



Have property funds performed?

A ULI Europe Policy & Practice Committee report

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Introduction

In November 2010, ULI held a Funds Symposium hosted by AREA Property Partners in London, with 35 leading Fund Managers, Investors and Academics. This document is an executive summary of the research presented by ULI Academic Fellow, Professor Andrew Baum and of the roundtable discussion afterwards. All quotations are anonymous.



Summary

Opportunity funds have delivered higher returns than core funds over the period 2003-2009. While core fund returns have been especially disappointing, deeper analysis suggests that the additional returns delivered by the opportunity funds may not be adequate to compensate investors for the significantly higher levels of risk taken by fund managers to achieve these returns. With highly significant levels of 'beta' calculated in the opportunity fund samples and the closeness of the observed returns to hypothetical geared returns, the research found that opportunity fund returns over this period have been driven primarily through pure leverage and at a cost of huge risk to the investor. Performance fees charged by fund managers appear to reward pure risk-taking (beta) rather than manager skill (alpha).

There is some evidence of 'alpha' being generated by fund managers through 'skilful transaction activity and asset management. Opportunity fund managers also appear to have generated superior returns through controlling the timing of the buying and selling of assets, although, with performance fees generally charged on IRRs rather than time-weighted returns, it is open to debate as to whom this benefits more - the investor or the fund manager.

Generally, core funds were found to have much higher levels of market risk than expected as the sample was found to have a higher than expected beta of 1.61. The research found that core funds have failed to track the direct property index' and have a wider spread of returns than would be expected. This appears to be the consequence of the use of leverage.

1. Background

Since the mid 1990s there has been a significant growth in the aggregate size and number of global property funds, largely fuelled by the investment of significant capital from institutional investors. This falls into two broad types: the 'core' universe and the 'opportunity' universe.

This growth has seen fund managers launching new funds and raising more capital at a time when many have been unable to show clear evidence that their funds have provided historic out-performance against market benchmarks or performance objectives. Despite the lack of transparency/clarity as to how well funds perform compared to their peer group and/or the direct market, many fund management houses have been rewarded with performance fees which they may or may not have deserved.

In a more challenging, mature, and increasingly transparent market, this is unlikely to continue to be the case as it is increasingly possible to assemble performance records. Investors are becoming more assertive, and regulations/directives are playing an increasingly important role in the need for disclosure and accountability. The question of how manager performance is rewarded is therefore a key issue for the industry: do performance-related fees, for example, adequately distinguish between risk taking (higher beta) and genuine skill/out-performance (alpha)?

This research aims to start to address some of the following issues.

- How has the performance of core funds and opportunity funds compared over periods of market strength and market weakness?
- To what extent can the relative performance be explained by leverage?
- Have the performance fees paid to managers been fairly earned?

2. What are the characteristics of the investment styles?

Funds are differentiated by risk type. Some industry participants have distinguished funds by using four styles - core, core-plus, value-added and opportunity. More common is the INREV and Property Funds Research (PFR) standard of three styles: core, value-added and opportunity.

- Core funds are low-risk funds with no or low gearing, often open-ended, and should arguably aim to closely replicate returns on an index of direct real estate. Core-plus funds are included in this style and invest in similar assets to core funds, but adopt a more aggressive management style.
- Value-added funds have some potential for value-enhancement through re-letting empty space, refurbishment work, or other active asset management activity.
- Opportunity funds are higher risk, higher target return funds with high levels of gearing.

Figure 1 illustrates where the various fund styles are positioned along the risk/return profile of the security market line.

