Real estate fund trends survey 2015

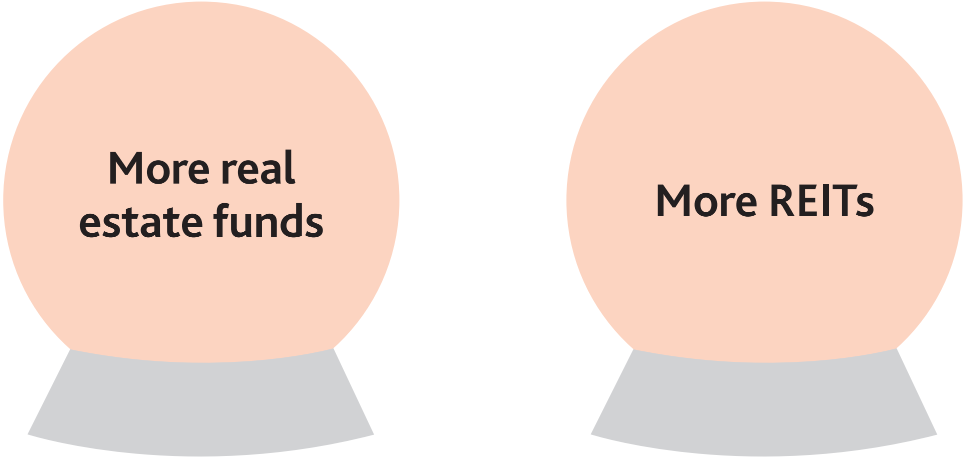
Post-crisis: what has the funds industry learned?

Report

Fund trends – key findings

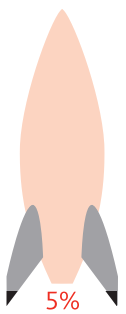
There were 238 responses to our survey, from real estate fund managers, investors and service providers. Historical data from our 2010 and 2012 surveys helped us see how the market has evolved.

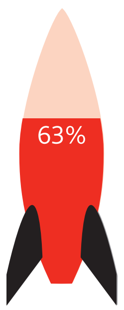
12 month crystal ball



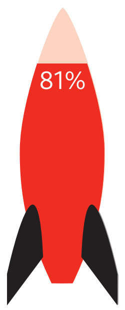
Fund launches

Only 5% thought **good corporate governance** was one of the top three factors contributing to a successful fund launch (compared to 37% in 2012).



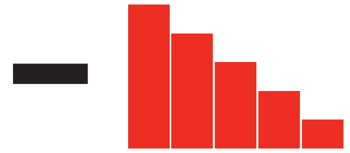


63% of first close investors seek **approval rights over material decisions**.



80% of managers prepared to give **reduced fees** to first close investors.

Now less challenging



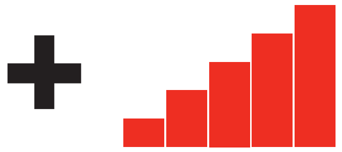
Raising equity

Only 23%
think raising equity is a key challenge (compared to 62% in 2010, and 67% in 2012).

Debt management

Only 7%
see managing debt as a key challenge.

Now more challenging



#1 Finding assets
Finding suitable assets is the number one challenge facing the industry.

#2 Generating target returns
Generating target returns is the 2nd most difficult challenge facing the industry.

#3 Finding and retaining talent
Finding and retaining key talent is the 3rd biggest challenge facing the industry.

Issues on fund exits

Misalignment of priorities on exits

Only 34%
of managers thought it was very important that a proposed extension of a fund's term should match the business case for exit timing (versus 74% of investors).

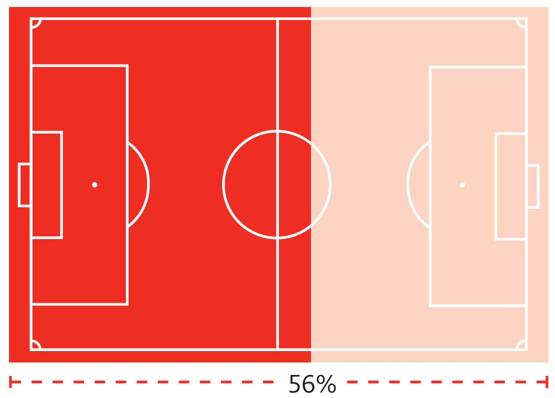
Documents inflexible on extension

The 2nd most common reason to terminate a fund was related to inflexibility of the documents (the absence of an extension option that would let some investors exit and others continue).

Opinions on AIFMD

Uneven playing field

56%
of fund managers would welcome a more consistent approach from EU regulators.



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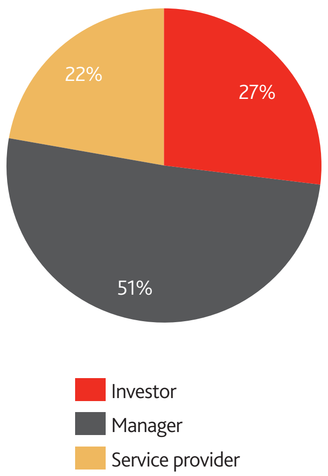
Contents

About this report

Our survey asked for the opinions of clients and contacts on a wide range of trends in real estate funds. We also held a series of round table discussions with some leading industry figures, whose insights we have woven alongside the statistics.



238 respondents

Investor	
• Institutional	47.5%
• Sovereign wealth funds	5.0%
• Multi-manager / fund of funds	12.5%
• High net worth individual / family office / private company	32.5%
• Listed company	2.5%
Manager	
• Large / institutional platform	47.4%
• Medium size platform	23.7%
• Small / niche manager	28.9%
Service provider	
• Accountancy firm	6.3%
• Administrator	12.5%
• Law firm	25.0%
• Placement agent	18.8%
• Other	37.4%

An evolving market

We have just lived through the defining economic cycle of a generation. The "global financial crisis" provided the first serious test of the real estate fund model's resilience, in the face of blistering economic headwinds.

The industry obviously withstood the onslaught, but how will its behaviour during the crisis impact on the way it behaves in the future? What has changed? What have we learned? How is the market evolving?

Our clients and contacts between them manage or invest in the whole gamut of UK and international real estate funds. They lived through the crisis and are still here so they should be able to answer these questions.

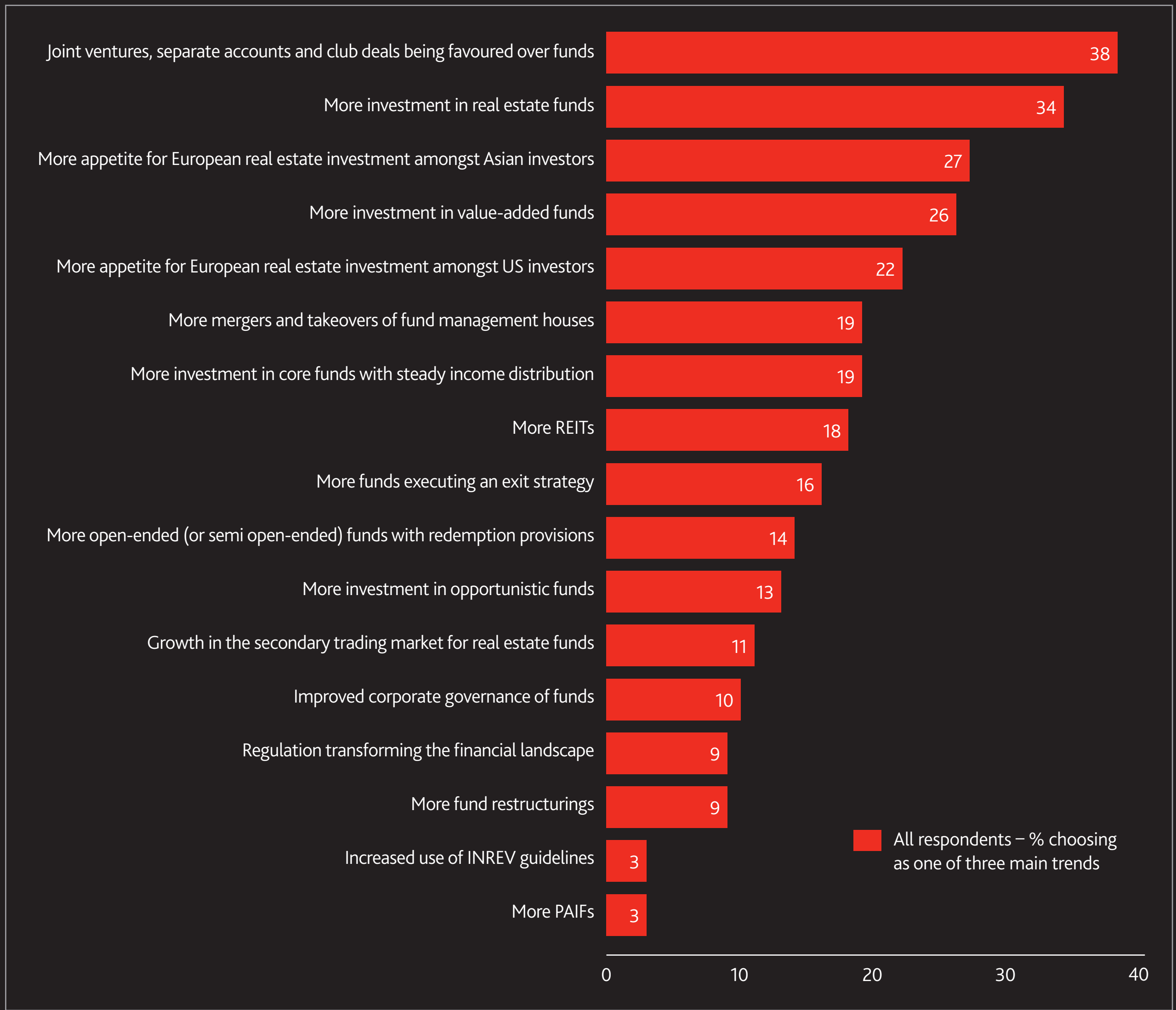
Indeed they have been answering our questions on market conditions for the past six years, through the 2010 and 2012 versions of this survey. Those market measurements have allowed us to **trace shifts in opinion** against the changing economic background, and draw some fascinating comparisons for this 2015 report.

