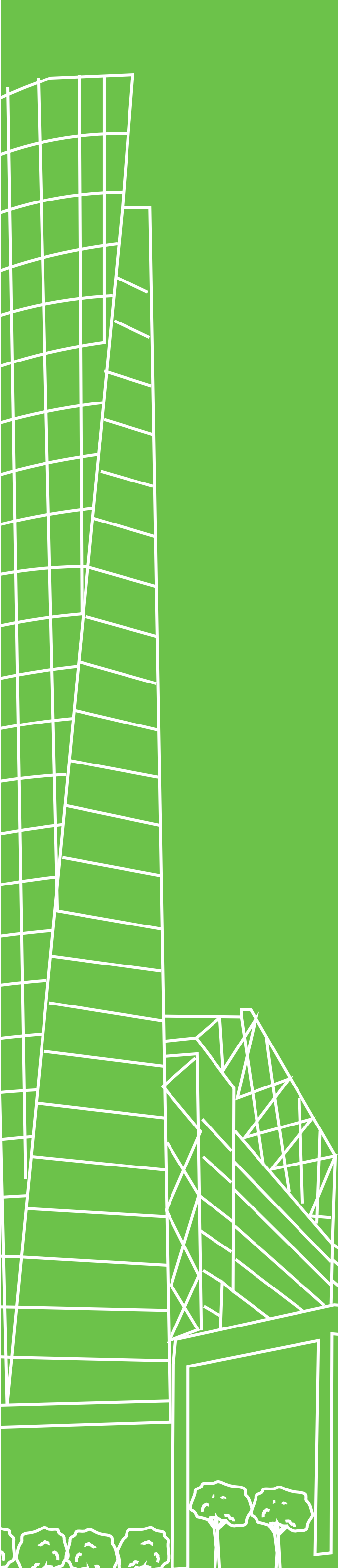

Funds Termination Study
2020

Research

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

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

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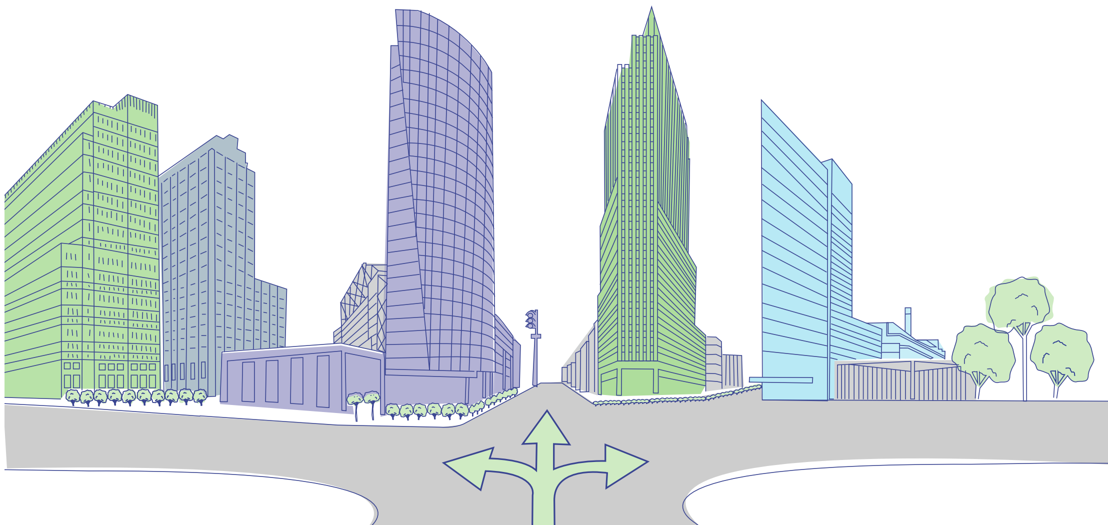
Contents



Executive summary

> Between 2020 and 2023, 57 funds are planned to terminate representing €12.4 billion in NAV
> Fund managers increasingly considered extension, rollover and 'other' as termination options
> Current market conditions were the main driver affecting the termination decision

In 2020 it is expected that 21 funds terminate
There are 57 closed end, non-listed European funds that due to terminate between 2020 and 2023. This could potentially bring €12.4 billion NAV worth of assets to the market. Of those 57 funds, 21 are expected to terminate in 2020, another 14 in 2021, 15 in 2022 and 7 in 2023.

Most of the funds that are due to terminate in the next 4 years are either core (44.2%) or value added (42.1%).

The UK is facing most terminations among single country funds
Majority (52.6%) of the 57 funds that are expected to terminate between 2020 and 2023 have a single country strategy. Out of these funds, 10 are targeting the UK, with a combined NAV of around €2.6 billion.

Of the 32 terminating funds with a single sector strategy, 13 funds or 40.6% are targeting retail, potentially bringing €3.2 billion NAV of assets to the market.

Funds due to terminate in 2020 underperform
Over the last 12 years those funds due to terminate in 2020 delivered an average return of -0.6% per annum. This group of funds was most impacted by the financial crash of 2008. Funds scheduled to terminate in 2021 on average generated returns of 5.9% per annum, while those due to terminate in 2022 showed the strongest performance with an average return of 6.3% per annum.

Funds in extension outperformed funds in liquidation
Funds in extension have, over the last 8 years, on average performed better than those in liquidation. Funds in extension generated an average total return of 9.5% per annum, while funds in liquidation averaged a return of 5.2% per annum over the same period.

Replicating the analysis over a 5-year period produces a similar result, with funds in extension delivering higher returns (10.1%) than those in liquidation (5.9%).

Current market conditions are affecting termination decisions
Among termination options, liquidation remained as the preferred option by most, regardless of the fund style. Nonetheless, respondents indicated that other options like extension, rollover into a new structure and 'other', including an IPO, sale or merger, were increasingly considered.

Unlike the 2019 survey result, the terms for termination set in the fund documentation were not considered to be the most important factor when choosing the termination date and strategy. Instead, current market conditions were the main driver. The second most important factor affecting the termination decisions was the quality of the portfolio.

'From 2020 to 2023 it is expected that 57 closed end funds will terminate, potentially bringing €12.4 billion NAV of assets to the market"

Section 1

Introduction

Introduction

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

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

The universe includes 265 closed end vehicles managed by 92 managers from the INREV Vehicles Universe. Collectively these vehicles represent a total Net Asset Value (NAV) of at least €44.2 billion. Of these 265 vehicles, 95 are due to terminate in the coming decade (2020 to 2029). This group represents a total NAV of at least €18.9 billion.

This study specifically focuses on the 57 funds that are due to terminate in the forthcoming period between 2020 and 2023. These funds could potentially bring €12.4 billion of NAV onto the market.

Among these, 33 funds with a total NAV of €10.2 billion responded to a questionnaire-based survey which explores the factors affecting termination decisions.

The response rate for the Funds Termination survey was negatively impacted by the sale of funds to non-members of INREV, for example private equity managers, making these funds unable to track.

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

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

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

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

INREV would like to thank all participants for contributing to the Funds Termination Study 2020.

