



## Link'n Learn: Property Funds, Private Equity and Real Estate

September 2016 Update

# Speakers



**Francesco Piantoni**  
Director– Strategy, Regulatory and  
Corporate Finance  
Deloitte Luxembourg  
E: [fpiantoni@deloitte.lu](mailto:fpiantoni@deloitte.lu)  
T: +352 451 453 371



**David McCaffrey**  
Senior Manager– Audit  
Deloitte Ireland  
E: [dmccaffrey@deloitte.ie](mailto:dmccaffrey@deloitte.ie)  
T: +353 1 417 2983



**Rory Brown**  
Manager– Audit  
Deloitte Ireland  
E: [rorbrown@deloitte.ie](mailto:rorbrown@deloitte.ie)  
T: +353 1 417 5745

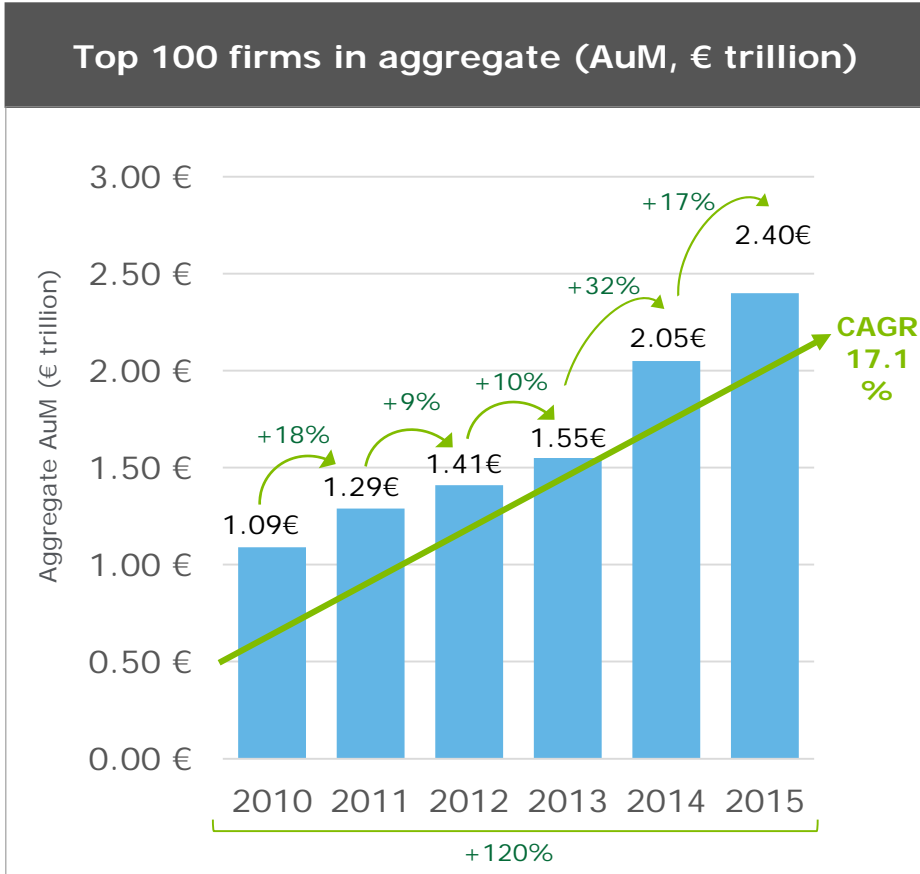
# Agenda

- 1 Numbers and Trends
- 2 RE Strategies
- 3 Fund Structures
- 4 Financial Cash Flows & Operations
- 5 Balance Sheet and Profit & Loss examples
- 6 RE from an Investor Perspective

# Numbers and Trends

# The Global Real Estate Funds market as a whole

Constant growth of AuM and strong concentration



### Concentration

- Strong concentration of assets held by largest players

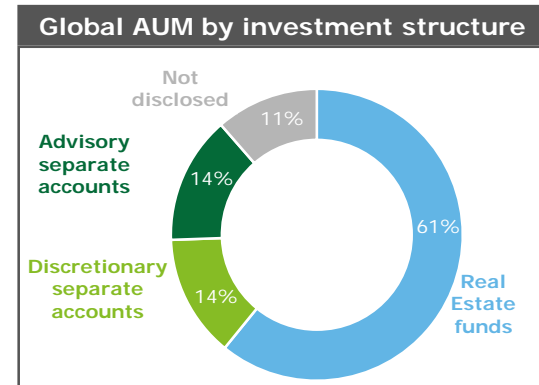


33% of AuM are managed by top 10



53% by top 20

- €627 million is the average size of private RE funds
- 2015 was record high: investment volumes reached highest level since 2008