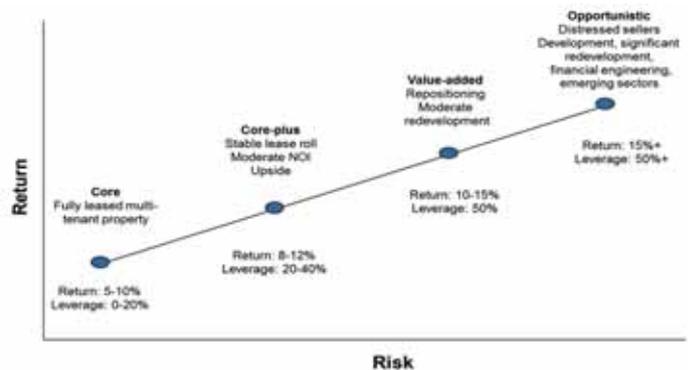


Figure 1: Fund investment style characteristics

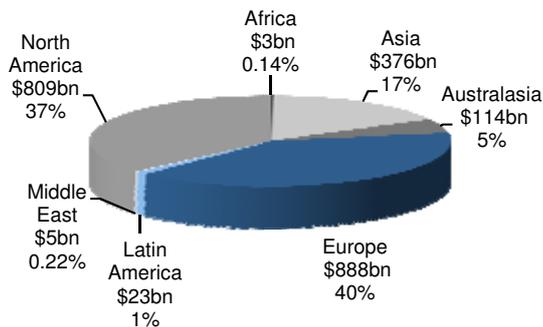
Source: CBRE Investors

We suggest that core/core-plus funds may be distinguished from value-added and opportunity funds by (i) risk appetite and (ii) their often-expressed objective to deliver returns relative to a market benchmark, especially in the UK and other developed markets with good, well-accepted benchmarks. However, although various bodies try to do so, it is difficult to prescribe a fund style by reference to hard criteria. As a result, the style ascribed to a fund will more often than not be defined by the fund manager, and this can lead to inconsistency in the classification of funds. For the purposes of this research the core universe is defined to include funds that employ a core/core-plus investment strategy, and the opportunity universe, which we define to include both value-added funds and opportunity funds.

3. The unlisted fund universe

PFR estimates the size of the unlisted real estate fund universe to be worth approximately US\$2.2 trillion or 14% of the total investable real estate universe¹.

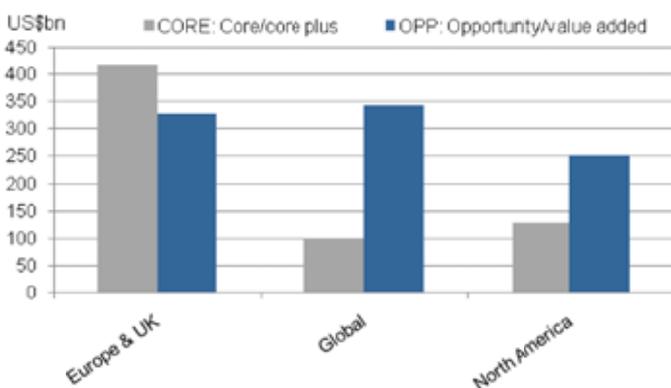
Figure 2: The size of the unlisted fund market



Source: PFR, 2010

Of this \$2.2 trillion, approximately one third is invested in core/core-plus funds, a further third in opportunistic funds and the remaining third in value-added funds. This simplistic split of the universe by style is not reflected in the geographic distribution of funds. For example, global/multi-regional funds are largely opportunistic in style, as shown in Figure 3.

Figure 3: The breakdown of fund styles by target region



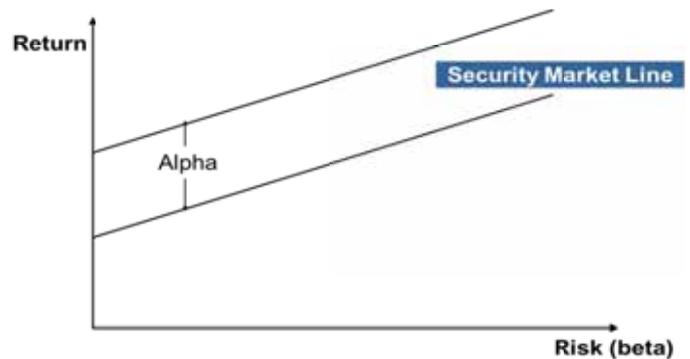
Source: PFR, 2010

4. How can funds out-perform?

When analysing the performance of a fund, a key issue that needs to be addressed is whether fund returns have been driven through risk taking activities (beta) or manager skill (alpha). This is illustrated in Figure 4, where alpha represents out-performance of the market (represented by the security market line) given the level of associated risk.

Finance theory clearly suggests that higher risk investments should earn higher returns. This does not require skill. As many fund managers receive performance fees for high returns, it should be important for investors to ascertain whether fund managers have been rewarded for returns generated by risk taking (with investors' capital) or whether they have earned these fees through their skill, delivering higher returns through alpha.

Figure 4: Alpha & beta



Source: Baum, 2009²

“The alpha that the people around this table bring is the timing of the exit – although you can’t control the exit in a downturn like the one we’ve just experienced.”

