Spoilt for choice? The growing menu of non-listed property products

- ➤ Expanding product range shows both a maturing market and a confused one.
- ➤ Diverse range of definitions for joint ventures and club deals.
- ➤ Transparency lower for today's preferred products.
- ➤ Report will feed into the planned revision of the INREV Guidelines.

The range of products covered in the INREV Guide to non-listed begins to signal a maturing non-listed property industry; a universe which can offer investors a diversity of approaches to suit their requirements whether this is by investor size, strategy or risk/return profile. However, with the market still in a state of flux following the financial crisis, this report also shows that this is a market in transition.

The report looks at the products currently under consideration by investors: non-listed property funds, joint ventures, club deals, funds of funds, separate accounts and private company investments. In addition, it considers debt funds, which are an emerging investment product for the industry, and infrastructure funds which are garnering increased interest but still sit on the fringes of the non-listed real estate universe.

The report's purpose is to set out what the industry currently understands as the definitions and characteristics of each of these products by bringing together current thinking and market practice. The results will support future work by INREV when it revises its Guidelines and seeks to understand how and whether these products should be incorporated into future industry standards to improve transparency, and therefore, accessibility of all products.

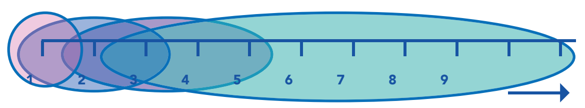
The report shows an industry that is not yet using a common language when it discusses, for example, joint ventures or club deals. The most confusion arises around joint ventures which the report breaks down into three common approaches around a single asset purchase, a joint venture investment programme and a joint venture that, in reality, resembles a fund with a low number of investors. Even within these three definitions there is further divergence with differing views over the number of (pre-identified or not) assets, and number of investors.

The different combinations are not the issue; the report's main point is to highlight that there is no common agreement in an industry where joint ventures currently the most popular product in the market, according to the recent Investment Intentions Survey.

One common aspect when considering how these products break down is the number of investor included. Figure 01 shows that separate accounts, club deals and joint ventures all compete in the same space as they are all designed to appeal to a low number of investors; another reason that the industry should look for clearer definitions around these products.

PROFESSIONAL STANDARDS

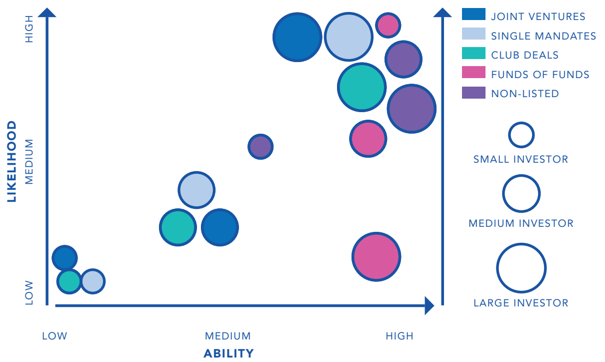
FIGURE 01 / TYPICAL NUMBER OF INVESTORS TARGETED FOR EACH PRODUCTS



The number of investors is not the only defining factor. To compete in this arena, investors also have to have the capability to actively contribute to these products as they demand a higher level of investor involvement. A qualifying factor then tends to be investor size, which implies that the products, and therefore the market, is skewed at this time towards larger investors.

Figure 02 maps the ability and likelihood of different sized investors to participate in each various products. Large investors always score high on ability and the determining factor is whether they are interested to invest. For the smaller investors their ability to invest restricts the products that they can participate in.

FIGURE 02 / THE NON-LISTED REAL ESTATE ARENA



The report also explores the issue of transparency across the range of products. It might not be surprising that all the products tend to fall short of the levels of transparency available for non-listed property funds, which is the legacy of the industry's work through INREV. However, the reality is that the more private nature of joint ventures, club deals and separate accounts means that there is very little transparency at an industry level. There is little data on the size and composition on the market or on specialist topics such as fees or performance evaluation. It is also the case that there are no tailored guidelines for these products, although there is some evidence that, where it can, the industry is adopting parts of the INREV Guidelines.

The report also covers the characteristics, benefits and drawbacks of debt and infrastructure investing, which are further examples of the broadening universe. Both product types are similar in that their performance is less linked to economic cycles, so are attractive to investors in more challenging markets. For infrastructure, assets often have a monopolistic position so benefit from income streams that are in general more immune to market circumstances. Debt funds, meanwhile, are seen to give a form of property exposure but the return is less directly linked to underlying property market performance compared to other traditional real estate fund investments.

The report shows that the growing range of products is an issue that industry needs to take time to understand and discuss. On the whole the trend is positive; a wider product choice gives investors more ways to invest in the real estate industry. However, the industry should seek to understand more about the definitions and characteristics of these products.

PRODUCTS COVERED IN THE REPORT:

- Non-listed property funds
- Joint ventures
- Club deals
- Co-investments
- Funds of funds
- Separate mandates / multi-manager
- Company investments
- Debt funds
- Infrastructure funds

The full report is available to members at www.inrev.org
Further information: info@inrev.org