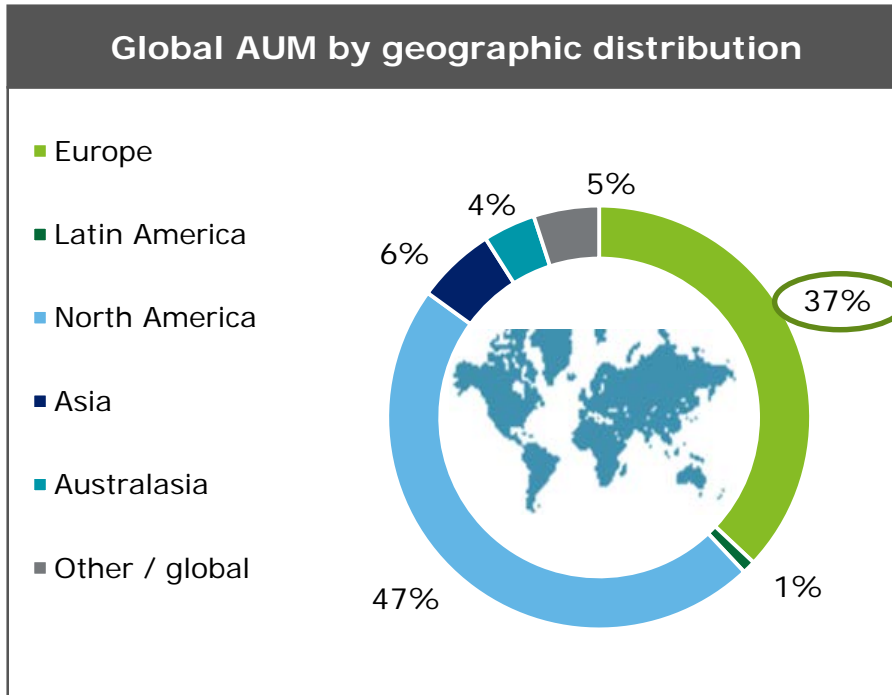


At global level, RE funds are by far the preferred structure to invest in RE, with 60.86% of AuM held

Sources: Institutional Real Estate, Global Investment Managers 2016, Preqin Global Real Estate Report 2016

# The Global Real Estate Funds market as a whole

A look at the European situation



## European allocation

Almost 38% of the AUM are invested in Europe, meaning a total of 960Bn

- Amongst top ten largest managers investing in Europe, 9 are European based
- On average 90% of their AUM are invested in Europe

At European level RE non listed funds attract 47.3% of allocation to RE

# Real Estate in Numbers

## Largest Investment managers based on AuM

### Global

Rank	Investment Manager	Total AuM in €M
1	Brookfield Asset Management	137,054.00
2	The Blackstone Group	135,795.02
3	TH Real Estate	84,400.49
4	CBRE Global Investors	82,639.11
5	Hines	82,031.74
6	MetLife Investment Management	75,993.93
7	UBS Asset Management, Global Real Estate	67,259.28
8	AXA Investment Managers – Real Assets	62,904.00
9	Swiss Life Asset Managers	62,200.00
10	J.P. Morgan Asset Management – Global Real Assets	60,071.64

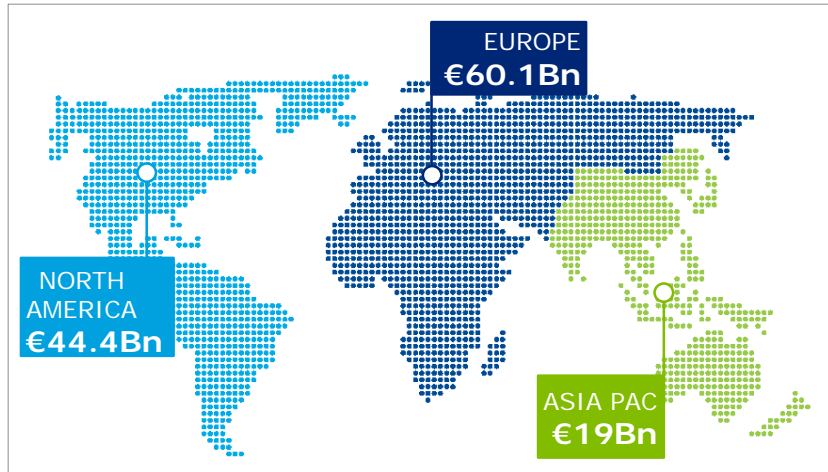
### Europe

Rank	Investment Manager	Europe AuM in €M	Total AuM in €M
1	Swiss Life Asset Managers	62,200.00	62,200.00
2	AXA Investment Managers – Real Assets	59,152.00	62,904.00
3	Aviva Investors	44,120.87	45,719.95
4	Credit Suisse Real Estate Investment Management	42,070.49	45,775.44
5	CBRE Global Investors	41,779.69	82,639.11
6	Deka Immobilien Investment/WestInvest	30,961.00	33,173.20
7	The Blackstone Group	29,036.88	135,795.02
8	M&G Real Estate	28,734.61	33,905.48
9	Aberdeen Asset Management	26,143.74	26,289.11
10	TH Real Estate	25,448.80	84,400.49

Source: Institutional Real Estate, Inc – Global Investment Mangers 2016

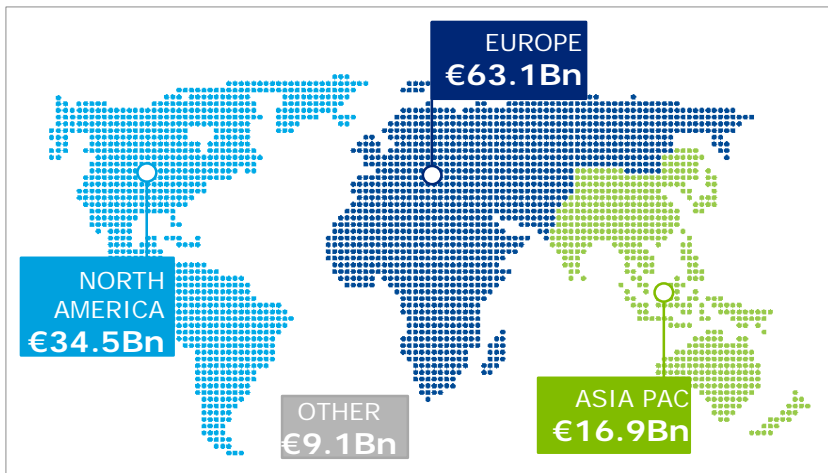
# Global fundraising and capital allocation to RE

## fundraising for RE globally



- In Europe constant growth of capital raising for the past three years (+16,5% from 2014 to 2015)
- Capital raised in 2015 is more than double than in 2012
- Non listed RE funds dominate the allocation with 47.3%