The conclusions we have pulled from the data may **strengthen or challenge your own perceptions**. We hope this report also shares our view of an exciting market, and at least encourages some interesting debate. In any case, we are excited to be part of the debate.

Amanda Howard
Partner
T +44 (0)20 7524 6342
a.howard@nabarro.com

Predicted fund trends

This chart shows what the industry thinks the key trends in the market are likely to be over the next 12 months.



We compared this against predictions made in 2010 and 2012, and picked out four key trends in the outlook:

- Trend 1: More investment in real estate funds
- Trend 2: More UK REITs
- Trend 3: Fewer restructurings
- Trend 4: Fewer mergers between fund managers

Predicted fund trends

Trend 1: More investment in real estate funds

The optimism of 2010 may have been based on the notion that the wake of the financial crisis would boost recovery funds. This idea was no longer enough to dispel the pervasive sense of economic doom and gloom that characterised 2012. But the future of real estate funds again looks bright as the sun shines over the broader economic landscape, at least while bond pricing and low interest rates keep asset prices attractive.

Much debate swirls round whether we are at the top of the market. Rental levels have equalled the pre-crisis peak, and some voices have already "called the market". At the same time there seems to be space for further yield compression, so perhaps we are not quite at the summit yet. In any case most people agree that the view does not get much better than this.

More nuanced is the question of which business models are best placed to effectively harness the latent energy in the environment. Investors, particularly UK pension funds shifting from defined benefit to defined contributions models, are under increased pressure to match their own liabilities with the returns generated by their fund investments. This will perhaps favour income over value-added strategies as the defined contribution story unfolds.

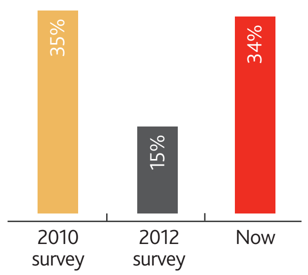
> "It's all about matching liabilities, that's why income is so popular."

Meanwhile smaller funds are difficult, particularly now the costs of regulatory compliance have mushroomed.

> "If you have the right real estate strategy, there's equity out there – it's an income play – long-term capital is switching its allegiance into long-term income."

More investment in real estate funds

Historical performance of "more investment in real estate funds" as one of the three main trends.



Predicted fund trends
Trend 2: More UK REITs

When the UK REIT regime was introduced in 2007, tax advantages persuaded the major UK listed property companies (like Land Securities, Hammerson and British Land) to convert fairly quickly. The 2012 abolition of a 2 per cent entry charge on seeding assets then gave UK REITs a welcome boost, and there are now over 30 listed on the London Stock Exchange; ASSURA, AEW and K&C were all new entrants for 2015. REITs now also invest across an increasingly broad range of real estate specialisms, suggesting that the UK market is slowly maturing.

> "There is an interesting trend towards more specialist REITs."

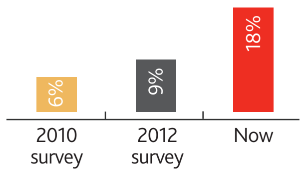
The attractions of UK REITs include the certainty of pre-identified assets, exemption from UK property investment income and capital gains tax, liquidity via share trading, and relatively easy access to capital markets. There are certainly no 18-month fundraising circuits, nor regular trips offshore.

Listing brings more costs and volatility though. The relationship REITs have with the stock market makes it arguable whether they should even be considered, like funds, as a proxy for direct real estate investment at all. Disconnected from the underlying asset value, REITs grow and wither with the equity markets, and prospective REIT investors must be comfortable with the volatility that this brings. "You gotta hold your nerve", said one respondent, even if price fluctuations may level out over a longer period.

> "Fund valuations are driven by weight of capital, REITs are more sentimental."

More UK REITs

Historical performance of "more UK REITs" as one of the three increased trends.



Predicted fund trends
Trend 2: More UK REITs

UK REITs are also still in their infancy, and there may still be an "education issue" or "fear factor" amongst investors. They are essentially a "take-it-or-leave-it" option, that leaves little room for bespoke arrangements for individual investors, as the Listing Rules prohibit side letters. UK REITs also rarely compete for local authority pension funds' real estate allocations, and international investors might need some time to understand that they are essentially property companies.

So REITs are a strange beast, and the industry is perhaps not fully set up to maximise their potential. The UK REIT cocktail – a mix of listing, a closed-ended structure, and unfamiliarity – means that fundraising from the larger asset managers can be like stumbling around their organisational structures looking for a friend. Do I sell to the property desk, or the equities desk? Will either section understand my product, or have an allocation into which it can slot?

Despite the fact that REITs were introduced to the UK on the eve of very barren times, the population has grown significantly since then. The view of many in the industry certainly seems to be that it may continue to grow.

Nabarro advises over half of the premium listed REITs and has led the sector since the introduction of the REIT regime, including:

1st wave of REIT conversions Land Securities, Great Portland, SEGRO and Primary Health Properties	1st merger of two REITs London & Stamford and Metric Properties
1st "private" REIT Ropemaker Place	1st IPO of a REIT fund Rugby REIT

Predicted fund trends
Trend 3: Fewer restructurings

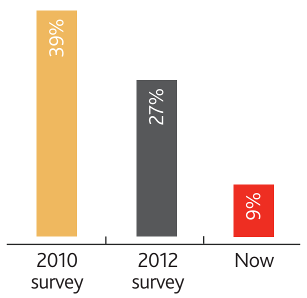
Investors in funds scheduled to terminate during the peak of the downturn were generally keen to let fund managers hold on to assets, and sell once conditions improved.