Symposium delegate

² Baum, A.(2009): Commercial Real Estate Investment, a Strategic Approach, Elsevier

¹ Estimated by PFR using methodologies developed by Pramerica Real Estate Investors and Chin & Dziewulska

Fund managers can exercise skill (alpha) when structuring their funds, from the portfolio structure, and from property or stock. Fund structure is largely defined by leverage, although fee structures also have an impact. Skill at this level requires some provable excellence in arranging the debt that is put in place. Out-performance at the portfolio level is delivered by managers who, all things being equal, allocate relatively more to out-performing sectors or geographies. This implies that the manager has a forecasting capability which is the source of their out-performance. Out-performance at the stock level is derived from ongoing asset management activities, including property management. The buying and selling of properties can also generate stock alpha. Managers who are able to purchase assets at discounts, recognise latent value that is not reflected in valuations, negotiate attractive prices, and have the ability to execute more complex deals and thus face less competitive pricing, will, all things being equal, out-perform their benchmarks.

Property investment risk (beta), like alpha, can also be broadly separated into fund, portfolio and stock beta. Fund beta arises from the amount of leverage employed. Portfolio beta arises from allocations to more volatile sectors such as CBD office markets; exposure to more risky geographies, such as emerging markets, are a source of additional beta.

Stock level beta is based on a continuum of asset level risk ranging from low beta ground rent investments, to higher beta assets with leasing risk and high vacancy, to high beta speculative developments.

5. Data and method

The research covered the years from 2003 to 2009 (effectively the longest period available for which sufficient global funds have been in existence). This has clearly been a highly unusual and very challenging period for real estate fund managers. The research provided a data sample which covered the real estate market when returns have been both very high and very low, providing an insight into how the different investment styles behaved during different periods of the market cycle. Nonetheless, caution is advisable in generalising from results drawn from this short period.

The sample includes funds that target a variety of sectors including diversified, residential, retail, office and industrial. It also covered a number of geographic regions including Europe, North America and global (multi-region). Direct property return data was sourced from the IPD global index and the indexes of the constituent countries/regions. The core fund data was made up of the IPD pooled fund indices and NCREIF Townsend US Core Fund Index for North America. Where no fund index was available, the IPD direct index was used. The global core fund returns were created by weighting the returns of the pooled fund and direct market indices according to the global core fund data held by PFR.

Opportunity fund data is hard to collect, but some return data is available from investor and manager reports. In addition, PFR collected primary data on opportunity funds. This brought the opportunity fund sample to 273 funds with a value of \$428bn, which accounts for around 38% of PFR's estimated opportunity fund universe by value.

6. Results

This section focuses primarily on European core and opportunity funds, as these samples provided the fullest most internally consistent data.

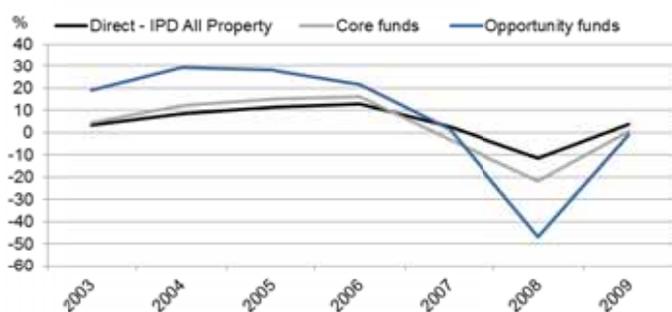
Figure 5 clearly illustrates that the annual total returns delivered by European core funds out-performed the direct market in years of strong performance (2003-06) but significantly under-performed during years of weak direct market performance (2007-09). A similar pattern is seen in the European opportunity fund sample, with strong annual total return out-performance of the direct market delivered in 2003-06 but significant under-performance of the market in 2007-09.

When annual total returns are compared (see Figure 5), the average total return for European opportunity funds delivered out-performance over European core funds of just over 4% p.a. over the whole period. The core funds recorded an average annual total return of 3.3% compared to 7.4% for the opportunity funds.

The highest annual total return out-performance by European opportunity funds occurred in 2004 with a relative return that was 17% higher than the core fund sample. The lowest under-performance was in 2008, where European opportunity funds delivered returns 25% lower than core funds.

