Open-ended real estate funds
Market studies 2018

Scope has analysed 13 open-ended real estate funds for private investors as well as a further seven funds targeted at institutional investors. The total volume of the evaluated funds amounts to around EUR 85bn. This year, Scope has upgraded the rating of five funds, while downgrading another. Scope has also rated grundbesitz Fokus Deutschland for the first time.

A Scope rating reflects the relationship between risk and return for a fund, compared with alternative investments. On average, risks facing open-ended real estate funds have increased, primarily due to high purchase prices in the current market. However, the increase in risk has been offset by improving returns because of high occupancy rates and the rising value of real estate. In addition, the rate of return for alternative investments has fallen further.

Liquidity rates high but stable

Despite an increase in capital inflows, the average liquidity ratio has fallen from 22.2% to 21.0%, as a result of effective liquidity management and active investment. At over 20%, however, the average liquidity ratio remains at a comparatively high level.

Occupancy rates continue to increase

The average occupancy rate, as weighted by fund assets, is currently 95.3%. This is a 0.8pp increase on last year's figure (94.5%). The sustained increase in occupancy rates for properties in the portfolios of open-ended real estate funds is largely due to the positive macroeconomic environment in Europe. This year, around half of providers expect occupancy rates to increase further.

Funds increase investments by 50%

In 2017, open-ended retail real estate funds evaluated by Scope invested EUR 9.2bn. By comparison, the sum of properties purchased was EUR 6.3bn in 2016. The increase in investment volume is primarily attributable to continued high capital inflows. The two most active funds in 2017 were hausInvest and UniImmo:Europa. Both funds invested more than EUR 1.5bn.

Market survey: Fund providers feeling positive

All providers of open-ended real estate funds have assessed their position this year as good or very good, with the upbeat mood showing no signs of changing for 2019. Almost 60% of providers expect significant inflows this year (more than 5% of portfolio volume). Around a quarter of those surveyed expect moderate inflows. Only 15% expect inflows to stagnate and no provider predicts net capital outflows. Expected returns are significantly higher than in last year's survey.

Outlook

Open-ended retail funds are set to be in high demand again this year as returns remain comparatively attractive in the current market environment. The high capital inflows in existing funds have led to new providers entering the market. Finding attractive properties remains the greatest challenge for asset managers. As a result, managers are increasingly taking greater risks when purchasing properties as they seek to invest capital inflows.

