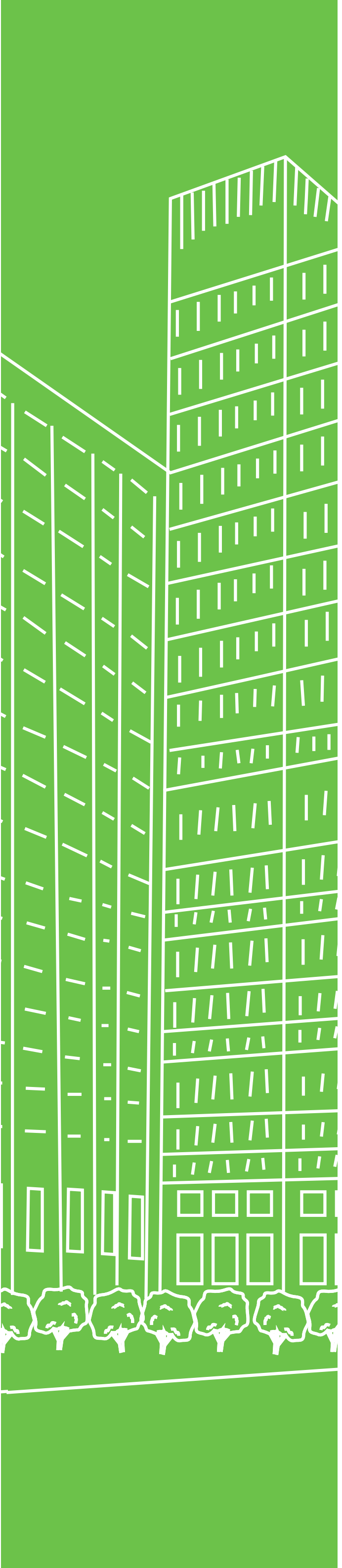

Funds Termination Study
2019

Research

INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. Our aim is to improve the accessibility of non-listed real estate vehicles for institutional investors by promoting greater transparency, accessibility, professionalism and standards of best practice.

As a pan European body, INREV represents an excellent platform for the sharing and dissemination of knowledge on the non-listed real estate industry.

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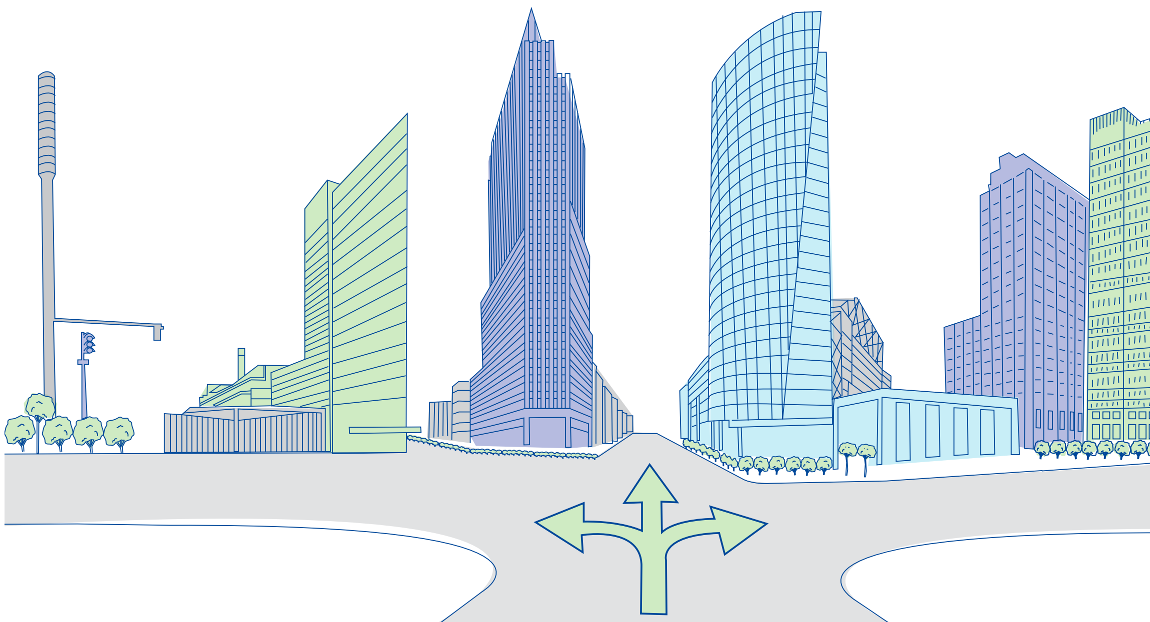
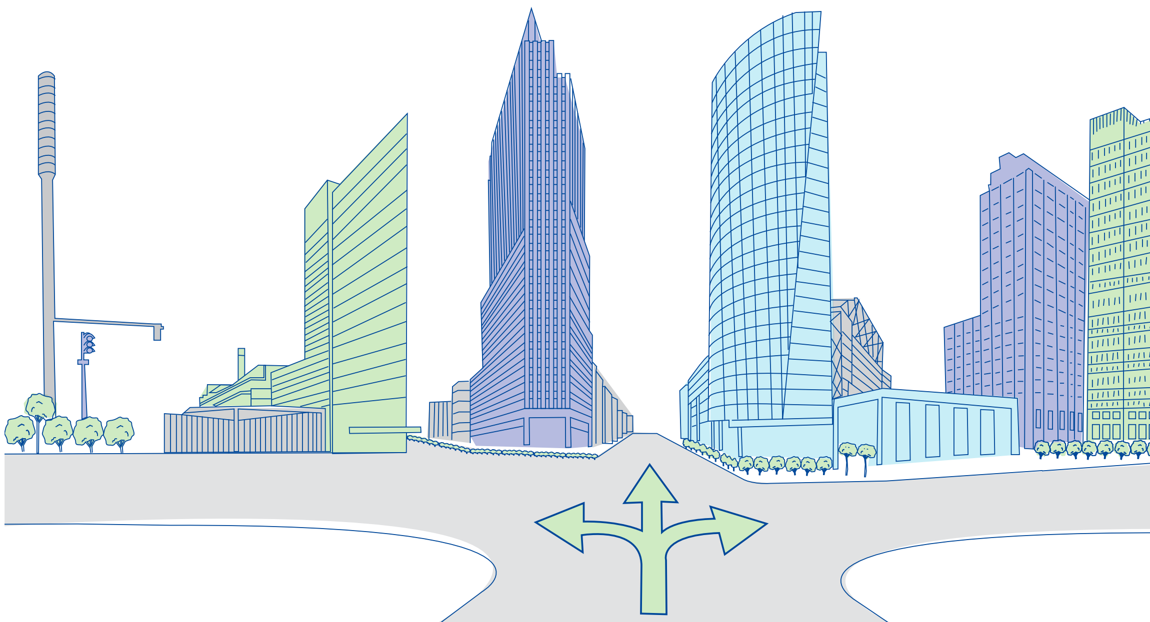


Contents



Executive summary

- Between 2019 and 2021, 50 funds, with a total NAV of €13.2 billion are due to terminate
- Liquidation remains the preferred termination strategy
- Changes in fund structure are not popular among those funds in the extension phase

Twenty-three funds expected to terminate in 2020
There are 50 closed end, non-listed European funds that are scheduled to terminate between 2019 and 2021. Together, these 50 funds can potentially bring around €13.2 billion of assets to the market. Eleven funds are expected to terminate in 2019, and a further twenty-three in 2020, the year with the highest number of terminations in the sample period.

Most of those funds due to terminate in the next three years are either core or value added, which respectively represent 44.0% and 42.0%.

As a fund's planned termination date approaches, a number of choices present themselves. This survey analyses the choices that have been taken place, the timing of these decisions and their implications for investment markets.

The UK and the retail sector are facing most terminations
Twenty-four (48.0%) of the funds with termination dates in 2019, 2020 and 2021 have a single country strategy, of which eleven targeted the UK. These funds could potentially bring €3.9 billion NAV of assets to the UK market in the next three years.

Fund performance has improved in recent years
Over the last 12 years, funds with a termination date in 2019 on average generated returns of 2.9% per annum, while those due to terminate in 2020 averaged -1.4% per annum. This cohort of funds was most impacted by the financial crash of 2008. Finally, funds terminating in 2021 posted average returns of 5.6% in the last twelve years. However, all groups have delivered positive returns over the last two years.

Liquidating funds outperformed funds in extension
Liquidating funds have performed better than those in the extension phase over the last eight years. Funds in extension generated an average total return of 3.4% per annum, while liquidating funds averaged 6.8% in this period. Replicating the analysis over a five year period produces a similar result, with liquidating funds delivering higher returns than those in extension.

Strategic considerations
The termination terms set in the fund documentation were considered the most important factor when choosing the termination date and strategy. Current market circumstances were the second most important driver. Quality of the portfolio and individual investor's liquidity requirements are in third and fourth position respectively.