## investment allocation in RE globally



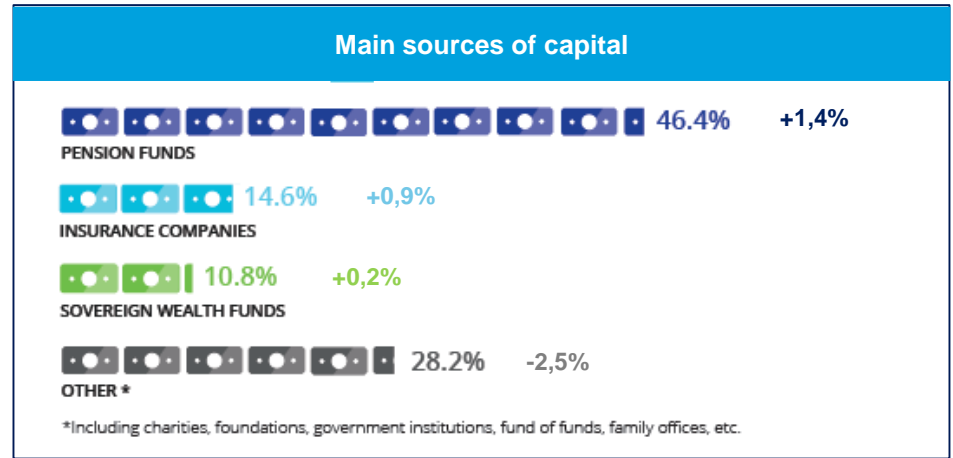
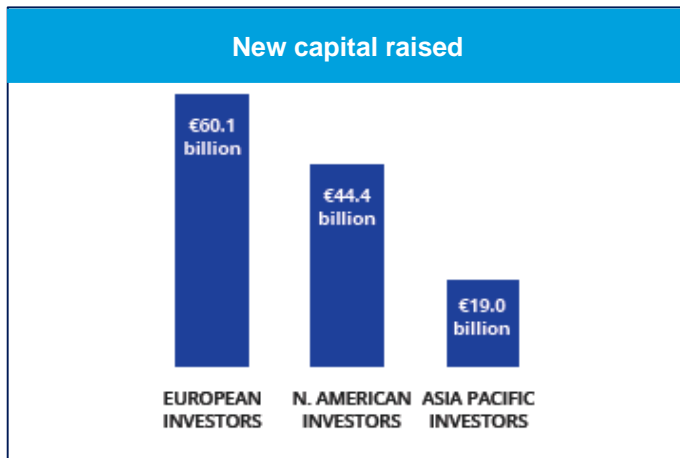
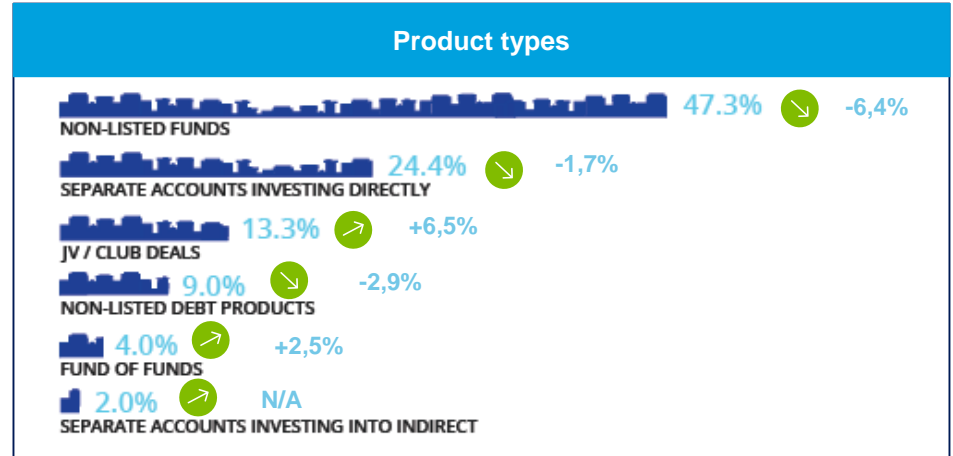
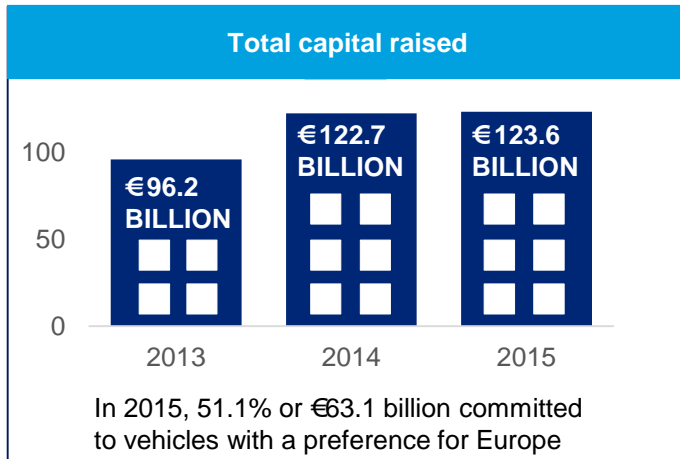
- Despite the global macro economy outlook, investment into global RE has been strong
- RE is the asset class for pension funds and insurance companies, which contribute for 60% of the total allocation
- Top 20 firms control 53% of the industry asset

Sources: INREV, Investment Intention Survey 2016; Institutional Real Estate, Global Investment Managers 2016



