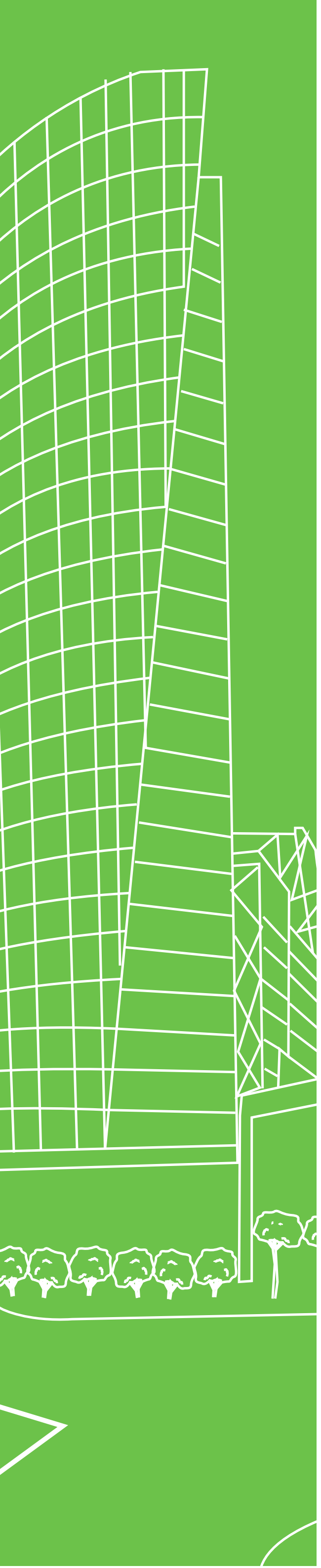

Funds Termination Study
2018

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

- There are 44 funds with €9.6 billion in assets scheduled to terminate between 2018 and 2020
- Liquidation is cited as the most preferred option for termination
- Current market conditions is the key driver of termination decisions

A wave of terminations in 2020
Between 2018 and 2020, 44 European closed end non-listed real estate funds are due for termination. These 44 funds could potentially bring €9.6 billion of assets to the market. In 2018 and 2019 there are 12 and 10 funds respectively that are scheduled for termination. In 2020, the number of funds doubles to 22 bringing a possible €5.2 billion of assets to market.

With regards to style strategies, core and value added represent the majority of terminating funds in the coming three years, 19 or 43.2% each. Meanwhile opportunity makes up the remaining 6 funds (13.6%).

Challenges facing the UK and retail sector
Among the single country funds, those that target the UK dominate the scheduled termination landscape. In total these funds represent a potential €2.1 billion of UK assets that could come onto the market over the coming three years. This comes at a time when the UK is faced with challenges from the Brexit deadline. Similarly the single sector funds are largely comprised of those with a retail strategy. Potential terminations could bring €5.0 billion of retail assets onto the market, posing further difficulties for the retail sector.

Funds perform better in more recent years
Over a 12 year performance period funds terminating in 2018 generated 4.00% per annum. Those terminating in 2019 achieved similar returns and delivered 4.40% per annum on average to their investors. However, funds scheduled for termination in 2020 delivered an average total return of -1.54% per annum, impacted by strong negative performance in 2008. Nevertheless all three groups of funds have achieved positive, close to double digit returns, for their investors, over the past two years.

Funds in extension outperform in 2017
There is often a link between performance and the terminating status of a fund, though this relationship is not necessarily consistent over time. Over the 10 year period to end 2017 liquidating funds generated 3.0% per annum on average to their investors. This compares to just 0.3% per annum observed by funds in extension. However, over the most recent five year period, the picture reverses with extending funds generating 7.8% per annum compared with 5.0% on average achieved by their liquidating peers. In 2017 funds in extension outperformed those in liquidation with 4.1% total return compared with 11.9% for liquidating funds.

Strategic considerations
The majority (65.2%) of respondents to the Funds Termination Survey stated that current market circumstances are the most important driver when deciding on the end of a fund's life and the termination options available. Terms set for termination options in the fund documentation is the next most important driver and the quality of the portfolio was nominated as the third most important consideration.

When it comes to termination options, liquidation is cited as the most preferred option at termination. Though this varies by style. Core funds see an equal number opting for liquidation and termination. This is also similar for opportunity funds, although to a lesser extent. Meanwhile the majority of value added funds have indicated that liquidation is their mostly likely choice. Value added and opportunity funds are more likely to consider options other than liquidation, extension and rollover, than their core peers.

> 'A series of retail sector funds are due to terminate over the coming three years potentially bringing €5.0 billion of retail assets to the market'

Section 1

Introduction

Introduction

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

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

This year's study includes 248 closed end vehicles managed by 91 managers from the INREV Vehicles Universe. Collectively these vehicles represent a total Net Asset Value (NAV) of €50.0 billion. Of these 248 vehicles 92 funds are due to terminate in the coming decade (2018 to 2027). This group represents total NAV of €20.9 billion.

The study specifically focuses on the 44 funds that are due to terminate in the coming period, between 2018 to 2020. These funds could potentially place €9.6 billion onto the market.

The study also explores factors affecting termination decisions, and this is based on a sample of 23 funds which completed the questionnaire-based survey. Collectively these funds represent NAV of €5.7 billion.

The performance analysis is based on an unfrozen sample, therefore historical data may change with future updates.

Aggregate performance results are presented only when there is a minimum 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 from managers.

INREV do 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 2018.