Analysts

Sonja Knorr
+49 30 27891 141
s.knorr@scopeanalysis.com

Frank Netscher
+49 30 27891 138
f.netscher@scopeanalysis.com

Stephanie Lebert
+49 69 6677389 44
s.lebert@scopeanalysis.com

Karsten Naumann
+49 69 6677389 56
k.naumann@scopeanalysis.com

Hosna Houbani
+49 69 6677389 55
h.houbani@scopeanalysis.com

Editing / Press

André Fischer
+49 30 27891 147
an.fischer@scopeanalysis.com

Business Development

Thomas Auschill
+49 69 6677389 79
t.auschill@scopegroup.com

Scope Analysis GmbH

Lennéstraße 5
10785 Berlin

Tel. +49 30 27891 0
Fax +49 30 27891 100
Service +49 30 27891 300

info@scopeanalysis.com
www.scopeanalysis.com

Bloomberg: SCOP

Rating overview 2018

Fund	ISIN	Asset manager	Legal structure	Category	Target market	Rating 2018	Rating 2017
Deka-ImmobilienEuropa	DE0009809566	Deka Immobilien Investment GmbH	Retail fund	Large Portfolios	Europe	**aa-**$_{AIF}$	a+$_{AIF}$
Deka-ImmobilienGlobal	DE0007483612	Deka Immobilien Investment GmbH	Retail fund	Large Portfolios	Global	**a+**$_{AIF}$	a+$_{AIF}$
Deka-ImmobilienNordamerika	DE000DK0LLA6	Deka Immobilien Investment GmbH	Retail fund	Small Portfolios	North America	**(P) a-**$_{AIF}$	(P) a$_{AIF}$
Deka-Immobilien StrategieInstitutionell	DE000DK0LL42	Deka Immobilien Investment GmbH	Special fund*	Real estate fund of funds	Global	**aa**$_{AIF}$	aa-$_{AIF}$
FOKUS WOHNEN DEUTSCHLAND**	DE000A12BSB8	IntReal International Real Estate Kapitalverwaltungsgesellschaft mbH	Retail fund	Small Portfolios	Germany	**a+**$_{AIF}$	(P) a$_{AIF}$
grundbesitz europa	DE0009807008	RREEF Investment GmbH	Retail fund	Large Portfolios	Europe	**a+**$_{AIF}$	a+$_{AIF}$
grundbesitz Fokus Deutschland	DE0009807081	RREEF Investment GmbH	Retail fund	Small Portfolios	Germany	**aa-**$_{AIF}$	-
grundbesitz global	DE0009807057	RREEF Investment GmbH	Retail fund	Large Portfolios	Global	**bbb+**$_{AIF}$	bbb-$_{AIF}$
hausInvest	DE0009807016	Commerz Real Investmentgesellschaft mbH	Retail fund	Large Portfolios	Europe	**a+**$_{AIF}$	a+$_{AIF}$
Leading Cities Invest	DE0006791825	KanAm Grund Kapitalverwaltungsgesellschaft mbH	Retail fund	Small Portfolios	Global	**a+**$_{AIF}$	a+$_{AIF}$
UniImmo: Deutschland	DE0009805507	Union Investment Real Estate GmbH	Retail fund	Large Portfolios	Germany	**aa-**$_{AIF}$	aa-$_{AIF}$
UniImmo: Europa	DE0009805515	Union Investment Real Estate GmbH	Retail fund	Large Portfolios	Europe	**a+**$_{AIF}$	a+$_{AIF}$
UniImmo: Global	DE0009805556	Union Investment Real Estate GmbH	Retail fund	Large Portfolios	Global	**a+**$_{AIF}$	a+$_{AIF}$
UniInstitutional European Real Estate	DE0009805549	Union Investment Real Estate GmbH	Retail fund*	Large Portfolios	Europe	**a+**$_{AIF}$	a+$_{AIF}$
UniInstitutional German Real Estate	DE000A1J16Q1	Union Investment Real Estate GmbH	Retail fund*	Small Portfolios	Germany	**aa-**$_{AIF}$	aa-$_{AIF}$
WERTGRUND WohnSelect D	DE000A1CUAY0	Pramerica Property Investment GmbH	Retail fund	Small Portfolios	Germany	**aaa**$_{AIF}$	aa-$_{AIF}$
WestInvest ImmoValue	DE0009801431	WestInvest Gesellschaft für Investmentfonds mbH	Retail fund*	Large Portfolios	Europe	**aa-**$_{AIF}$	aa-$_{AIF}$
WestInvest InterSelect	DE0009801423	WestInvest Gesellschaft für Investmentfonds mbH	Retail fund	Large Portfolios	Europe	**a**$_{AIF}$	a$_{AIF}$
WestInvest TargetSelect Hotel	DE0009801456	WestInvest Gesellschaft für Investmentfonds mbH	Special fund *	Small Portfolios	Global	**aa+**$_{AIF}$	aa$_{AIF}$
WestInvest TargetSelect Logistics	DE0009801449	WestInvest Gesellschaft für Investmentfonds mbH	Special fund *	Small Portfolios	Global	**aa**$_{AIF}$	aa$_{AIF}$
WestInvest TargetSelect Shopping	DE0009801464	WestInvest Gesellschaft für Investmentfonds mbH	Special fund *	Small Portfolios	Global	**aa**$_{AIF}$	aa$_{AIF}$

*Institutional investors, **Rating publication on 09.01.2018. Source: Scope Analysis; As of: 12.06.2018.

