RESEARCH & MARKET INFORMATION

LIQUIDITY PROVISIONS STUDY

INREV

JUNE 2009

INREV
STRAWINSKYLAAN 631
1077 XX AMSTERDAM
THE NETHERLANDS

T +31 (0)20 799 39 60
INFO@INREV.ORG
WWW.INREV.ORG

INREV is the European Association for Investors in Non-listed Real Estate Vehicles. In seeking to generate increased levels of liquidity within the European private real estate fund market, INREV's strategy is to promote 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 fund market. INREV is dominated by institutional investors and supported by other market participants such as fund managers, investment banks, lawyers and other advisers.

CONTENTS

APPENDICES:

This report was produced by the Real Estate Management Institute
of the European Business School, Germany:

Prof. Dr. Matthias Thomas MRICS
Maximilian Brauers
Christian Hantelmann
Stefan Hocke
Prof. Dr. Björn-Martin Kurzrock
Susanne Susemihl

EXECUTIVE SUMMARY

- This study analyses the liquidity provisions of non-listed real estate funds including investors' possibilities to redeem and/or trade shares in those funds, any limitations on these provisions as well as levels of redemptions/trading seen recently. It also aims to capture views on the development and requirements for a secondary market and the awareness and relevance of the INREV Secondary Market Guidelines, which are part of the INREV Guidelines.

- Funds' response rate to the survey was 33%, or 160 out of 468 vehicles in the INREV Vehicles Database. This sample covers approximately €91.1 billion, or 38.5% of the total Gross Asset Value (GAV) of the funds in the database. In addition interviews were conducted with nine European institutional investors and four investment banks.

- The majority of funds at 93% by GAV (89% by number) offer some form of liquidity provision to investors whether that is through redemptions or trading or a combination of both. Over 87% of core funds and 94% of value added funds offer redemption or trading opportunities but there are few provisions for liquidity for opportunity funds.

- All open ended funds in the study offer liquidity provisions but at 70% a high number of closed ended funds also offer this provision, mainly through trading.

- One third of funds offer a redemption facility to their investors. However, the majority of investors have not used these facilities in the past with just 14 funds experiencing redemptions in the past 12 months, totalling €571 million. The volume of redemptions by funds was expected to decrease over the next 12 months.

- Funds which offer redemptions have a variety of methods to manage this process when liquidity is not sufficient. The main response from 83% of funds is to close the fund in order to sell properties. However, for 37% of funds this has to be with the approval of the supervisory board. Other possible safeguards are used less frequently with the main one being excluding pre-emptive rights for investors to avoid voting rights majorities.

- Almost 80% of funds in the sample offer the provision to trade shares. Trading as a liquidity provision for non-listed property funds has not been of high importance to investors in the past with just 22 funds experiencing trades in the last 12 months totaling €655 million. However, the responses to this survey from funds and investors suggest that the frequency and volume of secondary market trades is likely to increase within the next 12 months, which is in contrast to the expected decrease of redemptions.

- The starting point for trades is mainly the funds' estimate of Net Asset Value (NAV) which is the case for 71% of value added funds and 64% of core funds. However, nearly 30% of core funds said an investor's calculation of NAV was used. Funds were asked about pricing of recent trades but most were reluctant to supply details.

- The majority of funds responding to the survey do not expect the emergence of an organised secondary market due to low demand. Of the 127 funds offering trading, 65 funds facilitate this trading on behalf of investors.

- Market participants' awareness and use of the INREV Guidelines for a Secondary Market is average to low, implying further work to be done by INREV in this field.

1 INTRODUCTION

This is the first INREV study on the liquidity provisions of non-listed real estate funds. We are grateful for the contributions of fund managers, investors and investment banks who participated.

The objective of this study is to understand market practice for liquidity provisions across the non-listed property funds universe, including investors' possibilities to redeem and/or trade shares in non-listed property funds, any limitations on these provisions as well as levels of redemptions/trading seen recently. Finally, it aims to capture views on the potential development of and requirements for a secondary market and the awareness and relevance of the INREV Secondary Market Guidelines, which are part of the INREV Guidelines.

The study therefore meets two needs for information. The first relates to current market conditions where in times of high market volatility and uncertainty such as the market is seeing now, the issue of liquidity becomes increasingly important to investors.

The current market conditions may force investors to liquidate fund holdings quickly in order to meet their increasing demand for cash. This may also be as a result of investors looking to rebalance their real estate allocations as the denominator effect – where the value of other assets classes fall has resulted in an over-allocation to real estate – may lead to the need to sell fund holdings.

However, there is also a second reason to examine this topic more closely. It is the case that while the industry works with accepted definitions for closed and open ended funds, which include broad liquidity characteristics, market practice is varied within these two groups and more understanding is needed on liquidity provisions across the universe of non-listed property funds.

This information is also important when feeding into the understanding of future liquidity requirements from investors and whether there is appetite to exercise this liquidity more regularly, leading to the development of a more formal secondary trading market.

1.1 Methodology

This study was undertaken and co-authored by the Real Estate Management Institute of the European Business School, Germany, as commissioned by INREV.

The data for the study was collected using a fund level questionnaire that was sent out to fund managers as well as through interviews with investors and investment banks involved in facilitating secondary trading.

The majority of the fund level survey was quantitative asking for details on the fund's liquidity framework as well as information on frequency of redemptions/trades. Funds were also asked about their views on the potential of a more organised secondary trading market. The interviews were mainly qualitative to explore opinions, motivations and preferences of various market participants on the liquidity of shares of non-listed real estate vehicles.

For the purposes of the study, the following definitions have been used to distinguish between redemptions and trades:

Redemption: where the selling of shares changes the size of the fund's capital base.

Trade: where the size of the fund's capital base remains constant and shares are traded with existing or new investors.

The appendix includes more details on redemptions and trades. It also includes the INREV definitions of open and closed ended funds.

1.2 Universe versus Sample

The fund universe for this study is the INREV Vehicles Database, which at the end of October had 468 funds with a total GAV of €236 billion.

The sample comprises 160 out of 468 vehicles listed in the INREV Vehicles Database representing an excellent response rate of 33%, which contributes positively to a representative sample. This is equivalent to approximately €91.1 billion, or 38.5% of the total GAV of the funds in the database.

FIGURE 01 / UNIVERSE VS SAMPLE BY STYLE

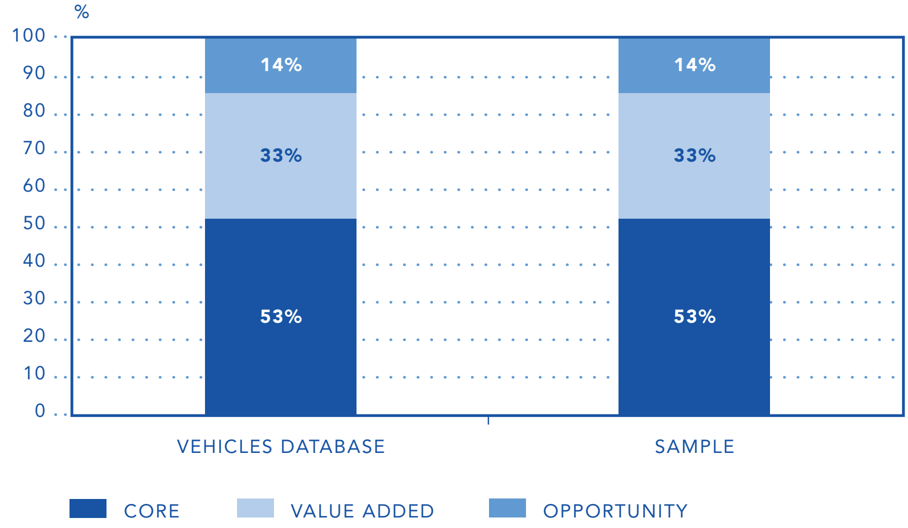


Figure 01 shows that by style, the sample gives a perfect representation of the INREV Vehicles Database with both the INREV universe and the sample consisting of 53% core funds, 14% opportunity funds and 33% value added funds.

The sample has also been compared to the universe by target investor type, number of funds managed by same managers and the fund's life span, which is detailed in Appendix 2.

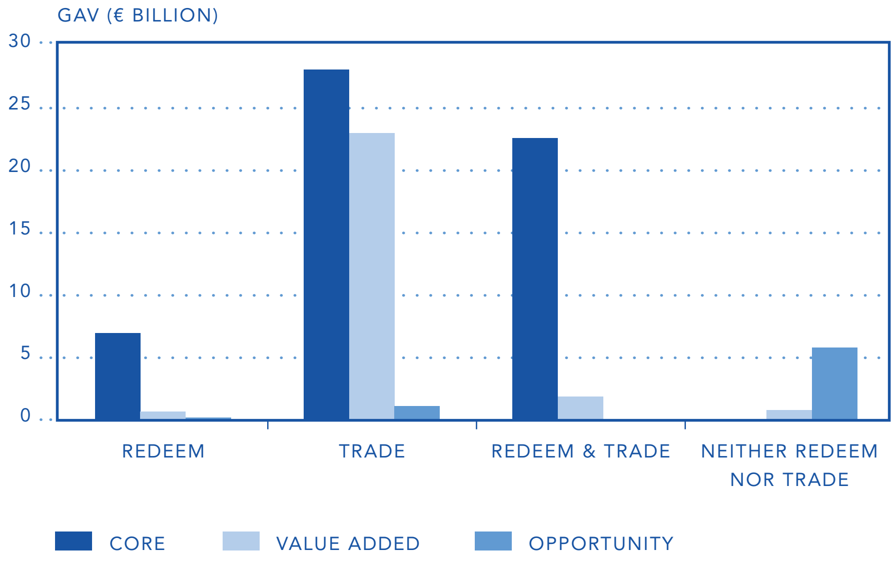
The high response rate allows for valid and meaningful conclusions on the market of non-listed real estate vehicles from this survey.

2 OVERVIEW OF REDEMPTION AND TRADING OPPORTUNITIES FOR INVESTORS

The following section examines the results of the survey of non-listed property funds. This includes an overview of redemption and trading options within the funds. As the survey was completed at a fund level, the results refer to the views of funds rather than fund managers.

In order to identify key liquidity features in non-listed property funds, the survey asked whether funds allowed for either redemptions or trading. Figure 02 shows the options offered by fund style in GAV.

FIGURE 02 / FUNDS' LIQUIDITY PROVISIONS BY STYLE

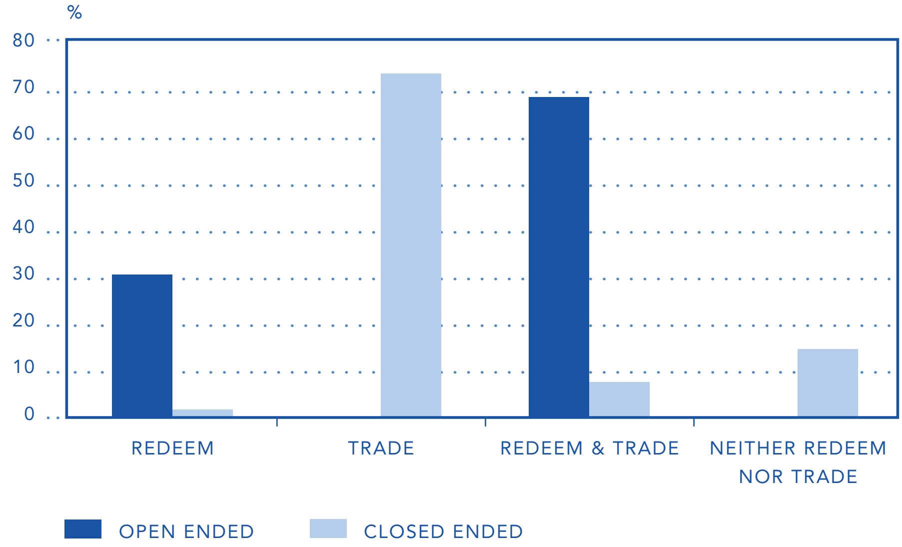


The figure shows that the majority of funds at 93% by GAV (89% by number) offer some liquidity option whether that is through redemptions or trading. Trade and redemption & trade are the most commonly offered features measured in terms of funds' GAV.

It can be inferred from the graph above that over 87% of core funds as well as over 94% of value added funds offer trading opportunities. Redemption options are offered by approximately 50% of the core funds and 10% of value added funds, whereas less than 3% of the opportunity funds allow for redemption. Both liquidity features – trade & redemption – are provided by almost 40% of the core funds and 7% of value added funds.