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

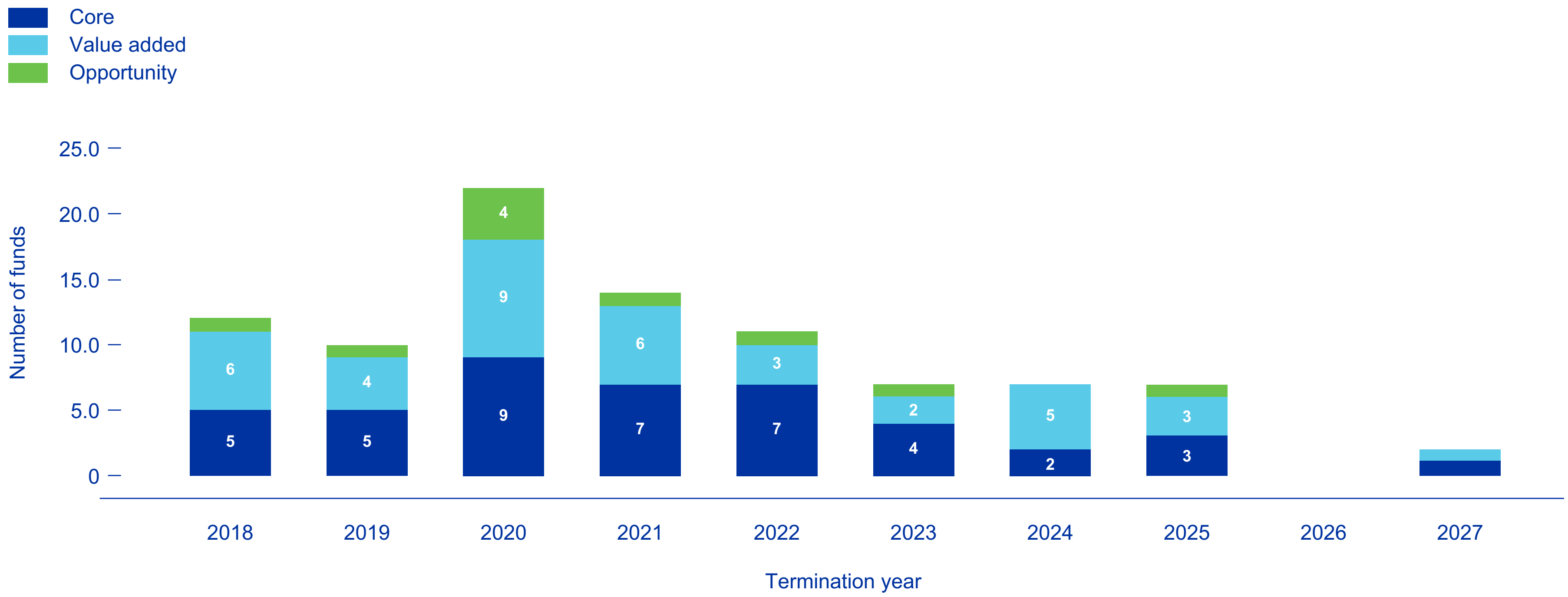
Market overview

Funds terminating in the coming 10 years
This section describes the characteristics of European non-listed real estate vehicles from the INREV Vehicles Universe ('Universe'). As of end Q2 2018 the Universe comprised 443 vehicles of which 248 were closed end funds that collectively represent NAV of €50.0 billion.

Of those, 92 vehicles have a planned termination date within the next 10 years, between 2018 and 2027. This group of funds represent combined NAV of €20.9 billion. These 92 funds are largely core (46.7%) and value added (42.4%) in style, within one tenth (10.9%) seeking opportunity strategies.

A peak of terminations is expected in 2020 when 22 vehicles have their planned termination date. Of these 22, nine each are core and value added and four are opportunity in style. The next highest wave of terminations is expected in 2021 when 14 funds are due to terminate. In 2018, 12 funds are due to terminate potentially bringing €2.0 billion onto the market by the end of the year.

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



Funds terminating between 2018 and 2020

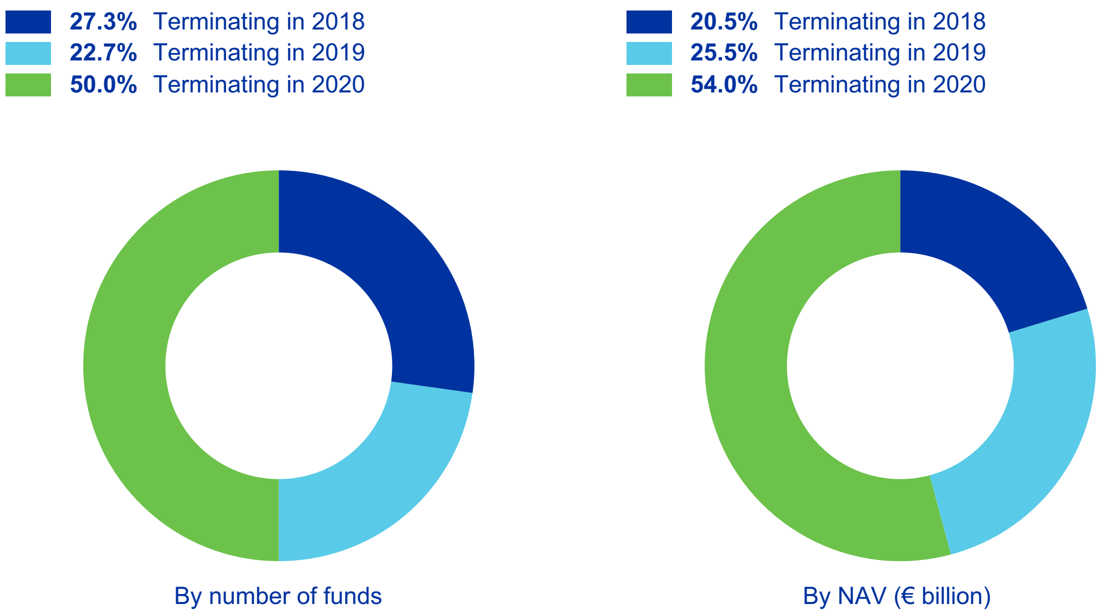
Within the coming few years, between 2018 to 2020, 44 funds are due to terminate, which could potentially place €9.6 billion of assets onto the market. Half, 22, of these funds are due to terminate in 2020. These 22 represent over half, 54%, of the value of assets that could come to market.

In 2018 just over a quarter, 27.3% (or 12) funds are due to terminate. These represent just one fifth, 20.5%, of total NAV which indicates that these funds are smaller on average than those due to terminate in 2020. The average NAV of funds terminating in 2018 is €164.2 million compared with €236.3 million for vehicles terminating in 2020.

Funds terminating in 2019 are even larger on average. The 10 funds in this group, represent total NAV € 2.4 billion, and average €244.8 million.

The next few pages explores the characteristics the 44 funds that are due to terminate between 2018 and 2020.

Figure 2: Funds terminating between 2018 - 2020 by number of funds and size



> ‘Funds terminating in 2018 are smaller on average than vehicles with later termination dates’

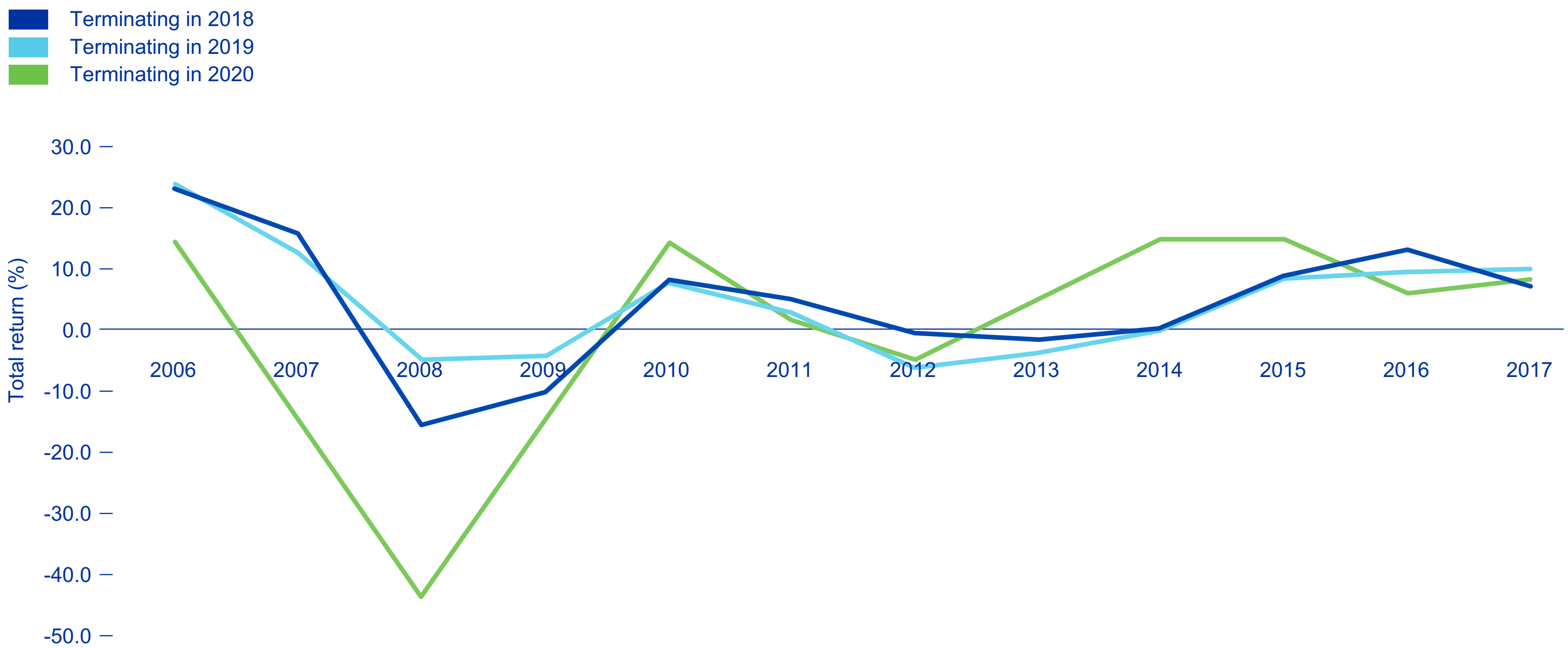
Performance of funds terminating between 2018 and 2020