Core funds, as expected, had a much lower standard deviation than the opportunistic funds (13.27% and 26.76% respectively) with tracking errors relative to direct market returns of 5.45% for core funds and 19.37% for the opportunity funds recorded.

Figure 5: European core and opportunity funds v direct returns



Source: IPD, PFR, 2010

When the time-weighted rate of returns (TWRR) of the fund samples are compared, the opportunity funds again out-performed during the strong performing market and under-performed during the weak direct market (see Table 1). Over the whole period European opportunity funds out-performed core funds by 1.13% on a TWRR basis compared to 4.39% for funds targeting global investment.

During the earlier period, European opportunity funds delivered a TWRR 12.70% higher than the European core fund sample; during the latter period opportunity funds delivered returns 5.79% lower than the core fund sample.

Table 1: Core v opportunity fund time-weighted rates of return

(Europe)	2003-2006	2007-2009	2003-2009	Std. dev	CV*
Core	11.81	-8.71	2.50	13.27	0.19
Opp	24.50	-14.5	3.64	26.76	0.14
Rel	12.70	-5.79	1.13	-	-

(Global)	2003-2006	2007-2009	2003-2009	Std. dev	CV*
Core	12.96	-8.62	3.15	14.39	0.22
Opp	37.73	-22.68	7.54	36.26	0.21
Rel	24.77	-14.06	4.39	-	-

*CV = coefficient of variation

Source: PFR, IPD, 2010

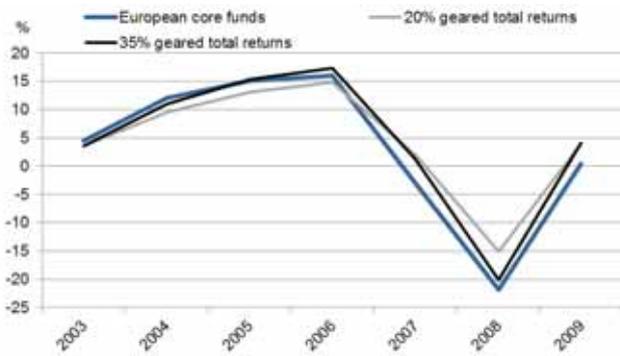
On a risk-adjusted basis, core funds out-performed the opportunity funds, but only just, with European core funds delivering a risk-adjusted return of 0.19 compared with 0.14 for European opportunity funds.

7. The impact of debt

We compared the performance of core funds to the performance of the relevant direct property index, adjusted for leverage. The fit is very powerful, suggesting significant beta for the sample as a whole, as would be predicted. But the beta is higher than we expected. Using 20% and 35% gearing ratios (see Figure 6), the core funds out-perform in the strong market but significantly under-perform during the period of weak market performance. These findings can partially be explained by the increasing levels of debt being employed by the core funds in the sample. The average level of debt measured as a percentage of GAV was between 20-25%, but the beta is higher than this suggests.

(The hypothetical returns are calculated net of interest costs using interest rates based on adding LIBOR to the reported average margins of prime (for core funds) and secondary (for opportunity funds) assets reported by the UK Commercial Property Lending Survey [De Montfort University, 2010].)

Figure 6: European core funds v modelled returns (20%)



Source: PFR, IPD, 2010

The opportunity fund sample, with average gearing of 65%, out-performed the hypothetical 65% geared fund index during the 2003-2005 period, but from 2006-2009 the opportunity funds either matched or under-performed the hypothetical geared returns. The results suggest that opportunity fund managers have failed to deliver consistent out-performance (alpha) over the whole time period and that leverage is a significant driver of the performance of opportunity funds - a pure beta activity.

Figure 7: Opportunity fund returns v hypothetical returns



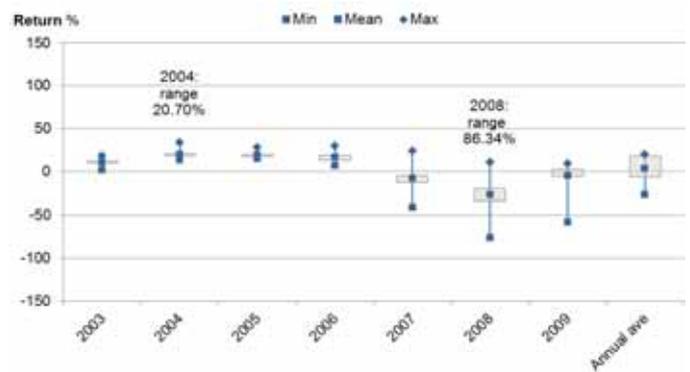
Source: PFR, IPD, 2010

8. Selection risk

The core fund sample has displayed evidence of increasing risk levels in the spread of returns, suggesting that core funds have drifted in style and moved up the risk return spectrum in the era of 'cheap' debt, thereby increasing the level of beta in the funds. This argument appears to be supported by a comparison with 35% geared hypothetical returns, which is a better fit with the observed returns (see Figure 6).