Contents

Ratings by category 3
Liquidity ratios high but stable..... 5
Occupancy rates increase to over 95%..... 9
Debt ratios remain low 11
Real estate funds drive significant change in investment activity 12
Market study: Positive mood – New funds – Higher returns 15

Ratings by category

Retail funds with a focus on Germany

Fund name	ISIN	2018
WERTGRUND WohnSelect D	DE000A1CUAY0	**aaa$_{AIF}$**
grundbesitz Fokus Deutschland	DE0009807081	**aa-$_{AIF}$**
UniImmo: Deutschland	DE0009805507	
FOKUS WOHNEN DEUTSCHLAND	DE000A12BSB8	**a+$_{AIF}$**

Source: Scope Analysis; Sorted alphabetically within ratings; As of: 12.06.2018

Retail funds with a focus on Europe

Fund name	ISIN	2018
Deka-ImmobilienEuropa	DE0009809566	**aa-$_{AIF}$**
grundbesitz europa RC	DE0009807008	**a+$_{AIF}$**
hausInvest	DE0009807016	
Leading Cities Invest	DE0006791825	
UniImmo: Europa	DE0009805515	
WestInvest InterSelect	DE0009801423	**a$_{AIF}$**

Source: Scope Analysis; Sorted alphabetically within ratings; As of: 12.06.2018

Retail funds with a global focus

Fund name	ISIN	2018
Deka-ImmobilienGlobal	DE0007483612	**a+$_{AIF}$**
UniImmo: Global	DE0009805556	
grundbesitz global RC	DE0009807057	**bbb+$_{AIF}$**

Source: Scope Analysis; Sorted alphabetically within ratings; As of: 12.06.2018

Institutional funds

Fund name	ISIN	2018
WestInvest TargetSelect Hotel	DE0009801456	**aa+$_{AIF}$**
Deka-Immobilien StrategieInstitutionell	DE000DK0LL42	**aa$_{AIF}$**
WestInvest TargetSelect Logistics	DE0009801449	
WestInvest TargetSelect Shopping	DE0009801464	
UniInstitutional German Real Estate	DE000A1J6Q1	**aa-$_{AIF}$**
WestInvest ImmoValue	DE0009801431	
UniInstitutional European Real Estate	DE0009805549	**a+$_{AIF}$**

Source: Scope Analysis; Sorted alphabetically within ratings; As of: 12.06.2018

Retail fund ranking according to quality of the real estate portfolio

Fund name	ISIN	Rank
Deka-ImmobilienGlobal	DE0007483612	**1**
UniImmo: Deutschland	DE0009805507	**2**
UniImmo: Europa	DE0009805515	**3**
grundbesitz Fokus Deutschland	DE0009807081	**4**
Deka-ImmobilienNordamerika	DE000DK0LLA6	**5**

Source: Scope Analysis; As of: 12.06.2018

Overview – Performance und volatility

Fund	ISIN	Net fund volume in EURm	1 year perf.	3 year perf. (p.a.)	5 year perf. (p.a.)	3 year volatility (p.a.)	5 year volatility (p.a.)
Deka-ImmobilienEuropa	DE0009809566	15,330	3.27%	2.82%	2.54%	0.37%	0.35%
Deka-ImmobilienGlobal	DE0007483612	4,882	2.02%	2.29%	2.28%	0.54%	0.51%
Deka-ImmobilienNordamerika****	DE000DK0LLA6	194	3.51%				
Deka-ImmobilienStrategie Institutionell*	DE000DK0LL42	505	4.73%	4.37%	3.98%	0.41%	0.46%
FOKUS WOHNEN DEUTSCHLAND***	DE000A12BSB8	155**	3.2%				
grundbesitz europa RC	DE0009807008	5,744	2.73%	2.62%	2.69%	0.43%	0.48%
grundbesitz Fokus Deutschland RC	DE0009807081	427	2.87%	2.61%		0.58%	
grundbesitz global RC	DE0009807057	2,892	2.10%	1.99%	2.00%	0.68%	0.63%
hausInvest	DE0009807016	13,424	2.47%	2.22%	2.39%	0.44%	0.43%
Leading Cities Invest	DE0006791825	224**	2.99%	3.14%		0.61%	
UniImmo: Deutschland	DE0009805507	12,215	2.81%	2.90%	2.77%	0.21%	0.19%
UniImmo: Europa	DE0009805515	12,237	2.68%	2.58%	2.48%	0.24%	0.24%
UniImmo: Global	DE0009805556	3,490	2.01%	2.39%	2.60%	0.40%	0.52%
UniInstitutional European Real Estate	DE0009805549	3,195	2.67%	2.54%	2.40%	0.26%	0.33%
UniInstitutional German Real Estate	DE000A1J16Q1	589	3.25%	3.04%	3.03%	0.41%	0.38%
WERTGRUND WohnSelect D	DE000A1CUAY0	239.97	23.09%	10.33%	8.87%	6.66%	5.30%
WestInvest ImmoValue	DE0009801431	2,470	4.40%	3.73%	3.33%	0.52%	0.49%
WestInvest InterSelect	DE0009801423	6,782	2.39%	2.23%	2.24%	0.54%	0.52%
WestInvest TargetSelect Hotel*	DE0009801456	364.3	8.85%	7.04%	5.89%	1.43%	1.26%
WestInvest TargetSelect Logistics*	DE0009801449	408	6.13%	5.91%	5.88%	0.51%	1.02%
WestInvest TargetSelect Shopping*	DE0009801464	401	4.82%	4.93%	4.41%	1.16%	1.20%