It is clear that by style, opportunity funds offer the least liquidity options with less than 16% offering trade options while less than 3% allow for redemptions. These findings are not surprising on one hand in that core funds' underlying assets should be more easily disposed off than those of opportunity funds and therefore, a fund offering a more risk adverse investment style is more likely to offer options for the liquidation of its shares. However, core funds are also more likely to attract investors looking for longer term exposure to core-type assets, as shown by INREV's Fund Termination studies, where investors often opt for extensions to remain invested in the underlying assets.

FIGURE 03 / FUNDS' LIQUIDITY PROVISIONS BY FUND STRUCTURE



TOTAL: 39 OPEN ENDED / 121 CLOSED ENDED

Figure 03 identifies the key liquidity features by fund structure by number. There is little surprise that all open ended funds within the sample offer liquidity opportunities by either allowing for both redemption and trade or by allowing for redemption only.

Interestingly, a small number of closed ended funds offer the possibility to redeem only, which is out of line with the INREV definition of a closed ended fund. About 74% of the closed ended funds within the sample ensure the liquidity of their shares by allowing for trades, demonstrating that trading is an important way for closed ended funds to offer liquidity. In addition 8% of the closed ended funds offer both redemption and trade opportunities and over 15% do not allow for any of these options.

FIGURE 04 / LIQUIDITY PROVISIONS BY VINTAGE

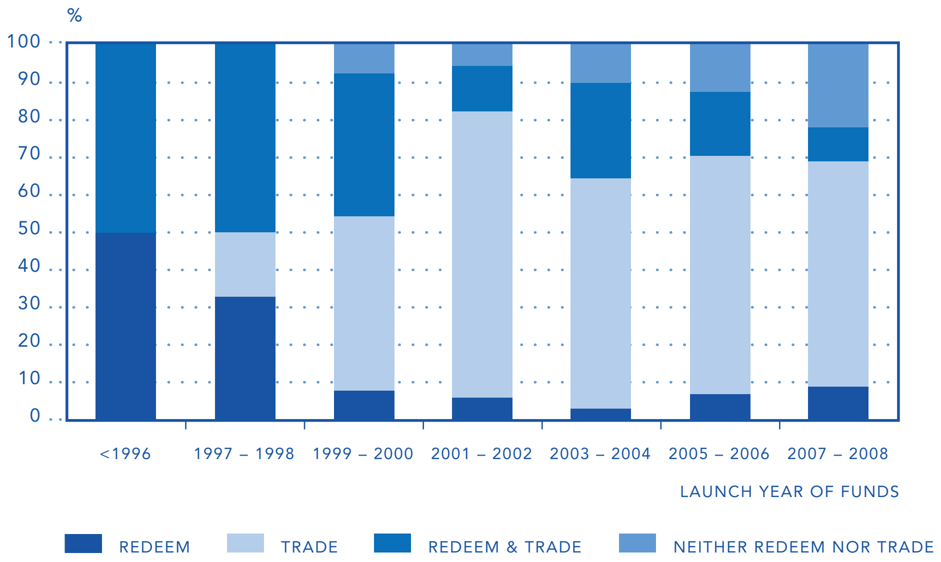


Figure 04 shows that the variety of liquidity provisions offered by the funds in the sample has increased over time. Funds launched in 1996 or earlier allow for only two different options to meet investors' demand for liquidity while funds launched since 1999 see the option of trading increasing, which is offered by almost two thirds of funds launched since 2007. This will partly reflect the growing number of closed end funds which have been launched the last ten years.

It does appear from the graph that there has been a rise in funds with no liquidity provisions. However, as these are all closed ended, it is likely that any funds offered with the same restrictions before 1999 would also have been closed ended and would now have terminated.

FIGURE 05 / SCALE OF LIQUIDITY BY FUND STRUCTURE

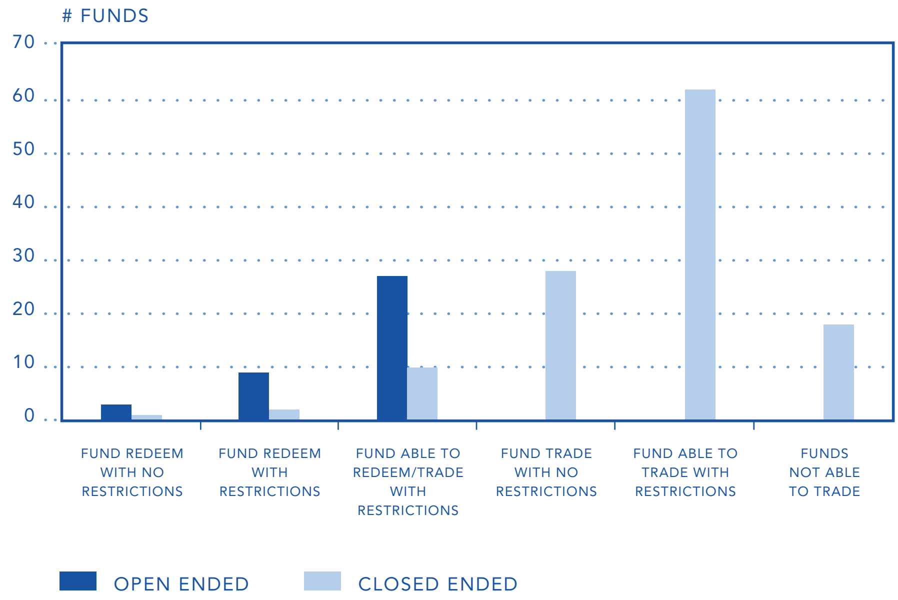
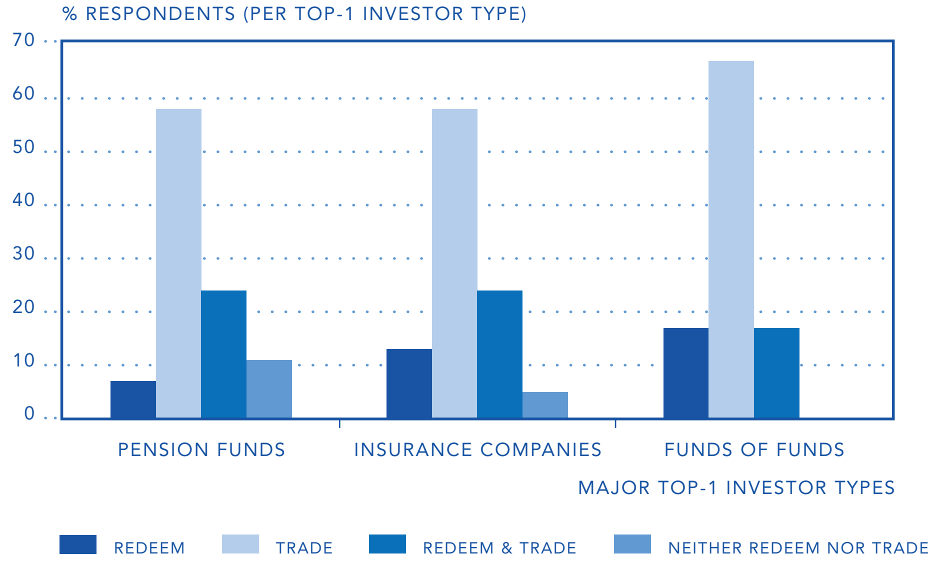


Figure 05 shows a liquidity scale for funds based on the degree of liquidity offered by their respective provisons, illustrating that open ended and closed ended definitions are not clear cut. For this analysis, redemptions are considered to offer more liquidity than trading, since trading always requires a willing buyer and a willing seller. The least liquid category is constituted by funds offering neither redemptions nor trading.

All 39 open ended funds in the sample offer redemptions, either with or without restrictions, or redemptions and trading. Two thirds of the the open ended funds offer both redemptions and trading to their investors. Of the sample less than 10% of open ended and less than 1% of closed ended funds can be characterised as very liquid investments.

Around half of the closed ended funds offer their investors trading with certain restrictions while one third provide a higher degree of liquidity. Around 15% of the closed ended funds are completely illiquid in nature, offering no liquidity provision at all.

FIGURE 06 / INVESTORS' PREFERENCES FOR REDEMPTION / TRADING



The survey also asked for the category of the top investor (largest by number of shares held) in each fund, which enables us to examine their preferences for certain types of liquidity features. This analysis assumes that in order for funds to bring their product to the market, they will be to a certain extent structured according to the top investors' needs. However, in practice the needs of all investors would be considered.

Figure 06 shows the results from the three major investor types in the survey. Options to choose from included: funds of funds, insurance companies, mutual funds, pension funds, retail investors, sovereign wealth funds and other. Pension funds represent the top investor for 46% of the funds (74 by number) in the sample, followed by insurance companies representing 24% of the funds (or 38 by number). The category 'other investors' was third in line with 15% of the funds (24 by number). However, as no further information was provided, funds of funds, which represent 4% of the funds (6 by number), are third major investor of all funds within the sample. These three categories have a strong preference for trading as a liquidity provision as they are mainly invested in funds offering trade or trade & redemption.

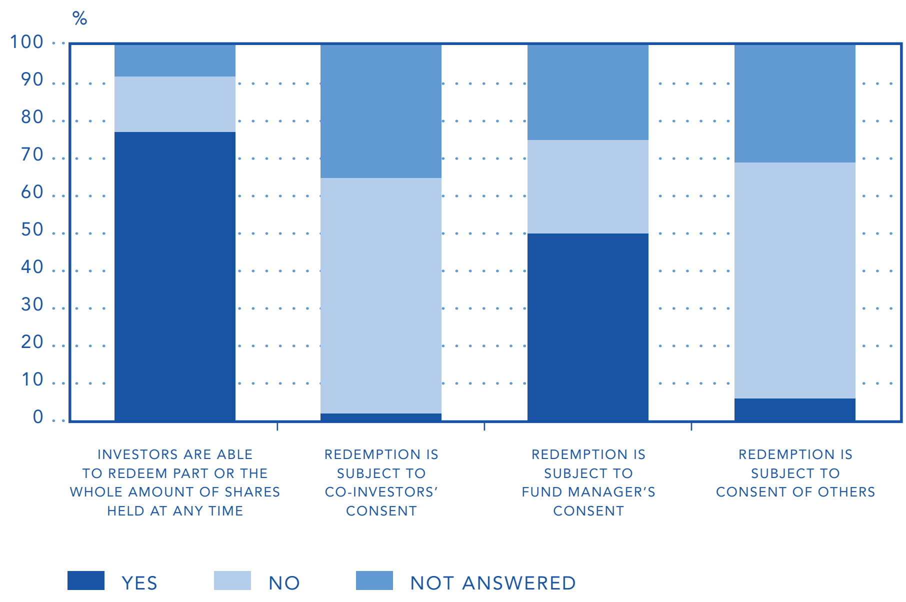
3 REDEMPTIONS

This part of the study gives an overview of the topics related to redemptions. This includes the design of redemption facilities, safeguards put in place by funds to manage the amount and process of redemptions as well as the occurrence of redemptions in the last 12 months.

3.1 Design of redemption facilities

Of the sample of 160 funds who responded to the survey, 52 funds, or 33%, offer a redemption facility to their investors. Only one opportunity fund submitted detailed information on the design of its redemption provisions. In order to avoid biased conclusions and a possible identification of the respondent, this fund is excluded from the analysis. In order to assess the degree of liquidity offered, it is important to analyse the scope and limitations of the redemption provisions in place. Figure 07 shows whether the approval and execution of redemption requests are subject to the co-consent of other parties.

FIGURE 07 / DESIGN OF REDEMPTION FACILITIES

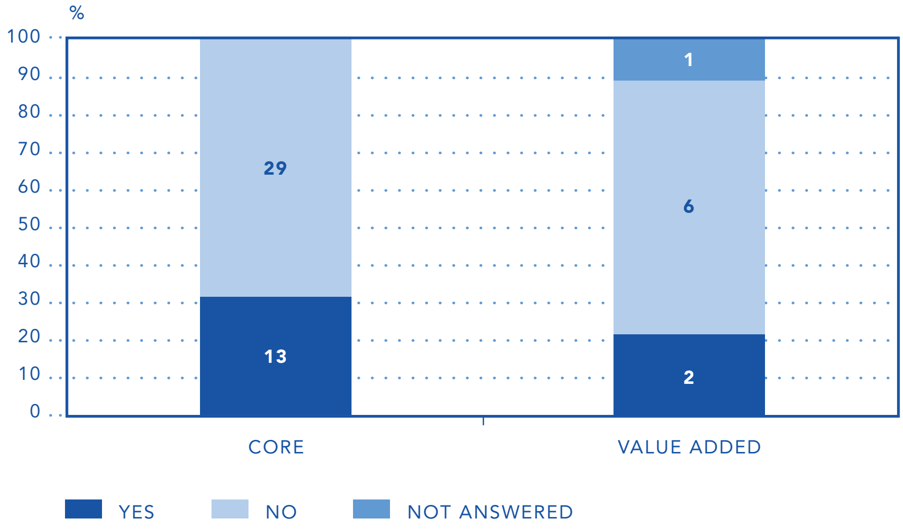


The analysis of the responses shows that in general the redemption mechanisms currently in place offer a high degree of flexibility and liquidity to their investors, with 77% of managers allowing for the redemption of all or at least a proportion of an investor's shares at anytime.