# Fundraising – latest trends from INREV survey

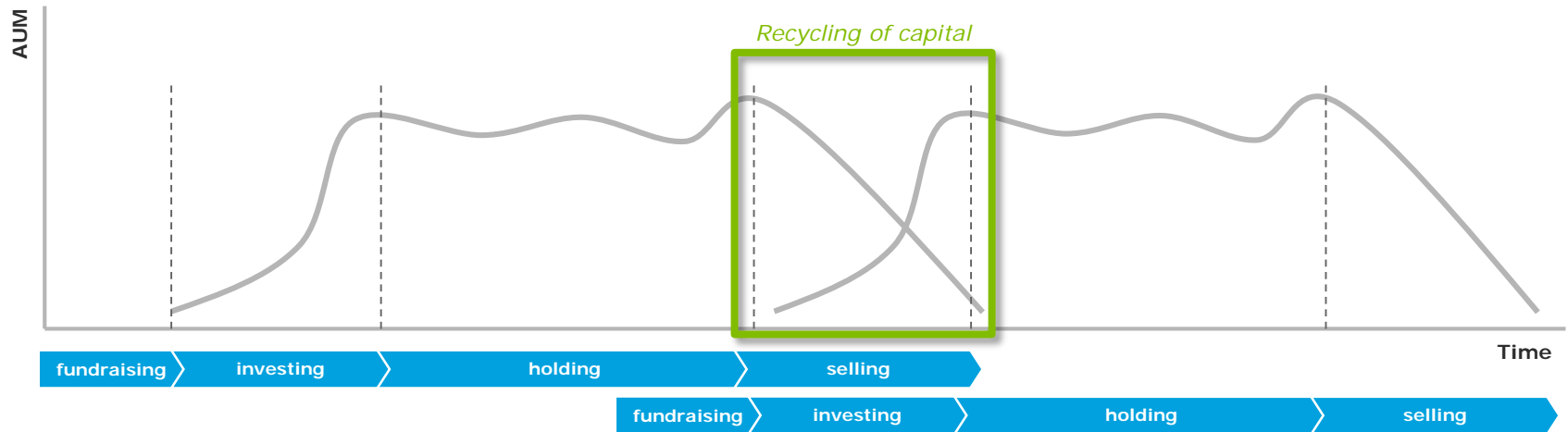
An extraordinary momentum for the RE industry



Source: INREV, Capital Raising Survey 2016 (it includes non-listed RE funds, JV, club deals, separate accounts and non-listed debt products)

# RE fund lifecycle – recycling of capital

## Snapshot of the next three years



Funds launched in 2005, 2006 and 2007 are reaching the end of their life and are currently divesting, or about to divest, their assets:

- From 2016 to 2018, 72 funds will be liquidated, representing a current NAV of €11,1Bn
- In the period 2016 to 2018 approximately one third of all closed end funds with termination dates between 2009 and 2019 will be wound up

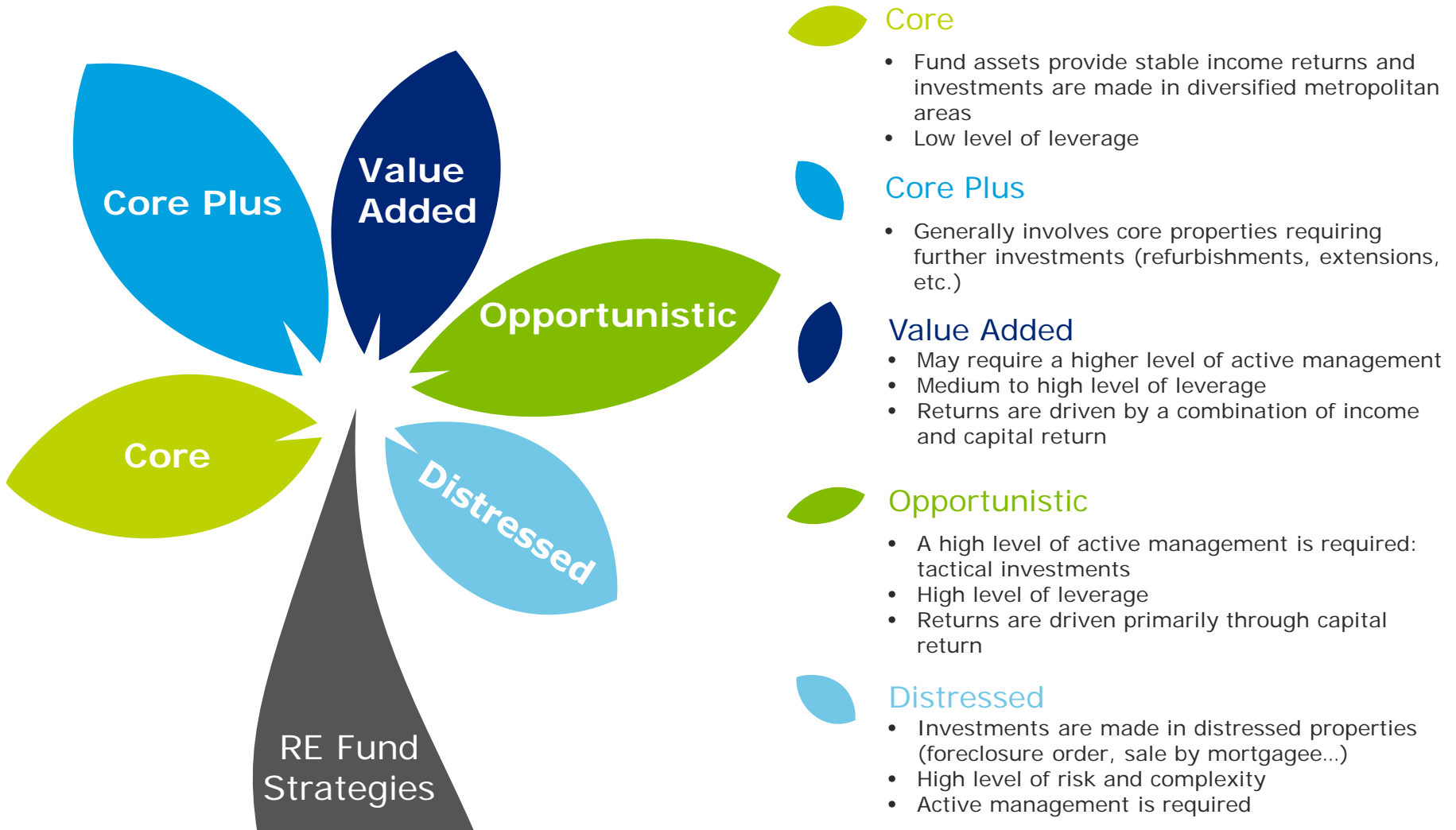
Boosted by the extraordinary capital allocation to RE, a lot of new funds have been set up and are currently deploying their capital