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

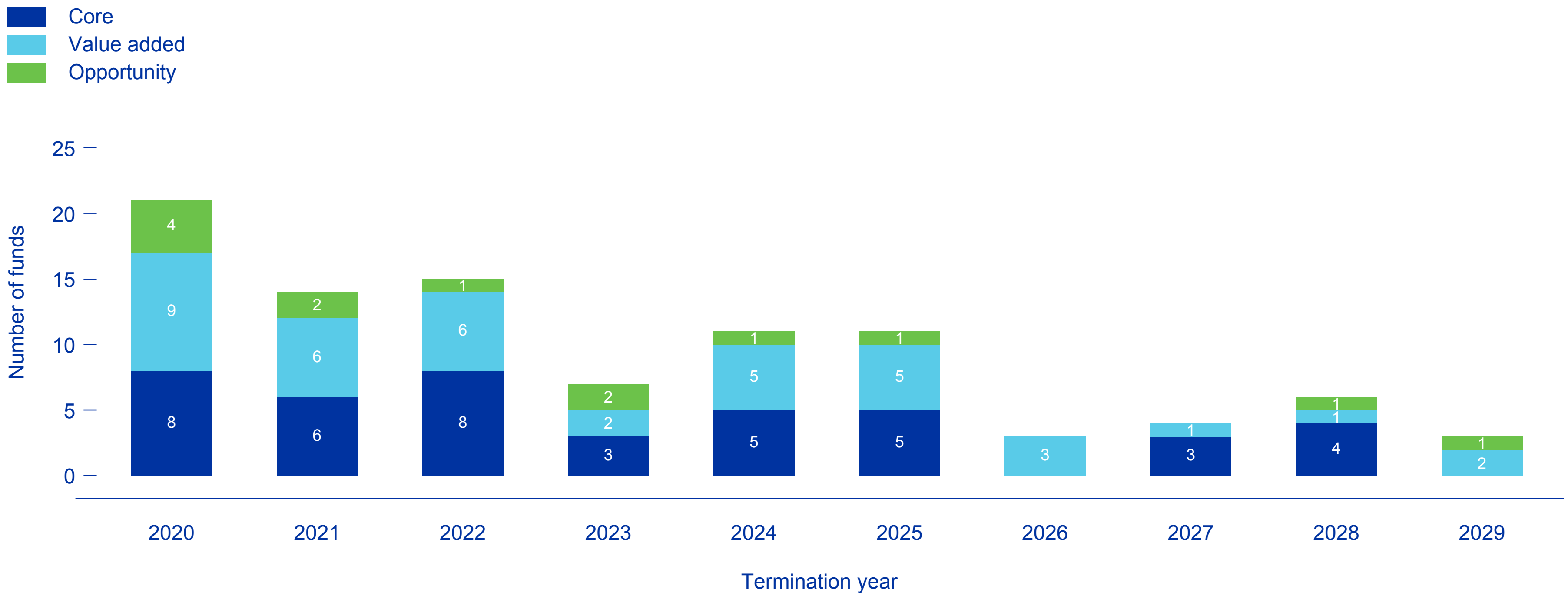
Funds with expected termination date in the next 10 years

This chapter studies the different features of European non-listed real estate funds in the INREV Vehicles Universe ('the universe'), as at the date of publication of the report. The universe consists of 489 vehicles, of which 265 are closed end, representing NAV of €44.2 billion.

Of these closed end funds, 35.8% are due to terminate between 2020 and 2029, with a combined NAV of €18.9 billion. The largest proportion of this group are core funds, accounting for 44.2% of NAV, while value added and opportunity funds represent 42.1% and 13.7% of value, respectively. The distribution across investment styles are similar for this year's and last year's results.

Most terminations are expected to take place in 2020 (21 funds). Out of those funds 8 have core style, 9 value added and 4 opportunity.

Figure 1: Number of funds terminating between 2020 and 2029 by style



Funds terminating between 2020 and 2023

Between 2020 and 2023, 57 funds are scheduled to terminate, which could potentially bring €12.4 billion NAV worth of assets to the market.

Of these funds, 21 (36.8%) are scheduled to terminate in the remainder of 2020, representing €3.8 billion (31.0%) of the total NAV.

Another 14 funds (24.6%) are expected to terminate in 2021, representing a total NAV of €4.7 billion (37.7%).

Funds expected to terminate in 2021 are the largest on average based on €334.8 million NAV, in comparison with those terminating in 2020, 2022 and 2023, averaging at €183.2 million, €159.8 million and €214.2 million NAV respectively

The following sections show the main characteristics of the 57 funds with schedule termination dates between 2020 and 2023.

Figure 2: Funds terminating between 2020 - 2023 by number of vehicles and size

36.8% Terminating in 2020
24.6% Terminating in 2021
26.3% Terminating in 2022
12.3% Terminating in 2023

31.0% Terminating in 2020
37.7% Terminating in 2021
19.3% Terminating in 2022
12.1% Terminating in 2023

By number of funds

By NAV (€ billion)

‘Funds scheduled to terminate in 2020 and 2021 could potentially bring €8.5 billion NAV of assets to the market’

Performance of funds terminating between 2020 and 2023

Funds with a planned termination in 2022 have shown the strongest performance over the last 12 years. This group of funds generated an average annual return of 6.3% while those due to terminate in 2020 and 2021 posted an average return of -0.6% and 5.9% per annum, respectively.

A five-year analysis produces a similar pattern of results. Funds with planned termination date in 2022 delivered the highest average annual return of 9.3%, while those schedule to terminate in 2020 and 2021 generated average annual returns of 3.9% and 8.3%, respectively.

Looking at the average IRR by liquidation year, those funds with termination date due in 2023 have the highest since inception IRR of 11.9%, followed by those terminating in 2022 and 2021 with posted IRRs of 9.5% and 8.8%, respectively. Those funds due to terminate in 2020 posted the lowest IRR 7.7%.

Figure 3: Performance by termination year

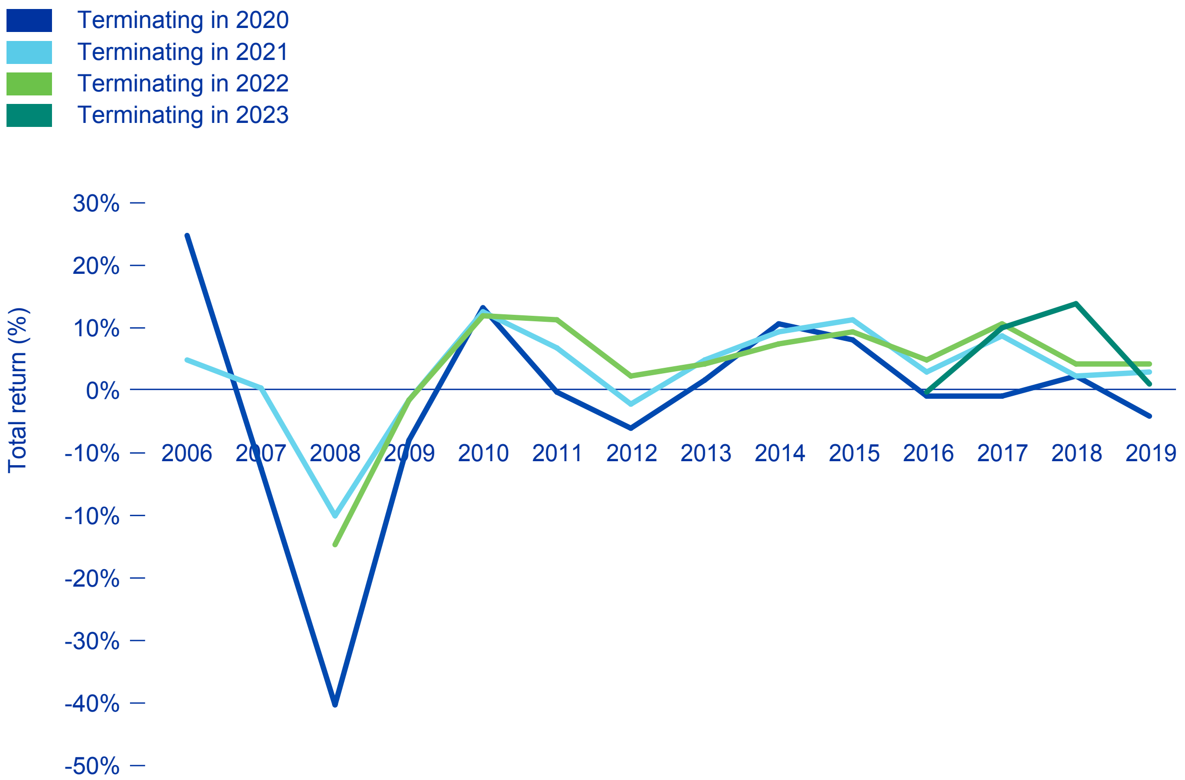
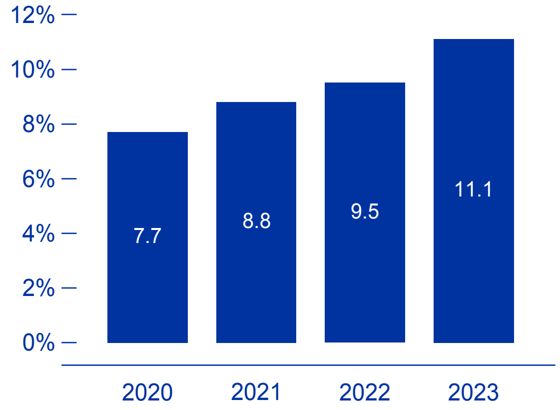