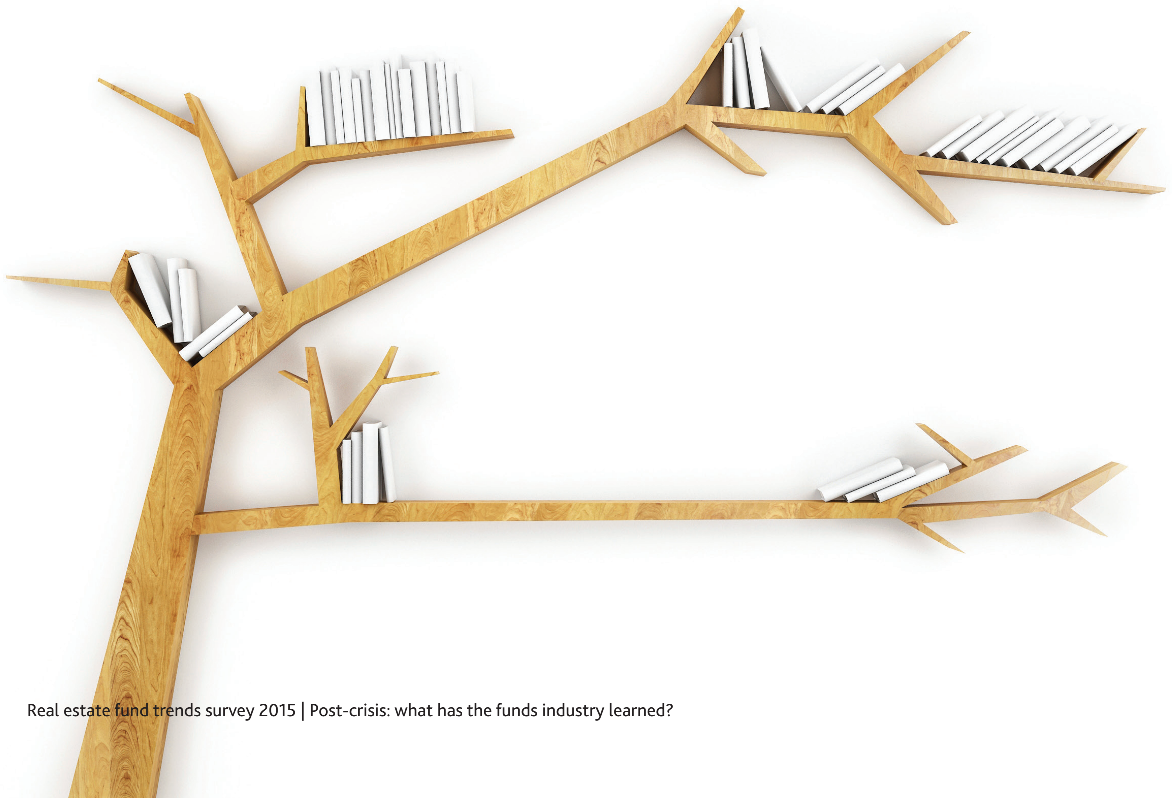
But those involved in delivering the enormous number of funds born between 2002 and 2005 could not know these funds were destined to reach the end of their natural lives during a period when their assets could not realistically be sold. This absent prescience meant that most fund documentation was ill-equipped for extensions, making that kind of life-support difficult, if not impossible to agree. In this context, restructurings often became the only way to prevent commercial disaster for the baby-boomer funds of 2002-2005.

Now some investors do still push for and agree restructurings, for example where they wish to remain invested in performing assets for which alternatives are not readily identifiable. New trends, like build-to-core, also mean that some interests in value-add vehicles may welcome extensions that allow them to keep hold of core assets that are created. However there is no longer such a powerful macro-economic imperative to override the argument that when a fund comes to the agreed end of its term, it should be wound up as promised. So the industry seems to be right in predicting that fund extensions and restructurings should indeed be rarer.

Fund restructurings

Historical performance of "more fund restructurings" as one of the decreasing trends.





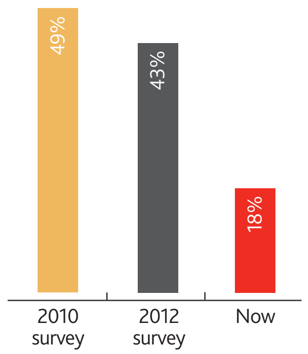
Predicted fund trends
Trend 4: Fewer mergers between fund managers

Prominent mergers and acquisitions have included CBRE and ING, Cushman & Wakefield and DTZ, TIAA-CREF and Henderson, Savills and SEB, Cromwell and Valad, and there are more.

Perhaps this consolidation was a natural reaction to the harsher economic environment, and our survey suggested this trend may now be diminishing as the clouds clear. However we and many of our round table guests suspect there may be more on the way.

Manager mergers

Historical performance of "more M&A activity between fund managers" as one of the decreasing trends.



What's the story with PAIFs?

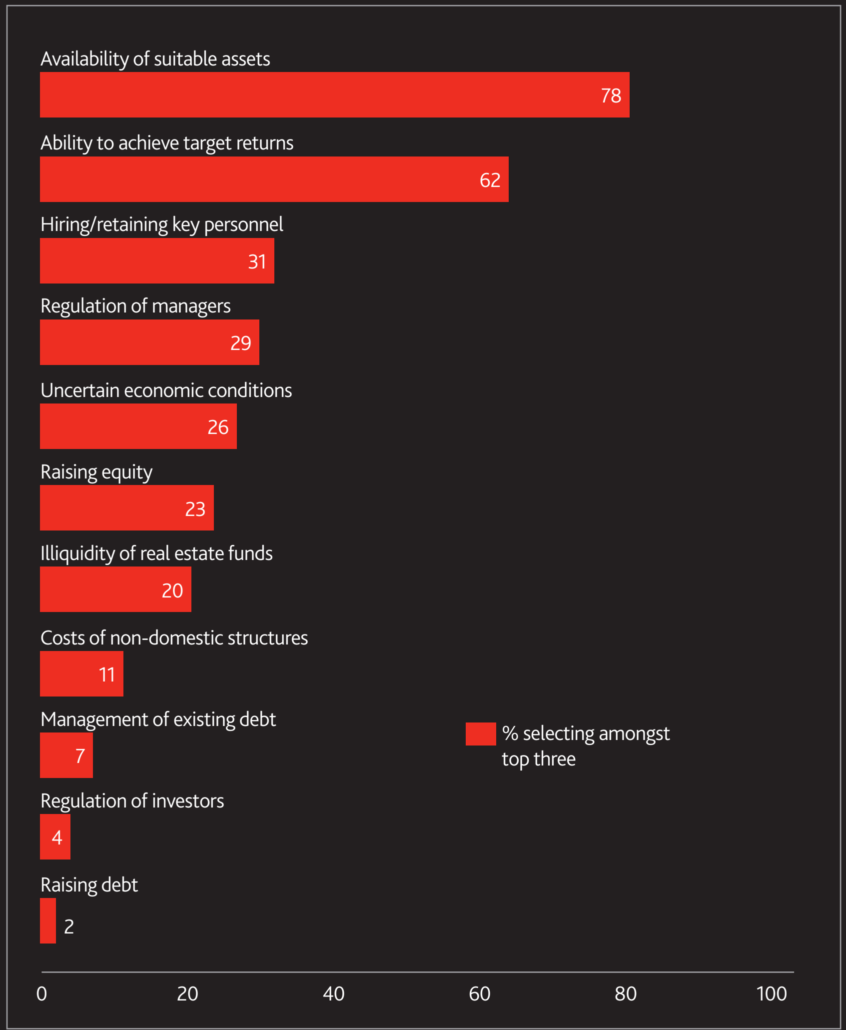
A proliferation of Property Authorised Investment Funds was at the bottom of our clients' list of likely trends, with a meagre three per cent selecting this in their top three. Why did PAIFs win the wooden spoon?

PAIFs are a tax efficient option for all investors, and there has been some take up. Indeed many of the existing authorised real estate funds converted to PAIF status, albeit fairly slowly because of the need to establish the painfully complex accounting systems required to stream income in accordance with the PAIF rules.

However one of the Government's aims in introducing the PAIF regime was to bring funds onshore. However, with offshore funds really constituting a different market, this has not happened, and there have been very few new entrants. The industry will no doubt look again at this, if and when the long-heralded changes to the seeding relief rules are announced (this was possibly imminent as we went to press), bearing in mind that PAIFs are in any case built for a market whose size pales in comparison to that of its UCITS cousin.

Challenges

This chart shows what the industry sees as the biggest challenges for the next 12 months.



We compared this against challenges cited in 2010 and 2012, and picked out what was:

- Still difficult: Finding assets and achieving target returns
- More difficult: Hiring/retaining key personnel
- Easier: Raising equity and raising / managing debt

Challenges
Still difficult: Finding assets and generating returns

Regardless of the economic climate, the importance of some issues does not change much. "Finding assets" and "achieving target returns" have consistently featured amongst respondents' three most challenging aspects of the industry.

	2010	2012	2015
Finding suitable assets to invest in	1	2	1
Achieving target returns	3	3	2

"Managers *would* say achieving target returns is the hardest thing!"

High returns targets

Investors have found it quite surprising that managers believe achieving target returns is such a challenge. There are two sides to this story. Certainly managers need to be realistic when setting returns targets, but equally investors should guard against being too demanding and favouring return targets that outstrip long-term averages and encourage style drift as the yield compression story ends its run.