Among termination options, liquidation was again the most preferred option, regardless of the fund style.

> 'Fifty funds are scheduled to terminate between 2019 and 2021, potentially bringing €13.2 billion of assets onto the market'

Section 1

Introduction

1. Introduction

The INREV Funds Termination Study examines the preferred termination options of European closed end non-listed real estate funds, including continuation strategies and the impact of current market conditions on these decisions.

The study was launched in 2007 and is published once a year.

The universe includes 243 closed end vehicles managed by 117 managers from the INREV Vehicles Universe. Collectively these vehicles represent a total Net Asset Value (NAV) of €47.3 billion. Of these 243 vehicles, 97 are due to terminate in the coming decade (2019 to 2028). This group represents a total NAV of €23.0 billion.

This study specifically focuses on the 50 funds that are due to terminate in the forthcoming period between 2019 and 2021. These funds could potentially bring €13.2 billion of assets onto the market.

Among these, 32 funds with a total NAV of €8.3 billion responded to a questionnaire-based survey which explores the factors affecting termination decisions.

The performance analysis for these funds is based on an unfrozen sample, meaning that historical data may change in future updates.

Aggregate performance results are presented only when there is a minimum sample of three funds managed by three different managers. All returns are calculated by INREV. Performance figures are stated in local currency.

The results of this study are based on data provided directly to INREV by managers.

INREV does not use publicly available information, and both members and non-members can provide data for the study.

INREV would like to thank all participants for contributing to the Funds Termination Study 2019.

Use
The results of the Funds Termination Study may be used for research and information purposes only.

They may not be used for the following:

- To determine the value of a fund
- To determine the value of a financial instrument
- To determine the amount payable under a financial instrument
- To determine the amount payable under a financial contract
- To calculate performance fees
- To define the allocation of a portfolio

It is important to note that the sample size and its composition varies year by year. As such, historical comparison should be treated with caution.

Section 2

Market overview

2. Market overview

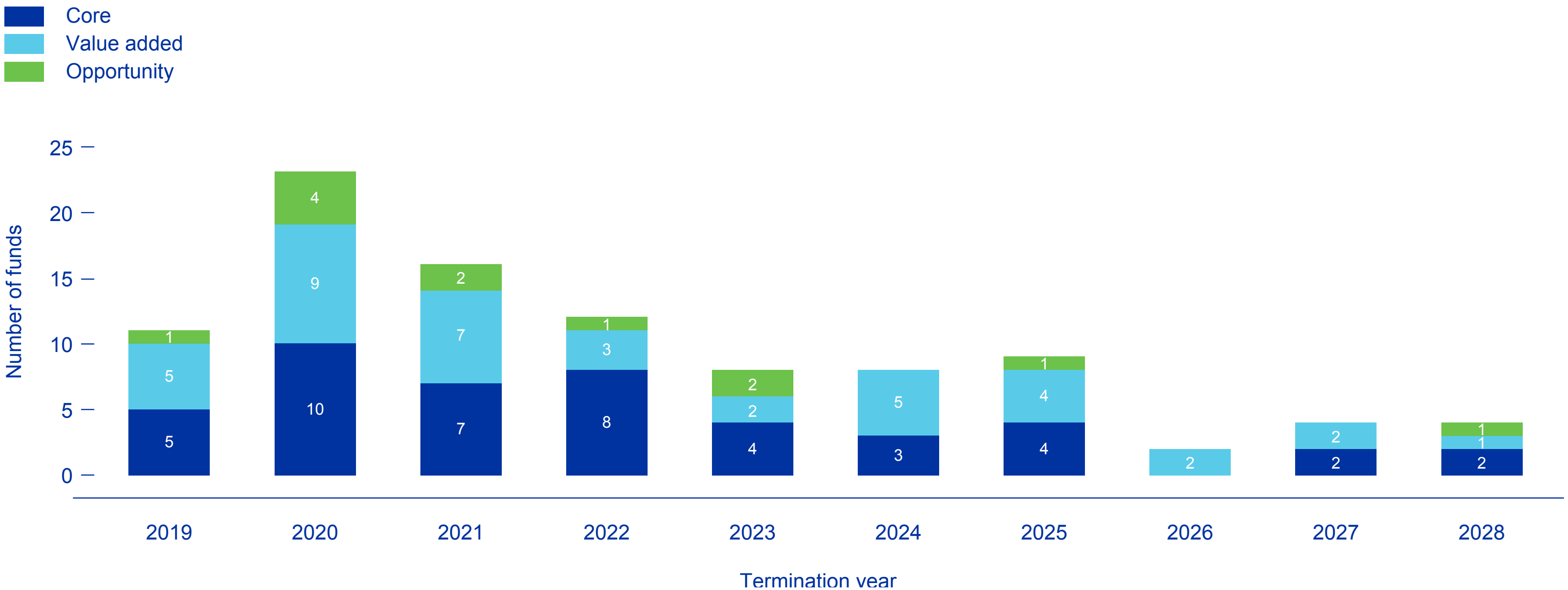
Funds terminating in the coming 10 years

This chapter studies the different features of European non-listed real estate funds in the INREV Vehicles Universe ('the universe'), as at the date of publication of the report. The universe consists of 458 vehicles, of which 243 are closed end, the latter representing NAV of €47.3 bn.

Ninety-seven (33%) of these closed end funds are planned to terminate between 2019 and 2028, with a combined NAV of €23.0 billion. The largest proportion of this group are core funds, with 46.4% of the total NAV, while value added and opportunity funds account for 41.2% and 12.4% of value, respectively. This distribution is similar to that seen in last year's results.

Most terminations are expected take place in 2020, a total of 23 vehicles. Ten of these twenty-three vehicles are core in style, nine are value added and four are opportunity.

Figure 1: Number of funds terminating between 2019 and 2028 by style



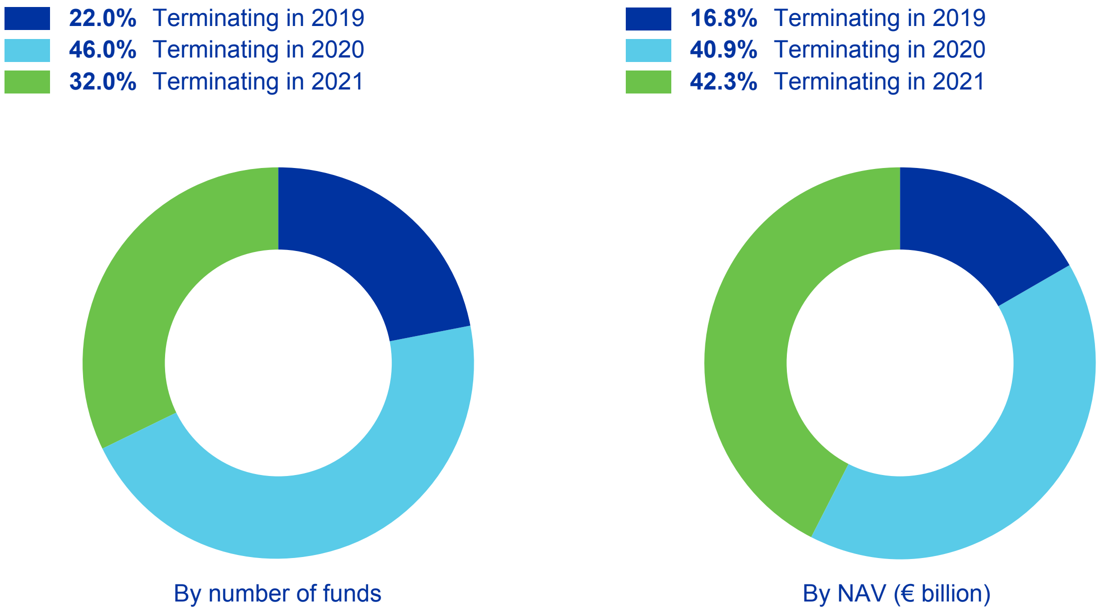
Funds terminating between 2019 and 2021

In the next three years (2019-2021), 50 funds are scheduled to terminate, which could potentially bring €13.2 billion NAV of assets onto the market. More than 45% of these funds are expected to terminate in 2020, representing 40.9% of the total NAV.

During the remainder of 2019, 11 funds with a total NAV of €2.2 billion are due to terminate. On average, these funds have an NAV of €295 million, lower than those terminating in 2020 and 2021, which average €341 million NAV and €578 million respectively.

The following sections show the main characteristics of the 50 funds with termination dates between 2019 and 2021.

Figure 2: Funds terminating between 2019 - 2021 by number of vehicles and size



> ‘Funds terminating in 2021 are larger on average than those with earlier termination dates’

Performance of funds terminating between 2019 and 2021

Funds with a termination date in 2021 have shown the strongest average 12-year annualised performance. This group of funds generated an annualised return of 5.6%, while those terminating in 2019 and 2020 posted average returns of 2.9% and -1.4% per annum, respectively.