Source: Scope Analysis, funds sorted alphabetically; As of: 31.05.2018
*Date: 31.12.2017; **As of: 30.04.2018
***Source: fokus-wohnen-deutschland.de; As of: 31.12.2017
****in USD

Liquidity ratios high but stable

Managing liquidity is one of the most demanding challenges facing fund managers. If liquidity is too low, the fund may close. If it is too high, it dilutes performance, particularly in a low-interest-rate environment.

Scope's analysis of liquidity ratios at the most relevant open-ended retail real estate funds issued before 2017 reveals that despite active investor interest and large capital inflows, the average liquidity ratio as weighted by fund assets actually fell slightly last year to 21.0% from 22.2%.

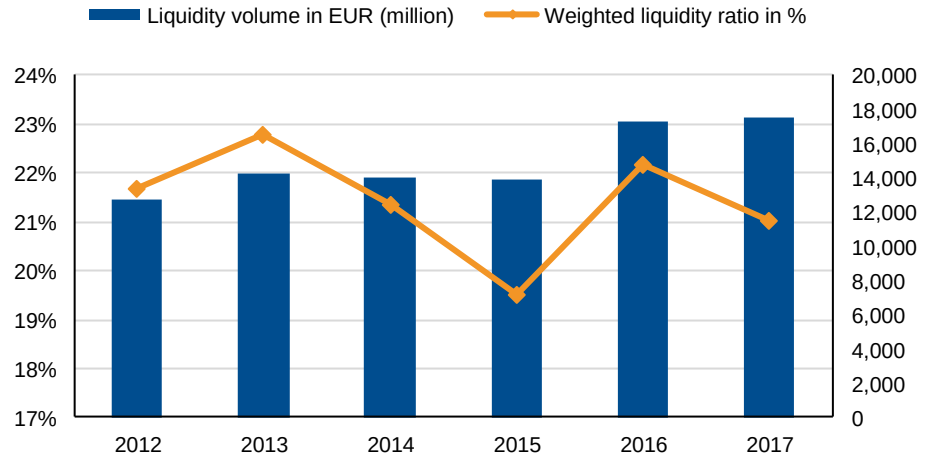
Three of the four largest funds' liquidity ratios above 20%

This is primarily attributable to effective liquidity management and active investment. Nevertheless, at over 20% the average liquidity ratio remains at a comparably high level. Indeed, three of the four largest funds, each with a volume of more than EUR 10bn, currently have liquidity ratios of more than 20%: hausInvest (27.3%), UniImmo: Deutschland (21.3%) and Deka-Immobilieneuropa (20.9%). At 19.1%, UniImmo: Europe is only just under.

Why are liquidity ratios still high?

Investors view open-ended real estate funds as a lucrative investment option in the current low interest-rate environment. Fund performance increased by around 50 basis points in 2017 year-on-year and averaged 2.8% p.a. as of end-December 2017. This is well above the level that can currently be achieved from fixed-term deposits or bonds offered by high-quality issuers. This is one of the key reasons for the scale of capital inflows, which last year amounted to almost EUR 6.7bn for all active open-ended real estate funds.

Fig. 1: Liquidity ratios and volumes: 2012 to 2017



Source: latest KVGen publications, As of: 31.12.2017, Presentation: Scope Analysis.