Selection risk in the UK funds is illustrated in Figure 8. The range of returns also widens during the time series, resulting in an increased level of selection risk for the investor.

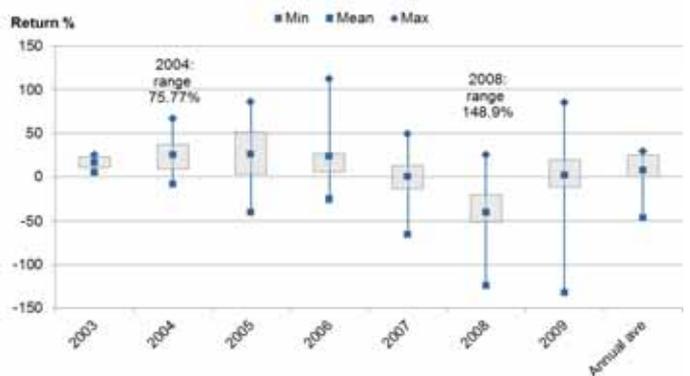
Figure 8: Range of UK core fund annual total returns



Source: AREF, IPD, 2010

The opportunity fund sample displays a greater range of annual total returns than core funds both within and across the time series. The spread of returns also increased over the time period.

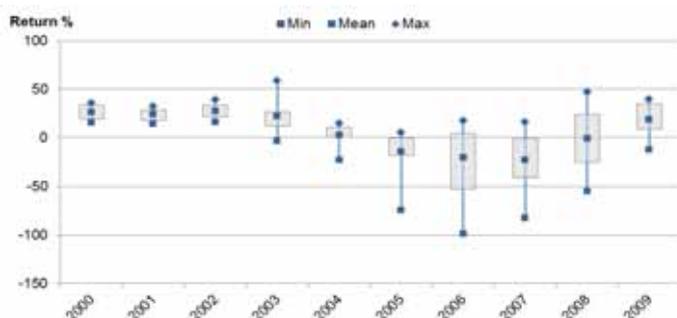
Figure 9: Range of European opportunity fund annual total returns



Source: PFR, 2010

For the investor in opportunity funds, selection risk by vintage year (launch year) and fund manager plays a significant role in assessing the risks associated with opportunistic investing. While valuation practice varies across opportunity funds, and this factor has exaggerated this particular observation, the range of returns across managers has been extremely high. Average returns vary by vintage year, 2002 being best, and 2007 worst, and fund selection risk varies considerably by vintage year, peaking in 2006. The vintage year and manager selection risk clearly makes diversification important for investors.

Figure 10: Fund IRR by vintage year



Source: PFR, 2010

The selection risks associated with opportunity funds are higher than for core funds, but both core and opportunity fund samples exhibit a negative skew, meaning that there were more fund 'losers' than 'winners', and a positive excess kurtosis, meaning there is a higher probability of an investor receiving an extreme return.

“Vintage is important – the market is dominant, not the manager’s skill.”

Symposium delegate

9. Timing effect

Opportunity funds, with their closed-ended structures, provide the manager with a significant opportunity to add alpha through timing. As proposed by Baum and Farrelly³, the 'timing effect' can be measured by subtracting the fund level TWRR from the IRR. Table 2 applies this theory to opportunity funds in the sample. Despite the limited sample size, the findings of the analysis reinforce the hypothesis that opportunity fund managers can add significant value or alpha through the timing of market entry and exit.

Table 2: Opportunity fund 'timing effect'

	Target Sector	Launch Year	End Year	IRR	TWRR	Timing effect
Fund 1	Diversified	2000	2010	35.30	21.90	13.40
Fund 2	Diversified	2003	2010	10.82	5.34	5.48
Fund 3	Diversified	2008	2010	31.30	27.60	3.70

Source: PFR, 2010

It is important to note that the majority of funds in the opportunistic sample are still live, and therefore the true impact of successful exits will not be reflected in the annual total returns. During the symposium discussion, it was requested that further research should target funds that had fully wound-up in order to provide evidence of how fund performance is impacted by the manager's exit strategy. The success of this part of the research would clearly depend on the provision of data by the managers.