A five-year analysis produces a similar pattern of results. Funds with termination dates in 2021 delivered a return of 9.3% on average, while those terminating in 2019 and 2020 generated average returns of 6.5% and 7.6%, respectively.

Performance has tended to converge in the last two years, with all three groups posting positive returns.

The performance of this group of funds was further analysed by splitting them into four different categories depending on their vintage year (year of first closing). Those of a vintage between 2011 and 2013 showed the most robust performance among the four groups, delivering an average four-year total return of 10.1%, while those with a vintage before 2008 delivered 5.5%, those dating from between 2008 and 2010 returned 1.7%, and those with a first closing after 2013 delivered 7.3%.

Looking at the average IRR by liquidation year, those funds with termination dates in 2020 had the highest IRR, 11.4%, followed by those terminating in 2019 and 2021. These funds posted IRRs of 9.4% and 7.4%, respectively.

Figure 3: Performance by liquidation year

Figure 4: Performance of funds terminating between 2019 and 2021 by year of first closing

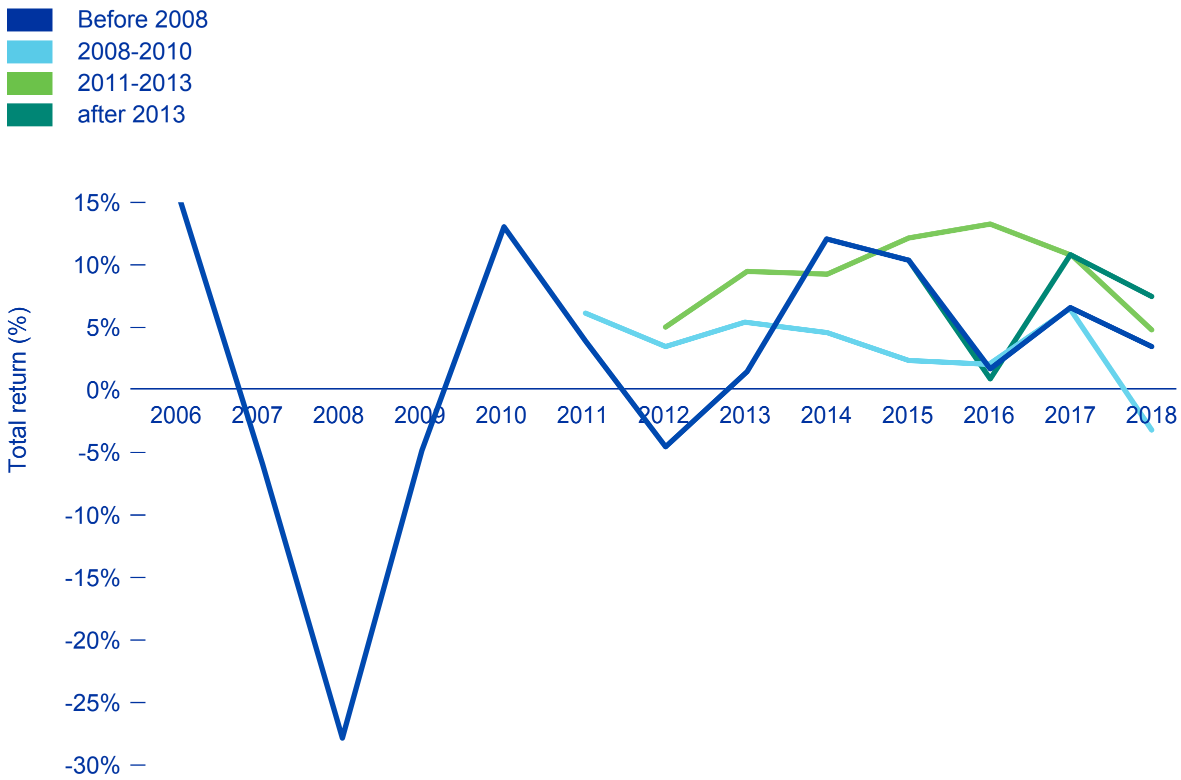
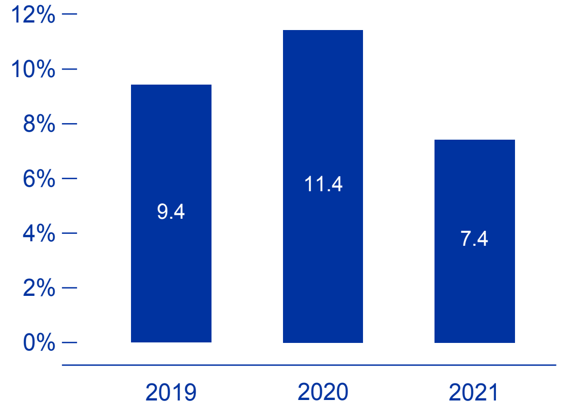


Figure 5: IRR by termination year



Provision to extend and fixed extension period

Of the 50 vehicles expected to terminate in the next 3 years, 40 have a facility to extend their termination date. For those funds expected to terminate in 2019, 90.0% (or nine) have a provision to extend, similar to 2020, when 90.5% (nineteen) are also scheduled to terminate. All funds (12) due to terminate in 2021 have the option to extend their termination date.

The vast majority of funds that can extend their termination date specify a fixed extension period.

The extension period normally stands at between one and ten years. Some funds have a fixed number of years by which they can extend, while others have a one-plus-one or one-plus-one-plus-one year option.

‘Most of the funds due to terminate in the next three years have an option to extend their termination date’

Figure 6: Provision to extend

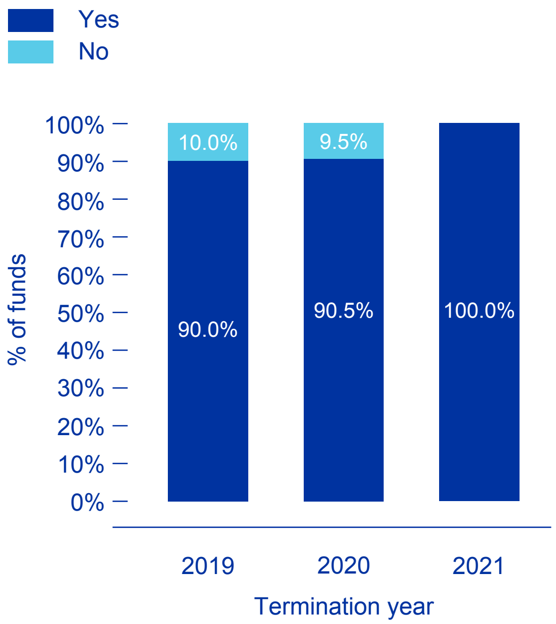
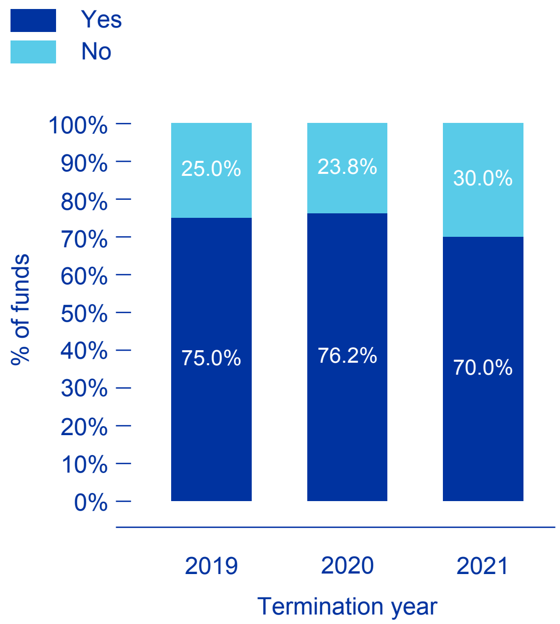


Figure 7: Fixed extension period



Year of first closing and target gearing

As noted above, the sample has been split into four different categories for analysis by vintage year: those with a year of first closing prior to 2008, those launched between 2008 and 2010, those launched between 2011 and 2013 and those with a year of first closing from 2013 onwards.

Around 50% of funds expected to terminate between 2019 and 2021 had their year of first closing between 2010 and 2013. The second most substantial group by vintage were launched before 2008 (25% of the total sample), while those funds with vintage years between 2008 and 2010 represent a smaller share. This distribution reflects that most funds were launched at the beginning of the recovery after the GFC, while relatively few were launched during the crisis.

The sample has also been split into three broad categories for analysis by target leverage level: those with target leverage of less than 40.0%, those with target leverage between 40.0% and 60.0% and those with more than 60.0%. Thirty-five of the fifty funds provided information on their target leverage levels.

Most of the funds with a termination date between 2019 and 2021 are core and value added in style, so it is not surprising that the majority have leverage levels below 60%. Only four funds have a level of target leverage higher than 60%, representing just 11.4% of the total sample.