Figure 4: IRR by termination year



Provision to extend and fixed extension period

Of the 57 funds expected to terminate between 2020 and 2023, 42 have the option to extend their termination date.

All funds that are scheduled to terminate in 2021 and 2023 have the provision to extend their termination date. Among the funds expected to terminate in 2020, 88.9% have an extension option in place. Out of the funds scheduled to be terminated in 2022, 76.9% have the option to extend their termination date.

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

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

> 'Most of the funds due to terminate between 2020 and 2023 have the option to extend their termination date'

Figure 5: Provision to extend

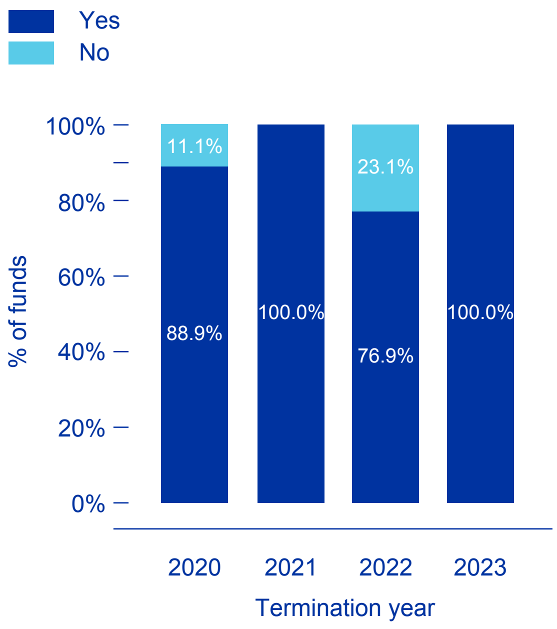
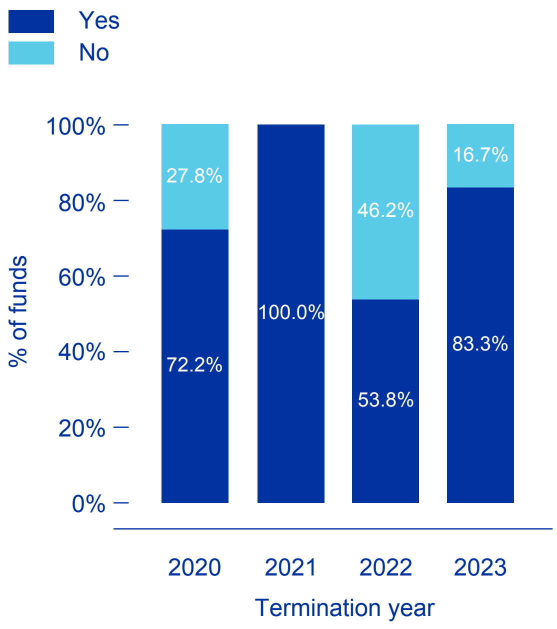


Figure 6: Fixed extension period



Year of first closing and target gearing

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

Funds which had their first closing between 2011 and 2013 account for the largest share of those that are expected to terminate in 2020, 2021, 2022 with 47.6%, 35.7%, 35.7% of the sample, respectively. For funds with an expected termination date in 2023, that proportion shrinks to 14.3%.

The second largest group of funds terminating in 2020, 2021 and 2022 by vintage are funds launched before 2008, while those funds first closed between 2008 and 2010 represent a smaller share. This distribution reflects that most funds were launched at the beginning of the recovery after the GFC, while relatively few were launched during the crisis.

Funds that were launched after 2013 represent a share of 28.6% in 2021 and 2022 but are expected to account for most of the funds terminating in 2023.

The sample has also been split into three categories by target leverage levels: those with target leverage of less than 40%, those with target leverage between 40% and 60% and those with more than 60% of target leverage. Out of the sample of 57 funds, 42 provided information on their target leverage levels.

Most of the funds with an expected termination date between 2020 and 2023 are core and value added in style, so it is not surprising that the majority have leverage levels below 60%. Only 3 funds have a target leverage higher than 60%, representing just 7.1% of the total sample. Funds with a target leverage between 40% and 60% account for 52.4% (22 funds), while funds with a target leverage below 40% represent 40.5% (17 funds) of the sample.

Figure 7: Funds in termination by year of first closing

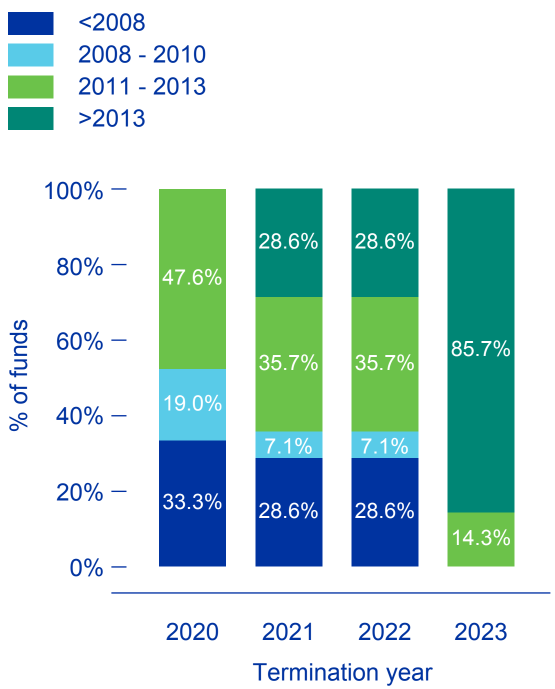
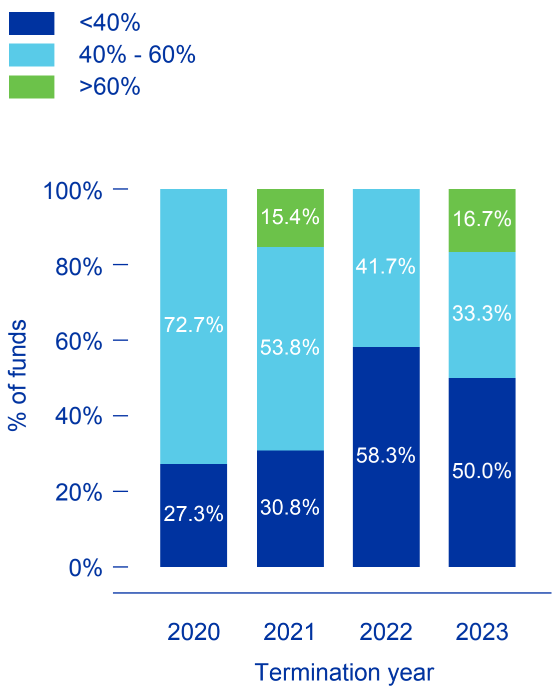