- Looking at investment intention for 2016, €19,99bn is targeting Europe
- This means a capital inflow for RE managers of about €39,2bn over the last couple of years (€19,2bn for 2015)

# RE Strategies

# Real Estate fund strategies

## Type of fund strategies

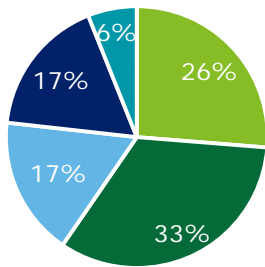


# Real Estate funds

## Fund strategies - Comparison

	Core	Core plus	Value added	Opportunistic	Distressed
Fund assets / properties	Stabilized, income producing	Core properties requiring further investments	Assets often require some refurbishment, active asset management or development	Acquisition of distressed assets, large portfolio acquisitions and re-packaging in smaller lot sizes, tactical investments	Distressed properties ( foreclosure order, sale by mortgagee, etc.)
Return driver	Stable income return with small capital return		Income & capital return	Capital return	
Timeframe of investments	Long term			Short term	
Management activity	Passive			Very active	
Overall target return	5-6% p.a.			20% and more p.a.	
LTV	Lower			Higher	
Risk	Lower			Higher	

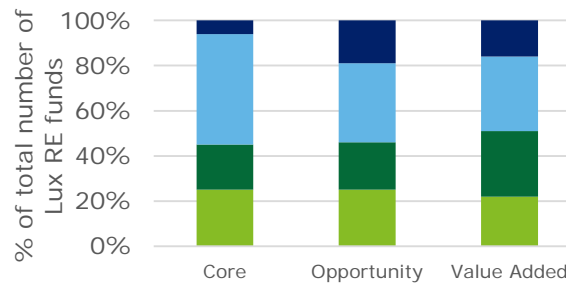
Management fees range for direct RE funds in basis points