With regards to their performance, an interesting picture emerges. On a shared 12-year annualized performance basis, funds that have their termination date scheduled in 2018 and 2019 generated similar returns levels. The former group of funds generated 4.00% per annum while the latter yielded 4.40% per year on average to their investors.

Funds that are scheduled to terminate in 2020 have been less successful. Over the shared 12-year period, this group of funds generated an average total return of -1.54% per annum. Although the last five years have seen returns averaging at 9.76% annually, the best average over this period among the three groups of funds.

Interestingly, however, the last two years saw fund returns converging. Whether funds are terminating in 2018, 2019 or 2020, all three groups posted positive, close to double digit, returns to their investors since 2015.

Figure 3: Performance by liquidation year



Provision to extend and fixed extension period

Of the 44 funds that are due to terminate over the coming two years, 41 vehicles have a facility to extend their life. For those scheduled to terminate in 2018, 91.7% (or 11) have a provision to extend, while all 9 of those that are due to terminate in 2019 have an option for extension. The option to extend is available to 18 (or 90.0%) of those funds that due to terminate in 2020 if so desired.

The majority of those that have a provision to extend their termination date can do so with a fixed extension period. Very few do not have a set extension period.

The length of the extension period varies from 1 year up to 10 years. Some have a fixed number of years by which they can extend and some have a 1 + 1 or 1 + 1 + 1 year option.

> 'The option to extend is available to the majority of funds due to terminate over the next few years'

Figure 4: Provision to extend

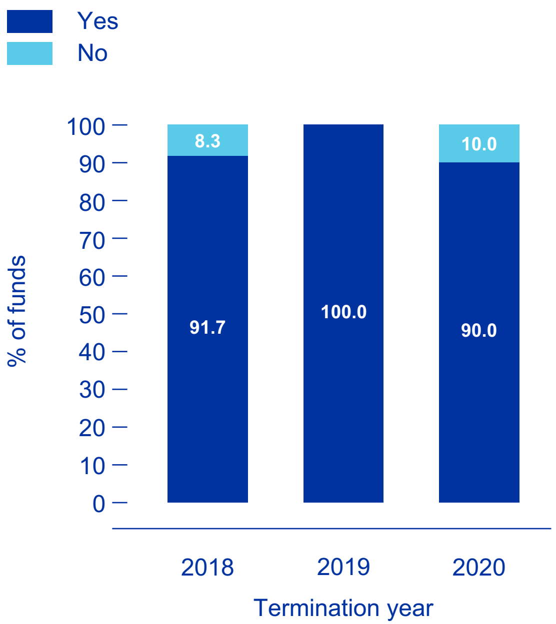
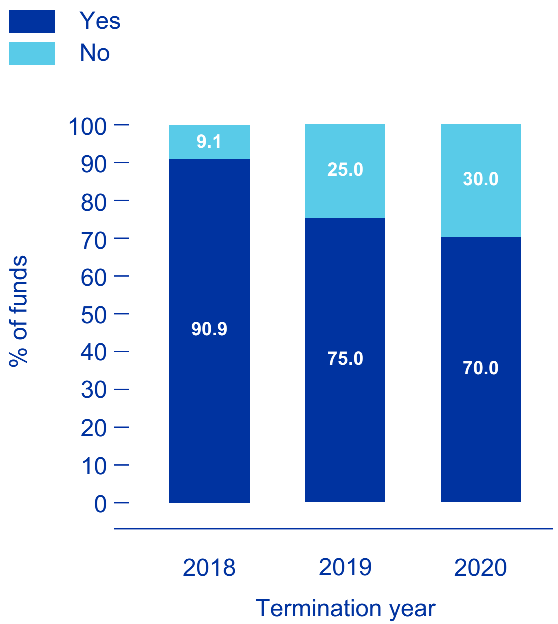


Figure 5: Fixed extension period



Year of first closing and gearing

For the vintage analysis, the sample has been split into broad three categories: funds with a year of first close prior to 2001, funds launched between 2001 and 2008, and those with a year of first close from 2008 onwards.

The majority of funds due to terminate between 2018 and 2020 were launched post-2008. Some were launched between 2001 and 2007, and there are a handful were launched prior to 2001.

For 2018 terminations the younger vintage funds comprise 58.3%, which is lower than for 2019 and 2020 terminations where younger vintages comprise 80.0% and 72.7% respectively. What's interesting is there are some older vintage funds, those with a first close prior to 2001, that are due to terminate in 2019 and 2020. This suggests that these funds saw their end of life extend by a notable margin.

Figure 6: Funds in termination by year of first closing

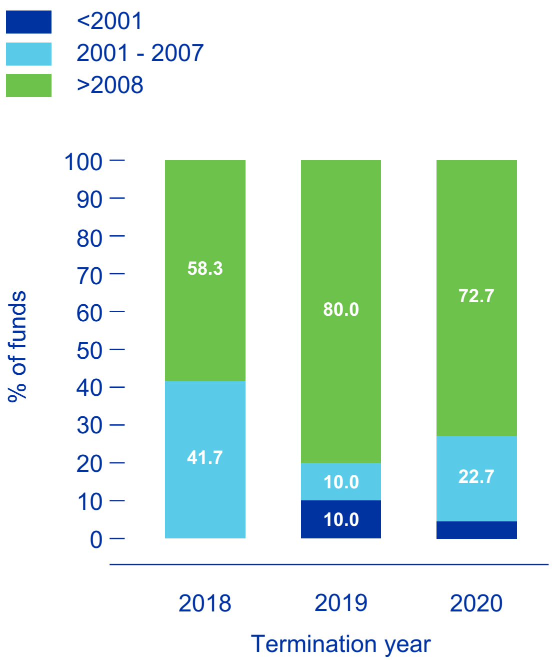
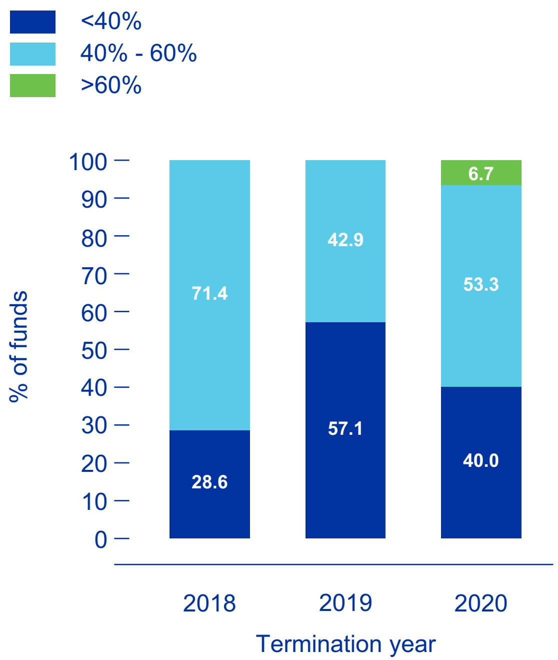


Figure 7: Funds in termination by gearing



For the analysis by gearing levels, the sample has been split into the following three broad categories: funds with gearing of less than 40.0%, funds with gearing between 40.0% and 60.0%, and those with more than 60.0% of gearing. Only 28 of the 44 funds provided information on their gearing levels.