The rest of the sample is almost equally split between the other two categories. Those funds with target leverage levels below 40% represent 45.7% of the sample, while the remaining 42.9% of funds have leverage levels between 40% and 60%.

Figure 8: Funds in termination by year of first closing

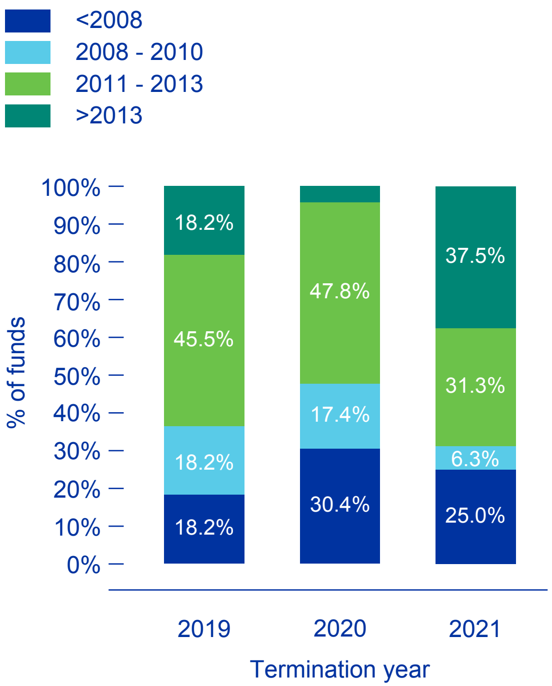
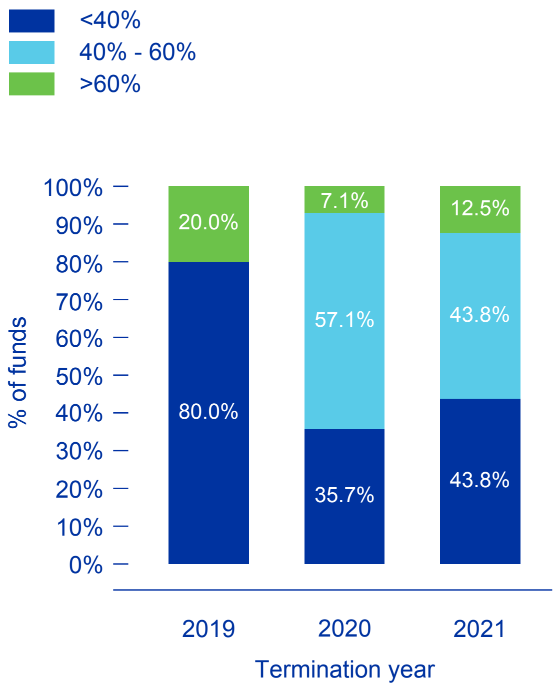


Figure 9: Funds in termination by target leverage



'Most of the funds with termination date in the next three years have leverage levels below 60%'

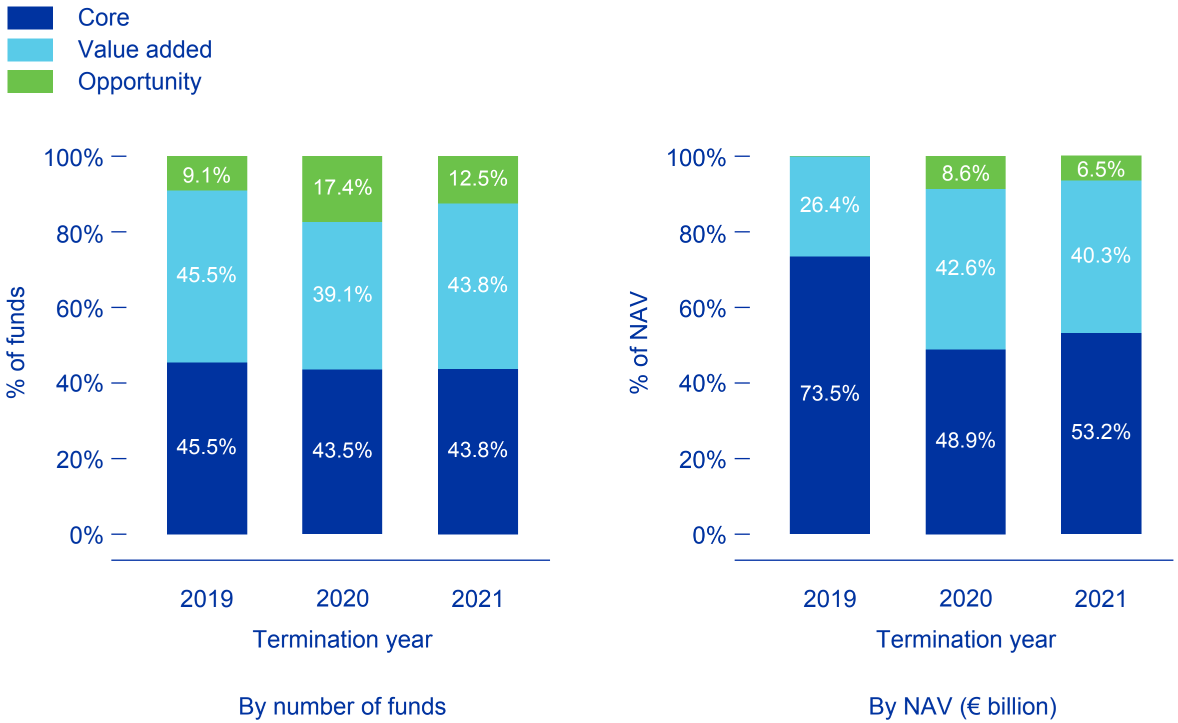
Style strategies

Looking at the style strategies of those funds with termination dates between 2019 to 2021, most by number are core and value added, representing 44.0% and 42.0% of the total sample respectively, while opportunity funds represent only 14.0%.

Analysing by NAV, the picture is rather different. Core funds represent the largest share of total NAV (73.5%) scheduled for termination in 2019, but for those funds terminating in 2020 the sample is almost evenly split between core and value added, with only a small residual of opportunity funds.

The situation is similar for funds due to terminate in 2021, with core and value added together representing more than 80% of the total sample.

Figure 10: Funds in termination by style



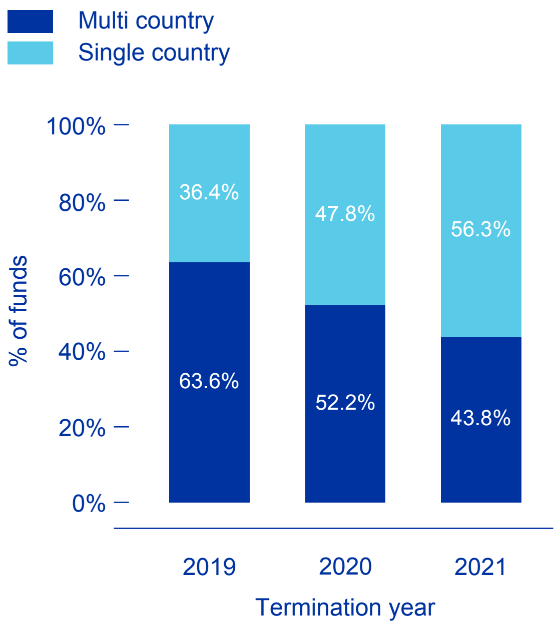
'Core funds will dominate terminations in 2019 and 2021'

Country strategies

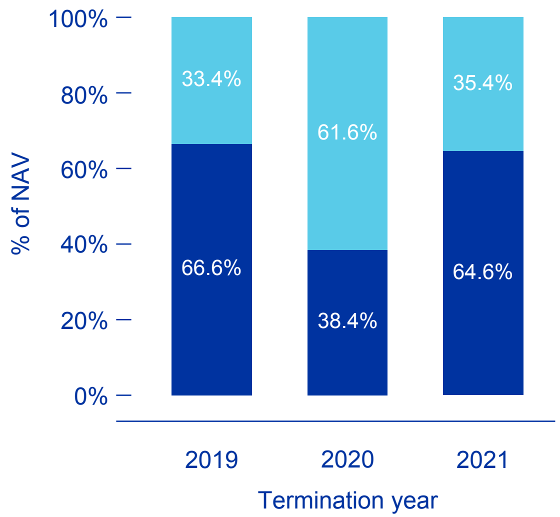
Multi country funds represent 63.6% of those with a termination date planned for 2019, while funds due to terminate in 2020 are almost evenly split between multi and single country strategies. Meanwhile, those funds scheduled to terminate in 2021 are mainly single country.

Analysing by NAV, a similar picture emerges for 2019. However, for 2020 terminations the share of single country funds is significantly larger by NAV than by number, indicating that these single country funds are larger than the multi country funds terminating that year. The opposite holds for 2021, when the share of multi country funds by NAV is much larger for that year the multi country funds tend to be larger, on average, than the single country funds.

