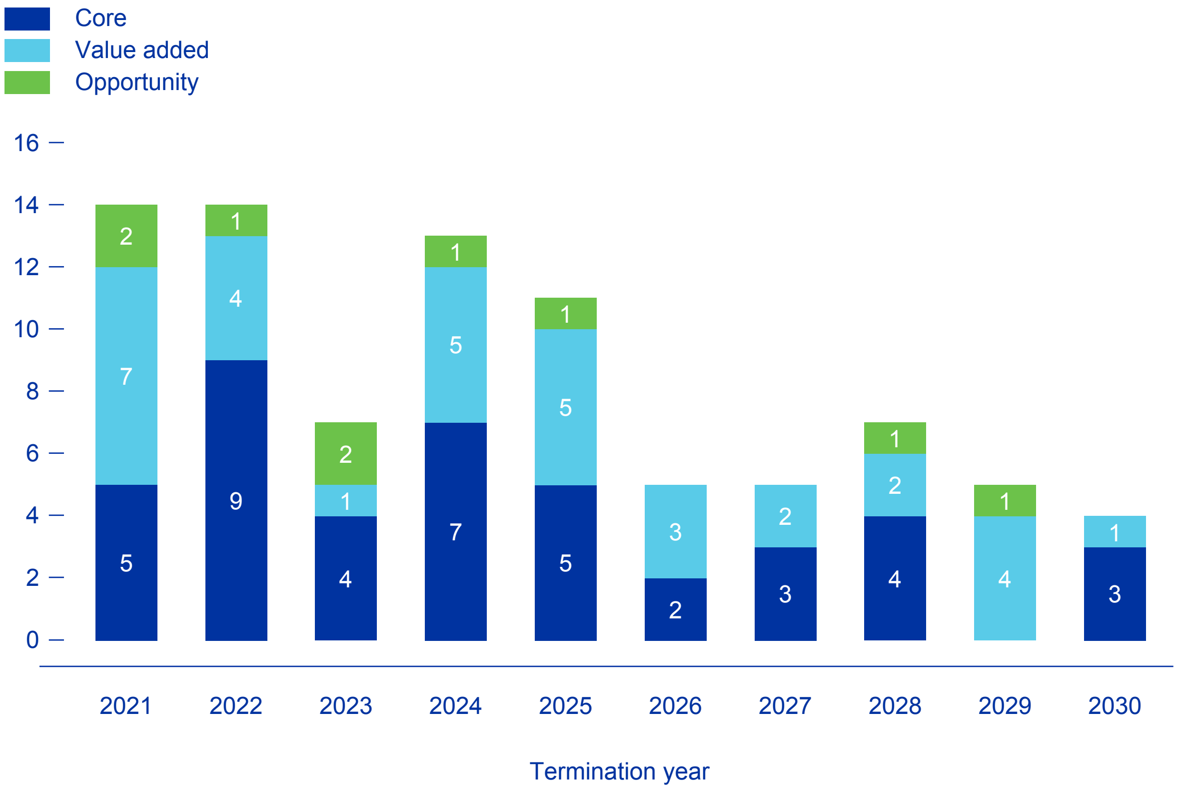
Extension has become the most considered fund termination option

> Between 2021 and 2023, 35 funds, with a total GAV of €10.4 billion are due to terminate
> Terminating funds are predominantly core and value added in style
> Funds in extension outperformed funds in liquidation

Figure 1: Investment style of funds terminating between 2021 and 2030 by number



Source: INREV Vehicle Universe, 2021

In the next ten years 85 European non-listed closed end real estate funds are due to terminate. Collectively, they represent €31.3 billion of GAV worth of assets that could potentially come to the market according to the INREV Funds Termination Study 2021.

Between 2021 and 2023 35 funds with a total GAV of €10.4 billion, are due to terminate. Collectively, funds with a core or value added investment style represent the majority with 86% of the total number and 80% of the total GAV. In line with this style composition, most of the terminating funds target gearing levels below 40%.

Of all 35 funds due to terminate between 2021 and 2023, 18 follow a multi country strategy, this constitutes 51% by number and 63% of the total GAV. Of the 17 terminating funds with a single country strategy, those targeting the UK and Italy account for 71% of the sample by number and 67% by GAV.