As the majority of funds scheduled for termination between 2018 and 2020 are core and value added in style it is not surprising to see that most of these funds have less than 60% gearing. Only one fund has more than 60% gearing and this is scheduled to terminate in 2020.

Funds with gearing levels between 40% to 60% account for over half, 57.1%, of the 2018 to 2020 terminations. While funds with less than 40% comprise 42.9% of sample.

> 'The majority of funds terminating over the coming years have 40 to 60 per cent gearing levels'

Style strategies

Taking a closer look at the style strategies of the 2018 to 2020 terminations shows that, by number, these funds are almost evenly split between core and non-core strategies.

The 2018 terminations are distributed as follows: 41.8% are core funds, 49.9% are value added and 8.3% opportunity. For 2019 terminations, 50.0% are core followed by 40.0% value added and 10.0% opportunity funds. Terminations due in 2020 see a slightly higher proportion of opportunity funds.

When measured by NAV the picture is slightly different. Value added vehicles comprise the largest share of total NAV (59.1%) scheduled for termination in 2018. The reverse if true for 2019 terminations when 81.3% of the value will come from core funds. The 2020 terminations will see most of the value coming from non-core strategies, 43.8% of NAV from value added and 13.8% from opportunity.

Figure 8: Funds in termination by style

> ‘Core assets will dominate terminations in 2019 both in terms of number of funds and by value’

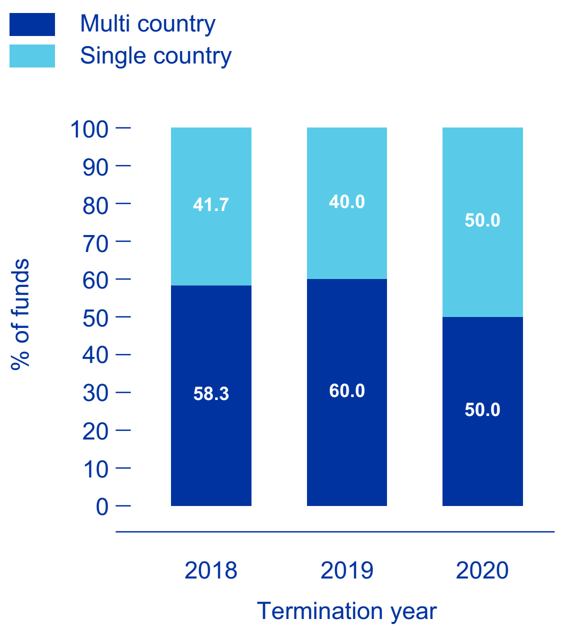
Country strategies

In 2018 and 2019 the majority of funds due for termination are multi country strategy funds. These represent over half, 58.3%, of funds with a 2018 planned termination date. It is similar for 2019 terminations with 60.0% of the funds being multi country strategy funds. The funds scheduled for 2020 termination are evenly split between multi and single country strategies.

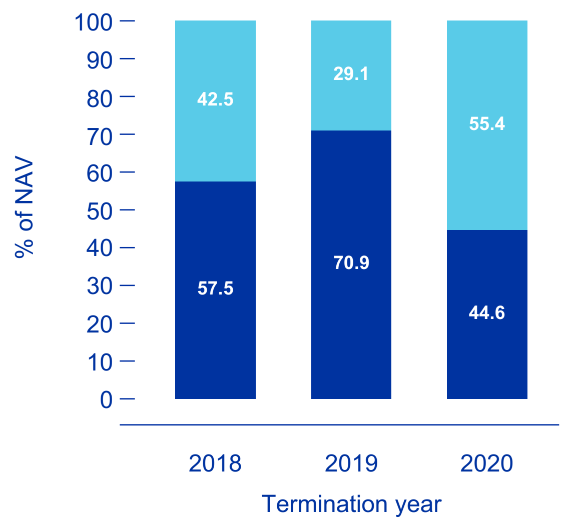
Of the €2.0 billion scheduled for termination in 2018, 57.5% is attributed to multi country funds. In the following year, multi country funds represent 70.9% of the €2.4 billion that is scheduled for termination. For 2020 terminations, single country funds form the majority or 55.4% of the €5.2 billion planned termination value.

‘Multi country funds comprise 70.9% of the €2.4 billion that is scheduled for termination in 2019’

Figure 9: Funds in termination by country strategy



By number of funds



By NAV (€ billion)

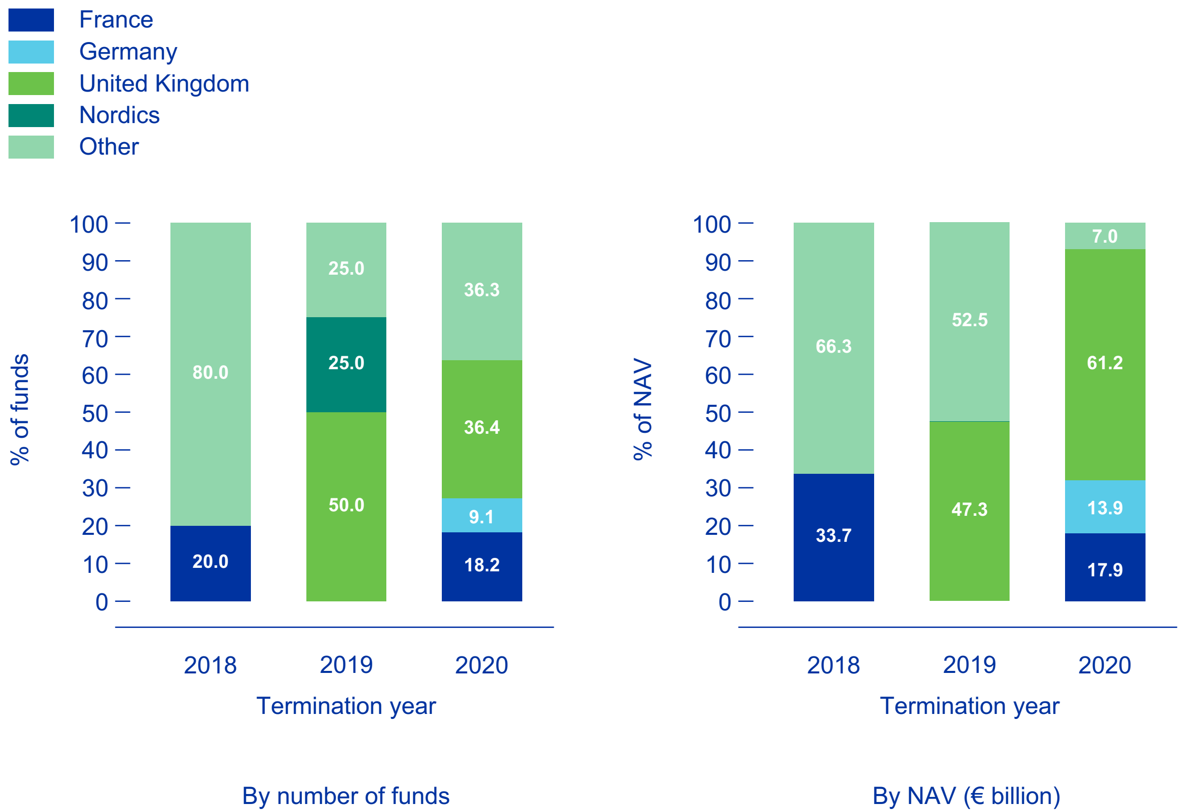
Single country strategies

In 2018, 4 out of the 5 single country funds due to terminate are those which target European countries other than France, Germany, the UK and the Nordics. These 4 funds represent €555.6 million in value. The remaining 1 is a single country fund that targets assets in France and has a NAV of €282.2 million.