Unlike opportunity funds, core funds often adopt an open-ended structure, which provides the investor with the opportunity to create alpha by deciding when to enter or exit a fund. This structure makes it harder for a fund manager to add value, or alpha, as they do not have the same level of cash flow control as the managers of closed-ended structures. As investors found during the downturn, some open-ended funds are only open until they are closed, removing this alpha-generating opportunity from the investor.

“Open-ended funds have a nasty habit of being less than open.”

Symposium delegate

³ Baum, A. & Farrelly, K. 2009, 'Sources of alpha and beta in property funds: a case study', Journal of European Real Estate Research, Vol.2, No.3, pp. 218-234.

10. Are returns driven by alpha or beta?

Table 3 provides the results of a regression analysis conducted on European and global core and opportunity funds. The findings reinforce the concern that performance has been driven primarily by beta rather than alpha, with a negative alpha and high positive beta coefficients found in all the samples. The core fund sample was found to have a beta of 1.6 (with a high statistical significance) and alphas of -3.8 to -6.3 (just statistically significant). The beta figure is higher than expected, given our proposition that core funds should track the direct market index and deliver betas of around one.

The opportunistic funds had high betas ranging from 3 to 3.6 and negative alphas of -6.3 to -8.6, confirming that the performance of opportunity funds appears to be driven largely by higher risk taking, of which the use of debt appears to be a significant factor.

Table 3: Alpha and beta coefficients

	Alpha	Beta	t-stat (α)	t-stat (β)	R squared	Tracking error
Europe core	-3.88	1.61	-3.58	13.01	0.97*	5.45
Global core	-6.30	1.63	-6.97	18.60	0.99*	5.81
Europe opp	-6.32	3.09	-1.40	5.96	0.88	19.37
Global opp	-8.64	3.60	-0.91	3.89	0.75	29.01

*Note that 97-99% R-squared illustrates non-independent samples – core fund property is significant in the index

Source: PFR, IPD, 2010

11. The impact of fees

Fund managers of unlisted real estate funds have varying fee structures. Using data from the PFR database, the most common fee structures are detailed in Table 4.

Table 4: Average management fees

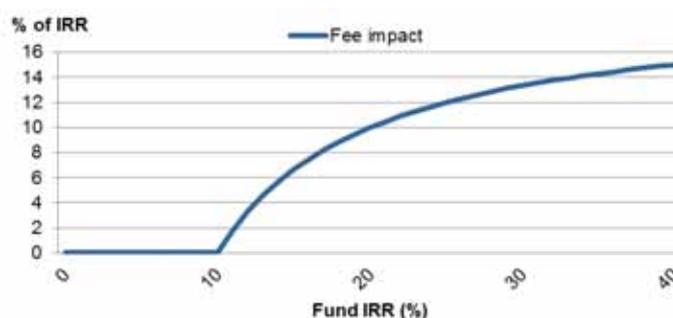
	Asset management fee	Hurdle rate	Performance fee
Core funds	0.75% GAV		Rare
Opportunity funds	1-1.75% of capital committed	10%	Most common is a 20/80 split after hurdle rate. A significant number of funds have a 50/50 catch-up until the GP has achieved 20% of the profits, before reducing to a 20/80 split.

Source: PFR, 2010

Core funds generally only charge a management fee, typically 0.75% of GAV, and rarely charge performance-related fees. Opportunity funds typically charge a management fee which is usually 1-1.75% of capital committed (similar to core funds if expressed as a percentage of GAV). Opportunity funds also charge a performance fee. Performance fees have a significant impact on the returns received by the investor as the fund manager takes a share of the profits above a pre-determined hurdle rate. This is illustrated in Figure 11, where a 20/80 split above a 10% hurdle rate has been expressed as a percentage of the gross IRR. For example, if a fund has generated a gross IRR of 40%, the performance fees would reduce the IRR received by investors to 34%, representing a reduction of 15% of the return.

It is important to note that the fee impact modelled in this research does not include any catch up provisions. Fund managers might, for example, charge 50% of all profits over a 10% IRR until they receive 20% of all returns, after which the performance fee reverts to the 20/80 split. If there is a catch-up provision of this type, fees would have a greater impact than our model indicates.