■ 0 to 50 ■ 51 to 100 ■ 101 to 150 ■ > 150 ■ No Data

Source: ALFI survey November 2015

Fund duration by investment style



■ 11-15 y ■ 8 - 10 y ■ Infinite ■ Up to 7 years

### Overall target return & risk

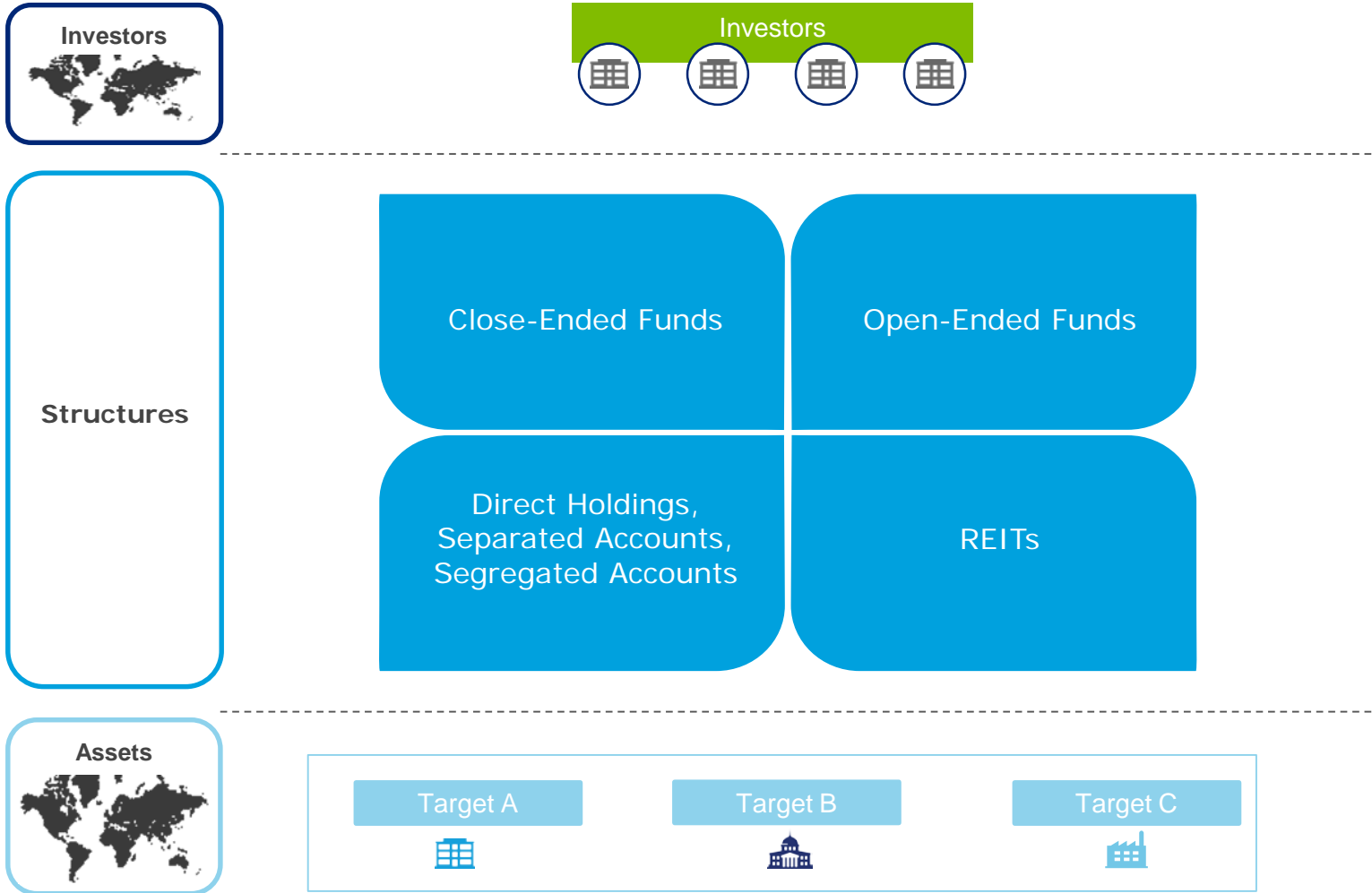
In general, high return = high risk

**Risk & performance fees**  
In general, high risk = high fees

**Risk & fund duration**  
In general, long term = lower risk

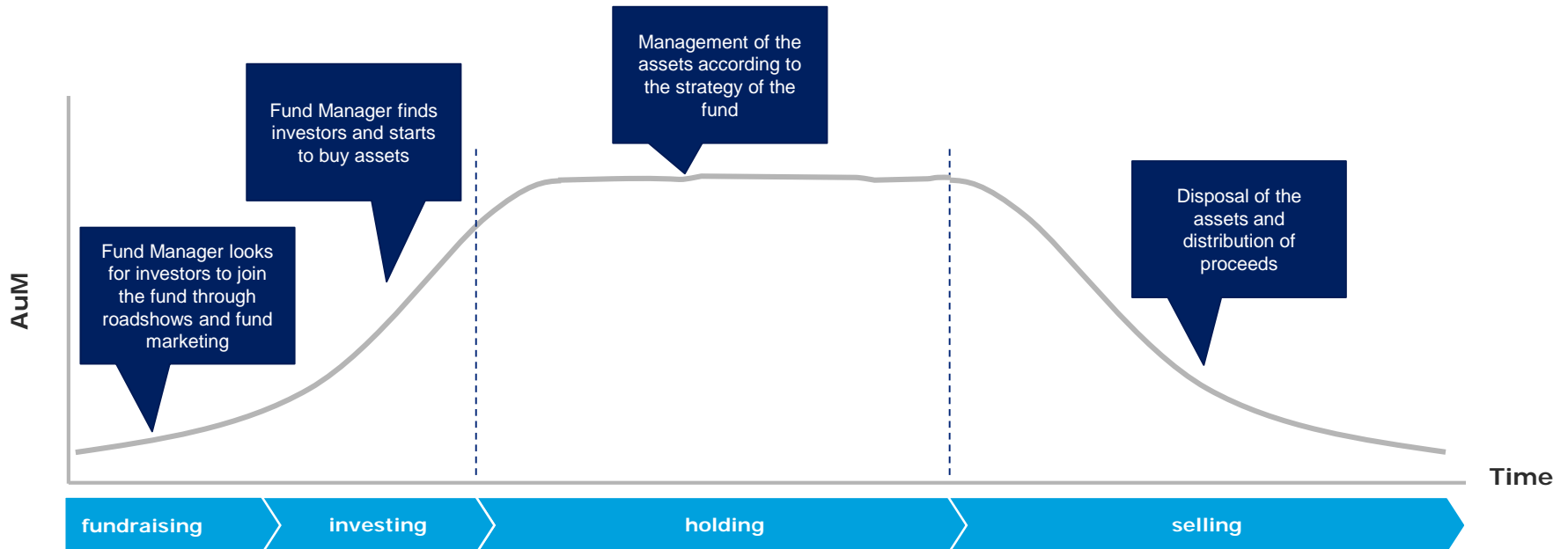
# Fund Structures

# Real Estate Fund structures



# Close-ended Fund

Funds set up for a limited period of time: Definite Life



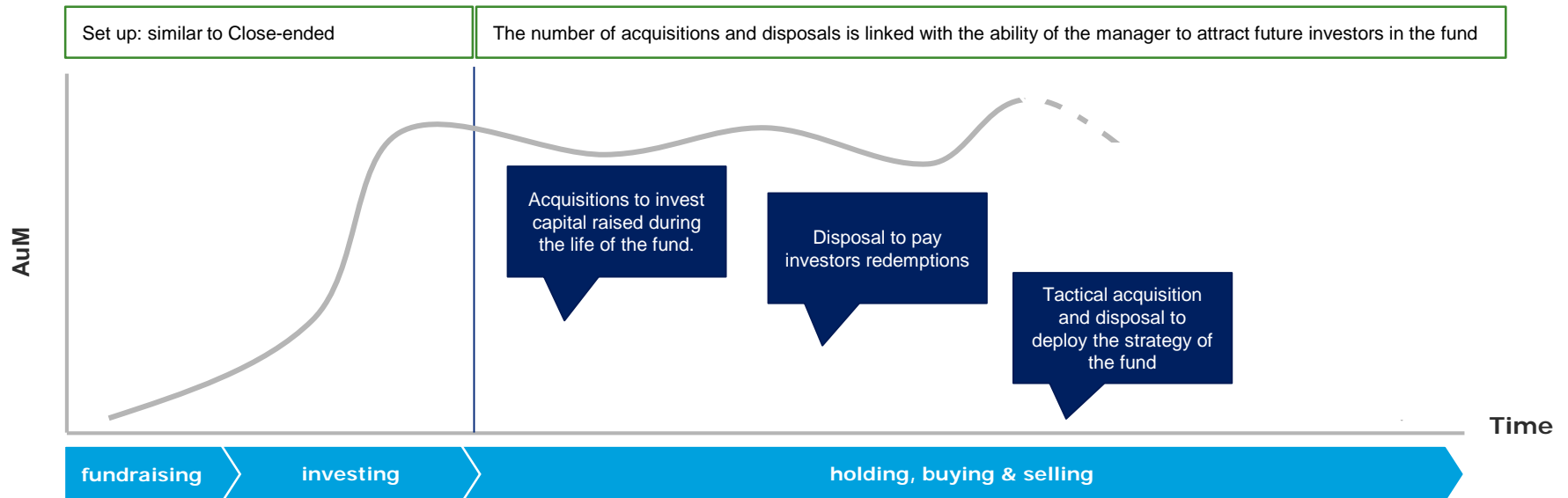