Can't find assets – just print some?

It is difficult to find suitable real estate assets during periods of high demand because the stock of property in existence is fixed. Not rocket science, we agree. Perhaps more puzzling is the absence of a real estate derivatives market. Without one, rising demand means rising prices, full stop. Could the problem of scarcity in this one dimensional market "be addressed through paper"?

"You could be forgiven for thinking the seeds were sown for a derivatives market"

Contrary views are essential in order to create price differentials, volatility and thus trading opportunities. Despite differing opinions about individual assets, the real estate market lacks any real divergence of views on the market as a whole. This is not helped by the absence of day-to-day pricing, which might encourage more short-term debate and hence volatility. As things are, the real estate market simply does not encourage enough contrary views to support a flourishing derivatives market. This is why every attempt at people's quantitate real estate asset easing has failed.

"There's a noise that sums up why there is no real estate derivatives market – 'baa-a-a'."

Challenges

More difficult: Hiring and retaining key personnel

The return of a seller's labour market is not surprising where a resurgent economy has replaced one where any job was perhaps better than none. Yet there are specific effects in the funds market.

A personal share in a fund's upside, via carried interest, is an effective incentive for talented executives to stay with a manager through a fund's life. This is not lost on investors, who know that key personnel hold more cards now than five years ago.

"A key issue for staff retention is people knowing they have a future. So investors ask more about "staff assets", and put more pressure on to introduce carry."

This does depend on a particular fund's strategy, as that influences the proportion in which any value increase can realistically be accredited to individuals' efforts, versus the strength of the platform itself.

Investors are increasingly looking for provisions on the departure of key executives, and will usually require a contractual right to suspend or ultimately terminate fund investments, if key executives leave.

Then there are questions on the amount of time a key executive will spend on any fund. This is a tricky subject for managers, who often quite sensibly wish to allocate time and effort according to need rather than rigid prior agreement. Nevertheless managers are increasingly asked to list who will spend what percentage of their time on which fund.

"There is more pressure to introduce carry for value-added funds than there is for core."

Highest climber

1

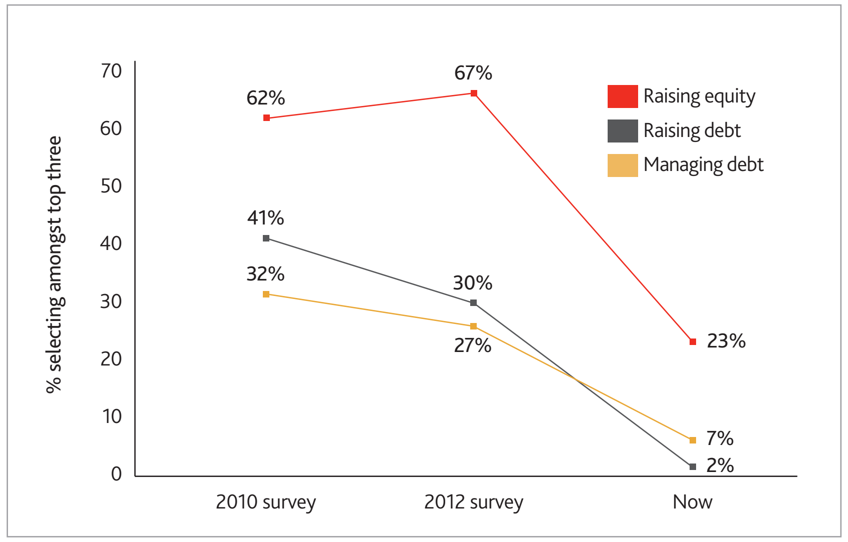
Competition for talent

From easiest in 2010 to third most difficult in 2015

Challenges

Easier: Raising equity and raising / managing debt

Raising debt and equity has become much easier. The same is true of managing existing debt.



"Raising debt for income is relatively easy. The key difference is that raising debt for development is still difficult."

Ready availability of equity is again what you would expect from a more benign economic environment. Tristan Capital Partners for example have this year raised €1.5bn for investment in European real estate, whilst Hermes Investment Management have raised a similar amount for real estate debt investments.

"You shouldn't be worried about equity-raising if you have the right assets, and good corporate governance."

Likewise debt finance is more freely available to funds for making acquisitions, as a wider variety of lenders have entered the market, jostling for access to deals and offering favourable terms. Investors also seem to be less concerned by leverage levels.

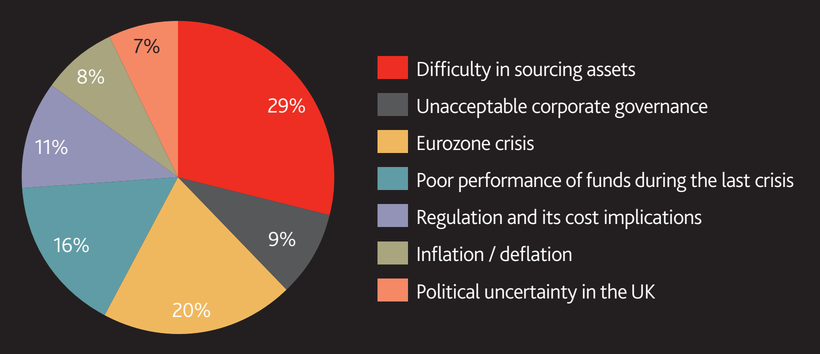
"Investors seem to have gone fairly silent on debt. It's the page in the report that no-one comments on now."

However there does seem to be some disparity on how easy it is to raise debt for different strategies. A pre-let asset will still be far easier to leverage than a speculative development.

However there is some recognition that the industry as a whole needs to be careful, and avoid complacency over debt levels. Risk may be becoming more tempting.

Threats to fundraising

This chart shows what managers and investors think are the main threats to fundraising over the next 12 months. Whilst fund managers arguably have some control over corporate governance standards and sourcing assets, the other factors are beyond anybody's control.



"We're still living through the effects of 2008 – we are not out of that yet. It's an abnormal world where we are paranoid by a little trip up. That's why people want assets they can touch."

Threats to fundraising

The key macro concerns for fund managers include uncertainty about China, fluctuating oil prices, demographics of the West (and their impact on growth), global interest rates, exchange rates, the volume of money coming from emerging markets, and perhaps even "paranoia" linked to 2008 – people wanting assets they can touch.

Knowing our clients, we are confident that real estate fund managers and the investor community will hold their nerve and find ways of dealing with these unknowns. Good advice might be not to get too obsessed with market cycles, to pick markets that buck the trends, or in some cases to specialise.

"Being able to move quickly especially in the UK is a big advantage – can big fund management houses move that quickly?"

Tell me honestly...

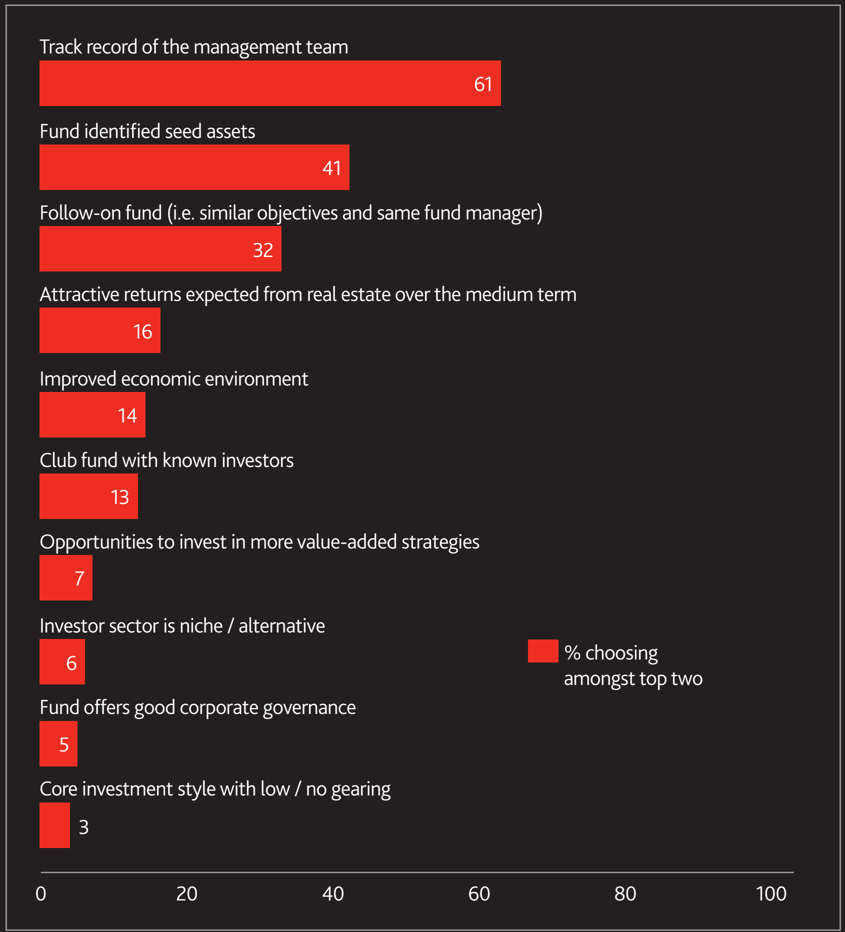
For a bit of fun, we asked fund managers, investors and service providers what frustrated them most about the industry.