This flexibility is, however, limited by the fact that in 50% of the participating funds, the satisfaction of such a request is subject to the manager's approval, which could be refused for a variety of reasons explained later in this section. The consent of third parties or other fund investors is not of high importance in this context, with only 2% of funds asking co-investors and 6% of funds asking third parties (e.g. the board of directors of the fund) to consent to a redemption request. Restrictions to redemptions are often put in place to protect the interests of those funds that want to remain in the fund.

In order to further assess the degree of liquidity offered by the redemption facilities currently in place, funds were asked whether a maximum redemption amount applies to an investor when notice is given. This question does not take into account the actual amount of shares a single investor may redeem, but rather refers to restrictions regarding the satisfaction of redemption requests exceeding a certain proportion of the fund's NAV.

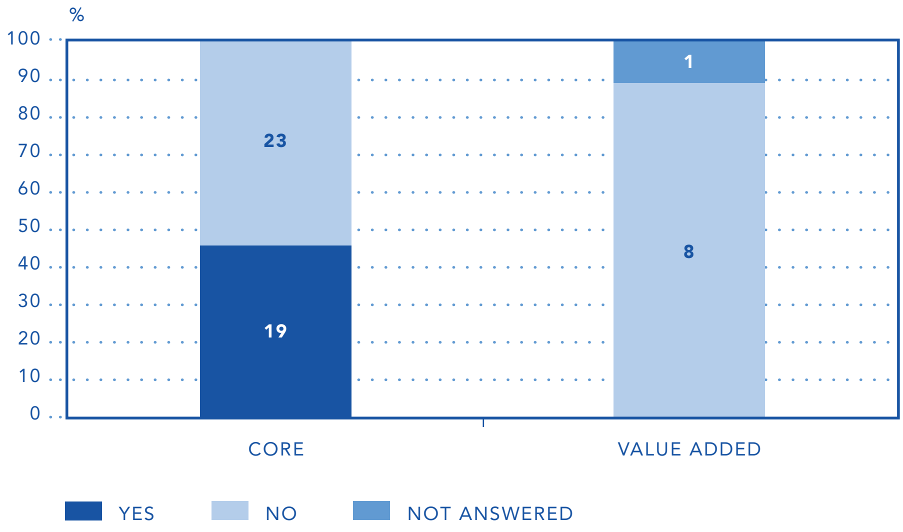
FIGURE 08 / FUNDS WHICH EMPLOY MAXIMUM REDEMPTION LEVELS



As shown in Figure 08, 31% of core and 22% of value added funds restrict the proportion of redemptions. In the majority of the reported cases, this limit does not apply to a single investor, but to all redemptions across the fund within one year.

Funds were also asked whether they impose monetary penalties to investors wishing to redeem their shares. Figure 09 illustrates that the majority of funds in the sample do not penalise quitting investors by redeeming shares at a discount to NAV.

FIGURE 09 / REDEMPTION PENALTIES BY STYLE



Furthermore, funds have been asked to comment on other kinds of provisions they implement that restrict the redemption of fund shares. The following is a summary of the responses given:

– Prohibition of transfer of shares during the investment period, unless to affiliates.

– Right of first offer to existing shareholders upon potential sale of interest.

– Deferral of redemptions for a given period or temporary suspension of redemptions.

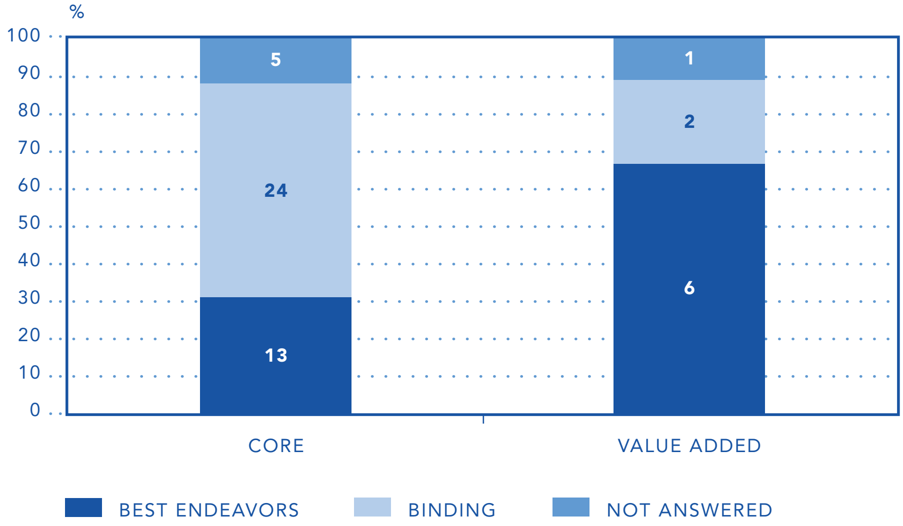
– Deferring the payment of redemptions for a given period.

– Minimum amounts an investor can redeem.

– Maximum waiting periods for redemptions.

Irrespective of the variety of different restrictions, 51% of the funds responding to this survey are obliged to fulfil incoming redemption requests from investors, as shown in Figure 10.

FIGURE 10 / BASIS FOR REDEMPTIONS

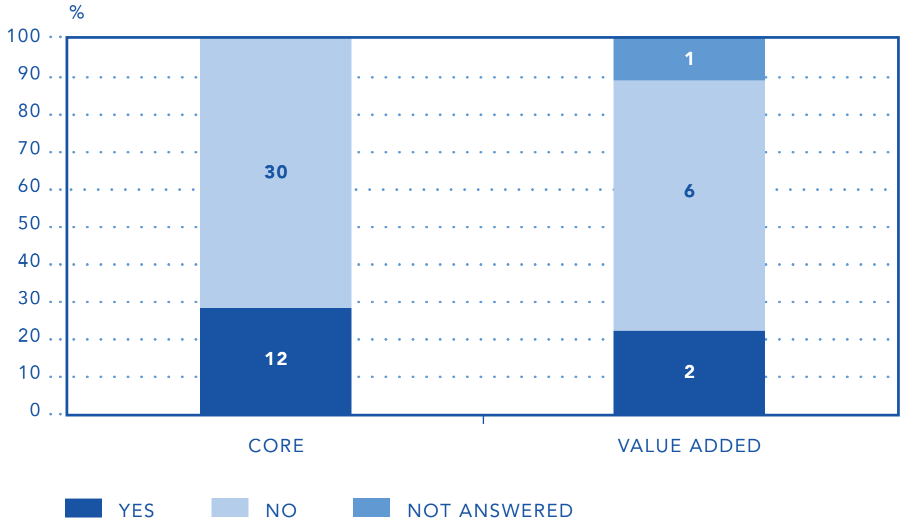


Of the sub-sample of 51 funds which incorporate a redemption facility, 26 are obliged to maintain this provision and to redeem their investors, while 19 vehicles comfort investors to use their 'best endeavours' to satisfy redemption requests. The analysis shows that the degree of the fund manager's obligation to redeem its investors differs between core and value added funds. The majority of core funds are bound to satisfy incoming requests, while the documentation of most value added funds does not incorporate such a clear provision. Two thirds of value added and 31% of core funds assure their investors to use their 'best endeavours' to satisfy redemption requests. In practice, many funds have a sequential approach with a period of best efforts followed by a requirement to redeem.

There is also a pattern by domicile with German, UK and Jersey funds preferring a 'binding' option while funds from the Netherlands opt for the 'Best endeavors' option.

Besides monetary safeguards, managers can also limit their obligation to redeem fund shares by imposing certain time-related safeguards. Figure 11 shows how far managers guard themselves against redemptions in the early stages of a fund's life span by implementing a lock-up period which prohibits the submission of redemption requests in the early stages of the fund.

FIGURE 11 / IMPLEMENTATION OF LOCK-UP PERIOD

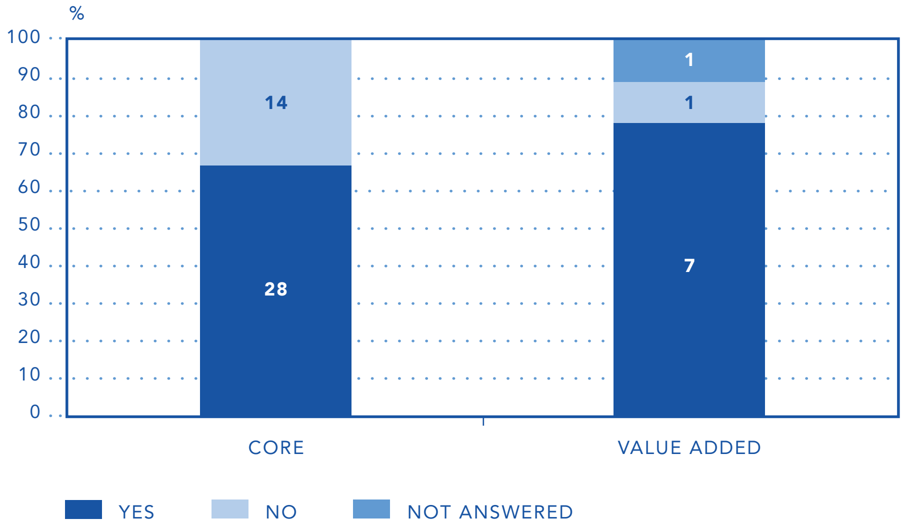


As illustrated above, 28% of core funds and 22% of value added funds implement a lock-up period. The average length of lock-up periods is 32 months for core funds and 36 months for value added funds.

Since the strategy of investing in value added assets is more likely to involve more active management activities, funds might choose longer lock-up periods to safeguard the fund against redemptions in times where the fund does not yet generate sufficient income. In addition, value added funds are likely to start with a smaller launch portfolio than core funds.

In order to further assess the time-related restrictions to the redemption mechanisms currently in place, funds were also asked whether they implement a notice period. As illustrated in Figure 12 (page 14), the majority of funds require investors to submit redemption requests in advance, presumably for liquidity planning reasons.

FIGURE 12 / IMPLEMENTATION OF OF A NOTICE PERIOD



Two thirds of core and 78% of value added funds require their investors to give advance notice for the redemption of shares. The average length of notice periods differs only slightly between core and value added funds at 5.4 months and 4.8 months respectively.

Interestingly, core funds have a marginally longer average notice period than value added funds (5.4 versus 4.8 months), while their lock-up periods are shorter. This could be explained by the fact that value added funds use the (longer) lock-up period for creating value through more active management activities.

Besides having a significant impact on the liquidity budgeting of a fund, it can be inferred that the actual design of redemption facilities also significantly influences the time horizon and flexibility of an investor's liquidity demands. Therefore, funds were asked whether without approval of the manager, the submission of a redemption request by an investor is binding or can be withdrawn at a later point in time.

As illustrated in Figure 13, (page 15) funds' provisions for the withdrawal of redemption requests after the initial submission vary. There is a slight overweight of core funds which allow their investors to withdraw redemption requests at a later point in time, with almost as many seeing the decision as final.