The Brexit deadline coincides with two UK strategy funds potentially coming to market. These two funds comprise half of the funds due to terminate in 2019 and represent NAV of €337.8 million. Beyond 2019, 2020 could potentially see €1.8 billion of UK assets coming to market. This represents 61.2% of the €2.9 billion scheduled for termination in 2020.

'The Brexit deadline coincides with €337.8 million of UK assets potentially coming to market'

Figure 10: Funds in termination by single country strategy



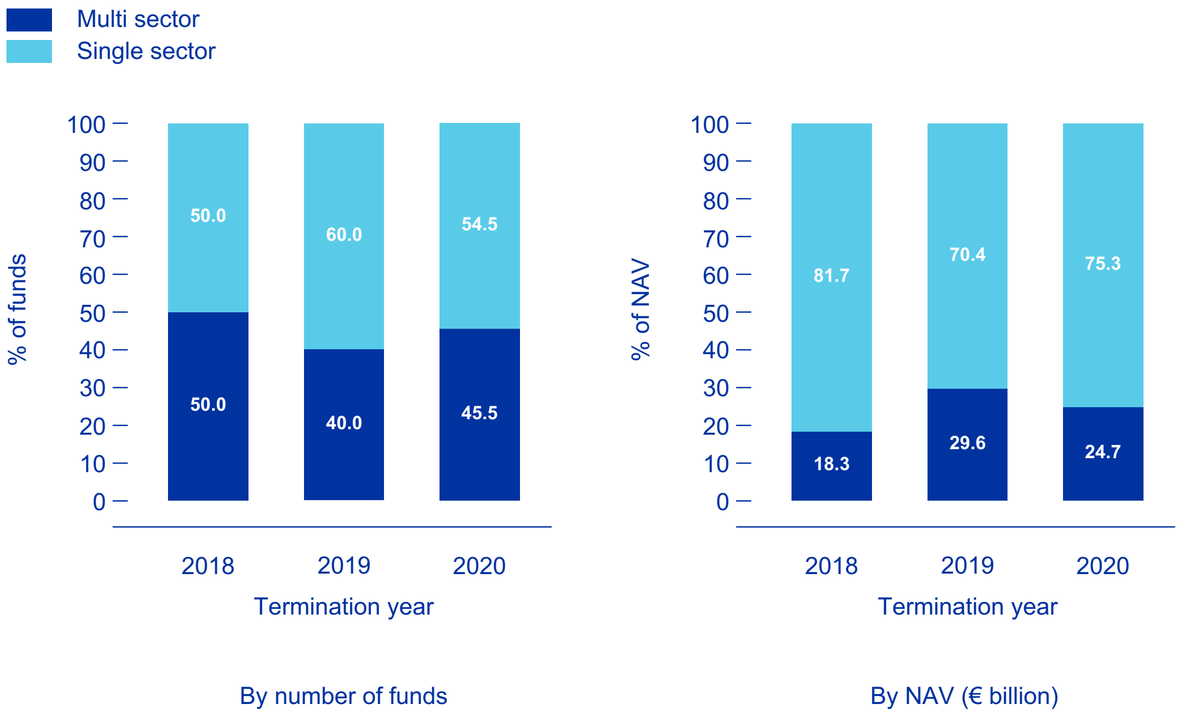
Sector strategies

Single sector strategy funds represent a slight majority of the terminating funds over the next few years, ranging from 50.0% in 2018 to 60.0% in 2019, and just over half, 54.5%, in 2020.

However, by value single sector funds clearly dominate the terminations landscape. In total €7.3 billion is expected to come from single strategy funds in the coming three years, with €1.6 billion in 2018, €1.7 billion in 2019 and €3.9 billion in 2020.

'Some sizeable single sector funds will come to market in the coming three years'

Figure 11: Funds in termination by sector strategy



Single sector strategies

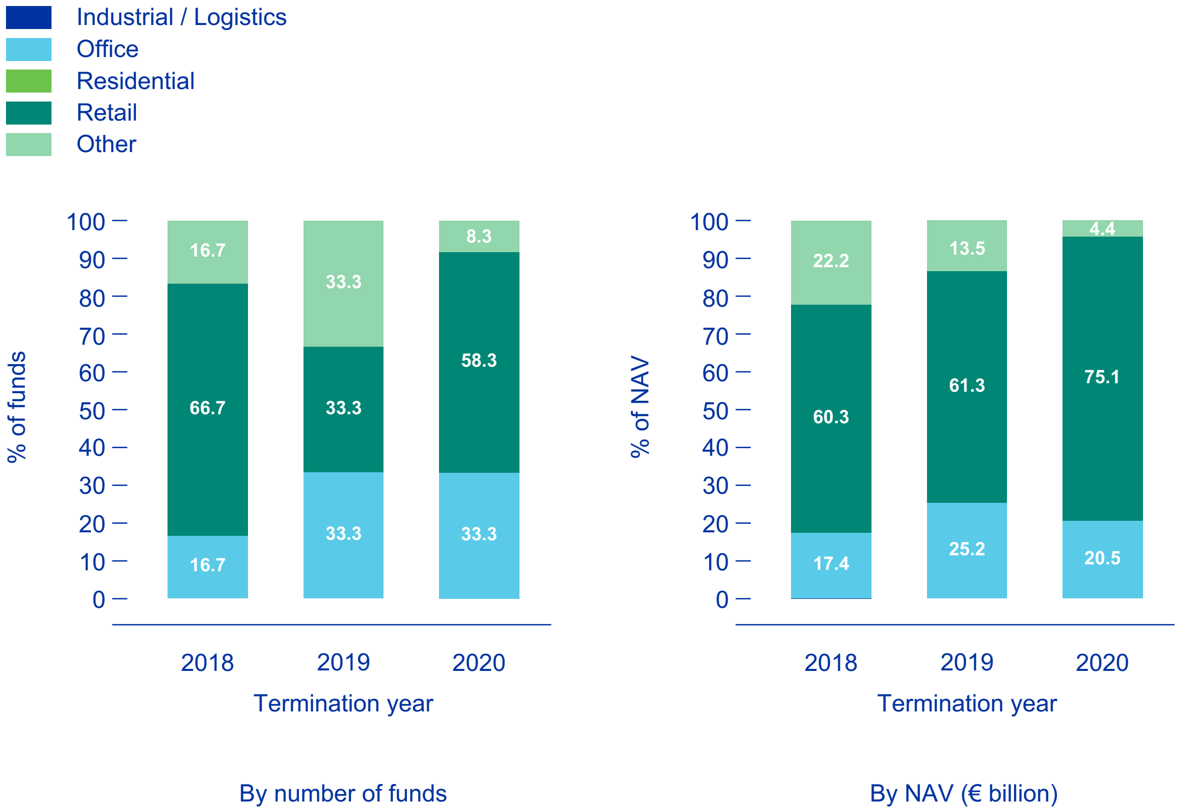
Single sector funds with a strategy to invest in retail make up the majority of funds due to terminate in 2018 and 2019. Over the next three years they could potentially bring €5.0 billion of retail assets to the market, €1.1 billion in 2018, €1.06 billion in 2019 and €2.9 billion in 2020. This comes at a time when the retail sector is faced with challenges from several angles.