Managers broadly bemoaned excessive investor due diligence, whilst investors tended to tear their hair out over insufficient transparency from managers. These are different views of the same issue, on which AIFMD and regulation generally aims to arbitrate. Different perspectives on information sharing may be an inevitable fact of life, but we think further building relationships and developing trust between fund managers and investors could help here.

Meanwhile service providers were exasperated by constant pressure on their fees. They are a mercenary lot it might seem. But this may in truth be a symptom of wider pressure on fees across the industry. Fund management fee levels generally seem stable, but demands for greater transparency on how they are spent are increasingly commonplace, as is investor insistence that amounts that used to be charged by managers as additional fees (transaction fees, broken deal fees etc.) should all be accounted for under the headline fund management fee.

Fund launches
Part one: Key drivers

This chart shows what the industry thinks are the most important factors in a successful fund launch.



We compared this against answers to the same question in 2012, and picked out what is now:

- Still important: Track record and seed assets
- Less important: Gearing and corporate governance

Fund launches
Still important: Track record and seed assets

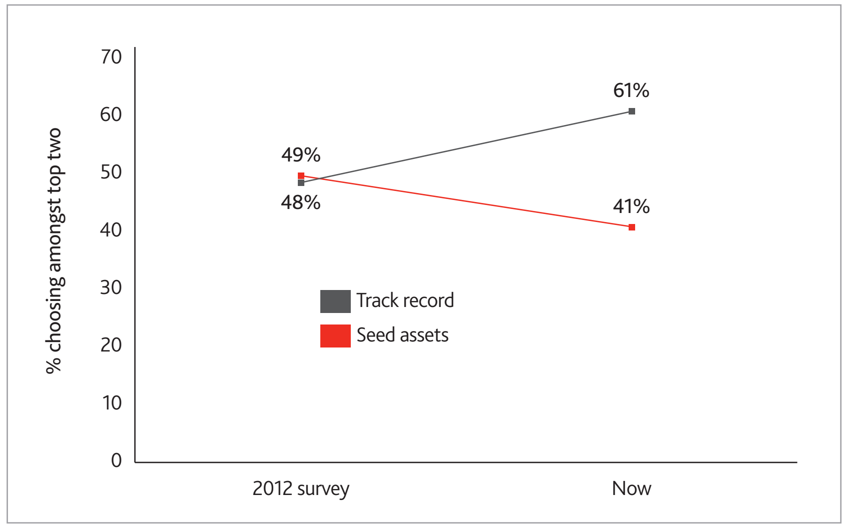
It is no surprise that fund managers with great track records and seed assets lined up prior to launch will find it easier to get their funds off the ground, and this is confirmed by the fact that these two items also topped the 2012 version of the opposite table.

"Seed assets make telling the story of a fund much easier."

There are nuances though. It is certainly crucial to deploy capital rapidly, for reputational purposes as well as pure performance, and seed assets obviously make that easier.

"Managers need to start investing within nine months to a year, otherwise people doubt their ability to transact and they will find it hard to go back to the market for more capital."

However track record has edged ahead in importance relative to seed assets since 2012, suggesting that successful managers are regaining the trust of the market.



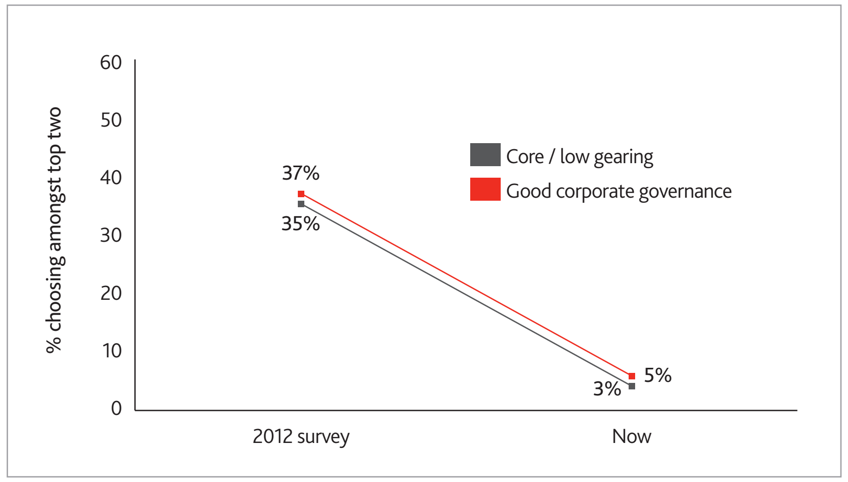
Our round table guests also noted that even some managers with less than perfect track records have managed to raise capital.

Which takes us back to those deeper questions about how long the current market can last...

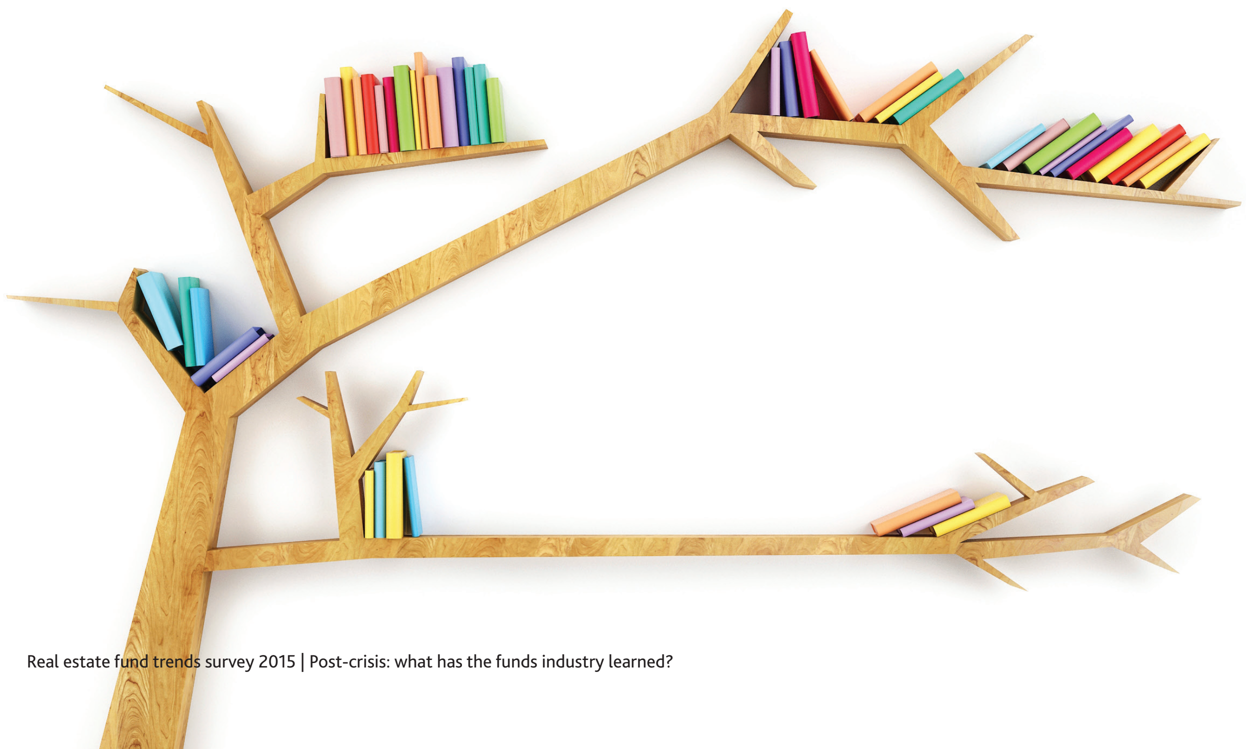
"Is there more trust now? Some of the big misbehavers have now raised money. Perhaps they just admitted it, fired the whole team and started again!"