Funds prohibiting their investors to withdraw redemption requests have given the follo-wing reasons for this provision:

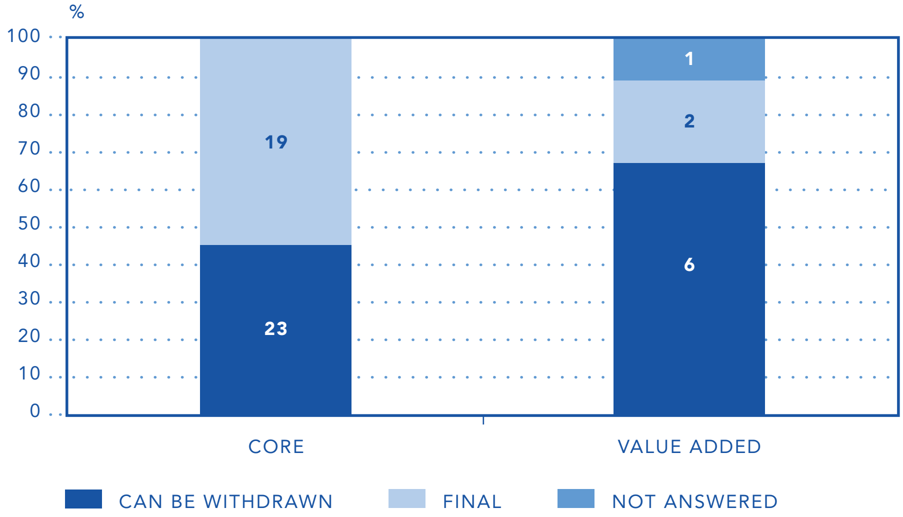
- Liquidity planning: Length of process to generate sufficient cash to meet outstanding redemption requests (sale of properties, raising new equity, etc.).

- Avoidance of mismatch between cash and withdrawal.

- Accuracy of prediction of NAV and performance figures.

- Technicality of managing an open ended fund and the need for protecting existing/ remaining unit-holders.

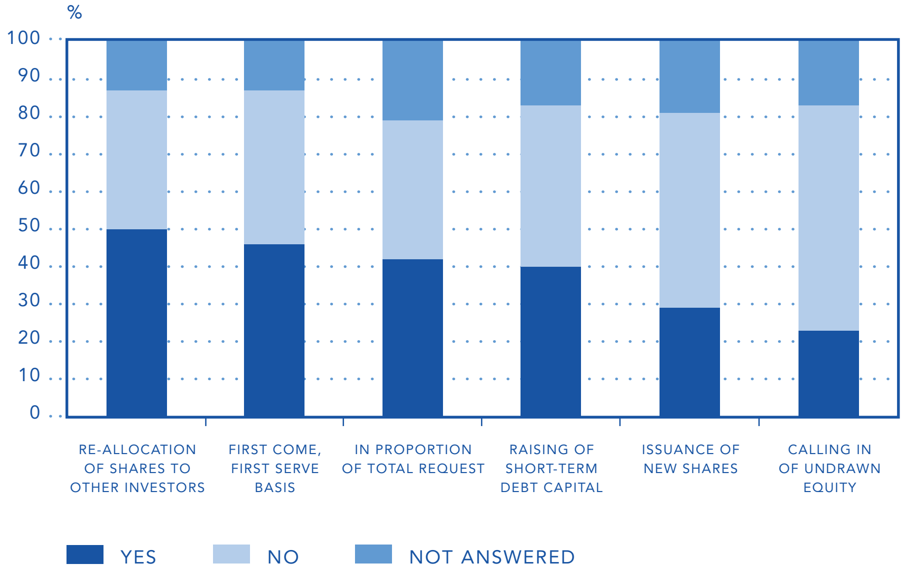
FIGURE 13 / POSSIBILITY TO WITHDRAW OF REDEMPTION REQUEST AFTER SUBMISSION DATE



3.2 Handling of redemption requests

Investors may wish to exercise redemptions in all market conditions, However, the current economic environment poses increased challenges on funds redemption mechanism. It can be expected that investors have an increasing demand to redeem their shares in non-listed real estate funds, whereas managers might not be able to generate sufficient liquidity to fulfil this request. The funds responding to this survey have therefore been asked to comment on how they handle redemption requests in light of the underlying illiquid assets.

FIGURE 14 / STRATEGIES TO DEAL WITH REDEMPTIONS IN CASE OF INSUFFICIENT LIQUIDITY



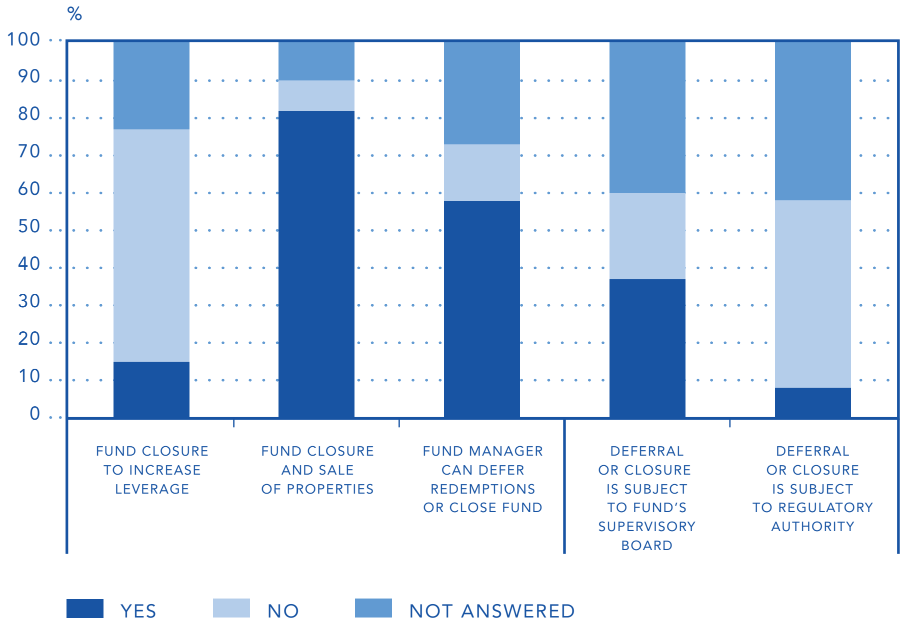
As illustrated in Figure 14 (page 15), in times where the fund's liquidity is insufficient to satisfy investors' redemption requests, the majority of funds allow for the reallocation of the exiting investor's shares to other fund investors (50%).

Furthermore, the satisfaction of redemption requests according to the first come first serve principle is also widely spread (46%) if there is not sufficient liquidity to satisfy investors. Another common method is to redeem in proportion to investors' interests in the fund's total assets (42%) or to raise short-term debt capital (40%) in order to satisfy redemption requests.

Only one third of funds handle redemption requests via the issuance of new shares (29%) or by calling-in undrawn equity commitments from other investors (23%).

As a further safeguard, all of the funds in the sample incorporate a deferral or closure provision for situations where there is insufficient liquidity to satisfy investors' redemption requests. As shown in Figure 15, in most cases the decision to close the fund and to defer the redemption of shares lies with the fund.

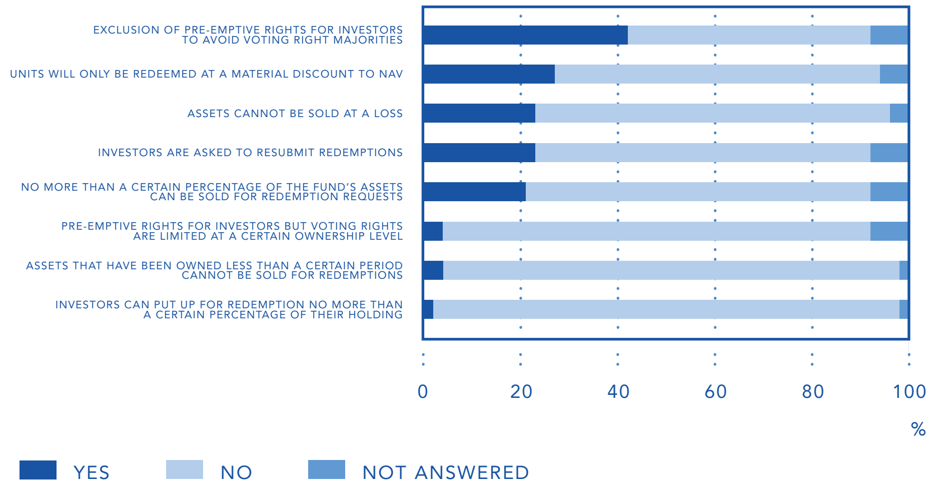
FIGURE 15 / CLOSING OF FUND / DEFERRING OF REDEMPTIONS AND GOVERNANCE PROCESS



Around 37% of the funds in the sample are bound to the consent of the fund's supervisory board and only 8% are required to obtain approval from a regulatory authority before closing a fund. However, 83% of the funds in the sample are obliged to liquidate assets once a fund is closed.

Complementary safeguards commonly used in a liquidity crisis are shown in Figure 16, which demonstrate that in the main, the majority of funds have few safeguards against redemptions.

FIGURE 16 / APPLICATION OF SAFEGUARDS TO MANAGE REDEMPTIONS

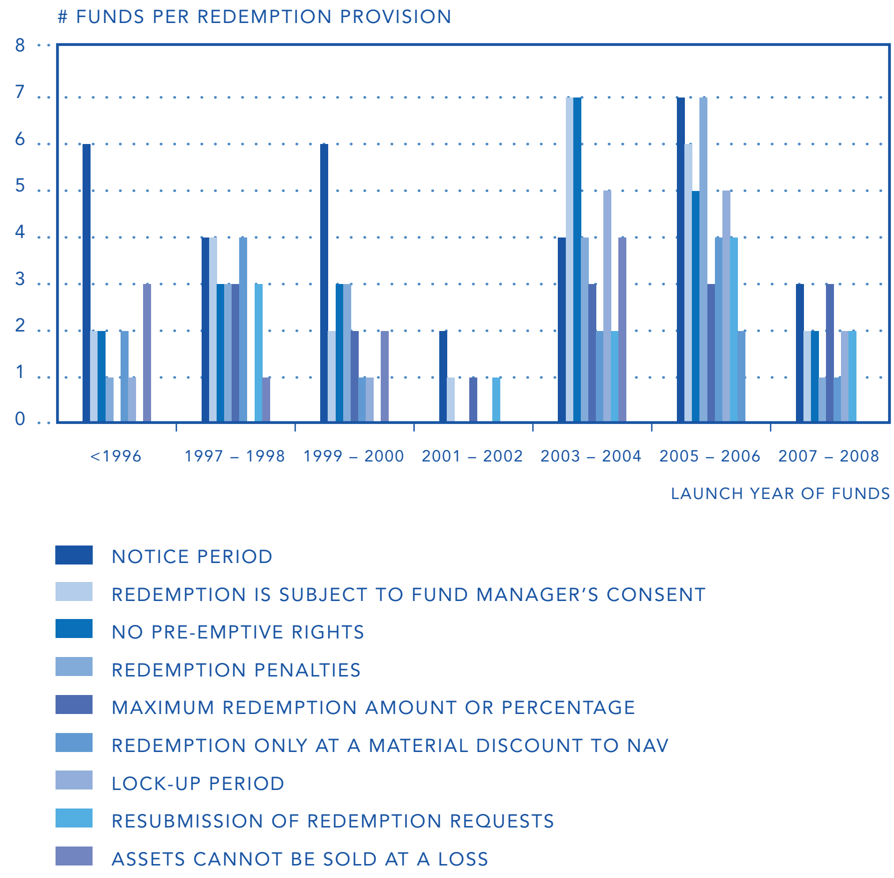


If an investor wishes to redeem its shares, 42% of funds do not grant pre-emptive rights to other fund investors in order to avoid voting right majorities of large investors. In contrast, only a small number of managers (4%) grant pre-emptive rights to co-investors, but in turn limit the buyers' voting rights at a certain ownership level.

The redemption of units at a significant discount to NAV is applied by roughly one third of managers (27%) while 23% of funds are under no obligation to sell assets at a loss in order to redeem investors. Furthermore, there are hardly any safeguards with respect to the sale of properties that have been recently acquired, where the achievement of business plan goals may be questionable in a short time period between acquisition and a sale in order to meet redemption requests. Around 21% of the funds have a provision that only a maximum percentage of the fund's assets have to be sold in order to satisfy redemption requests. Most managers do not constrain the right of redemption to a certain percentage of an investor's commitment (96%).

Figure 17 (page 18) shows how these safeguards and their importance have developed over time by number of funds.

FIGURE 17 / DEVELOPMENT OF REDEMPTION PROVISIONS OVER TIME



As can be inferred from the graph above, the notice period continues to be a commonly applied safeguard. The fund manager's consent, the abundance of pre-emptive rights and lock-up periods have become increasingly popular as applied safeguards within the last five years.