Since 2015, the high level of interest in open-ended real estate fund products has not only led to capital inflows but also to the launch of new funds: DekaImmobilienNordamerika, Fokus Wohnen Deutschland, Swiss Life REF (DE) European Real Estate Living and Working, and UniImmo: Wohnen ZBI generated aggregate net capital inflows of EUR 937m last year.

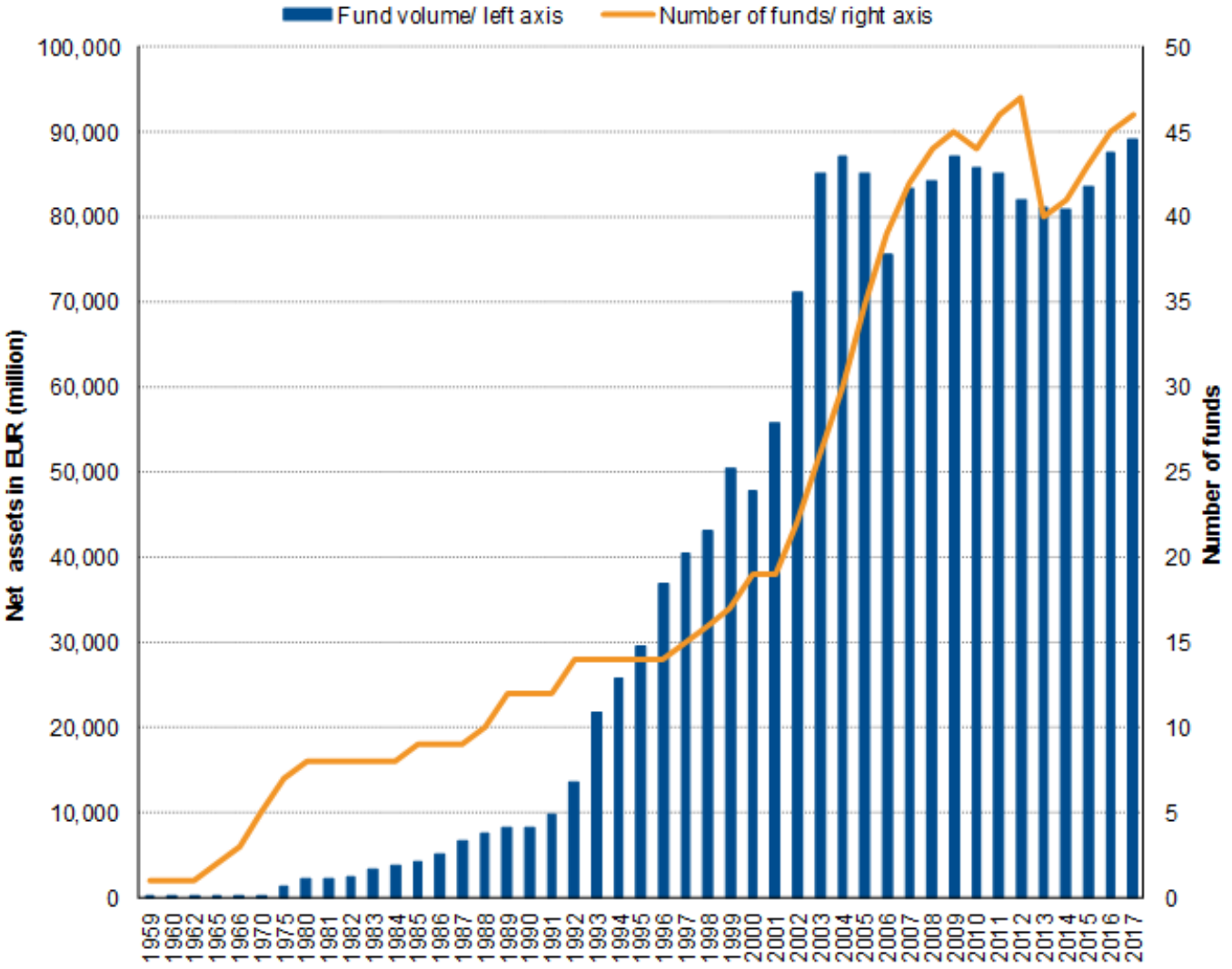
Assets under management at record level

The large capital inflows are a key reason why collective fund assets reached a record level of EUR 89.2bn as of 31 December 2017 (Source BVI). Never before have assets under management in the open-ended real estate fund sector been at such a high level. The previous record years were 2004 (EUR 87.2bn) and 2009 (EUR 87.1bn).