Fund launches
Less important: Gearing

A core/low-gearing strategy and good corporate governance have both become much less important factors in getting real estate funds off the ground.



Moving up a gear?
The results do not mean that low gearing strategies have vanished. UK pension funds in particular are fuelled by long-term income, which core funds provide. Funds with no debt, such as Aviva's REaLM and Lime funds, have very successfully raised equity from pension funds. But although debt remains conservative in "old world" terms, it does seem that demand for zero or low gearing has been chewed away by demand for the "middle cog" of funds with perhaps 50-60 per cent LTV. There are also more thrill seeking investors, switching to even higher speeds, using more leveraged funds and value added strategies to pursue higher returns.



Fund launches
Less important: Corporate governance

Corporate governance thrown out of the window?
Corporate governance suffered a double disappointment by coming second bottom of our poll on important factors in fund launches, and featuring as a major decreasing trend. Have positive feelings about returns caused everyone to forget about good behaviour? We think not.

"It's interesting that corporate governance has fallen – either investors just don't care, or trust has been restored."

Good weather certainly encourages investors to focus more on getting cash planted with effective fund managers, more than on the detail of corporate governance. But there have been enormous improvements in governance recently. The crisis gave investors the upper hand in negotiations on key executive provisions, manager co-investment, no-fault removal, and other governance concessions. Meanwhile, transparency and reporting requirements have been hard-wired into the market by AIFMD.

"Governance is much better overall."

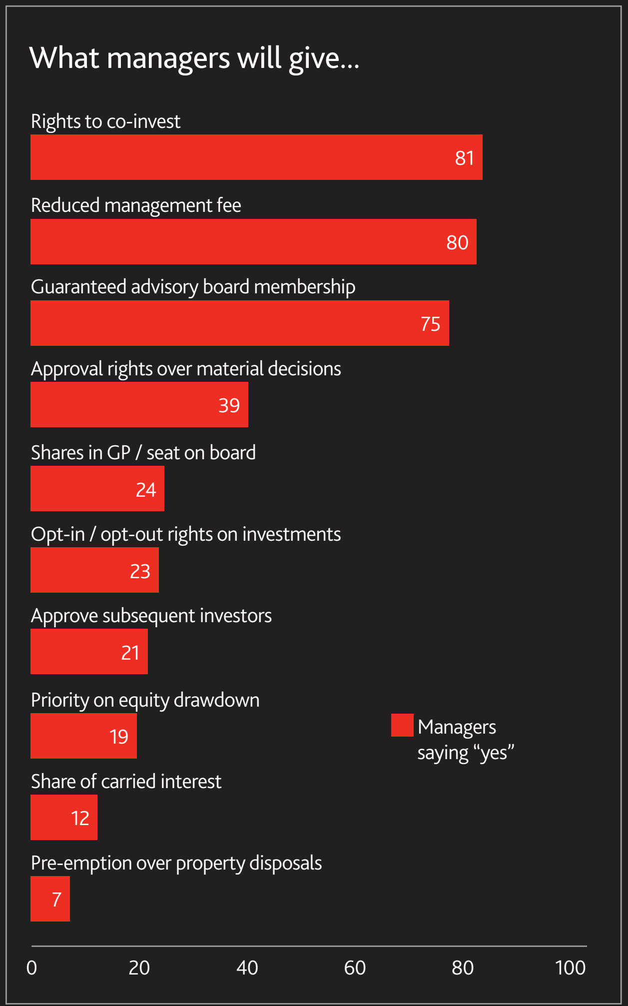
This is all underpinned by wide-ranging governance initiatives led by INREV on the European level, and AREF in the UK. These bodies now have a leading role in making sure the vast improvements in corporate governance are not thrown out of a window that may only be open whilst it is warm outside.

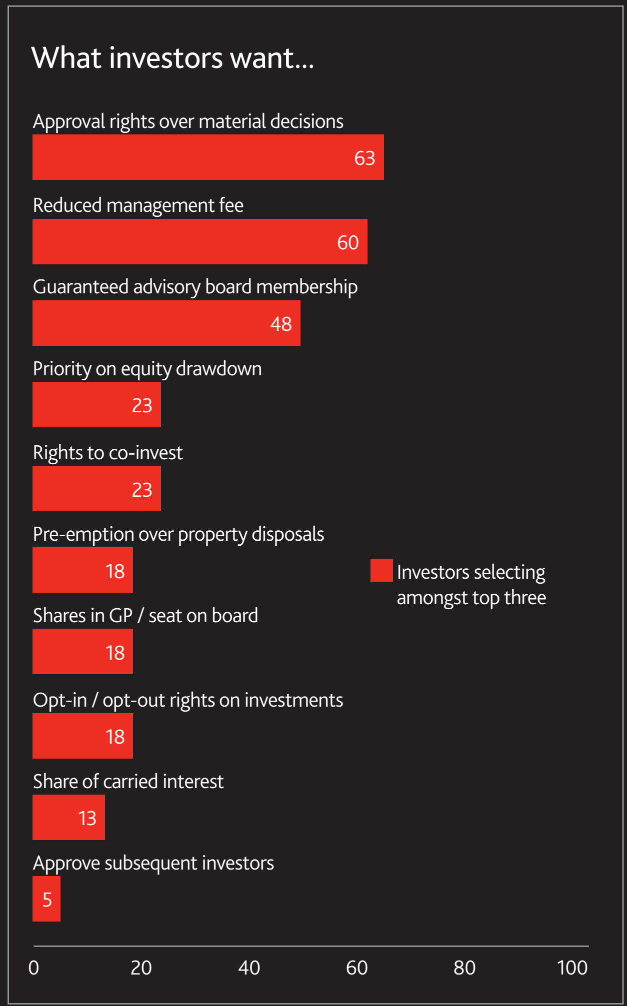
"The challenge is to get these measures to stick – there's no room for complacency."

Fund launches
Part two: First close perks

We asked fund managers what concessions they would be willing to give to first close investors.

We also asked investors what concessions they would prioritise from the other side of the negotiating table. Happily there was some agreement between the two camps – managers can now officially concede reduced management fees and advisory board seats to first close investors.





Happily there was some agreement between the camps as regards reduced management fees and advisory board seats. However there was a disparity of views on:

- Co-investment rights
- Approval rights over material decisions

Fund launches
Co-investment and approval rights

Co-investment – thanks but no thanks?
Our experience matches the survey's finding that whilst fund managers often readily concede the right to co-invest alongside the fund, this request does not top an average investor's wish list. Local authority pension trustees for example rarely participate in investments alongside funds they invest in.

However some larger investors often actively seek alignment with managers willing to offer greater exposure through co-investment rights. These are typically large pension or sovereign wealth funds, who are also seasoned travellers of alternative routes to private real estate exposure, like club deals, joint ventures and direct investments. "Consolidation" is the word of the day amongst this significant section of the market, where larger amounts are placed with fewer managers, meaning greater investor bargaining power and lower overall fees.

Is "fund approval rights" an oxymoron?
Investors' top request was for approval rights over material decisions within the fund, to which managers will not usually agree. Sympathise with managers here: after all, the fund model is based on investors backing the skill and expertise of a certain manager. Certainly less hands-on investors would need convincing of the wisdom of accepting other parties' influence over their money, as it is the manager's credentials investors buy into, not that of other investors.

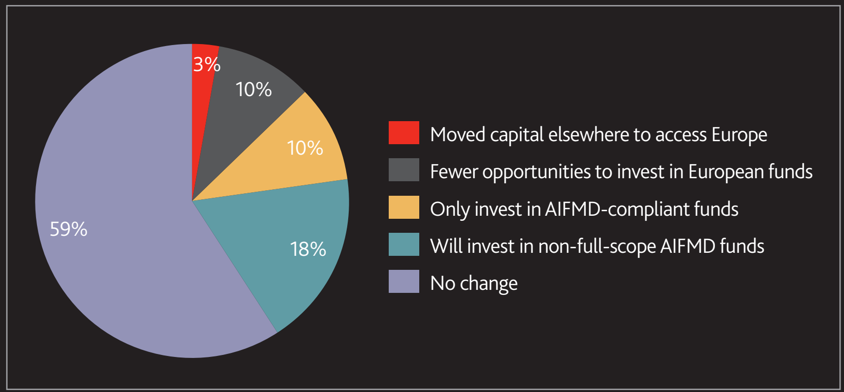
> "There are investors who don't want to participate in decision-making to a high level as they don't have the time or resources."