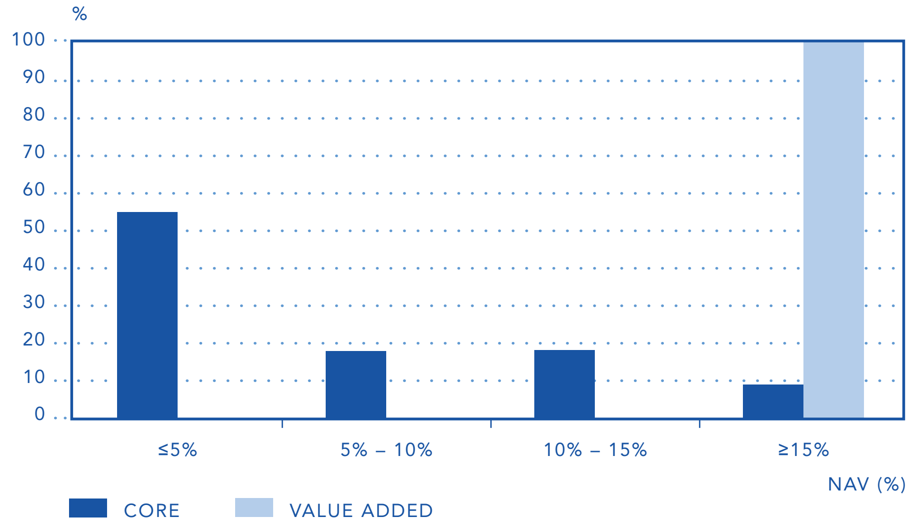
3.3 Use of existing redemption facilities

This section looks at the occurrence of investors taking up redemptions within the fund sample in the past 12 months, the trading services offered by funds and the basis for pricing of redemptions. Data for this project was gathered between November 2008 and January 2009.

Out of the 51 funds in this sub-sample, only 14 funds (27%) have actually dealt with redemption requests from investors in the past 12 months. In terms of GAV, these 14 funds represented around 7.6% of total fund volume.

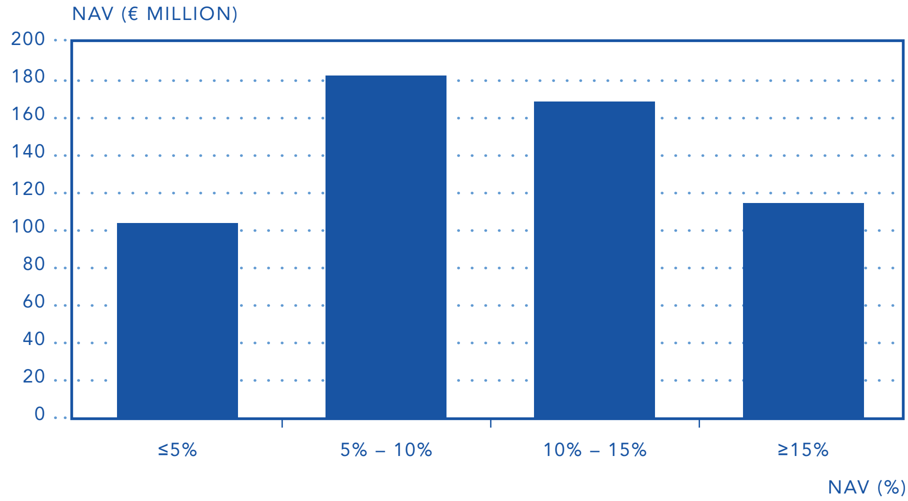
Figure 18 (page 19) illustrates how these redemptions are divided by investment style and volume of redemption.

FIGURE 18 / REDEMPTION VOLUMES BY STYLE



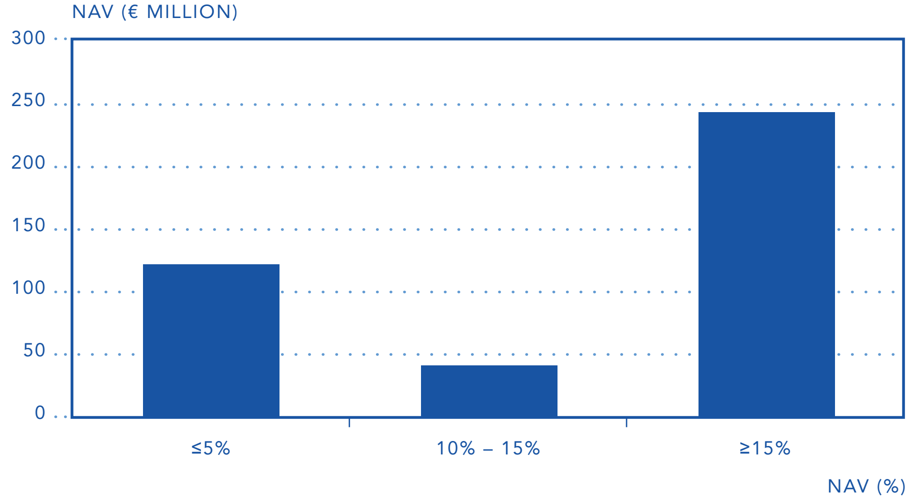
Redemption amounts significantly differed between core and value added funds. For core funds, the majority of redemptions, at 55%, were in the range of ≤5% of fund NAV. At 9%, only a very small number of core fund investors redeemed shares accounting for more than 15% of the fund's NAV. In contrast, all of the redemptions occurring in value added funds in the past 12 months were in range of ≥15% of NAV. However, this result was derived from a small sample of small funds. In actual amounts, the participating core and value added funds comprised a total of €571 million of redemptions in the past 12 months, which is illustrated in Figure 19.

FIGURE 19 / REDEMPTION VOLUMES BY NAV



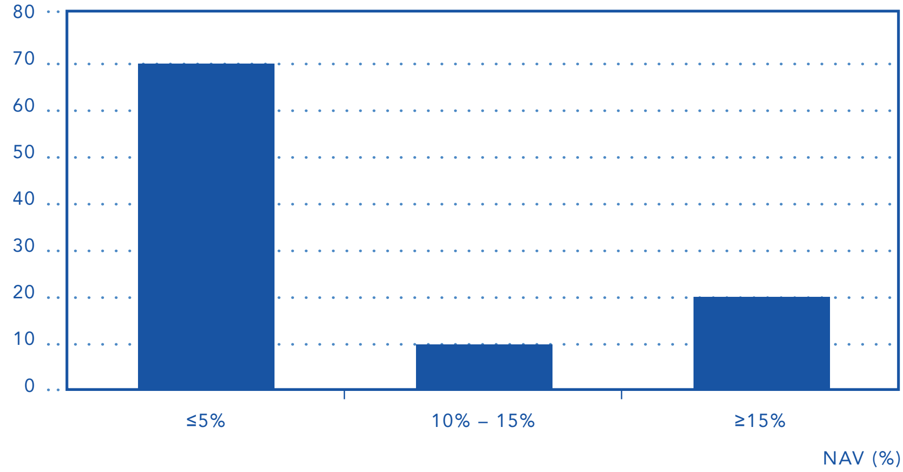
Funds were also asked whether they expect the number of redemptions to increase, decrease or to stay the same in 2009. Interestingly, the funds estimated the redemption volume to decrease, expecting around €407 million of redemptions in the next 12 months (as opposed to €571 million in the past 12 months).

FIGURE 20 / EXPECTED REDEMPTION VOLUMES WITHIN THE NEXT 12 MONTHS



Measured in a proportion of NAV, most managers (70%) expect individual redemption amounts to be relatively small, i.e. ≤ 5% of fund volume in the coming year, as reflected in Figure 21.

FIGURE 21 / EXPECTED REDEMPTION VOLUMES WITHIN THE NEXT 12 MONTHS BY % NAV



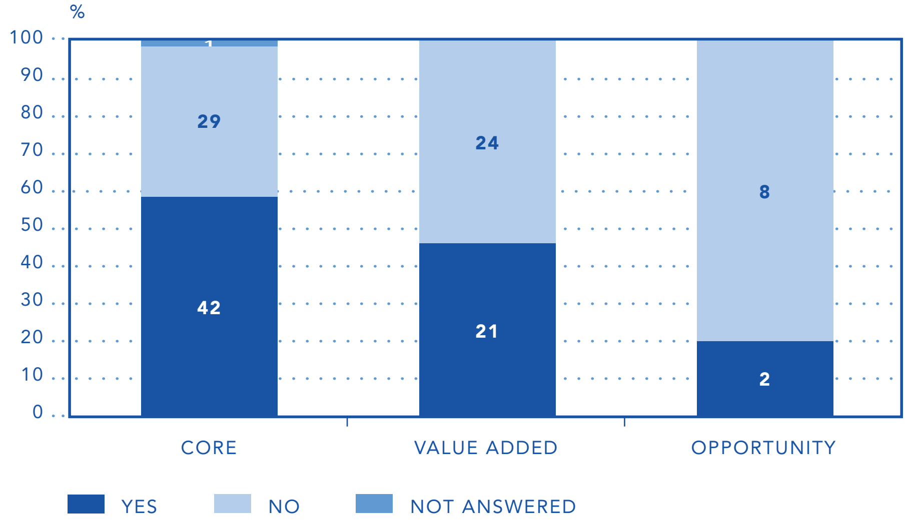
4 TRENDS FOR FUNDS WITH TRADING PROVISIONS

4.1 Design of trading facilities

The following part of the study gives an overview of the availability and fees for funds which allow trading.

Of the sample of 160 funds, 127 offer the ability to trade (Figure 22). Of this 127, 65 funds also provide investors with a service to support facilitate the trading of these shares.

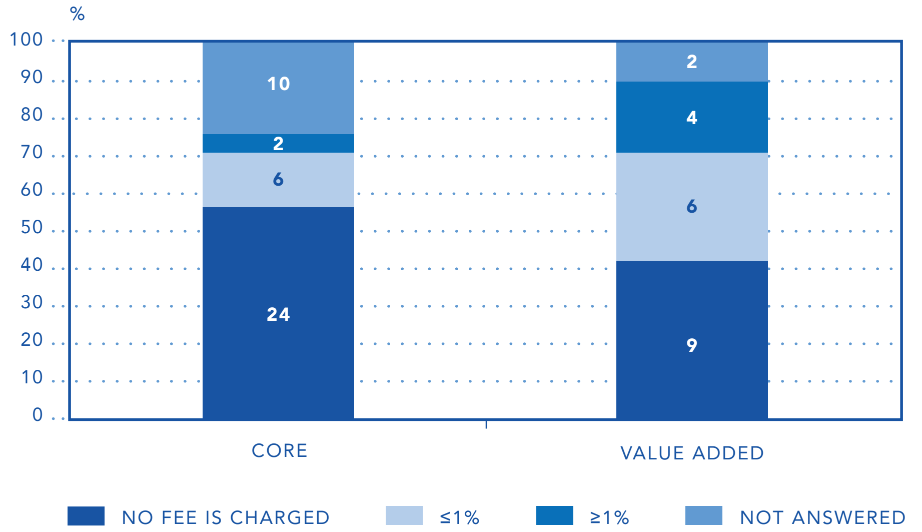
FIGURE 22 / FUNDS WHICH HAVE THE ABILITY TO TRADE SHARES



Around 58% of core funds and over 47% of value added funds offer to facilitate trading on behalf of investors compared to just two out of the ten opportunity funds within the sample. This suggests that funds offering more risk adverse investment styles are more likely to provide a secondary market.

Figure 23 shows the percentage amount charged by funds for facilitating a trade on behalf of investors by style.

FIGURE 23 / TRADING FEES CHARGED BY FUNDS BY INVESTMENT STYLE



Around 57% of the core funds and 43% of the value added funds facilitating trades do not charge any fee for this service.

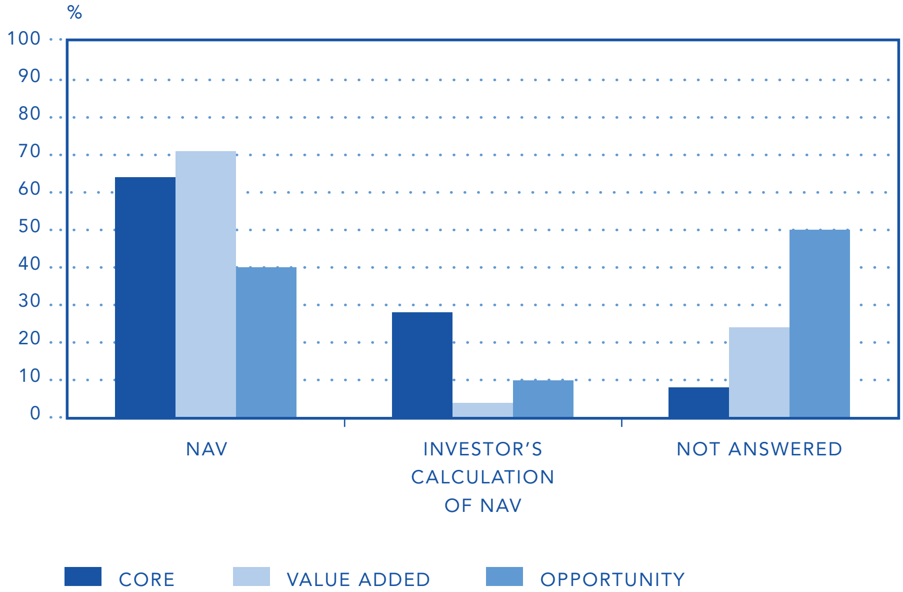
Approximately 15% of the core funds and 28% of the value added funds charge an amount below 1% of the traded amount by NAV. Only 2 out of the 42 core funds charge fees above 1%, as opposed to 4 out of 21 value added funds. This shows that fees for this service are in the main less than 1% or no fees are charged.