Figure 8: Funds in termination by gearing



> ‘Most of the funds with termination dates in the next four years have gearing levels below 60%’

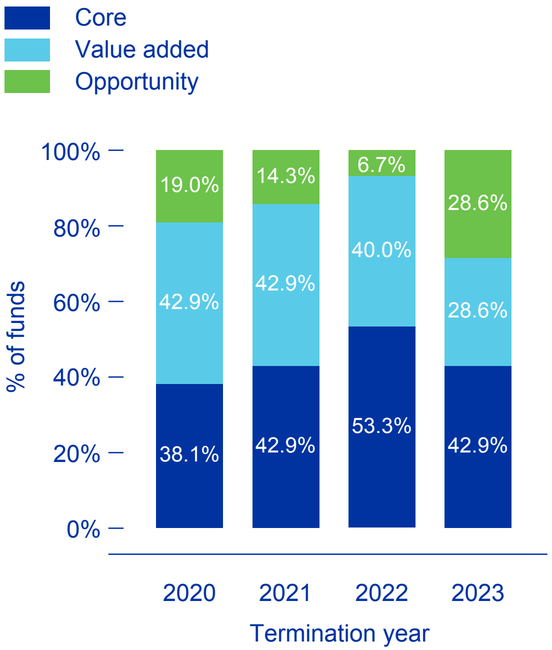
Style strategies

Looking at the style strategies of funds with expected termination dates between 2020 to 2023, most are core and value added by number of funds, representing 43.9% and 40.4% of the total sample respectively, while opportunity funds only represent 15.8%.

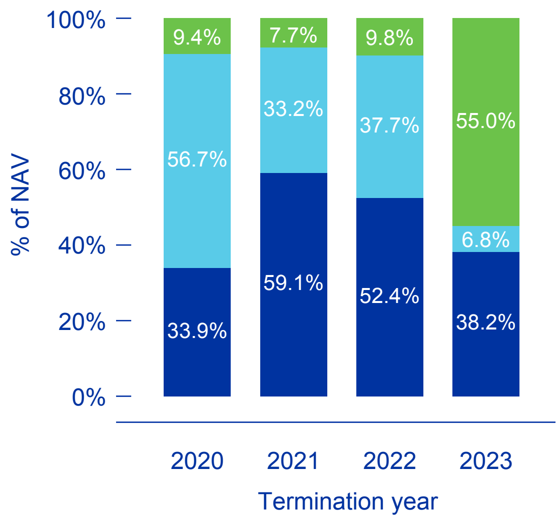
Analysing by NAV, the picture is rather different. Majority of funds with expected termination date in 2020 are value added by style, representing 56.7% of the total NAV. In 2021 and 2022 core funds account for the largest share of the sample with 59.1% and 52.4%, respectively. In 2023 opportunity funds represent the largest proportion (55.0%) measured by NAV.

'Core funds will dominate terminations by represented NAV in 2021 and 2022'

Figure 9: Funds in termination by style



By number of funds



By NAV (€ billion)

Country strategies

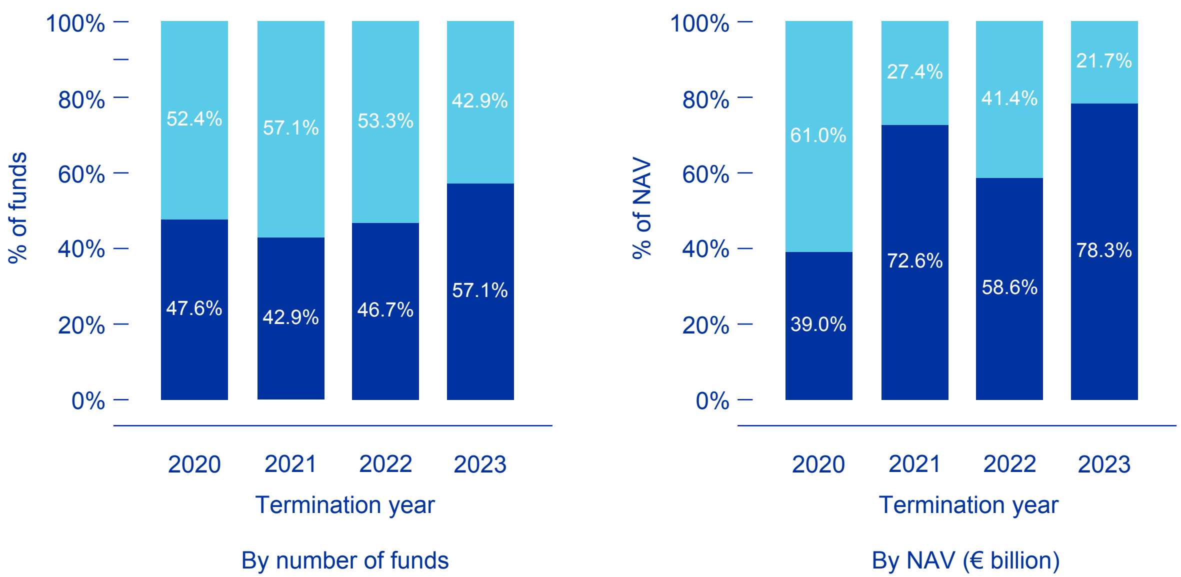
Funds with a single country strategy represent the majority of those with a scheduled termination date planned for 2020, 2021 and 2022 with 52.4%, 57.1% and 53.3% of the sample by number of funds. Of those funds scheduled to terminate in 2023 multi country funds account for the largest share with 57.1% of the sample.

Analysing by NAV, single country funds represent the majority of funds due to terminate in 2020 (61.0%). However, despite smaller in number, multi country funds represent the largest share in NAV for funds expected to be liquidated in 2021 (72.6%), 2022 (58.6%) and 2023 (78.3%).

‘Multi country funds comprise 60.2% of the €12.4 billion that is scheduled for termination between 2020 and 2023’

Figure 10: Funds in termination by country strategy

Multi country
Single country



Single country strategies

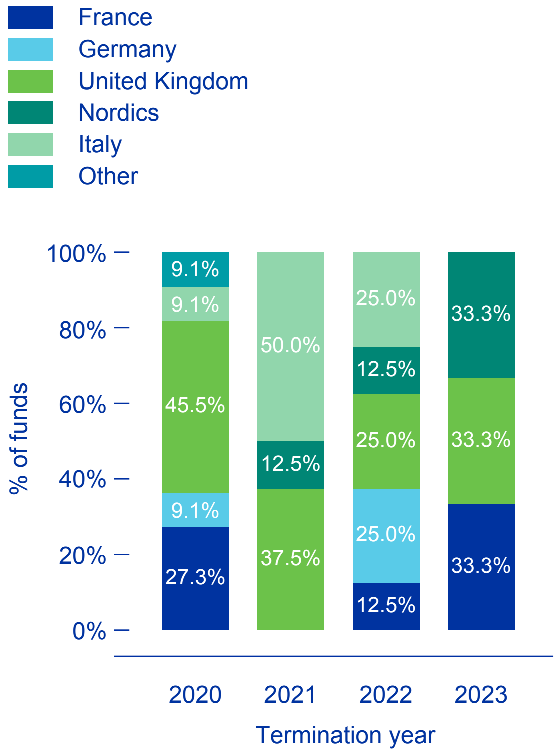
A majority of those funds with single country strategies that are expected to terminate between 2020 and 2023 are targeting the UK, both by number (10) and NAV (€2.6 billion).