There is also a category of investor that wants to influence decisions on which assets are acquired, and the timing of exits. Here we are straying, both legally and commercially, outside the realm of funds and into the territory of joint ventures and club deals, where smaller bands of investors roam the investment landscape picking up assets they can control more closely.

Happy Birthday AIFMD
Opinions

Investors have not been put off by new protections

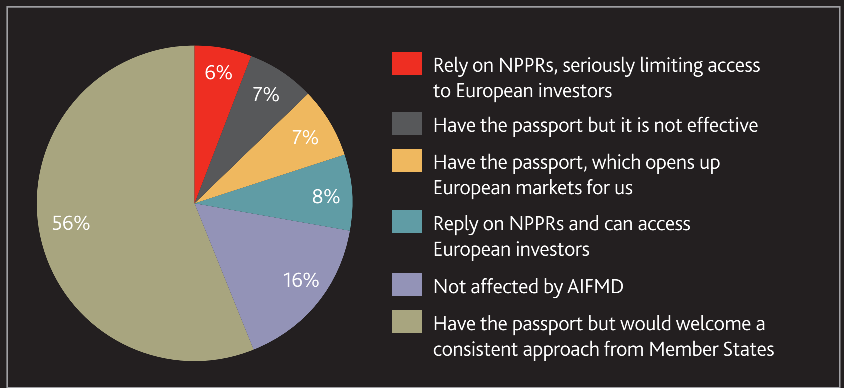
We asked investors whether AIFMD, now effectively one year old, had affected opportunities to invest in Europe. It is good news that a clear majority of investors reported no change.



There remains some debate around whether transparency and reporting requirements have usefully improved investor protection or are an unwanted cost. In any event the new requirements have presented a golden business opportunity for fund administrators.

Managers are pleading for consistency

We also asked managers how the AIFMD had affected the way they market to investors based in the EU.



Happy Birthday AIFMD
Key issues

In return for fund managers suffering a greater regulatory burden, AIFMD was supposed to create a "level playing field" for EU managers. They would apply for a licence or "passport" from their one home state regulator, which would then allow them to market their funds anywhere in Europe on the same terms. Instead, there remains a confusing patchwork of different rules across the continent, at least for now.

It is therefore unsurprising that a majority of managers told us that they had the passport, but would welcome a more consistent approach from member state regulators.

"I think some find it quite tricky even to find out what different regulators want, and then to compile everything..."

More specifically there is an issue with "gold plating", where member states add further rules beyond what is required under the AIFMD. Fund managers have to pay additional fees in order to market to investors in Spain and Germany for example. Different countries also have different processes for authorisation: Germany for instance has implemented a fairly onerous vetting procedure to ensure no marketing to retail investors happens.

"Basically in the UK and the Netherlands, where there is money, it can be quite easy but anywhere else it's trickier."

There are also inconsistent definitions by regulators as to what constitutes marketing. In England managers can approach investors on the basis of draft documents, as that is not marketing, and so does not require authorisation; whilst in Germany they cannot, as it is, and so does.

The European regulator, ESMA, recently reviewed the AIFMD fund marketing regime, and accepted industry feedback that this lack of consistency is not ideal. However, the conclusion was that it is too soon to recommend any specific changes, so the industry will have to live with the current system for now.

ESMA is also in the process of assessing which non-EU countries' fund managers should be allowed to market to EU investors. This is an ongoing, laborious process. Jersey, Guernsey and Switzerland have been given the green light, subject to the Commission acting on ESMA's advice and actually granting access. Currently under consideration are the US, Hong Kong, Singapore, the Cayman Islands, Canada, Australia, Bermuda, the Isle of Man and Japan. It is unclear when passports will actually be granted so that marketing to European investors by managers from these and other jurisdictions can begin.

"You have to grapple with the difficulties of the difference in what marketing means in different countries under AIFMD."

End of fund life

176 Funds

were due to terminate between 2012 and 2016, together representing a gross asset value of

£68.6bn

Should the end of a fund's agreed term mean capital is returned regardless of where the economic cycle has reached?

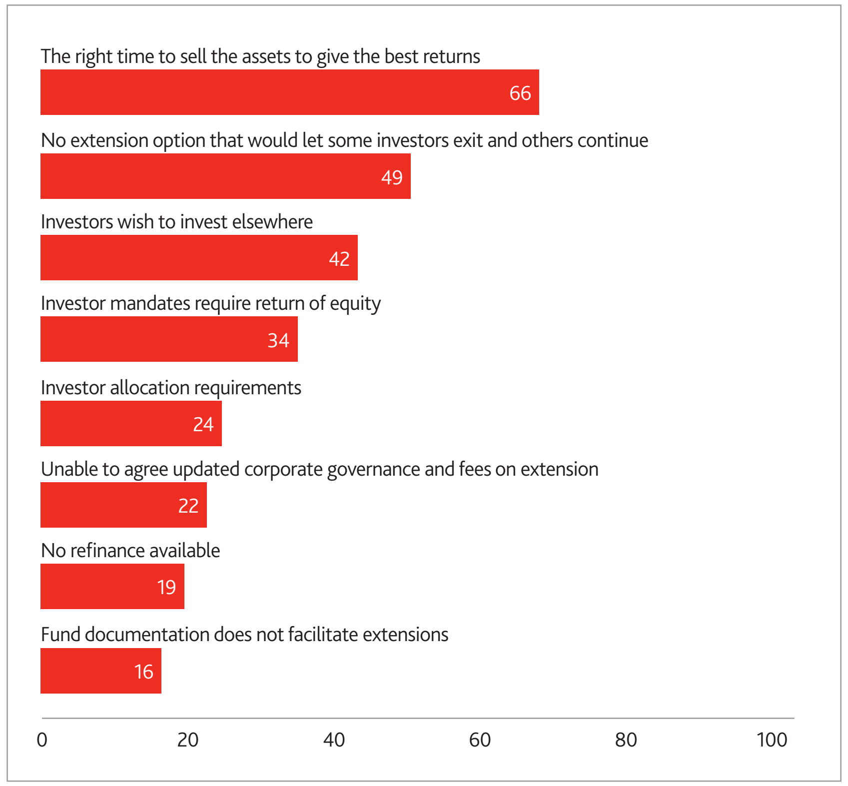
Industry associations AREF, IPF and INREV teamed up this summer to launch the End of Fund Life Project, which is looking at this issue with a view to defining and encouraging best practice.

In this context, we asked the industry about decisions to terminate or extend, and what investors and managers should prioritise on how extensions could be agreed.

End of fund life

Terminate or extend?

We asked the industry what factors would favour terminating a fund, as opposed to extending / restructuring it.



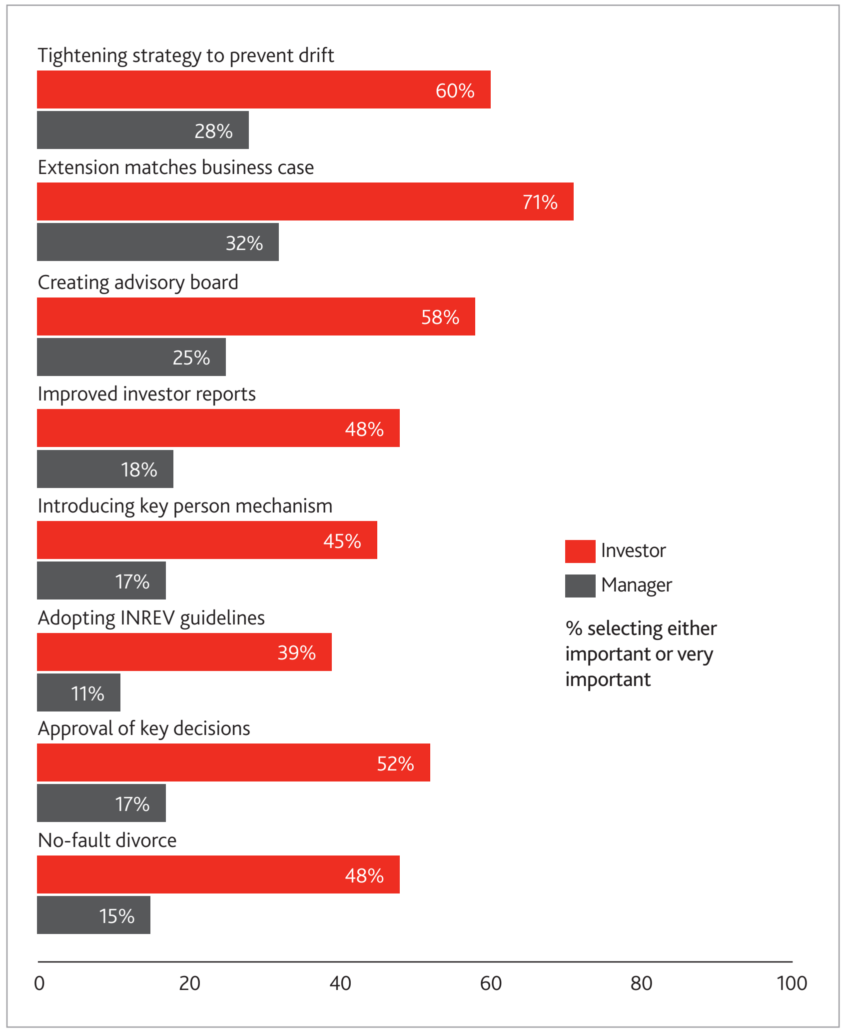
The strongest current pushing towards termination was the ending of a fund's originally agreed term at a sensible point in the economic cycle, where the fund's remaining assets can be sold at a good price. It sounds obvious but this is a good, commercial reason to terminate a fund.