Figure 11: Funds in termination by country strategy



By number of funds



By NAV (€ billion)

> 'Multi country funds comprise 54.2% of the €13.2 billion that is scheduled for termination between 2019 and 2021'

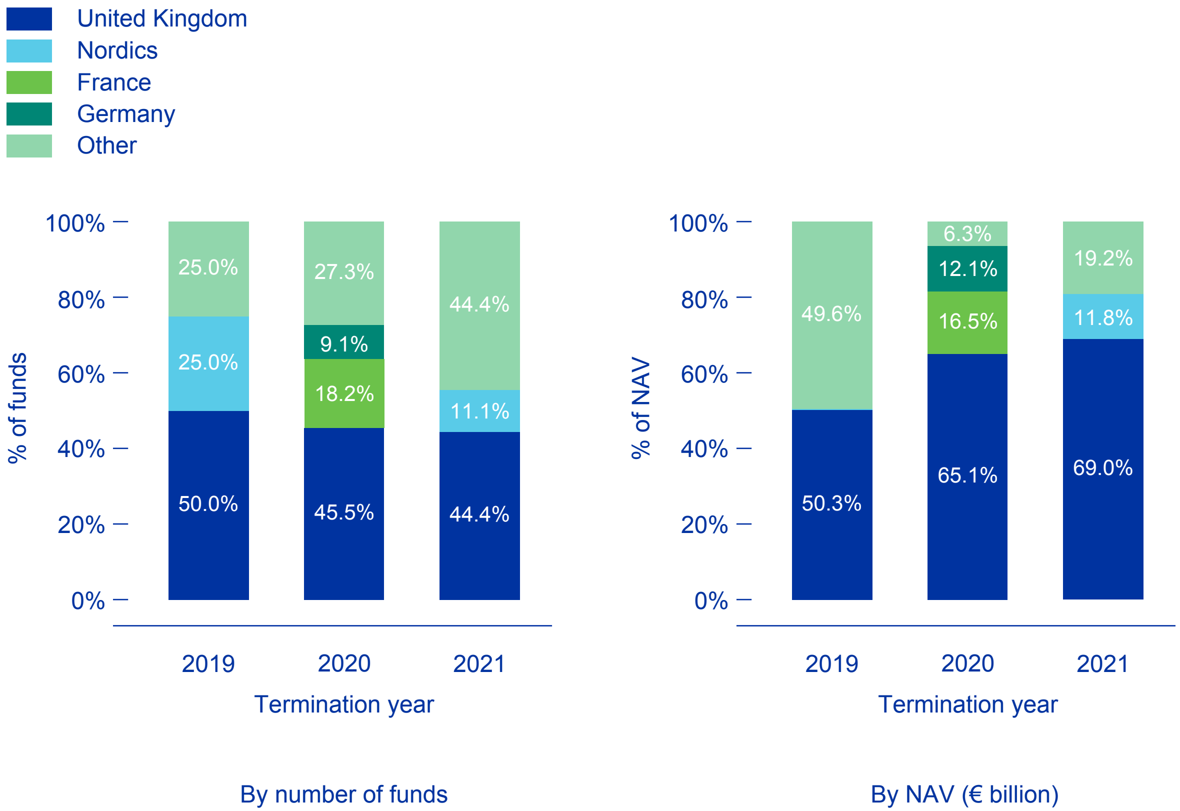
Single country strategies

Most of those funds with single country strategies that are expected to terminate between 2019 and 2021 are focused on the UK, both by number of funds and by NAV.

These figures show that UK funds set to be liquidated in the next three years are on average larger than those targeting other countries.

> 'Terminating funds targeting the UK represent the majority of single country funds by number and NAV'

Figure 12: Funds in termination by single country strategy



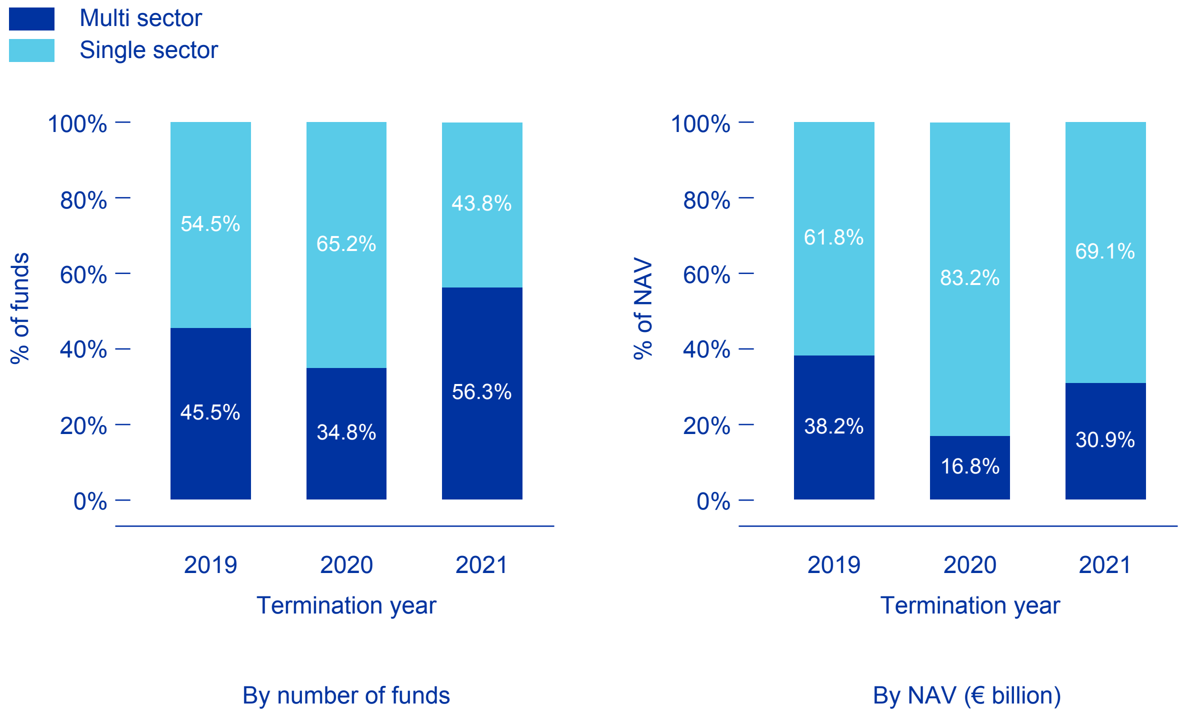
Sector strategies

By number, funds with a single sector strategy represent 56.0% of those due to terminate between 2019 and 2021. However, by individual years, just over half of those terminating in 2019 and two-thirds of those terminating in 2020 are single sector. On the other hand, 56.3% of those funds due to terminate in 2021 are multi sector.

Analysing by value, single sector funds dominate in all three years, due to their large average size by NAV. This is most notable for those terminating in 2021.

‘€9.7 billion NAV will come to the market from single sector funds between 2019 and 2021’