Measured by NAV, the remaining funds target France (€1.0 billion), Italy (€0.59 billion), Germany (€0.4 billion) and the Nordics (€0.1 billion)

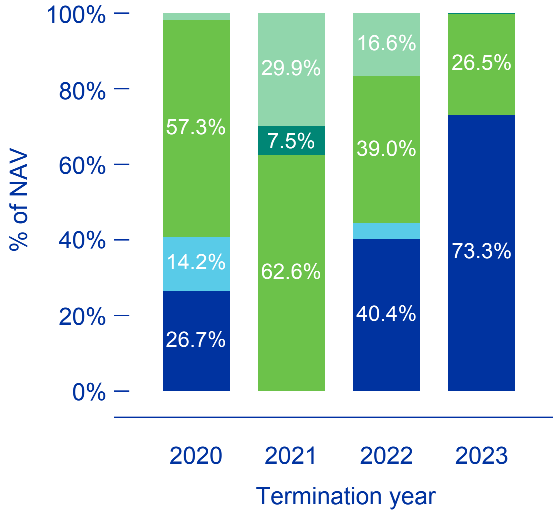
These figures show that UK funds set to be liquidated in the next four years are on average larger than those targeting other single countries.

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

Figure 11: Funds in termination by single country strategy



By number of funds



By NAV (€ billion)

Sector strategies

By number, funds with a single sector strategy represent 56.1% of those due to terminate between 2020 and 2023.

Single sector funds account for the majority (61.9%) of those funds scheduled to be liquidated in 2020. In 2021 and 2022 the share of single sector and multi sector funds is evenly divided, while in 2023 single sector funds represent the majority of the sample (71.4%).

By value, single sector strategy funds represent 69.5% of those with excepted termination date between 2020 and 2023.

Single sector funds dominate the sample of funds terminating in 2020 (79.9%) and 2021 (81.6%). However, for funds due to terminate in 2022 and 2023 multi sector strategies are dominating accounting for 55.4% and 55.0% of the total sample by NAV respectively.

‘€8.6 billion NAV of assets could potentially come to the market from single sector funds between 2020 and 2023’

Figure 12: Funds in termination by sector strategy

Single sector strategies

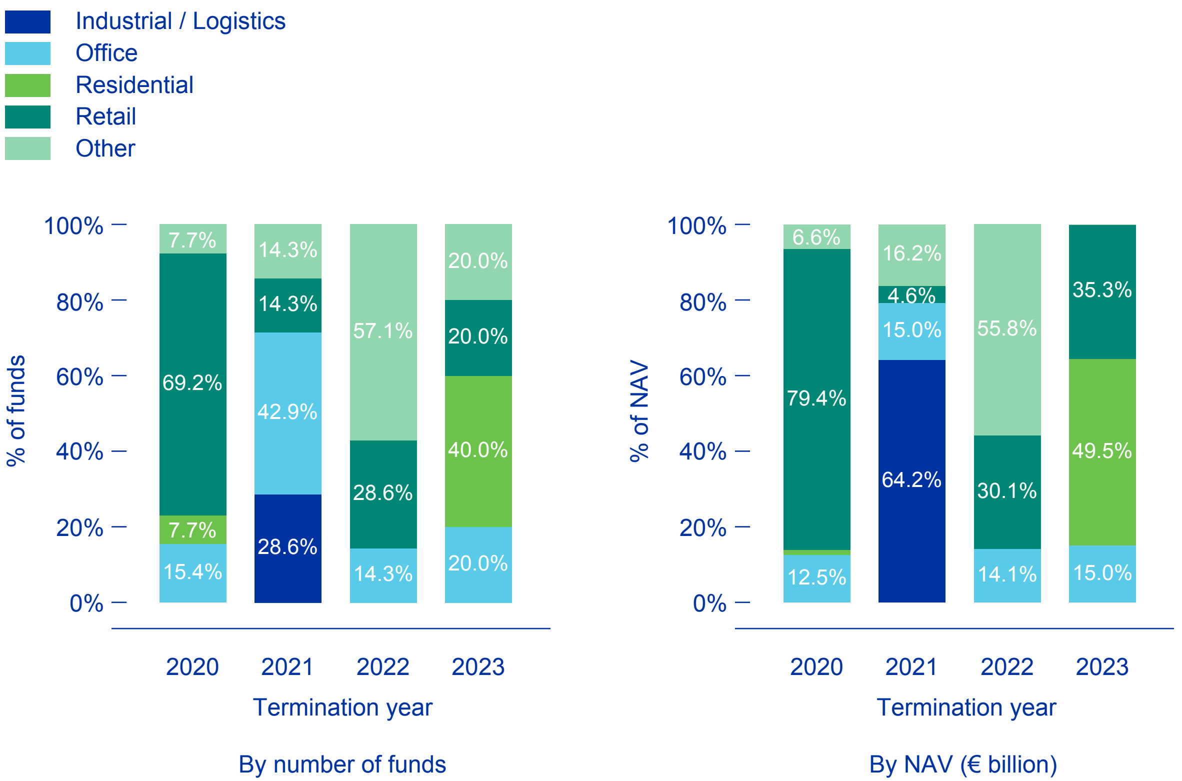
Retail sector funds represent the majority of those funds due to terminate between 2020 and 2023 by number and value.

By number, 13 retail funds are due to terminate, between 2020 and 2023, representing 40.6% of the sample. The sector with the second highest number of funds expected to terminate are offices (7 or 21.9%).

By NAV, funds with a retail sector strategy account for 36.8% of those funds with a planned termination date between 2020 and 2023 (€3.2 billion), followed by industrial / logistics sector with a share of 28.4% (€2.5 billion). Funds with an office sector strategy represent a share of 14.0% (€1.21 billion)

‘Funds targeting retail dominate the termination landscape between 2020 and 2023’

Figure 13: Funds in termination by single sector strategy



Section 3

Funds termination survey

Fund termination survey

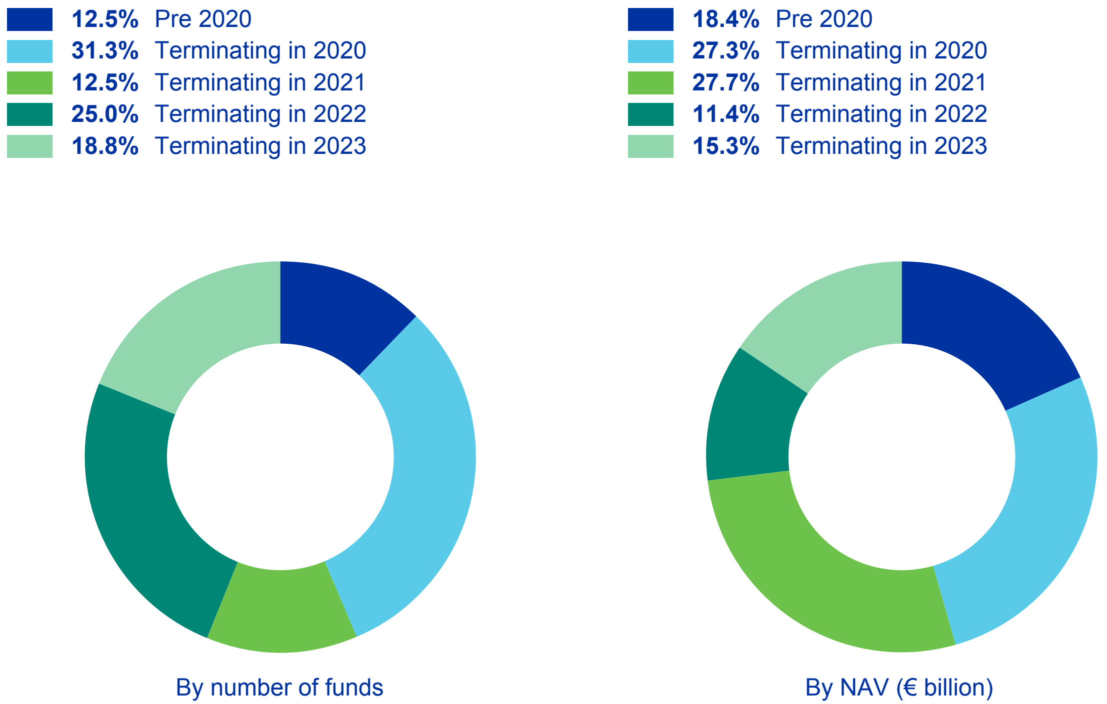
This chapter examines the results of the 32 funds that completed the annual fund termination survey.