Liquation of these retail funds could place further pressure on this sector.

A handful of office funds are due to come to the market if their termination date is executed. However, no industrial / logistics or residential single sector funds are expected to come to market in coming three years.

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

Figure 12: Funds in termination by single sector strategy



Section 3

Funds termination survey

Funds termination survey

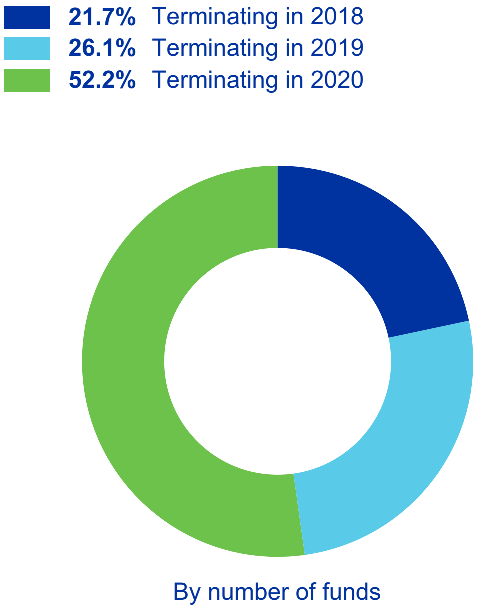
The following section is based on 23 funds that completed the annual funds termination survey. This survey explores the choices considered for termination as well as factors affecting the decision making process, the timing of the decisions and how specific continuation strategies are likely to affect the structure of the funds themselves.

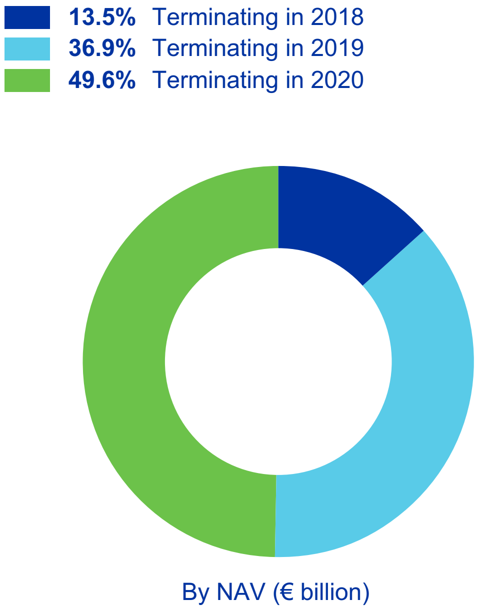
The 23 funds are comprised as follows: 21,7% are due to terminate in 2018, 26.1% in 2019 with the remaining 52.2% due to terminate in 2020.

Size wise, the 23 funds that completed the survey sum to €5.7 billion in NAV. Yearly proportions reconcile with the number of funds though vehicles terminating in 2019 are slightly larger than their 2018 and 2020 peers.

‘Vehicles terminating in 2019 are slightly larger than their 2018 and 2020 terminating peers’

Figure 13: Composition of funds by termination date





Fund characteristics

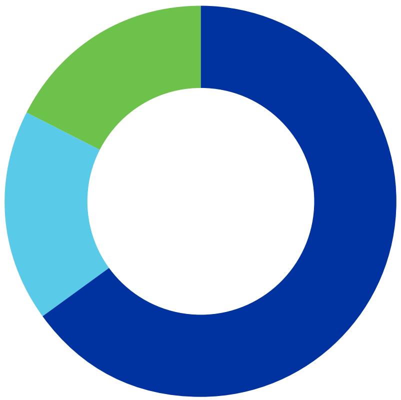
Most of the funds that completed this year's funds termination survey are core in style, representing 65.2% of the 23 funds. The remaining is evenly split between value added and opportunity (17.4% each) funds.

When broken down by target country strategy, single country vehicles comprise a slightly larger share, 52.2%, of the sample while the multi country funds account for 47.8% of the 23 funds.

Considering sector strategies, most funds that completed the survey are multi sector funds accounting for 56.5% of the 23. Single sector funds comprise 43.5% of the sample.

Figure 14: Composition of funds by style

65.2% Core
17.4% Value added
17.4% Opportunity



By number of funds

Figure 15: Composition by country strategy

52.2% Multi country
4.3% Germany
4.3% Nordics
17.4% United Kingdom
21.8% Other

By number of funds

Figure 16: Composition by sector strategy

56.5% Multi sector
13.0% Office
21.7% Retail
8.8% Other

By number of funds

Composition and performance by liquidation status

The funds that participated in this survey differ in terms of their termination status. Of the 23 funds, the majority (47.8%) are in liquidation. Almost one third (30.4%) of the funds are in extension. Meanwhile 8.7% are rolled over to a new structure and 13.0% are considering other options.

Over the most recent 10 year performance period, liquidating funds generated 3.0% per annum to their investors compared to 0.3% on average posted by funds in extension.

The most recent five years saw the reversal with extending funds generating 7.8% per annum compared with 5.0 % per annum for liquidating funds.

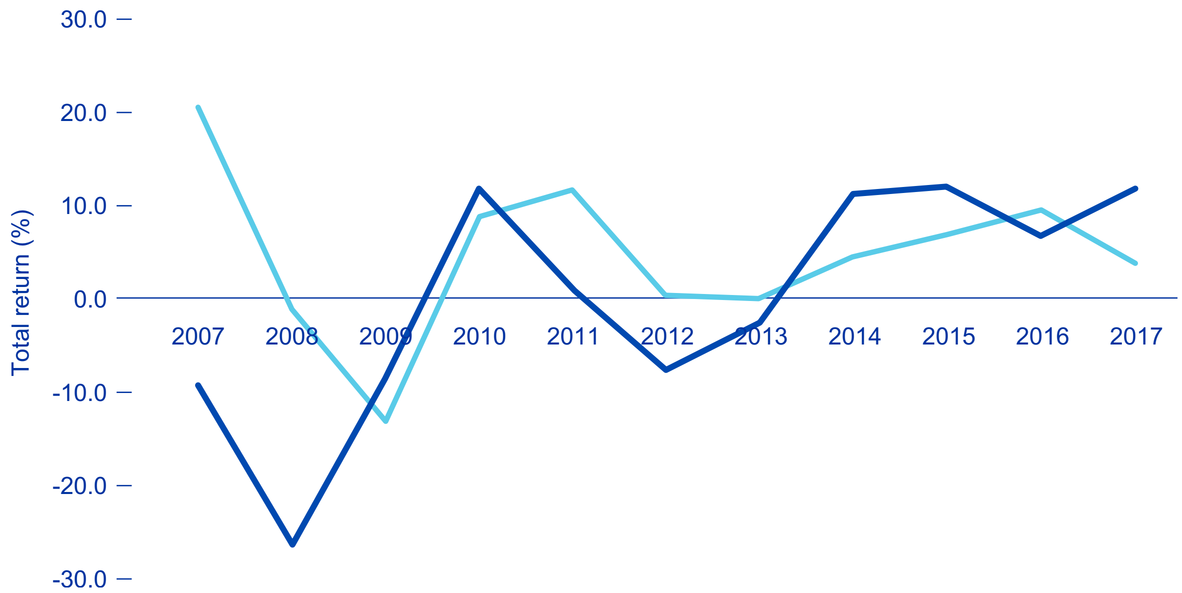
Funds in extension outperformed funds in liquidation in 2017. As a group their returned 11.9% to their investors, compared with 4.1% for funds in liquidation.