Extent of capital inflows compensates for liquidation of funds

This is all the more impressive as in previous years, 18 funds with a collective volume of around EUR 26bn (as of 12/2011) were liquidated. (Note: around EUR 2.7bn are still being liquidated) In other words, the open-ended real estate fund sector has succeeded in offsetting liquidated-fund volumes with capital inflows from existing and newly issued funds.

Fig. 2: Open-ended real estate fund sector: fund volume and number of funds



Source: Scope Analysis, BVI, As of: 31.12.2017.

Three ways to limit liquidity

Despite the optimism surrounding the attractiveness of funds, fund managers still need to limit liquidity. There are three ways of doing this:

Debt ratios down to only 13.7%

Option one: Fund managers can repay outstanding debt. Debt ratios have been falling for some years and this trend continued in 2017. The average debt ratio of the funds analysed by Scope fell by 0.4% to 13.6%. Note: the regulatory maximum for credit ratios is 30%. The majority of funds are far from this.

The second option for fund managers is to simply stop accepting money from investors. This limits liquidity much more effectively. Almost all fund managers regulate the inflow of capital to their funds. Only hausInvest and grundbesitz global accept unlimited new funding.

Most funds regulate capital inflows

Regulating capital inflows can take various forms. In some cases, fund managers make only certain quotas of new fund shares available. Other funds only accept new capital when property purchases are imminent.

The third possibility is to reinvest. If fund managers succeed in offsetting net capital inflows by reinvesting and purchasing real estate, the liquidity ratio remains constant.

However, purchasing attractive properties in the current market environment has become difficult because investors worldwide are seeking alternative investments, in particular real estate. This increases prices and reduces returns on investments. Numerous real estate markets are at record-high price levels.

Scope cautions against purchasing property at any price. However, due to liquidity inflows managers of open-ended real estate cannot afford to hold back completely. For this reason, fund managers still purchased comparably high quantities of real estate in 2017.

What should the liquidity ratio of a fund be?

For fund managers, it is critical to keep the liquidity ratio at the right level. If it falls too heavily, the fund may close. If it increases too sharply, it negatively affects the fund's performance. This is because in the current low interest-rate market, the fund's liquidity isn't earning any interest. Therefore, the higher the liquidity ratio, the more the fund performance is hindered.

So what ratios are required to maintain the balance? To answer this question, it is important to differentiate between funds issued prior to the introduction of the German Investment Code (Kapitalanlagegesetzbuch or KAGB) in 2013 and those issued subsequently. These older funds, which include all the largest funds in the sector, have a high proportion of so-called "old investors": Those who invested before the introduction of the KAGB.

Recommended liquidity ratios between 15% and 20%

These investors can liquidate fund shares of up to EUR 30,000 per half-year at any time. Funds with a high proportion of "old investors" must provide more liquidity as the extent of capital outflows cannot be predicted or planned. Scope Analysis believes a liquidity ratio between 15% and 20% is appropriate for these funds.

However, the situation is different for "young" funds issued after the KAGB came into effect as they have no "old investors". In fact, all investors are subject to a minimum holding period of two years and a one-year notice period. For fund managers, this means that capital outflows can be estimated much more easily, and this allows them to provide liquidity accordingly.

Funds without "old investors" can manage with ratios of 5% to 10%

For this reason, these funds can operate with significantly lower liquidity ratios. Scope Analysis considers a liquidity ratio of 5% to 10% to be appropriate for funds without "old investors".

Outlook for 2018 – investor interest continues

Scope expects investor interest in open-ended real estate funds to continue in 2018. Fund managers will therefore face once again the challenge of limiting capital inflows and effectively managing liquidity. In particular, new inflows must be invested prudently.

Scope does not expect high demand for open-ended real estate funds to subside until interest rates increase significantly from today's ultra-low levels and other investments such as fixed-income securities start to again provide more enticing returns.