This sample consists of 4 funds with termination dates before 2020 (12.5%) that have not yet been liquidated, because the fund is rolling into a new structure or in the process of selling assets. The other 28 funds (87.5%) are expected to terminate between 2020 and 2023.

By value, those funds with termination dates before 2020 represent 18.4% of the combined NAV. Funds that planned to terminate in 2020 and 2021 account for 27.3% and 27.7% of total NAV. The remainder is distributed over 2022 and 2023 with 11.4% and 15.3%, respectively.

By size, these 32 funds have a combined NAV of €10.1 billion.

Figure 14: Composition of funds by termination date



	Pre-2020	2020	2021	2022	2023
Number of funds	4	10	4	8	6
Total NAV (€ billion)	1.85	2.74	2.78	1.15	1.53
Average NAV (€ million)	461.6	274.2	696.0	143.6	255.6

‘Vehicles terminating in 2020 have an average size of €274.2 million’

Composition by style strategy

Core funds represent the biggest group by style completing this year's survey, representing 53.1% of the total sample. Value added funds represent around 34.4% of the survey sample, while opportunity funds account for 12.5% of the sample

Of those 4 funds with a planned termination date before 2020 but have not yet been liquidated, 3 are core funds.

For funds with an expected termination date between 2020 and 2023, the proportion changes slightly. While core funds still represent the largest share of the sample, the proportion of value added and opportunity funds rises to 35.7% and 14.3% respectively.

Figure 15: Total sample

53.1%	Core
34.4%	Value added
12.5%	Opportunity

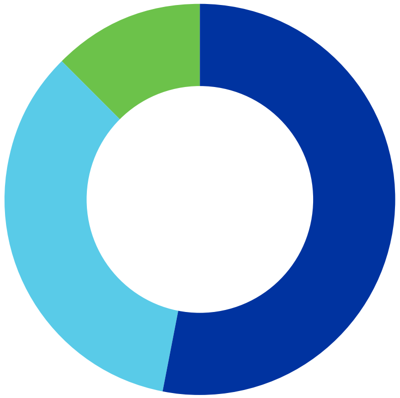


Figure 16: Funds with termination date before 2020

75.0%	Core
25.0%	Value added
0.0%	Opportunity

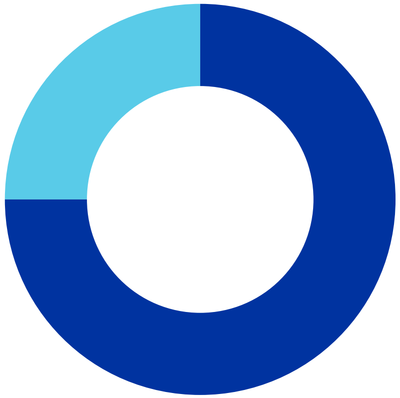


Figure 17: Funds with termination date between 2020 and 2023

50.0%	Core
35.7%	Value added
14.3%	Opportunity

Composition by country strategy

By number, multi country strategy funds represent around 65.6% of the total sample while single strategy funds account for the remaining 34.4%.

Of those 4 funds with a planned termination date before 2020, the majority (3) are multi country funds while only 1 fund adopts a single country strategy.

Taking a closer look at funds with an expected termination date between 2020 and 2023, funds targeting the UK account for the largest single country share of the sample (4 or 14.3% of the sample), followed by France, Germany and Nordics (2 or 7.1% of the sample each).

Figure 18: Total sample

65.6%	Multi country
6.3%	Germany
6.3%	Nordics
12.5%	United Kingdom
6.3%	France
3.1%	Other

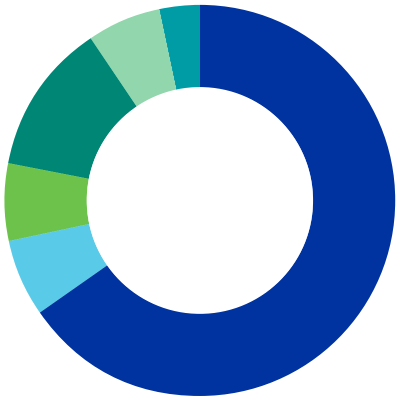


Figure 19: Funds with termination date before 2020

75.0%	Multi country
0.0%	Germany
0.0%	Nordics
0.0%	United Kingdom
0.0%	France
25.0%	Other

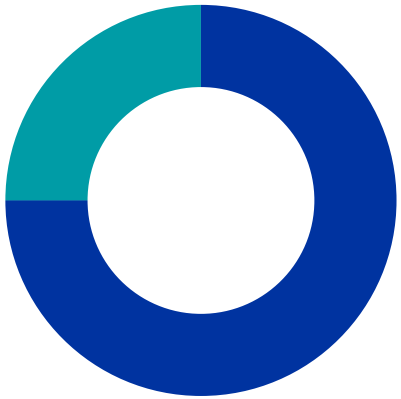
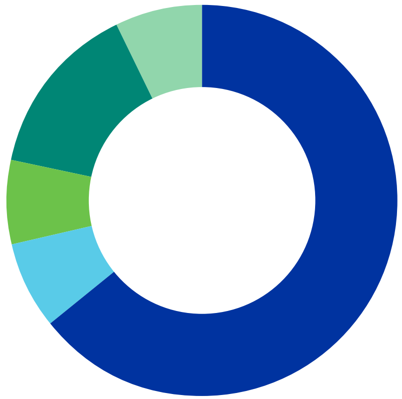


Figure 20: Funds with termination date between 2020 and 2023

64.3%	Multi country
7.1%	Germany
7.1%	Nordics
14.3%	United Kingdom
7.1%	France
0.0%	Other



Composition by sector strategy

Of all 32 funds that responded to the questionnaire, 22 funds (68.7%) followed a single sector strategy while the remaining 10 (31.3%) followed a multi sector strategy.

Funds targeting retail sector account for the largest share among all funds, representing 37.5% of the total sample.

Of the 4 funds with a termination date before 2020, 3 funds are targeting retail sector and 1 adopts a multi sector strategy.

Many of these have decided to extend or to use other termination strategies different to liquidation due to the poor performance of the sector and the issues to re-invest after the fund is liquidated

Retail sector funds also dominate among those funds with a single sector strategy and an expected termination date between 2020 and 2023.

Although these funds are planned to liquidate in the coming years, they will probably face the same issues as those funds with termination dates before 2020.

Figure 21: Total sample

- **31.3%** Multi sector
- **9.4%** Office
- **37.5%** Retail
- **6.3%** Industrial / Logistics
- **6.3%** Residential
- **9.4%** Other

Figure 22: Funds with termination date before 2020

- **25.0%** Multi sector
- **0.0%** Office
- **75.0%** Retail
- **0.0%** Industrial / Logistics
- **0.0%** Residential
- **0.0%** Other

Figure 23: Funds with termination date between 2020 and 2023

- **32.1%** Multi sector
- **10.7%** Office
- **32.1%** Retail
- **7.1%** Industrial / Logistics
- **7.1%** Residential
- **10.7%** Other

Composition by liquidation status

The 32 funds that participated in the survey differ in their termination status. Funds in liquidation or extension phase represent 28.1% and 31.3% of the sample, respectively. Funds that rolled over to a new structure represent 15.6% of the total sample while the remaining 25.0% are considering other options.