## In a Nutshell

- Fund with a fixed life and well defined timeframe to buy and sell assets
- Subscriptions are made for capital commitment which are subsequently drawn up over time
- Redemptions are generally not permitted



# Open-ended Fund

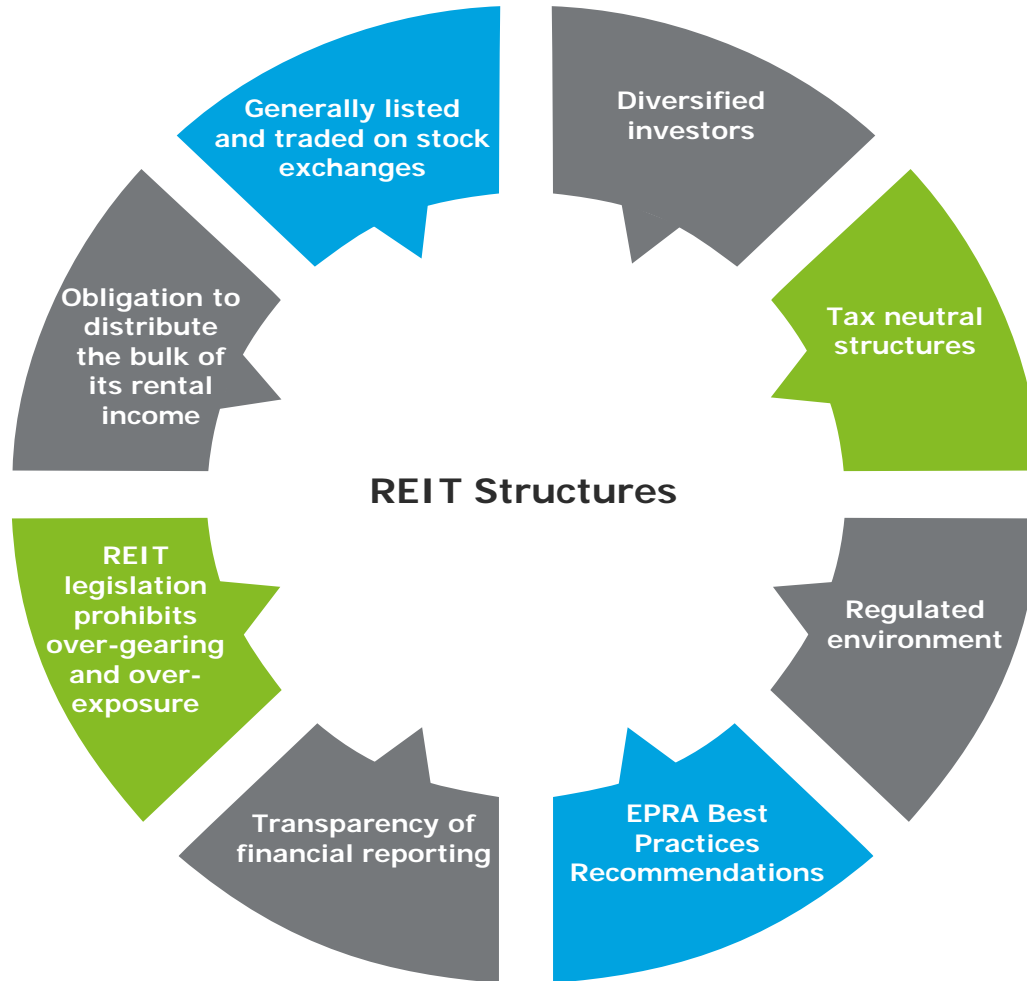
Shares issued and redeemed at any time during the life of the fund



## In a Nutshell

- Fund set up for unlimited period of time, after the initial period assets can be bought and sold anytime
- Investors can redeem and subscribe at anytime during the life of the fund, usually subscriptions are made through capital commitment
- Given redemption rights cash management is of paramount importance