Of the 61 funds which do not offer a facility to trade funds in their shares, the most common reason they gave was a lack of demand for such a market. Around 18% of core funds and 22% of value added funds are bound by legal constraints which do not allow them to facilitate trading.

Two out of the seven opportunity funds state that they have no interest to facilitate trading. The same lack of interest applies for almost 18% of the core funds and almost 28% of the value added funds.

Within the scope of a secondary trade, the determination of the fund's value is of particular importance. In Figure 24, funds have been asked about their starting point for assessing the transaction value for a secondary trade.

FIGURE 24 / STARTING POINT FOR ASSESSING VALUE FOR A SECONDARY TRADE



When broken down by style, 64% of the core funds and 71% of the value added funds use the fund manager's calculation of the fund's NAV as a starting point. The majority of opportunity funds did not answer but this may be related to their propensity not to offer trading themselves.

Around 28% of the core funds use an investor's calculation of NAV. This analysis indicates that the net asset value method is the dominating valuation method as starting point for the subsequent determination of the price. However, the calculation of NAV can often differ between the fund manager and the investor due to their differing views on the underlying assumptions of the respective input parameters. It is likely that potential investors prefer their individual NAV assessment as a starting point.

FIGURE 25 / LIMITATIONS TO THE TRANSFER OF SHARES FROM THE INVESTOR'S PERSPECTIVE

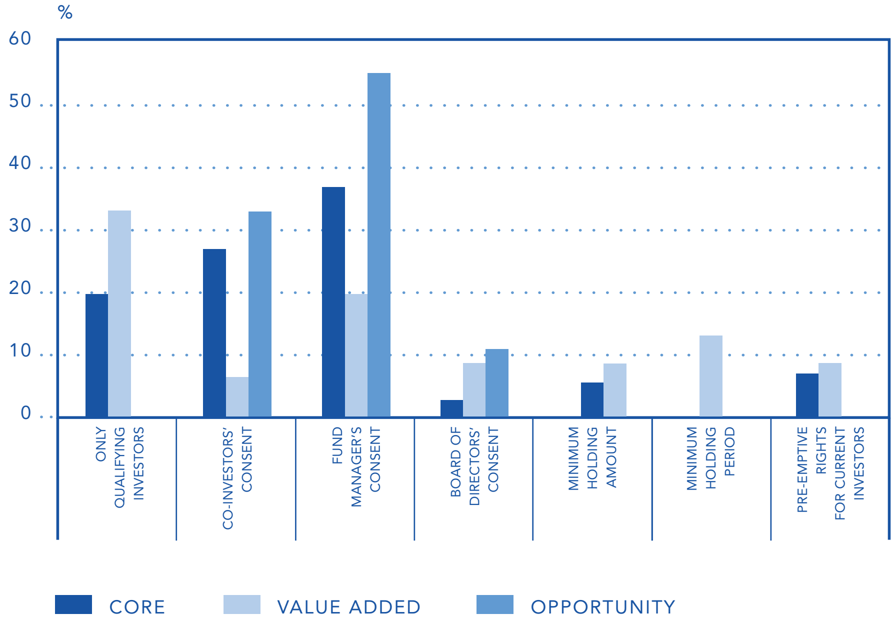


Figure 25 shows the limitations that apply if an investor wants to transfer shares to a potential investor. Core funds named the fund manager's consent (37%), the co-investors' consent (27%) and the expected qualification of the investor (20%) as the main obstacles for the transfer of shares.

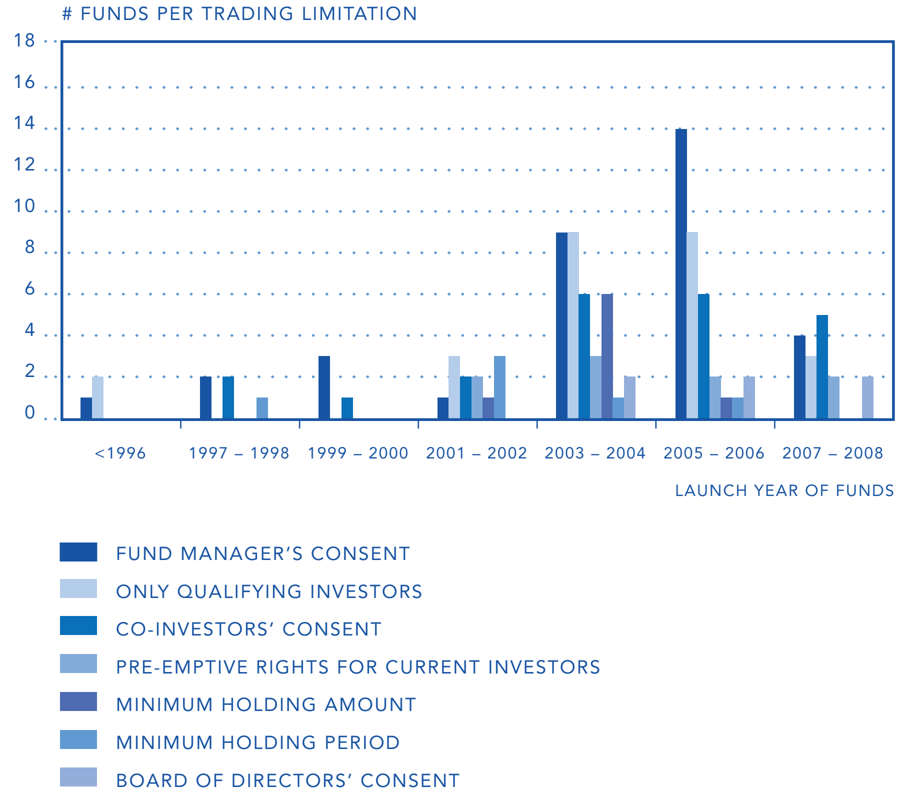
Value added funds are mainly limiting the trade of shares with respect to the expected qualification of the investor (33%), minimum holding period (13%), fund manager's consent (20%) as well as minimum holding period (13%).

Opportunity funds clearly indicate that the fund manager's consent (56%) is the main hurdle for the transfer of shares. Further barriers are the co-investors' consent (33%) and the board of directors' consent (11%).

It can be concluded that rather the consent of a number of involved parties than other conditions or arrangements are decisive for the liquidity of non-listed real estate vehicles to a potential investor.

Figure 26 (page 25) shows how these trading limitations and safeguards have developed over time.

FIGURE 26 / DEVELOPMENT OF TRADING LIMITATIONS OVER TIME



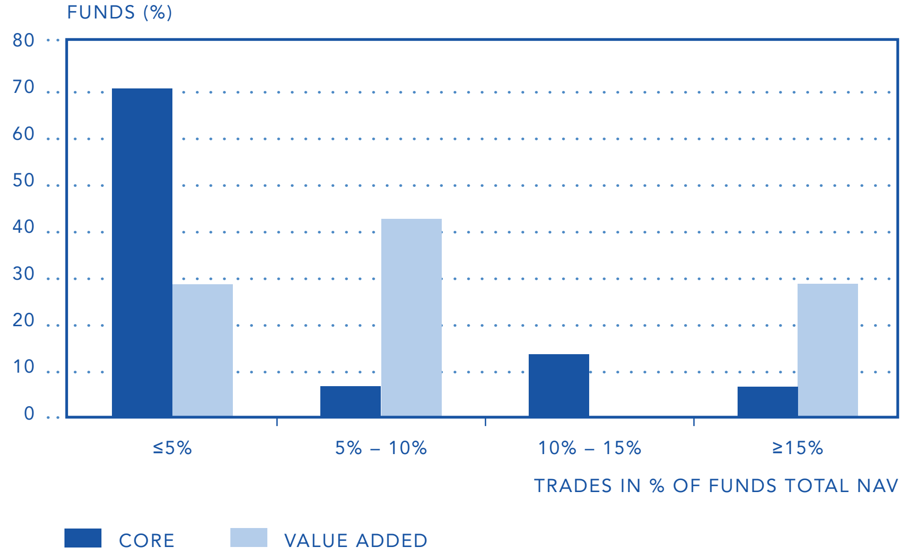
As can be seen from the above, the fund manager's consent, the qualification of the investors and the co-investors' consent have been the most commonly used trading limitations. The granting of pre-emptive rights have become increasingly popular within the last five years.

4.2 Use of existing trading facilities

In addition to the characteristics of the trading options funds were also asked whether any trading in their funds' shares occurred within the past 12 months. The sample comprises 127 non-listed real estate vehicles offering trading facilities. Of these 127 funds, 22 funds experienced share trading.

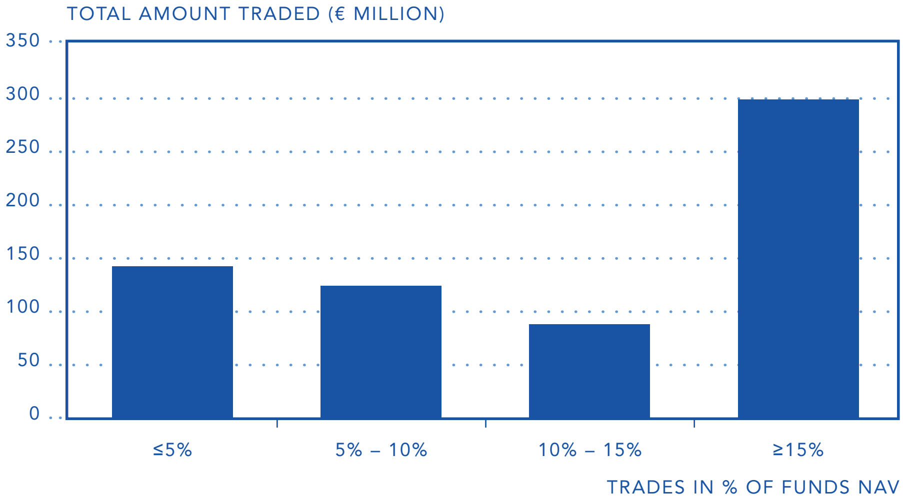
In order to evaluate the significance of the occurred trades, the trading volume has been calculated as a percentage of the respective fund's total NAV and is depicted in Figure 27 (page 26).

FIGURE 27 / TRADES WITHIN THE LAST 12 MONTHS BY INVESTMENT STYLE



In the last twelve months the volume of trades of core funds' shares was mainly below 5%. In contrast, the size of trades of value added funds was larger and mainly lay in the range of 5% – 10% of the respective fund's total NAV.

FIGURE 28 / SUM OF TRADES OF THE LAST 12 MONTHS



The trading volume by amount allocated to the trades' size as a percentage of the fund's NAV is depicted in Figure 28.The total trading volume is €655 million. Trades above 15% of the respective fund's NAV reflect an absolute trade volume of almost €300 million. With a trade volume of €143 million, trades in size below 5% of the respective fund's NAV, represent the second largest trading volume.

Funds were asked about pricing for actual trades but the majority were reluctant to supply data on this. This resulted in too small a sample to analyse.

5 INVESTORS

The following section seeks to provide an insight into investors' perspectives regarding the liquidity provisions of non-listed real estate vehicles. This part of the survey aims to provide views on the degree of liquidity investors expect and require from their non-listed real estate funds, their reasons for demanding this liquidity and their level of satisfaction with the liquidity provisions currently in place.

For this purpose telephone interviews were conducted with nine European institutional investors in the course of April 2009. A structured interview approach was used and a questionnaire comprising a total of 11 questions was developed.

Despite the heightened interest in secondary trading with the challenging market conditions, interviews with investors show that few have still either bought or sold via the secondary market. One third of the investors have redeemed shares and the minority of the investors has both traded and redeemed shares in the past, with the majority only exiting funds through termination. In addition, none of this trading had taken place in the past 12 months. None of the investors had exclusively used trading as a liquidity mechanism so far, suggesting that trading as a liquidity provision for non-listed property funds has not been of high importance to investors in the past.