Figure 17: Composition of funds by status

47.8% In liquidation
30.4% In extension
8.7% Rolled over to a new fund structure
13.0% Other

Figure 18: Performance by liquidation status

Extending funds
Liquidating funds



Decision making and termination options

The responses to the survey show that managers have mixed views with regards to their termination strategies. Just under half, 47.8%, have made a decision on their termination strategy. While the same amount are still contemplating which is the best option for their vehicles. A small proportion chose not to specify.

Managers were asked to select termination strategies under consideration for their funds. In this instance, they could select more than one option. Funds that are in liquidation or extension are mostly core in style, 64.3% and 72.7% respectively. A larger proportion of funds in liquidation are value added, while opportunity funds comprise a larger share of funds in extension.

Half of the funds in rollover or those that are considering other options, such an IPO, sale or merger, are also core in style. The remaining 50% are evenly split between value added and opportunity.

Figure 19: Timing of decision making

47.8% Termination decision made
47.8% Termination decision not made
4.4% Unspecified

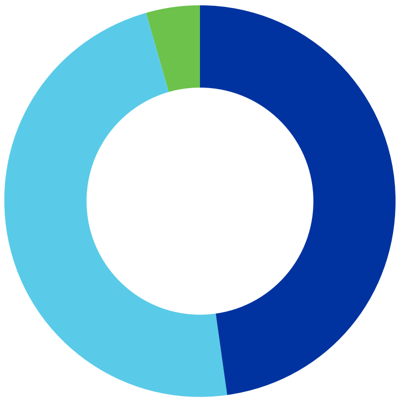
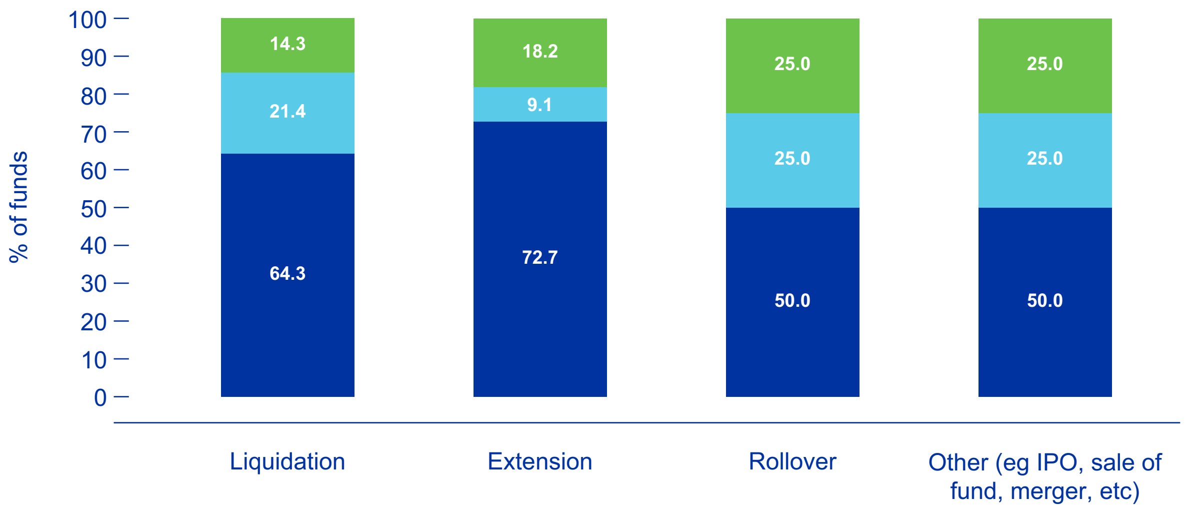


Figure 20: Termination options under consideration

Core
Value added
Opportunity



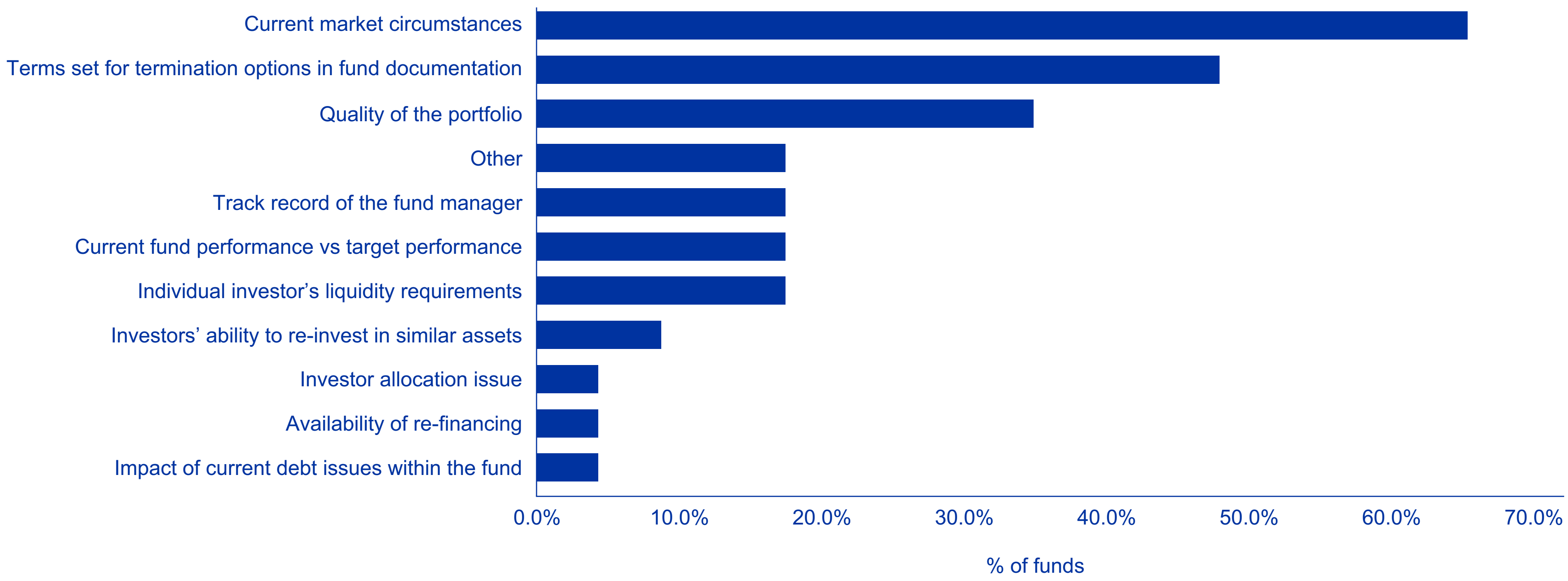
Issues affecting termination decisions

The factors affecting termination decisions were also examined. Here managers were able to indicate one or more reasons that drive their termination strategies.