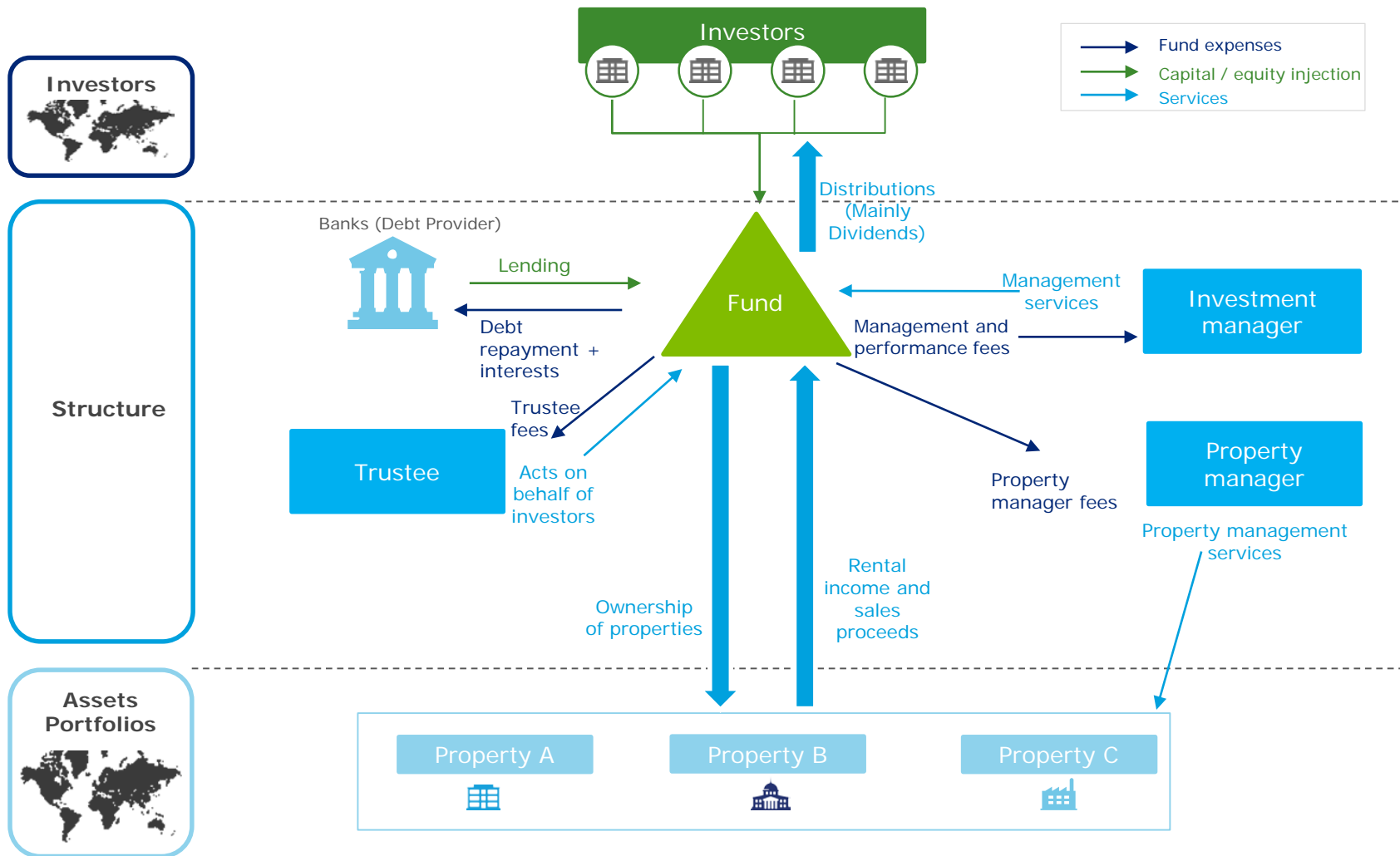
# REIT structures



# Financial Cash Flows & Operations

# Cash Flows & Operations

## Real Estate Funds



# Balance Sheet and Profit & Loss examples

# Balance Sheet and Profit & Loss examples

	As at 31/12/2015 CU'000	As at 31/12/2014 CU'000
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	270	139
Interest receivable	387	677
Investment property	198,245	127,448
Financial assets at fair value through profit or loss	36,579	15,957
<b>Total assets</b>	<b>235,481</b>	<b>144,221</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accrued expenses	659	416
Borrowings	25,227	10,005
Financial liabilities at fair value through profit or loss	1,411	2,064
<b>Total liabilities (excluding net assets attributable to holders of redeemable shares)</b>	<b>27,297</b>	<b>12,485</b>
<b>Net assets attributable to holders of redeemable shares</b>	<b>208,184</b>	<b>131,736</b>

# Balance Sheet and Profit & Loss examples

	Year ended 31/12/2015 CU'000	Year ended 31/12/2014 CU'000
<b>Revenue</b>		
Rental income	29,521	10,909
Net change in unrealized gains/(losses) on financial assets and liabilities held at fair value through profit or loss	15,741	(4,301)
Fair value movement on investment property	32,993	3,551
<b>Total operating income</b>	<b>78,255</b>	<b>10,159</b>
<b>Expenses</b>		
Management fees	(1,998)	(2,851)
Performance fees	(88)	(174)
Custodian fees	(216)	(443)
Administration fees	(138)	(76)
Transaction costs	(107)	(321)
Professional fees	(7)	(10)
Director's fees	(15)	(15)
Other expenses	(7)	(1)
<b>Total operating expenses</b>	<b>(2,579)</b>	<b>(3,893)</b>
<b>Operating profit/(loss)</b>	<b>75,679</b>	<b>6,268</b>
<b>Finance costs</b>		
Interest expense	(386)	(1,419)
<b>Profit/(loss) after distributions and before tax</b>	<b>75,293</b>	<b>4,849</b>
Withholding taxes	(87)	(60)
<b>Profit/(loss) after distributions and tax</b>	<b>76,058</b>	<b>4,789</b>
<b>Increase/(decrease) in net assets attributable to holders of redeemable shares</b>	<b>75,206</b>	<b>4,789</b>

# RE from an Investor Perspective



# RE from an Investor Perspective

## Advantages

- Affordability
- Regular income
- Gains from appreciation of asset values
- Flexibility
- Portfolio diversification
- Transparency
- Professionally managed

## Risks

- Liquidity and market risk in relation to disposals;
- Fluctuating Real Estate Market;
- Expenses and tenants impact rental income;
- Growth is linked to macro-economic trends;
- Risks of investing into leveraged products.

Questions?





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