Those investors who had traded or redeemed made the following comments:

- All of the investors were pleased with the duration and pricing of the chosen exit strategy.

- All of the investors had to respect certain lock-up periods when wishing to redeem and/or trade their shares. The experienced time periods varied between one month and two years.

- With regard to the starting point for assessing the price of the shares, all investors reported that pricing was based on the fund manager's NAV.

Looking ahead to planned disinvestments on the secondary market within the next 12 months, all of the investors stated that they do not plan to disinvest a certain absolute amount. However, the majority of investors could imagine disinvesting between €50 and €100 million. Although the majority of respondents has not had any experience with selling shares on the secondary market so far, the responses to this question imply that trading is likely to become a more frequently used exit option in the future.

When discussing safeguards, investors said a lock-up period of up to six months is acceptable while some added that in addition they would even accept lock-up periods of 12 months or more. Such long lock up-periods would be an issue for a minority of the investors.

The majority of the investors are in favour of maximum redemption amounts and due to the potential negative impacts on their own investment, some respondents even require managers to cap maximum amounts.

Any limitation on investors' pre-emptive rights to buy stakes that other investors wish to redeem is seen as a major issue by investors. This shows that the accommodation of external investors is seen as less desirable for investors than the re-allocation of a departing investor's shares to its co-investors.

However, linked to this investors' opinions about having increased voting rights when taking up shares from other investors are not as coherent with approximately one half considering it a requirement. It can then be inferred that investors are interested in increasing their stake in a fund over time, even if this is not associated with a corresponding increase of their voting rights.

Around one half of investors confirmed they would be willing to accept some sort of discount in return for being able to trade and/or redeem fund shares compared to a 'no exit' possibility. This was uniform across the styles but the exact discount depends on the specific situation and the fund. Some investors would be willing to accept a return difference in comparison of a tradable/redeemable fund to a no-exit fund of 20 – 75 basis points for core, 80 – 125 basis points for value added and 100 – 150 basis points for opportunity funds.

The majority of investors expect the number of trades to increase within the next 12 months but views on the expected growth rate do significantly differ ranging from 100% growth down to 5 – 20% growth.

6 INVESTMENT BANKS

The following section seeks to provide an insight into investment banks' role and perspectives regarding the liquidity provisions of non-listed real estate vehicles and the facilitation of secondary market trading. This part of the survey aims to provide views on the degree to which investment banks have participated in the past and plan to participate in future trading of shares of non-listed real estate funds, their attitude towards a secondary market and what they see as their role in the development of such an organised trading platform.

For this purpose, telephone interviews were conducted with four European investment banks in April. A structured interview approach was used and a questionnaire comprising a total of 12 questions was developed.

Three out of the four investment banks have been involved in the trading of shares of non-listed real estate investment vehicles during the last 12 months with three intending to continue their engagement in the trading of shares for the next twelve months.

However, only one investment bank provides an organised secondary market for trading shares of non-listed real estate funds. It experienced three market transactions within the last twelve months and currently has three transactions in the pipeline. The other banks provide advisory services that may come close to offering a secondary market.

For the majority of investment banks the latest fund NAV serves as a starting point for assessing the value of a secondary market trade. Only one investment bank planning to organise trades prefers a discounted cash flow valuation method for calculating the shares' value.

The role of investment banks with regards to the development of an organised secondary market for non-listed property funds is vague. One investment bank sees its role in offering advisory services and in functioning as a financial intermediary, whereas others sees their roles reduced to back office services.

As the role investment banks play in the development of an organised secondary market is unclear, the challenges they face regarding the development of such a market are not clear either. Mostly the lack of market transparency and the matching of supply and demand are regarded as main challenges besides the expected small volume of trades, which reduces potential profits for investment banks.

However, all those interviewed expect the number of trades to rise significantly by around 50% during the coming twelve months, due to the currently low number of trades and macroeconomic developments. The investment banks' expectations are in line with the expectations of the majority of investors regarding the development of trade. Most investment banks see differences in the number of trades by investment style for the next twelve months. The majority predict the number of trades for shares of core and value added funds to be higher than for opportunity funds.

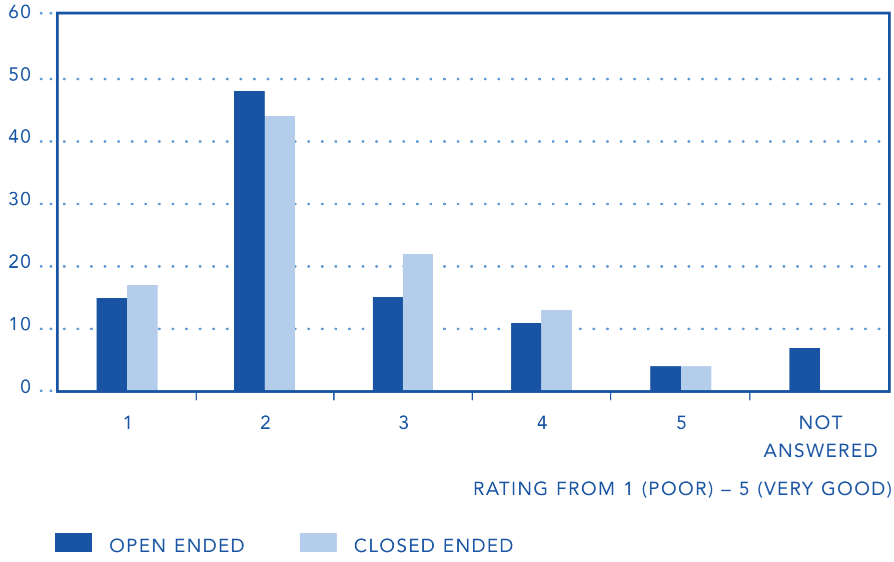
All investment banks agree in their answer that if an organised secondary market existed, funds or property companies will not use the secondary market exclusively in order to place investments.

7 THE SECONDARY MARKET AND THE INREV GUIDELINES

7.1 The potential for a secondary market

FIGURE 29 / POTENTIAL FOR THE EMERGENCE OF A SECONDARY MARKET

HOW DO YOU RATE THE POTENTIAL FOR THE EMERGENCE OF AN ORGANISED SECONDARY MARKET FOR SHARES? (%)



This section of the report looks at the potential and importance for an organised secondary market for trading as well as the use and familiarity with the INREV Guidelines on this topic.

The majority of funds responding to the survey do not expect an organised secondary market to emerge. This view is quite equally shared by managers of open and closed ended funds, as shown in Figure 29.

Investors asked in the interviews were, in contrast, more positive about the potential of the emergence of an organised secondary market but overall there seemed to be the opinion that the number of market participants is small enough to meet and trade without establishing a more formal platform.

Investors in the interview also saw a number of main obstacles to the development of an organised secondary market such as the lack of transparency, pricing difficulties, the lack of interest of market participants and the existing imbalance of buyers and sellers on the market are considered to be the largest obstacles.

The lack of market transparency and the matching of supply and demand are regarded as main obstacles for the development of a secondary market by investment banks too.

FIGURE 30 / FUNDS' PERCEPTION OF IMPLEMENTATION IMPORTANCE OF A SECONDARY MARKET

HOW DO YOU RATE THE IMPORTANCE OF AN ORGANISED SECONDARY MARKET FOR SHARES? (%)

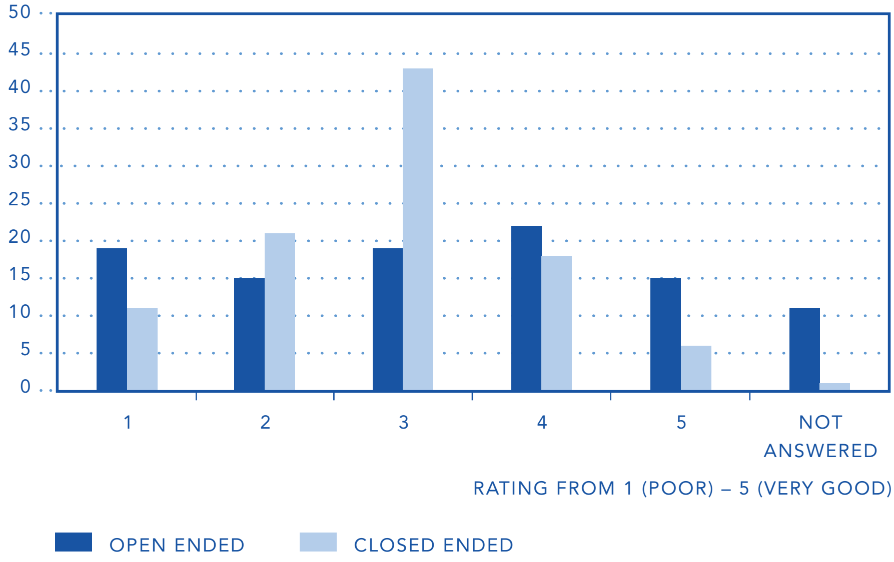


Figure 30 shows the funds' differing perceptions of the importance of the implementation of an organised secondary market.

The responses of managers of open ended funds significantly differ from each other while closed ended funds appear to have a more coherent opinion about this topic, with 43% of the respondents ranking the importance of an organised secondary market to be average. This difference can be explained by the varying liquidity provisions offered by the open and closed ended funds in the sample with all open ended funds in the sample having a redemption provision compared to only 10% of the closed ended funds.

In the interviews with investors, they considered the importance of the emergence of an organised secondary market to be quite high. The reasons given were diverse with trading facilitations and increased transparency being the most common. Against the background that most participating investors have not gained any experience with secondary market trading so far, but intend to do so within the next 12 months, the high appreciation of an organised, efficient market for shares is not surprising.

When considering investors' requirements for the development of an organised secondary market for shares, the most common responses were the introduction of a market maker, the standardisation of products, a central market entity and transparency.

The investment banks interviewed also considered the importance of an organised secondary market to be high. The reasons for this high appreciation of an organised secondary market are mainly seen in its contribution to the improvement of market transparency, its importance as a mean of liquidity provision and the importance of liquidity itself.

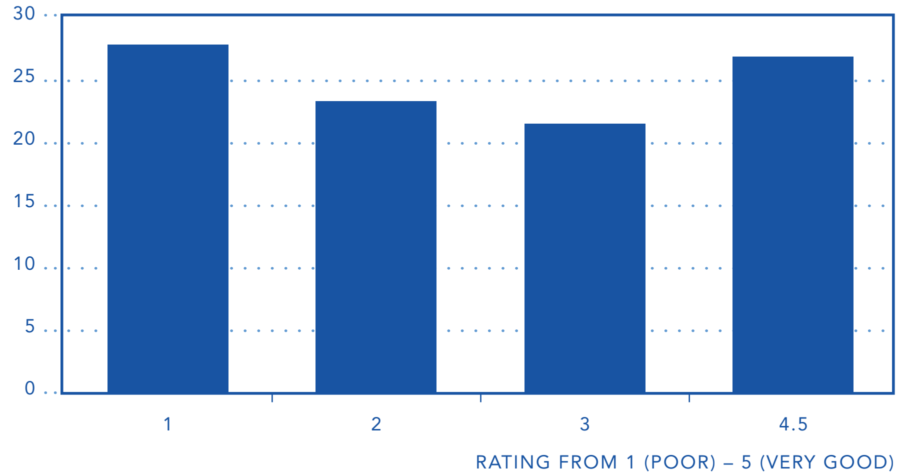
7.2 Familiarity with the 'INREV Guidelines for a Secondary Market'

The INREV Guidelines for a Secondary Market were formulated by the Secondary Market and Liquidity Committee and published at the end of 2005. They have since been included in the INREV Guidelines, the integrated set of guidelines produced by INREV in December 2008.

In order to evaluate to which extent these guidelines are made use of in practice, funds have been asked to rate the degree of their awareness of the guidelines on a range from 1 (poor) – 5 (very good), as shown in Figure 31. Those choosing 4 or 5 all selected both options, which resulted in the 4.5 result.

FIGURE 31 / FAMILIARITY WITH THE INREV GUIDELINES FOR A SECONDARY MARKET

ARE YOU FAMILIAR WITH THE INREV GUIDELINES FOR A SECONDARY MARKET? (%)



The degree of funds' awareness of this framework is hard to assess, with around one third of the respondents being very familiar with the guidelines and the same proportion of the sample having only a very poor knowledge of the contents.