In this context, two thirds (65.2%) of respondents stated that current market circumstances are the most important driver. Terms set for termination options in fund documentation followed next with the quality of the portfolio being the third most important driver when determining termination options for a fund.

Last year, all three issues were in the top-four position. The only differences is Other reasons that are not being mentioned slipped from second to fourth position this year.

Figure 21: Issues affecting termination decisions



Preferred termination strategies

Managers were asked which termination strategy was finally chosen or most likely to be chosen.

Of those that have decided, 37.8% consider liquidation as the preferred termination strategy, 29.7% see extension as the best way forward with the remaining respondents opting for rollover or other options.

Last year the overwhelming majority opted for extension and none opted for liquidation. This year liquidated is the preferred form of termination, which is a similar result that was observed in the three years prior to 2017.

By style, an equal number of core funds have opted for liquidation and extension. Similarly for opportunity funds. While the majority of value added funds have indicated that liquidation is their mostly likely choice.

Value added and opportunity funds were most likely to consider options other than liquidation, extension and rollover, compared to their core peers.

Figure 22: Termination option chosen or most likely to be chosen

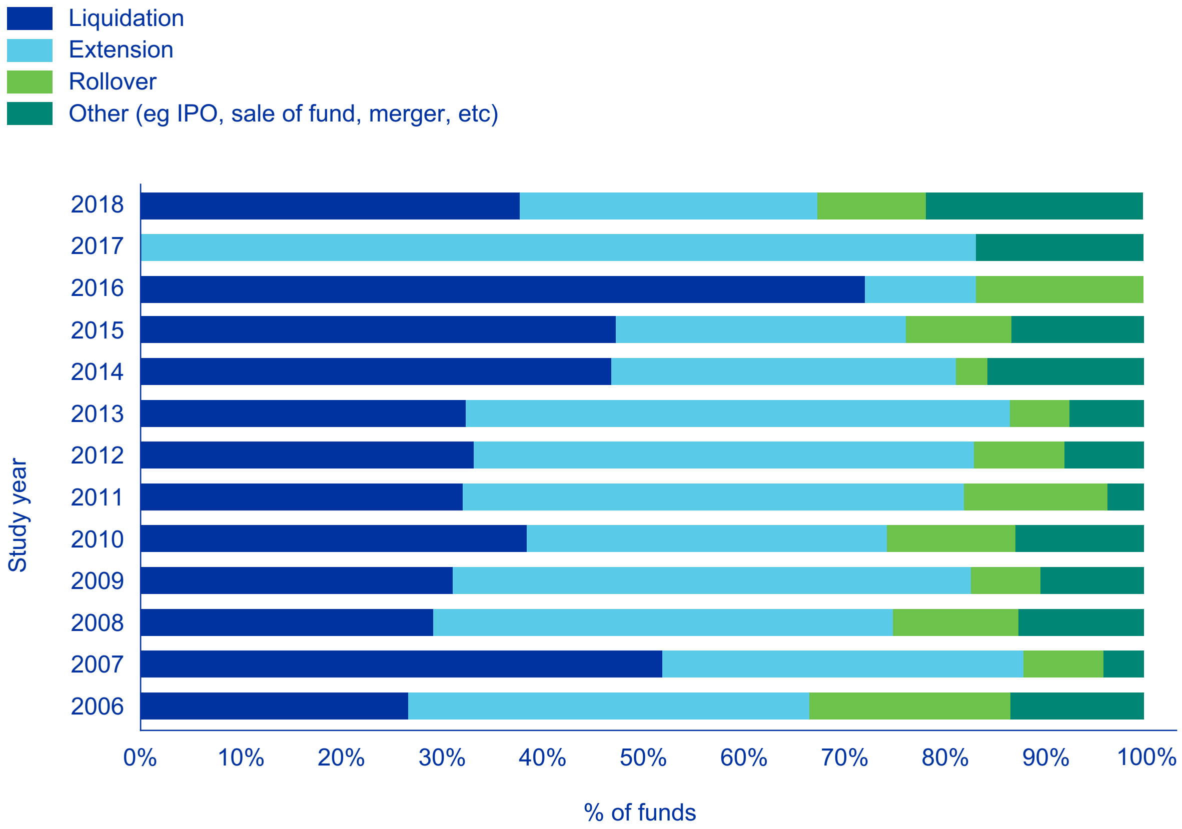
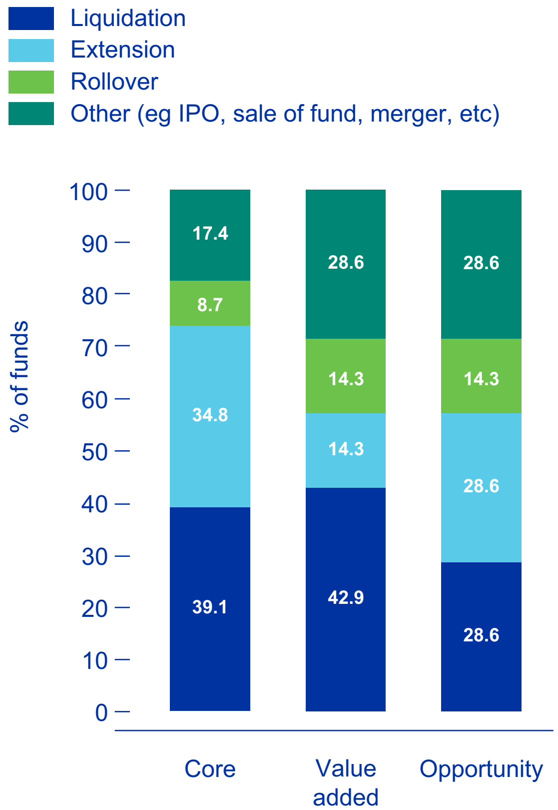


Figure 23: Termination option chosen by style

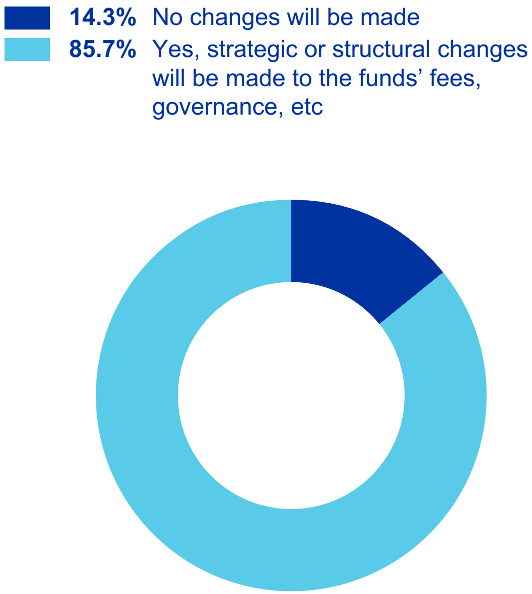


Structural changes to extended funds

Extension of a fund's life may sometimes be accompanied by structural or strategic changes in a vehicle.

In this year's survey, the majority (85.7%) of respondents envisage some strategic or structural changes being made to extending funds. The remaining 14.3% stated that no such changes would be needed.

Figure 24: 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 Survey 2018, and gave permission for their names to be published:

CBRE Global Investors

First Property Group

Generali

GLL Real Estate Partners

Hahn Group

Heitman

Invesco

Lords LB Asset Management

M7 Real Estate

NIAM AB

NREP

Rockspring

Sonae Sierra

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