Figure 13: Funds in termination by sector strategy



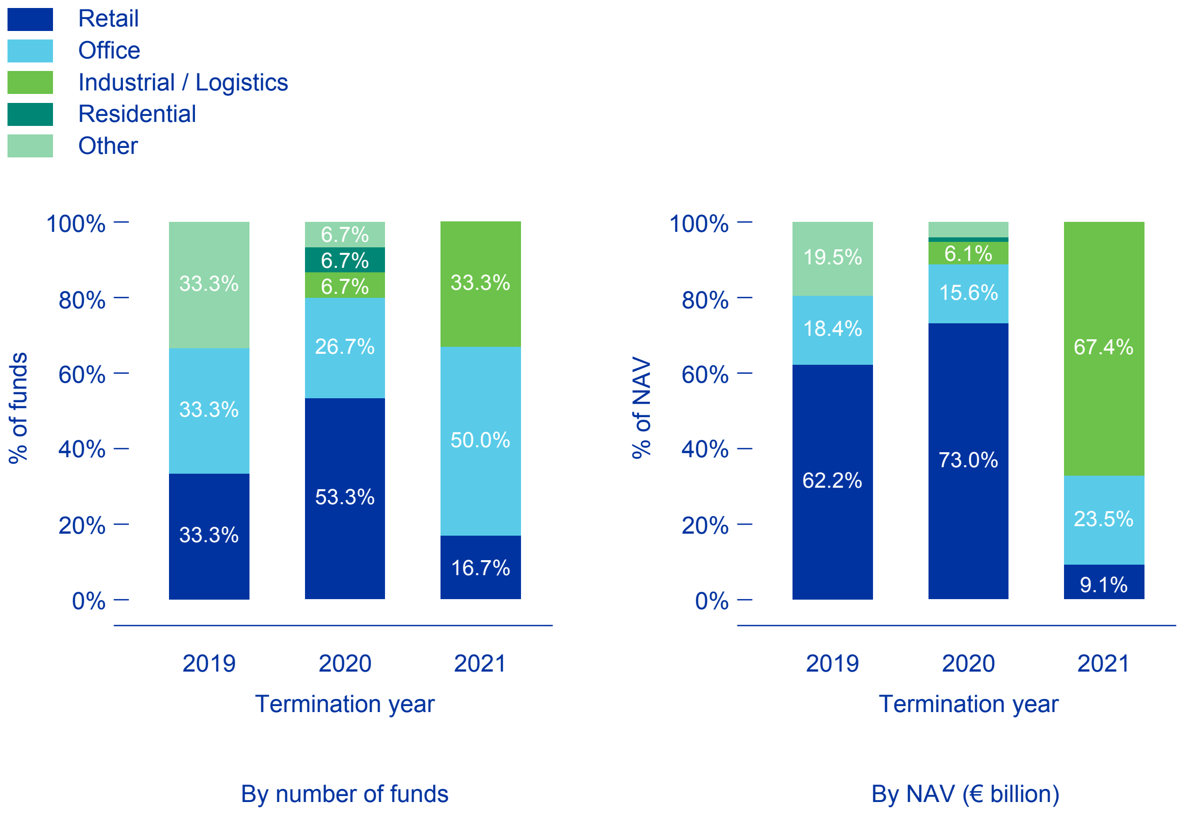
Single sector strategies

Retail sector funds represent the majority of those funds due to terminate between 2019 and 2021. Over the next three years, eleven retail funds are due to terminate, representing 40.7% of all those terminating. The sectors with the second and third highest number of funds expected to terminate are offices and industrial / logistics.

Those funds targeting retail are on average larger than the rest. Around €4.4 billion NAV of retail assets are expected to come to the market from these funds in the next three years.

> ‘Large retail funds are scheduled for termination in 2019’

Figure 14: Funds in termination by single sector strategy



Section 3

Funds termination survey

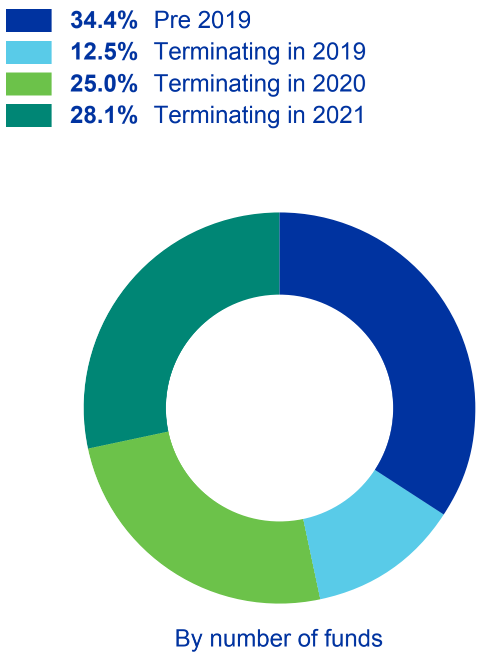
3. Funds termination survey

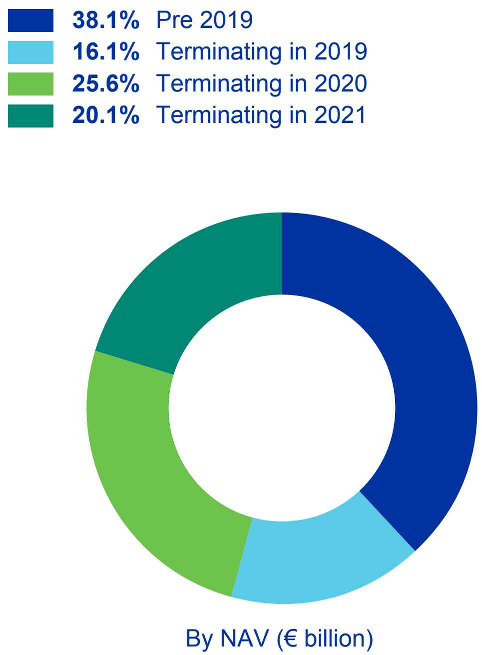
This chapter examines the performance results of the 32 funds that completed the annual funds termination survey. The sample is composed of two broad groups of funds. The first consists of those with termination dates between 2016 and 2018 that have not yet been liquidated, mainly because they are in the process of selling assets or because they are rolling the fund into a new structure. The second is formed by funds with termination dates between 2019 and 2021.

The 21 funds with termination dates between 2019 and 2021 are distributed as follows: 19.0% are expected to terminate in 2019, 38.1% in 2020 and the remaining 42.9% in 2021.

By size, these 21 funds have a combined NAV of €5.2 billion.

Figure 15: Composition of funds by termination date





Termination year	Pre 2019	2019	2020	2021
Number of funds terminating in the sample	11	4	8	9
NAV, € billion	3.2	1.4	2.1	1.7
Average NAV size, € million	289	337	267	186

‘Vehicles terminating in 2019 have an average size of € 337 million’

Composition by style strategy

The majority of the funds completing this year's survey are core, representing 62.5% of the total sample. Value added funds represent around 35% of the survey sample, while opportunity funds have a very small representation.

Those funds with a planned termination date before 2019 are mainly core funds. Among those extending their life, the main reason is to try to capture as much capital growth as they can given the current market situation.

Figure 16: Total sample

62.5% Core
34.4% Value added
3.1% Opportunity

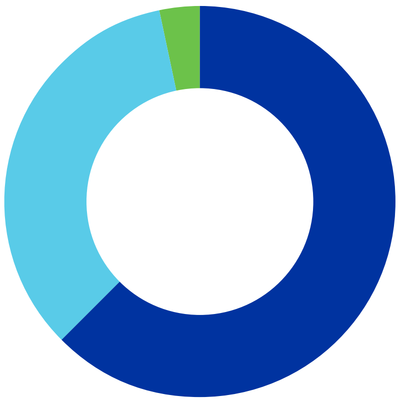


Figure 17: Funds with planned termination date before 2019

72.7% Core
27.3% Value added
0.0% Opportunity

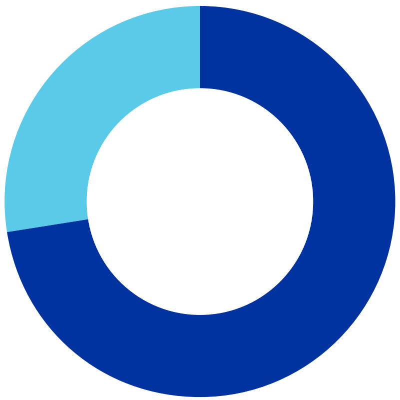
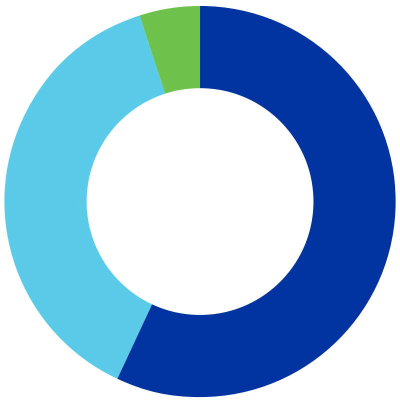


Figure 18: Funds with planned termination date between 2019 and 2021

57.1% Core
38.1% Value added
4.8% Opportunity



Composition by country strategy

Multi country strategies account for more than half of the total sample (56.3%). Those targeting the UK represent the majority of the single country funds expected to be liquidated in the next three years.

Taking a closer look at those single country funds with termination dates before 2019, most target the UK. These have generally not yet liquidated because they have been unable to sell assets at an attractive price, mainly due to political instability.

From a similar analysis of those funds expected to be liquidated in the next three years, a more varied situation emerges for single country funds, with no clear dominance of any country.

Figure 19: Total sample

56.3%	Multi country
12.5%	United Kingdom
9.4%	France
6.3%	Nordics
3.1%	Germany
12.5%	Other

Figure 20: Funds with planned termination date before 2019

63.6%	Multi country
18.2%	United Kingdom
9.1%	France
0.0%	Nordics
0.0%	Germany
9.1%	Other

Figure 21: Funds with planned termination date between 2019 and 2021

52.4%	Multi country
9.5%	United Kingdom
9.5%	France
9.5%	Nordics
4.8%	Germany
14.3%	Other

Composition by sector strategy

Single sector strategies are followed by 65.6% of the 32 funds that responded to the questionnaire. Retail accounts for the biggest share of these, representing 31.3% of the single sector sample.

The biggest group of single sector funds with termination date before 2019 are retail specialists. Many of these have failed to liquidate due to the recent poor performance of the retail sector, which means that they have been unable to sell their properties at a good price and are waiting for the sector to recover.

Retail sector funds also dominate those funds with termination dates between 2019 and 2021. These funds were already scheduled to terminate at this time, but given current market conditions in the sector will probably follow the same path as their peers and extend their life.