Figure 11: Opportunity fund performance fee impact (% of IRR)



Source: PFR, 2010

Figure 12 shows the annual total returns for global opportunity funds, both gross and net of performance fees, against a hypothetical 70% geared index return. The average annual out-performance (alpha) for gross of fee performance is around 3.5%, compared to 0.35% for net of performance fee returns. This means that there is some evident 'alpha' before, but this has been eroded by performance fees.

Because the opportunity funds analysed are mainly live, most performance fees have not been taken out, but we have estimated notional fees as if they arise annually. Implied performance fees have been deducted for the live opportunity funds, which is a distortion of the true results that will be delivered by the funds once capital has finally been returned to investors and fees deducted at that point. This may overstate the eventual fee impact.

Figure 12: Global opportunity fund gross v net of performance fee returns



Source, PFR, IPD, 2010

12. Limitations

This research is important, as it provides a rare basis for discussing the performance of real estate funds. Nonetheless, there are some limitations to the findings that could influence the interpretation of the results.

First, do we really know what investors want? If not, how can we challenge the delivered returns?

Second, this was clearly a highly unusual period, and this is a relatively new industry, with insufficient consistent data to draw very strong conclusions.

Third, we are not confident that measures of annual returns for opportunity funds are meaningful, as we are not sure that all the funds in our sample have re-valued annually. Consequently, there is some potential confusion hidden within a multiplicity of different return measures, including annual total return, TWRR and IRRs.

Fourth, the lack of transparency and/or consistency in fund reporting means that the reported annual returns may not be a true reflection of the actual performance of the fund. For instance, differences in valuation policies could have affected the performance of the sample. Some fund managers employ a policy of downwards-only valuation, and would only expect to see the positive impact of capital growth once the assets have been sold. Conversely, some fund managers adopt an upwards-only valuation which would mean that the returns are under-stating the performance of the underlying assets. Anecdotal evidence suggests that the valuation of fund assets may have been aggressively marked down during the downturn, and as a result overstated the decline, so that the performance of these funds over the next 2-3 years is expected to be very strong.

“One of the issues is valuation. Property doesn’t work very well with annual statistics. We use that to promote property as a diversifier against stocks and bonds but basically valuations are slightly random.”

Symposium delegate

13. Conclusions

Over the time period 2003-2009, opportunity funds delivered higher returns than core funds. Whether the additional returns delivered by the opportunity funds are sufficient to compensate investors for the risks taken to achieve these returns is less clear. The study found highly significant levels of high betas (around 3) evident in the opportunity fund returns, which were driven primarily by the market and leverage at the cost of significant risk to the investor. There is a clear danger that performance fees charged by managers can reward risk-taking (high beta) rather than manager skill (alpha).

There is some evidence of 'alpha' having been generated by fund managers, partly through positive structure and stock effects, and also through timing, in other words controlling the timing of cash drawdowns and asset sales. Given that performance fees are generally charged on IRRs rather than TWRR, it is open to debate as to whether this is primarily for the benefit of the investor or the fund manager.

Generally, core funds were found to have higher levels of risk than anticipated and the sample was found to have a higher than expected beta of 1.6. (This could add as much as 2% - plus fees - to the required return for a core fund.*) The research found that core funds have not tracked the direct property index as closely as expected, and as a result they have delivered a wide spread of returns across managers. This appears to be the consequence of the use of leverage, especially in recent years.

If core funds do not track the direct market, then this places a question mark over the rationale behind investing in them. If an investor wants a core fund to be a relative return product tracking an index/direct market, core funds are very likely to fail to deliver. If they are regarded as absolute 5-8% return funds, core funds have failed to meet these requirements, producing a time-weighted rate of return of only 2.5%. This is an under-performance of 2.5-4.5% pa on an absolute return basis.

The wide spread of returns observed in the opportunity fund sample highlights the fact that manager and/or fund selection risk is high. Some managers clearly have performed higher than the market average and delivered value, while some managers have delivered truly shocking returns in albeit very challenging conditions.