Of the 4 funds with a termination date before 2020, 2 rolled over to a new fund structure. As previously mentioned, the reason behind this could be their sector strategy of the funds, since a big proportion of those liquidating target the retail sector.

For funds with a planned termination date between 2020 and 2023, majority are in the extension phase (32.1%) or liquidation phase (28.6%).

Funds that rolled over to a new structure represent 10.7% of the sample while the remaining 28.6% are considering other options.

Figure 24: Total sample

28.1% In liquidation
31.3% In extension
15.6% Rolled over to a new fund structure
25.0% Other

Figure 25: Funds with termination date before 2020

25.0% In liquidation
25.0% In extension
50.0% Rolled over to a new fund structure
0.0% Other

Figure 26: Funds with termination date between 2020 and 2023

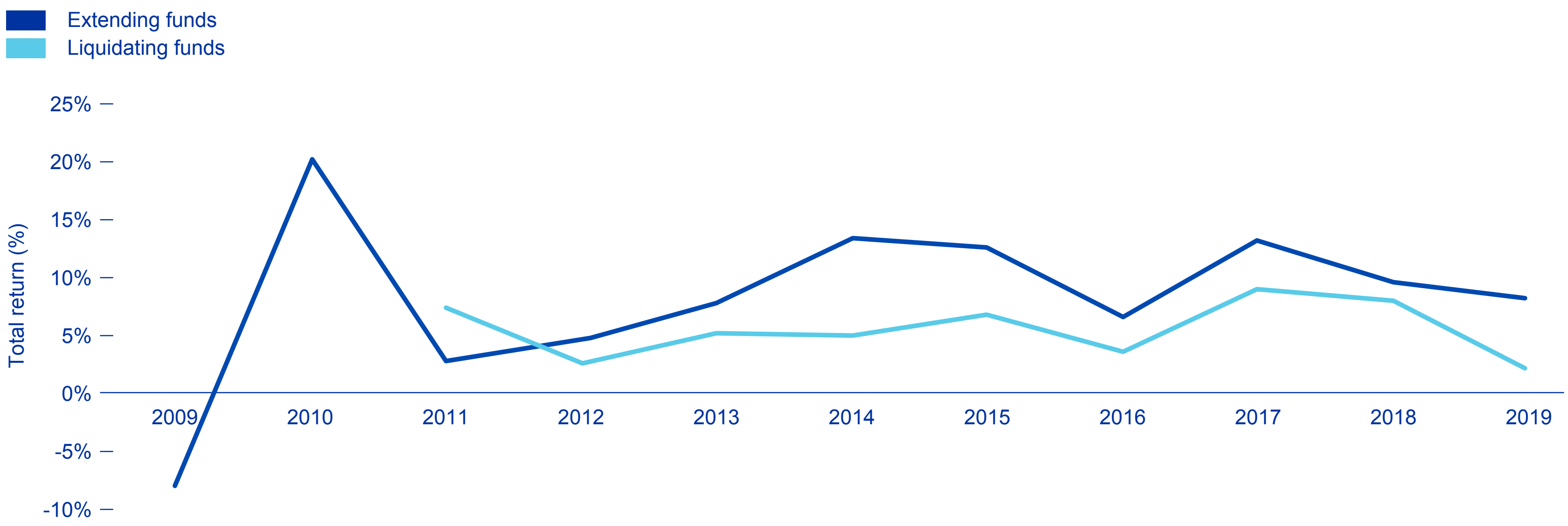
28.6% In liquidation
32.1% In extension
10.7% Rolled over to a new fund structure
28.6% Other

Performance by termination status

Based on this year's sample, composed of 7 funds in extension and 7 in liquidation, liquidating funds underperformed over the last 8 years, generating an average return of 5.2% per annum, compared to an average return of 9.5% for those in extension.

Funds in extension also performed better than those in liquidation in 2019. During the last year, funds in extension delivered a return of 8.2%, while those in liquidation returned 2.1%.

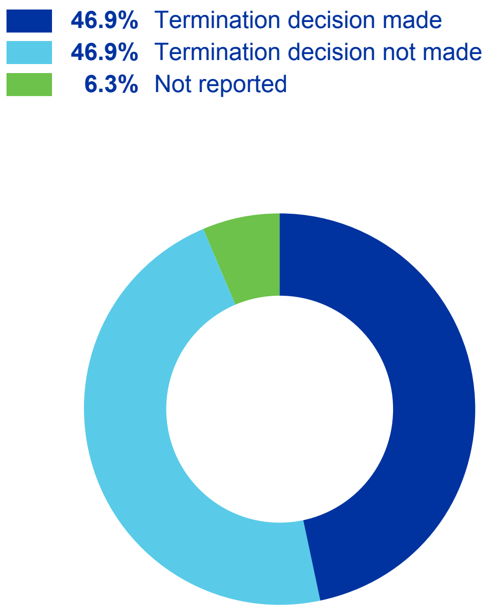
Figure 27: Performance by termination status



Timing of decision making

Fund managers responding to the survey were divided on their termination strategies. Managers that have already decided their termination strategy represent 46.9% of the total sample while those that still thinking on their best termination strategy represents 46.9%. The remaining 6.3% account for those managers that haven’t answered this question.

Figure 28: Funds terminating in 2020 - 2023



Termination options and issues

Participants were asked which termination strategies they consider for their funds, with the possibility of choosing more than one option. Preferred termination option for all managers is liquidation or extension, regardless of the investment style.

Fund managers of both core and value added strategy funds show a balanced preference across the different options although there are some differences.

Core fund managers selected extension as their preferred strategy, followed by liquidation and 'other' options including sale of the fund.

Value added fund managers showed a preference for liquidation, followed by extension and a rollover.

Opportunity fund managers reported the strongest preference for liquidation or extension (in total 83.3%) with none of the respondents considering 'other' options.

Managers were also asked about the different factors that were affecting the termination decision. As for the previous question, they were able to choose more than one answer.

Of all respondents 94.7% indicated that current market circumstances are the main issue affecting fund termination decision, followed by quality of the portfolio (63.2%) and the relation between current performance and target performance.