Figure 22: Total sample

34.4%	Multi sector
31.3%	Retail
12.5%	Office
6.3%	Industrial / Logistics
15.6%	Other

Figure 23: Funds with planned termination date before 2019

27.3%	Multi sector
36.4%	Retail
9.1%	Office
9.1%	Industrial / Logistics
18.2%	Other

Figure 24: Funds with planned termination date between 2019 and 2021

38.1%	Multi sector
28.6%	Retail
14.3%	Office
4.8%	Industrial / Logistics
14.3%	Other

Composition by liquidation status

The 32 funds that participated in the survey differ in their termination status. The largest number (34.4%) are in their extension phase, 25.0% are in the liquidation phase, 6.3% have rolled over to a new structure and 34.4% are considering other options.

Of those funds already due to terminate before 2019, the majority are still in their liquidation phase. As previously noted, this could result from the target strategy of the funds, since a big proportion of those liquidating target the retail sector or the UK. Current conditions in these markets are making it difficult to sell assets at an attractive price.

For those funds with termination dates between 2019 and 2021, the majority of questionnaire respondents are in the extension phase. This is because conditions in most of the markets concerned are positive, meaning that the funds concerned are looking to increase their capital gains.

Figure 25: Total sample

34.4% In extension
25.0% In liquidation
6.3% Rolled over to a new fund structure
34.4% Other

Figure 26: Funds with planned termination date before 2019

27.3% In extension
54.5% In liquidation
9.1% Rolled over to a new fund structure
9.1% Other

Figure 27: Funds with planned termination date between 2019 and 2021

38.1% In extension
9.5% In liquidation
4.8% Rolled over to a new fund structure
47.6% Other

Performance by termination status

Based on this year's sample, composed of eight funds in extension and five in liquidation, and performance data from the INREV Vehicle Index, in the last eight years liquidating funds generated an average return of 6.8% per annum for their participants, while those in extension returned 3.4% on average.

Funds in liquidation also performed better than those in extension in 2018. During the last year, funds in liquidation delivered a return of 14.7%, while those in extension only returned 0.0%. Six of the eight funds in the extension phase in 2018 were in the retail sector.

For funds in the extension phase, those with a vintage year between 2011 and 2013 outperformed those dating from before 2008. On average, over the last five years the first group delivered a total return of 11.2% per annum, while the second group only delivered 1.3%.

Those funds in the extension phase showed a higher IRR that those in liquidation, at 8.9% vs. 6.7%.

Figure 28: Performance by termination status

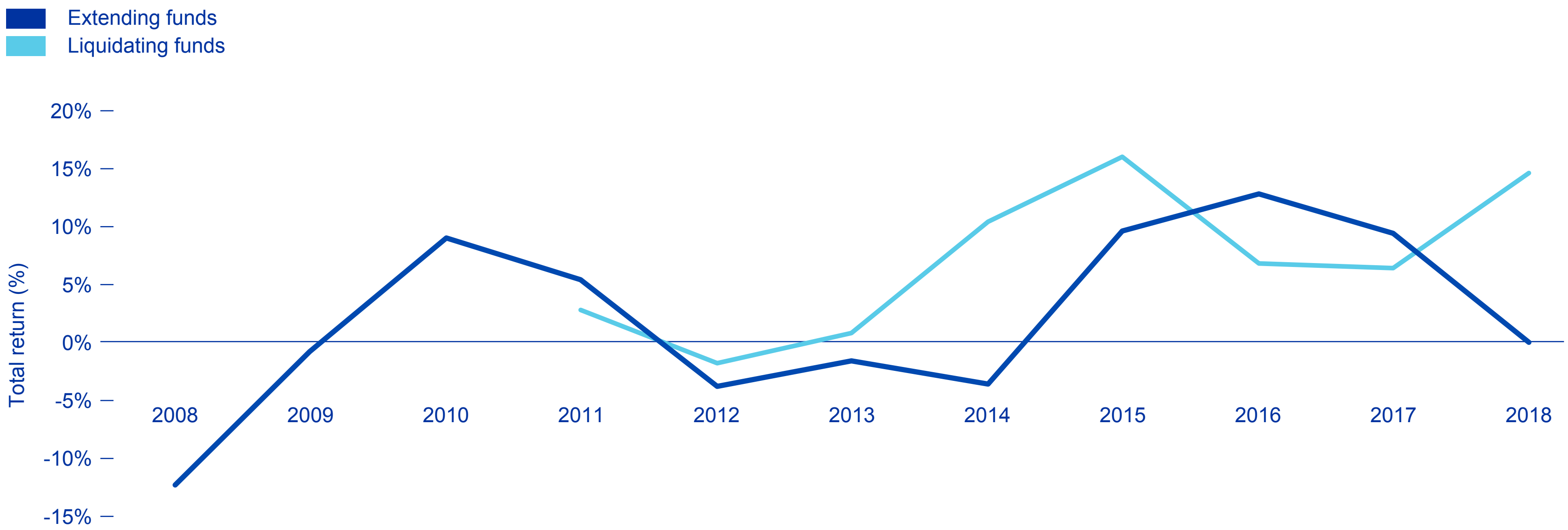
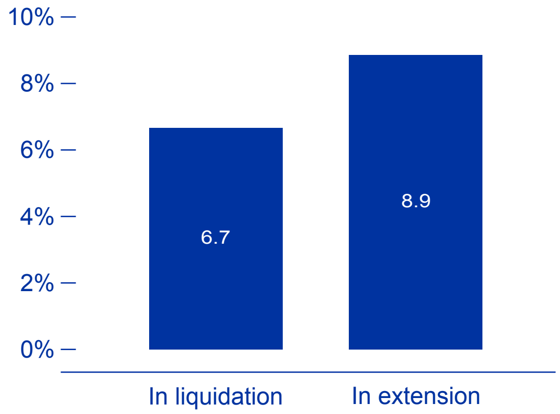


Figure 29: Performance of funds in extension by year of first closing

Figure 30: IRR by termination status



Timing of decision making

Managers responding to the survey were divided on their termination strategies. Just over a quarter (28.1%) have decided on their termination strategy, while around 40% are still considering the best termination option for their vehicles. Almost one-third (31.3%) did not specify their decision.

The majority of funds with termination dates in 2019 and 2020 have decided on their termination strategies. On the other hand, around 90% of those funds with a termination date in 2021 have not yet decided.

This reflects that conditions are more likely to change for funds terminating in 2021 than for those with a closer termination date.

Figure 31: Funds with planned termination date in 2019

50.0% Termination decision made
25.0% Termination decision not made
25.0% Unspecified

Figure 32: Funds with planned termination date in 2020

62.5% Termination decision made
25.0% Termination decision not made
12.5% Unspecified

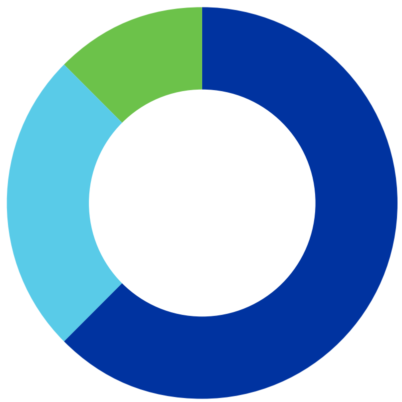
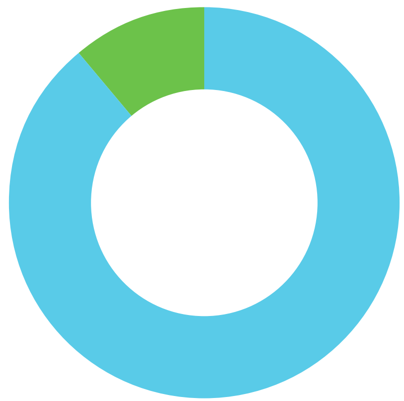


Figure 33: Funds with planned termination date in 2021

0.0% Termination decision made
88.9% Termination decision not made
11.1% Unspecified



Termination options and issues

Participants were asked which termination strategies they are considering for their vehicles, with the possibility of choosing more than one option. Most core fund managers are considering two termination strategies, extension and liquidation. Other strategies including rolling over, IPO, sale of the fund or merging with another vehicle are less favoured.

Managers of value added funds have a more consistent view of termination options, with the vast majority favouring liquidation, and extension in second place. None of these fund managers are contemplating rolling over and few are considering any of the other options.

Managers were also asked about the different factors that could affect termination decisions. As for the previous question, they were able to choose more than one response.

Almost all the respondents (93.8%) indicated that terms in the fund documentation are one of the main reasons for their choice of termination strategy, followed by current market circumstances (81.3%), the quality of the portfolio (43.8%) and the individual investor's liquidity requirements (37.5%).

This profile is very similar to that seen in last year's study, when these four reasons were also considered most important.

