recent five year period. During this course extending funds delivered 7.75% per annum to their investors, outperforming their liquidating peers that delivered 4.98% per annum.

Current market circumstances tend to have the biggest impact on the decision making process for termination strategies. This year saw liquidation being cited as the preferred option at termination, consistent with 2014, 2015 and 2016.

This varies by fund styles. Value added funds were more likely to consider liquidation than any other option, while core funds were equally likely to choose liquidation or extension. Meanwhile opportunity funds were likely to consider options other than extension, liquidation or rollover.

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Figure 2: Performance by liquidation status