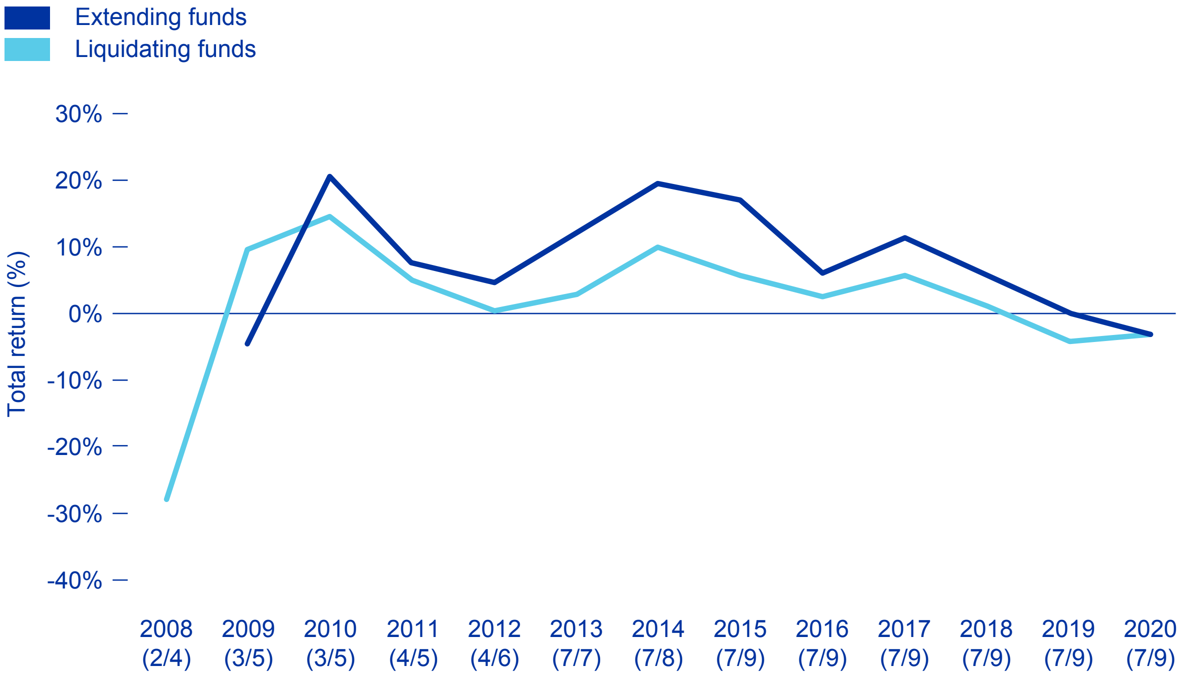
By sector strategy, 19 out of 35 funds due to terminate between 2021 and 2023, follow a multi sector strategy, this constitutes 54% by number and 52% of the total GAV. Of the 16 single sector strategy funds, retail funds account for 31% of the sample by number and 28% by GAV representing €1.38 billion of assets that potentially could come to the market.

Looking at the performance of funds terminating between 2021 and 2023, the average return in 2020 entered negative territory for the first time since 2008 (-4.0%) compared to a 13-year average of 4.1% per annum.

Differentiating between terminating funds in extension and those in liquidation reveals that over the last nine years, the first group delivered an average total annual return of 7.8%, while the second group only delivered 2.1% to their investors. However, in 2019 both extending and liquidating funds entered the negative territory and in 2020 their performance was very similar at -3.2% and -3.3% respectively.

Taking into account the duration of terminating funds and timing of cashflows, average IRRs for funds terminating between 2021 and 2023 stand at 6.0%, 10.0% and 11.9%, respectively, albeit returns are showing a considerable distribution range.

Figure 2: Performance by termination status*



**Number in brackets shows sample size by number of extending and liquidating funds for the corresponding year*
Source: INREV Funds Termination Survey and INREV Data platform, 2021

The overall decline in performance can be explained by the weaker underlying market conditions while for terminating funds the disposal of remaining assets during late stages of liquidation may results in discounts, especially for the weaker performing sectors, such as retail.

When asked which termination strategies fund managers considered, it emerged that extension has become the most considered option for the first time since 2017. On the other hand, a roll-over to a new fund or vehicle structure or other options were less often considered than has been the case in recent years.

Nonetheless, most fund managers of liquidating funds indicate that the termination proceeded as planned, complying with the terms set in the fund documentation. In addition, fund managers indicated that the current market conditions are an additional driver behind the termination of their funds and a majority expects to complete the disposal of underlying assets in 2021 or 2022.

The full report is available to members at inrev.org/research