With closed-ended fund structures there is also a vintage year selection risk. The vintage year IRR analysis clearly shows that there is a wide dispersion of returns being generated both within and across the vintage years of opportunity funds. With this in mind, it was suggested at the symposium that now could be an ideal time to invest in opportunity funds. The current economic climate has made it increasingly difficult for fund managers to raise new funds aimed at taking advantage of the unprecedented fall in the value of real estate. Managers that have raised capital and have market access should have a significant performance advantage with significantly less competition for opportunistic assets. These funds have the potential to deliver significant 'alpha', and the industry could find that the fund vintages of 2009-2011 may deliver very strong performance.

This research concludes that real estate funds in general have not delivered the required risk return characteristics that investors would have expected or are led to believe. The traditional model of real estate sitting somewhere in between bonds (lower risk/return) and equities (higher risk/return) is challenged, with investors increasingly asking themselves that if real estate cannot deliver the desired risk/return in-between equities and bonds, then why invest?

“This research tells you there are some real challenges for both opportunity and core funds.”

“Property isn't performing! Not just opportunity or core funds.”

“The lack of capital being committed now, means that the 2009-11 vintages will have greater stock selection and this could mean some very high IRRs.”

“If the funds industry can't deliver, then we will go back to bonds and equities!”

Symposium delegates

*Note: Using the capital asset pricing model, required returns are a function of the risk free rate, say the long bond yield of around 4%, plus beta multiplied by the market risk premium for property, say 3%. A beta of 1.6 therefore suggests a required return of almost 9% - or 10% before fees - for core property funds, against the required return for property of 7%. A beta of 3 suggests a required return of 13% for opportunity funds after fees. From Figure 11, this suggests gross required returns of around 15%, which is a less surprising number than the required return on core funds.

14. What next for the real estate fund industry?

The purpose of the research was to initiate a debate on the performance of real estate funds and the implications that this may have for the future of the unlisted fund industry.

One pertinent question to ask is whether the closed-ended fund model is suitable for real estate investment. One argument we encountered is that real estate is a long-term investment and therefore unsuited to the 'short-term' investment structures of closed-end funds when compared to the relatively long-term investment model of real estate operating companies.

Questions can be asked about the relationship between the fund manager and the investor for example, who is ultimately responsible for the losses recorded in the real estate fund market? Is it the responsibility of the fund manager or investors to decide when to enter the market? Some argue that the weight of money that was placed into the market by investors created an asset bubble with fund managers obliged to buy assets at the top of the market.

There are some real lessons to be learned by the industry from this research and the debate which followed. Investors clearly resent a loss of control if it carries with it poor performance and high fees. Future developments in the unlisted fund market will probably involve an increase in the number of joint venture and 'club' type of investment vehicles. These allow smaller numbers of investors to take a more active role on fund advisory boards, as well as creating greater transparency between the manager and investor, facilitating greater dialogue between the parties. This could lead to a better understanding and implementation of the investors' requirements.

The changing regulatory landscape (e.g. AIFMD, Solvency II) is likely to further influence the relationship between investors and fund managers. New risk measurement targets could impact on the frequency of fund reporting and the requirement of the investor to truly understand the underlying risks of an investment/fund. This may create pressure on fund managers to adopt a uniform approach in fund accounting and reporting, so that their clients can meet these regulatory requirements.

Fund managers may also face increasing pressure from investors to demonstrate that the fees earned are for demonstrable manager skill or alpha, rather than through pure risk taking. More research is required to ascertain the best method by which a fund manager can demonstrate alpha, and will require the input of all stakeholders in the industry.

The growth seen in the unlisted market has helped facilitate growing cross-border property investment in Europe and across the world and unlisted funds have become a preferred conduit. However, it appears that core funds have failed to track the property index while opportunity funds 'have delivered higher returns primarily by taking risk. This raises questions about the justification for performance fees and lays down a clear challenge to the fund industry as it emerges from the credit crisis.

“The bust will come again, and, just as before, those fixated by the short term will have too much leverage and will fail.”

“There’s only one fund manager that we’ve worked with that recommended to come out at the top of the market. It hardly ever happens.”

“I want fund managers to say it is not a good time to invest.”

“We are not having these dialogues with investors and we should be. The best thing we can do in this industry is have a dialogue like this, and this is the first step.”

“The popularity of joint ventures with smaller numbers of investors and increased investor participation could increase. All these characteristics are coming together to create a different model.”

The ‘club’ model could create a conflict of interest for fund managers, with some LPs wanting to invest whilst others wanting to withdraw capital. What does the fund manager do in this situation? You can’t please everyone.”

Symposium delegates

Contributors

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- Symposium delegates



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