Figure 34: Termination option chosen by style

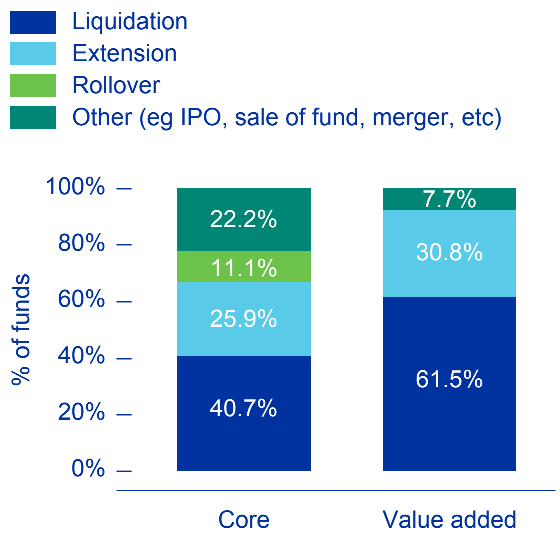
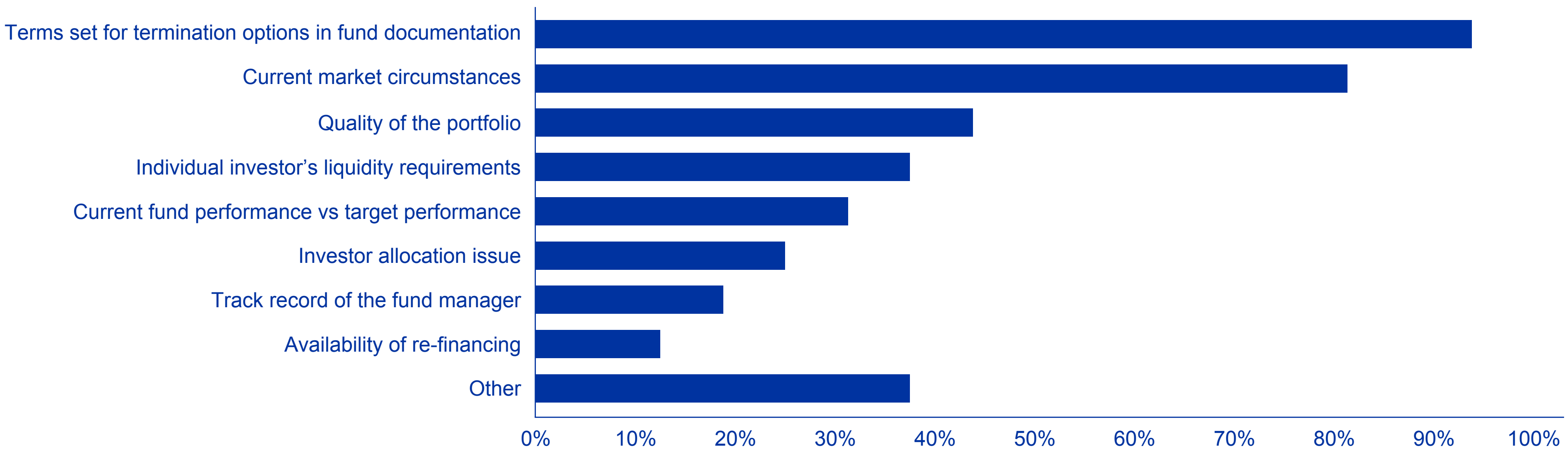


Figure 35: Issues affecting termination decisions



Preferred termination strategies and structural changes

The survey participants were also asked which strategy was finally or most likely to be chosen.

The preferred termination strategy was liquidation, which was chosen by 48.8% of respondents, followed by extension, which was selected by 26.8%. The options rollover and 'other' were chosen by less than a quarter of the total sample.

There was a significant increase in the number of fund managers selecting liquidation compared to the results of last year's study, 37.8% vs 48.8%, while extension made up a similar proportion to the previous year.

Occasionally an extension in fund life is accompanied by a strategic or structural change in the vehicle.

The majority of the respondents to this year's survey (63.6%) did not expect to make strategic or structural changes to the funds extending their termination date. The other 36.4% of the respondents intend to combine extension with some kind of structural change.

Figure 36: Termination option chosen or most likely to be chosen

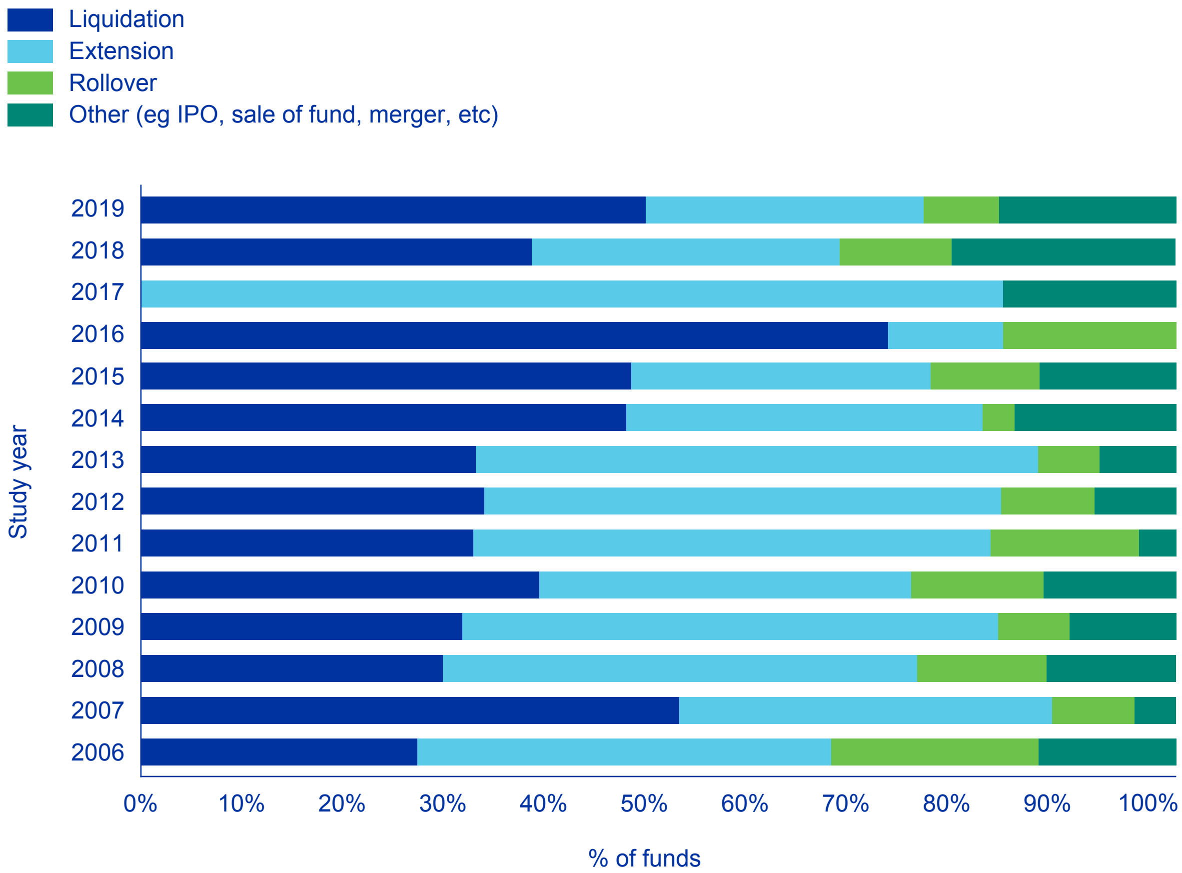
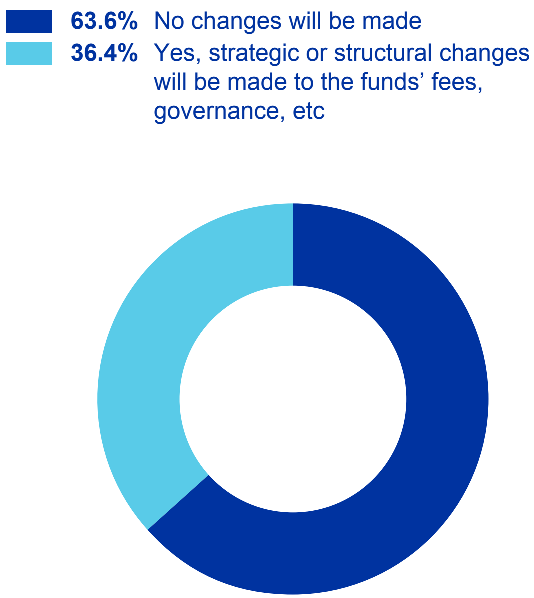


Figure 37: Structural changes to funds in extension



Appendix 1

Participants

Participants

INREV would like to thank the following list of managers for their contribution to the Funds Termination Study 2019, and gave permission for their names to be published:

AEW

AXA IM

Capman

Catella

CBRE Global Investors

DWS

Generali

GLL Real Estate Partners

Invesco

LGIM

NREP

Patrizia

Pradera

Sonae Sierra

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