This is interesting, because the second most important factor related to inflexible fund documents. Some investors may need to exit regardless of the economic backdrop, but others might prefer to continue the fund through a poor market (or a high income performance period). Ideally the fund documents would be capable of accommodating this unravelling alignment.

The fact that documents have recently too often failed on this front is a shame, as "documents say no" is not a good reason to terminate if "commercial results say yes". Hopefully the End of Fund Life Project will crystallise the negative experiences of the downturn into positive guidance for the future.

End of fund life
So you have decided to extend your fund…

The extension of a fund's life is usually served with a renegotiation of its terms. We asked investors and managers which terms should be prioritised during these renegotiations.

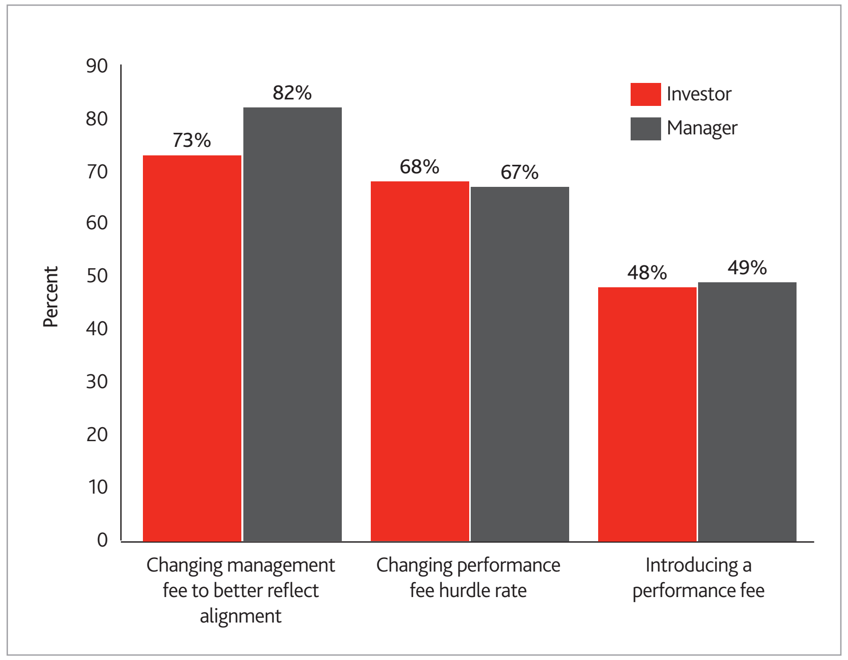


"You'll never get everyone to agree, there is always some form of compromise."

There was a marked divergence between the two sides' priorities. Most of the issues whose importance was much greater to investors than to managers actually relate to corporate governance standards, and you might expect this. However you might also expect that more than 34 per cent of managers would highlight the importance of any extension being supported by a strong business case, as 73 per cent of investors did.

End of fund life
Managers' priorities

If a strong commercial basis for extension is not very important to fund managers, then what is? Well, fees.



"People who have a problem in one fund do not want to have it again in the next one."

"You need strong leadership."

Investors also recognise that appropriate levels for the management fee, performance fee and hurdle rates are important for the alignment of interests. It is interesting that alignment does not always seem to be consummated by mutual support for a solid business case.

Whatever re-adjustment of terms is agreed, it is certainly true that the process of extending and restructuring a fund is challenging, requiring enduring patience and first-rate management skills from the fund manager.

This comes back once again to alignment, this time between investors with diverging commercial priorities, their own individual hang-ups based on experience, and sometimes completely different teams to those who set off down the fund route together several years previously.

Conclusion

Real estate funds were not covered in glory during the Global Financial Crisis and weaknesses in the fund model were exposed. However, the fund model is not dead, just a bit bruised and is steadily recovering.

Our survey reveals that there is an increased appetite for investment in real estate funds but we doubt it will overtake the preference for joint ventures or clubs that give investors greater control.

The industry bodies, including INREV, AREF and the IPF, have worked hard to evolve improved corporate governance in funds. The survey shows that corporate governance is no longer a priority issue; we believe this demonstrates that improvements have been made and sustained.

The next threat to real estate funds could be the defined contribution pension schemes that require greater liquidity than the fund model can offer, so are REITs the next evolution?

The economy in Europe has improved and the sun is shining at last, so let's use the opportunity to make a success of real estate funds before it starts raining again.

Nabarro Funds and Indirect Real Estate

Amanda Howard
Partner
T +44 (0)20 7524 6342
a.howard@nabarro.com

Deborah Lloyd
Partner
T +44 (0)20 7524 6370
d.lloyd@nabarro.com

Jonathan Cantor
Partner
T +44 (0)20 7524 6890
j.cantor@nabarro.com

Christopher Luck
Partner
T +44 (0)20 7524 6294
c.luck@nabarro.com

Darren Stolzenberg
Partner
T +44 (0)20 7524 6191
d.stolzenberg@nabarro.com

Tom Taylor
Knowledge Lawyer
T +44 (0)20 7524 6380
tm.taylor@nabarro.com

A very warm thank you to all our round table guests for their participation in the debate:

Name	Organisation
Anne Copeland	Kames Capital
Andrew Appleyard	Aviva Investors
Giles Wintle	Grosvenor
Austin Mitchell	TH Real Estate
Chris Christofi	Catalyst
Anthony Shayle	UBS
Manish Chande	Clearbell
Andrew Smith	Mill Group
David Boyle	Morgan Stanley
Sasha Silver	Tristan Capital Partners
James Jacobs	Lazard

Name	Organisation
Jason Rodrigues	TH Real Estate
James Thornton	Mayfair Capital
Elliot Glausiusz	ImmoFinRE
Jenny Buck	Tesco Pensions
Jennifer Gaines	LaSalle IM
Graeme Rutter	Schroders
Mark Wilkins	Aberdeen Asset Management
Damien Smith	Townsend Group
Alex Bignell	CBRE Global Investors
Sath Sabendran	Aviva Investors

NABARRO

CLARITY MATTERS

Nabarro offices

London
125 London Wall
London EC2Y 5AL
T +44 (0)20 7524 6000

Sheffield
1 South Quay Victoria Quays
Sheffield S2 5SY
T +44 (0)114 279 4000

Manchester
1 The Avenue Spinningfields
Manchester M3 3AP
T +44 (0)161 393 4700

Brussels
209A Avenue Louise 1050 Brussels
Belgium
T +32 2 626 0740

Singapore
Marina Bay Financial Centre Tower 3
12 Marina Boulevard 35-01
Singapore 018982
T +65 6645 3280

Dubai
Office 105 Level 1
Tower 2 Al Fattan Currency House
DIFC PO Box 506873
Dubai United Arab Emirates
T +971 4302 6000

You can find out more about us at:

www.nabarro.com
Twitter: @nabarro
LinkedIn: nabarro-llp

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www.broadlawgroup.com

Nabarro LLP
Registered office: 125 London Wall
London EC2Y 5AL.

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