Investors' familiarity with the INREV Guidelines for a Secondary Market is quite low, suggesting that there still is work to be done by INREV in this field but it could also relate to the lack of trading in the market and therefore for the need for the guidelines so far.

FIGURE 32 / OPINION ON THE USEFULNESS OF THE INREV GUIDELINES

IF YOU HAVE REFERRED TO THE INREV GUIDELINES, HOW USEFUL DO YOU FIND THEM? (%)

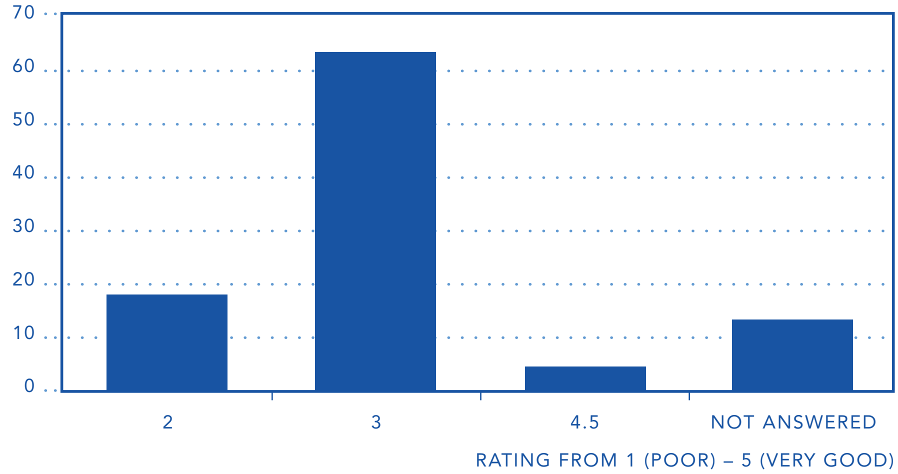


Figure 32 shows that the majority of those funds using the INREV Guidelines for a Secondary Market perceive the usefulness of the guidelines with respect to secondary market trade to be average, implying further work to be done by INREV.

Although all investment banks stated to be quite familiar with the INREV Guidelines for a Secondary Market, only a few expressed opinions about their implementation. They regarded the guidelines to be useful to standardise processes rather than standardising in pricing. The other investment bank finds them useful as well, but doubts them to be commonly acknowledged.

APPENDIX 1: COMPLEX AND DIVERSE LIQUIDITY PROVISIONS APPLIED

In order to meet the increasing demand for liquidity of non-listed real estate vehicles shares, funds apply diverse and complex liquidity provisions. Liquidity provisions can be released in legal or contractual regulations. For example in Germany, the Investment Act regulates the liquidity provisions for German open ended real estate funds. Furthermore the investment companies can implement liquidity provisions within the contractual form of its fund. Basically two ways of ensuring a certain degree of liquidity can be distinguished.

– Mostly open ended funds offer the redemption of shares to their investors as a way to liquidate their holdings. In general redemption is subject to legal and fund regulations which vary from fund to fund and country to country. These regulations determine the degree of liquidity.

– Trading of shares is also subject to legal and fund regulations and offers an additional way to ensure liquidity of fund shares even in the absence of redemption facilities.

Redemption facilities are defined in the fund's documentation, which might include a balance of interests between the seller and other investors. Various contractual provisions and restrictions on transfer of shares of the fund exist. Restrictions on transfer may require for example that the investor:

– Must receive written consent from the fund manager before transferral;

– Gives certain notice of his intention to redeem (monthly, quarterly, annually) dependent on the value of the units in relation to the size of the fund or the type of units the investor wishes to redeem.

In some circumstances an investor can request to redeem units through the manager, but the manager is not bound to sell assets or lever the fund to allow this request. In case the manager agrees to the request, the determination of the redemption price is often calculated in two ways:

– Based on NAV a discount may be applied based on the fund manager's discretionary view of the market and fund performance;

– Based on a bottom-up approach a discount may be assessed on the individual valuation of the fund's underlying assets and figures that are included in the NAV (i.e. accruals).

APPENDIX 2 FURTHER INFORMATION ON THE COMPOSITION OF THE SAMPLE

By target investor type, at 91% the sample has a higher proportion of funds aiming exclusively at institutional investors in comparison to the INREV Universe at 82%. For funds that target institutional and retail investors the sample has a lower proportion of 9% in comparison to the INREV Vehicles Database at 18%.

FIGURE 33 / TARGET INVESTOR TYPE

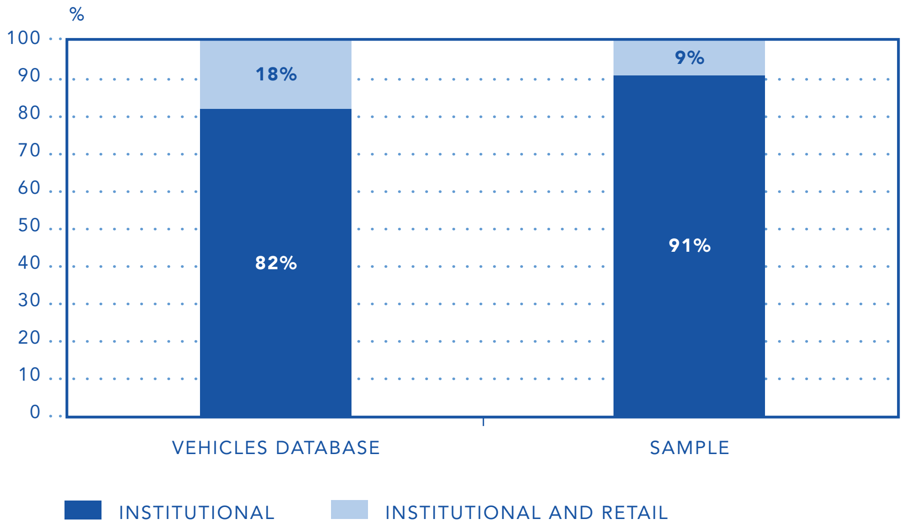
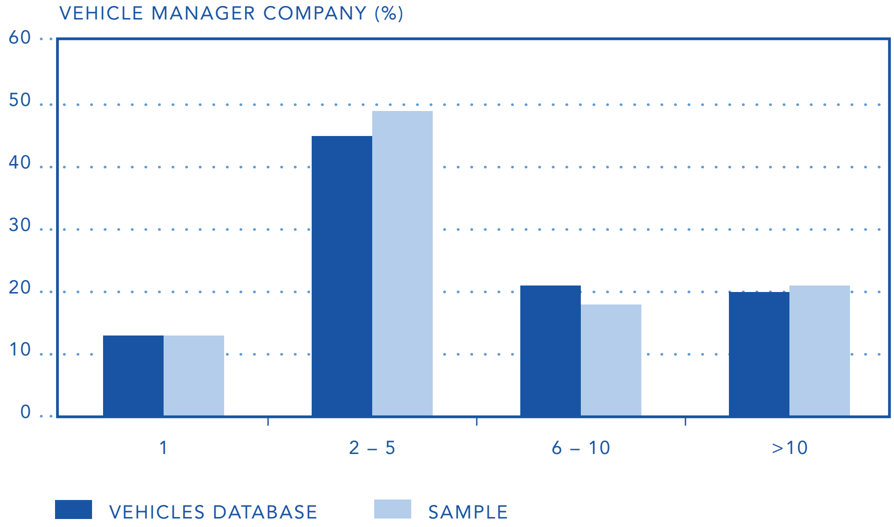


Figure 34 (page 37) shows that the majority of funds managed by the same vehicle manager in both the INREV Vehicles Database and the sample range between 2 – 5 funds per manager. This represents approximately 45% of the INREV Vehicles Database and 50% of the sample.

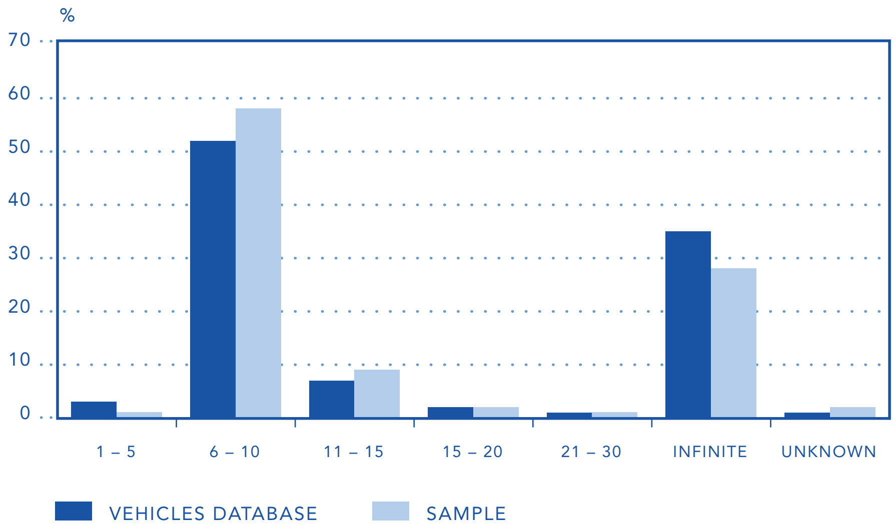
The next frequent range of funds per manager comprises more than 10 funds per manager and equals nearly 20% of both the INREV Vehicles Database and the sample. The range of 6 – 10 funds per manager represents around 20% whereas one fund per manager represents more than 10% of both the INREV Vehicles Database and the sample.

FIGURE 34 / NUMBER OF FUNDS MANAGED BY SAME VEHICLE MANAGERS



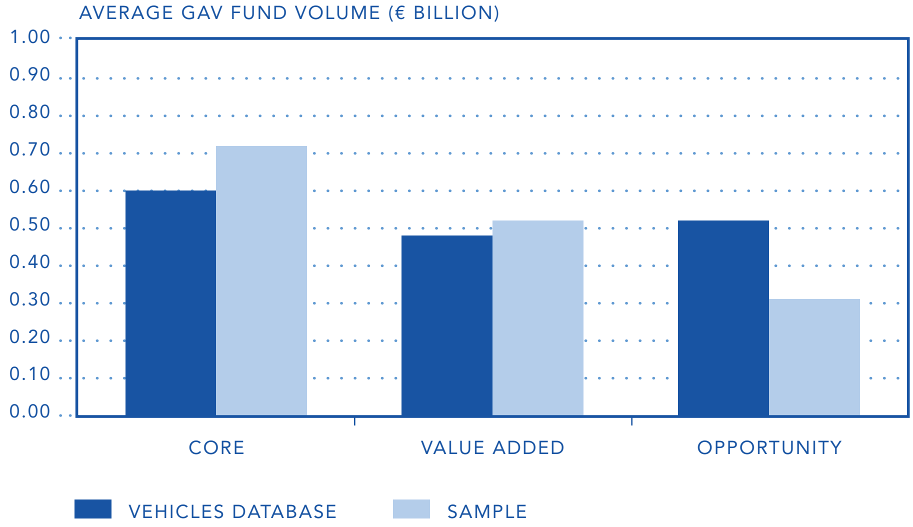
By total fund's life span (Figure 35), the majority of funds in both the INREV Vehicles Database and the sample is between 6 – 10 years. This represents 52% of the INREV Vehicles Database and 58% of the sample. The next frequent total fund's life span is infinite and comprises approximately 35% of the INREV Vehicles Database and 28% of the sample.

FIGURE 35 / FUNDS' LIFE SPAN



In Figure 36 the average fund size in GAV of the sample is compared to the average fund size in GAV of the INREV Vehicles Database. Across the styles, the average fund size the sample and the database are similar with €0.53 billion and €0.51 billion in GAV.

FIGURE 36 / AVERAGE FUND SIZE BY INVESTMENT STYLE



APPENDIX 3: INREV DEFINITIONS

CLOSED ENDED FUNDS

A fund is closed ended where:

- a formal limit is placed upon the maximum amount of capital which may be accepted into the fund without existing investors' consent;
- it has a finite life;
- there is limited liquidity, but investors wishing to purchase a stake in the fund may buy units from existing investors (once the fund is closed); and
- redemption of units at the investors' choice can otherwise only occur at end of the life of the fund, and/or at interim periods of over 12 months notice.

OPEN ENDED FUNDS

A fund is open ended where:

- no formal limit is placed upon the maximum amount of capital which may be invested into the fund;
- trading takes place either through the fund on an issue/redemption basis or through a matched bargain basis; and
- the issue/redemption of units is subject to, inter alia, conditions as to price, notice period, number of units and payment period.