Figure 29: Termination options under consideration

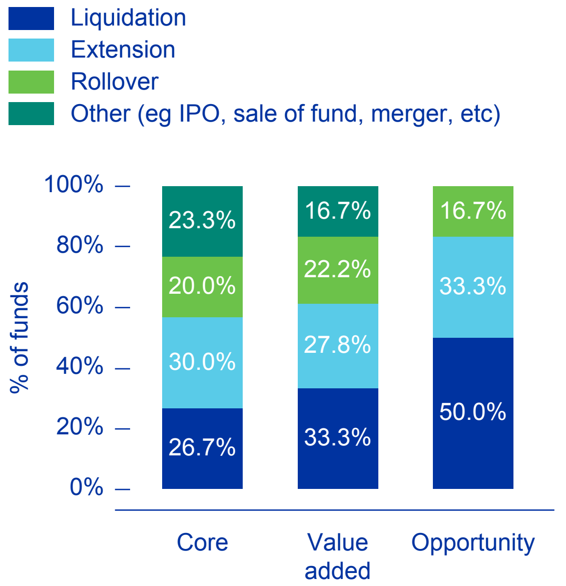
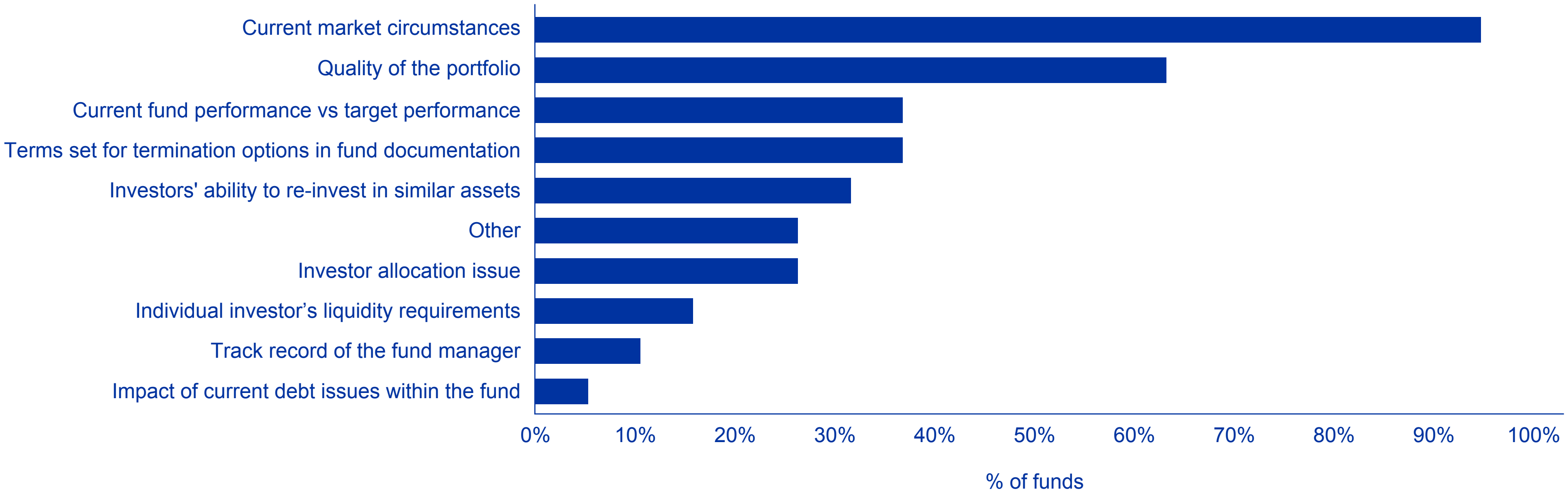


Figure 30: Issues affecting termination decisions



Preferred termination strategies and structural changes

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

The preferred termination strategy was liquidation, which was chosen by 31.5% of the respondents, followed by extension, which was selected by 29.6%. The options rollover and 'other' were chosen by 20.4% and 18.5% of the total sample.

The rollover option, compared to 2019, have increased its interest among fund managers. The proportion of managers selecting this liquidation strategy was the second highest of the time series, only surpassed by 2006.

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

Most of the respondents to this year's survey (90%) indicated that no strategic or structural changes were made to the fund connected to the chosen termination. The other 10% of the respondents indicated that they would probably make structural changes in the fund for their extension period.

Figure 31: Termination option chosen or most likely to be chosen

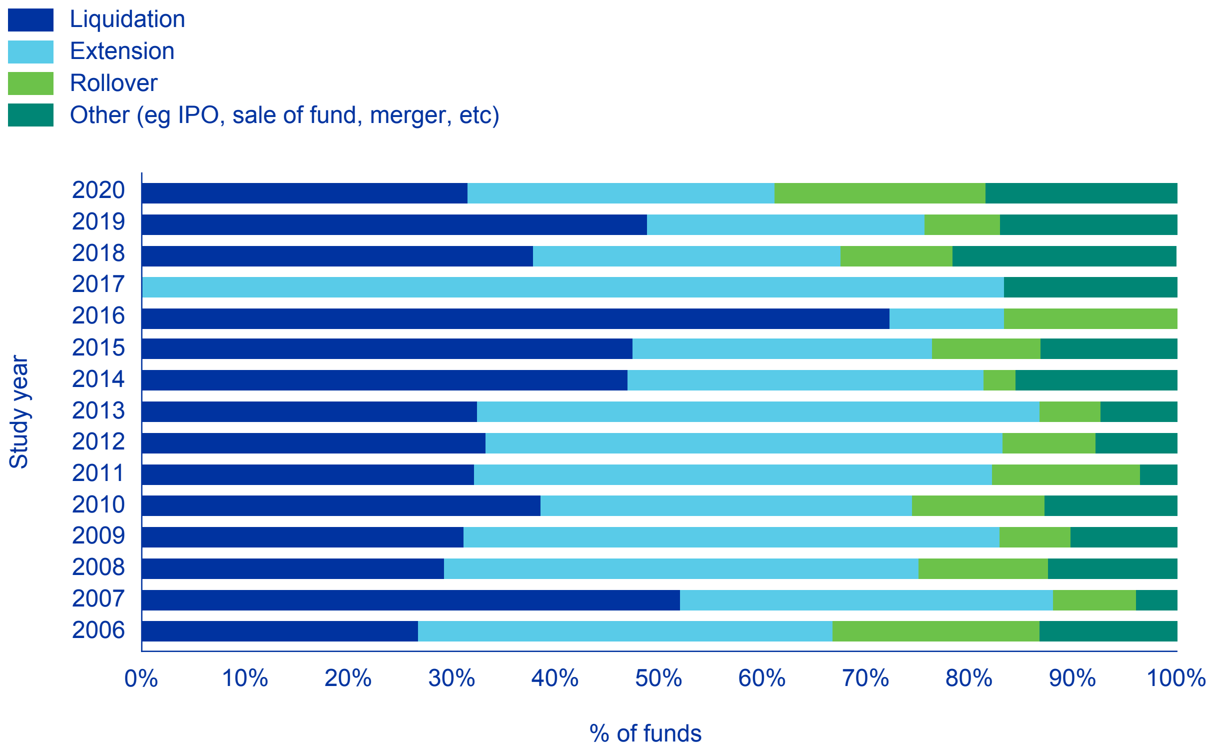
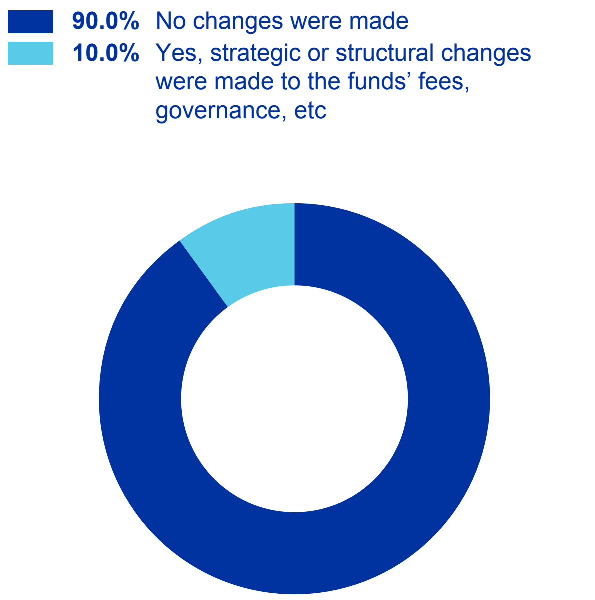


Figure 32: Structural changes to funds in extension



Appendix 1

Participants

Participants

INREV would like to thank the following list of managers for their contribution to the Funds Termination Study 2020, and gave permission for their names to be published:

AEW

AREIM

Ares Management

AXA IM – Real Assets

BNP Paribas REIM

Capman

CBRE Global Investors

Clearbell Capital

ECE Real Estate Partners

Grosvenor Europe

HAHN Fonds Management

Heitman Real Estate Investment Management

NIAM AB

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