Overview of liquidity ratios for retail funds 2015-2018

Fund name	ISIN	Gross liquidity ratio 2015	Gross liquidity ratio 2016	Gross liquidity ratio 2017	Gross liquidity ratio 2018	Difference 2017 -2018 in PP
grundbesitz Fokus Deutschland	DE0009807081				37.2%	new
Leading Cities Invest	DE0006791825	26.2%	45.5%*	36.9%*	31.9%	-5.0
hausInvest	DE0009807016	15.9%	20.9%	23.6%	27.3%	3.7
UniImmo: Global	DE0009805556	23.7%	20.5%	16.7%	22.2%	5.5
UniInstitutional German Real Estate	DE000A1J16Q1	18.6%	22.7%	9.4%	22.0%	12.6
UniImmo: Deutschland	DE0009805507	28.7%	24.5%	26.4%	21.3%	-5.1
grundbesitz europa	DE0009807008	29.3%	28.6%	20.6%	21.3%	0.7
Deka-ImmobilienEuropa	DE0009809566	17.7%	20.6%	23.1%	20.9%	-2.2
grundbesitz global	DE0009807057	17.2%	27.2%	21.9%	19.2%	-2.7
UniImmo: Europa	DE0009805515	27.1%	25.0%	18.4%	19.1%	0.7
Deka-ImmobilienGlobal	DE0007483612	20.4%	27.6%	16.7%	17.2%	0.5
WERTGRUND WohnSelect D	DE000A1CUAY0	28.5%	16.9%	15.6%	14.2%	-1.4
UniInstitutional European Real Estate	DE0009805549	27.6%	18.6%	18.1%	12.3%	-5.8
WestInvest InterSelect	DE0009801423	18.1%	15.5%	18.0%	11.7%	-6.3
WestInvest ImmoValue	DE0009801431	6.7%	9.3%	10.2%	11.4%	1.2
Deka-ImmobilienNordamerika	DE000DK0LLA6			8.4%	8.4%	0.0
FOKUS WOHNEN DEUTSCHLAND	DE000A12BSB8			16.3%	7.5%	-8.8

*after Cash Call
Source: Latest asset manager publications; Record date for each year is 31.05.

Occupancy rates increase to over 95%

German open-ended retail real estate funds have justified their reputation as a vital asset class, with twelve funds analysed by Scope showing increased average occupancy rates in the past year.

The occupancy rate has a significant influence on fund performance and is one of the most important indicators for investors when evaluating open-ended real estate funds.

The average occupancy rate of the analysed funds, as weighted by fund assets, was 95.3% (as of: 26.04.2018, according to latest asset manager publications). This reading was 0.8 percentage points higher than last year's 94.5%.

Increased occupancy rate primarily due to the positive macroeconomic environment

The sustained increase in occupancy rates among open-ended real estate funds is primarily due to buoyant economic activity across Europe. Strong growth, particularly in the past year, has led to increased demand for office space.

Furthermore, numerous managers of open-ended real estate funds are taking advantage of current high prices to optimise their portfolios. Properties with high vacancy rates are often sold. The purchases of fully rented, large-volume properties help push up the average occupancy rate. The early renewal of rental contracts also ensures stability.

Largest increase - WestInvest InterSelect

The occupancy rates for the funds analysed currently range from 91.9% to 99.9%. A rate of more than 97% effectively represents full occupancy. This threshold is currently exceeded primarily by low-volume funds such as Deka-Immobilien-Nordamerika and Leading Cities Invest from KanAm. Among large-volume funds, UniImmo: Deutschland has the highest rate (97.7%).

Outlook: little room for further improvement

The occupancy rates for open-ended retail funds are at a very high level – and for several funds can hardly be increased significantly. Due to the favourable economic conditions, Scope expects stable rates for the year.

Low occupancy rate significantly hinders rating

Vacant real estate not only generates no rental income, it also incurs additional costs (e.g. for refurbishment, incentivisation and marketing). A high vacancy rate therefore significantly hinders fund performance.

When evaluating open-ended real estate funds, Scope views positively an occupancy rate of more than 93%. If the rate falls significantly below this limit, the valuation is negatively influenced.

One of the most important tasks for fund managers is to keep the occupancy rate at a high level. Furthermore, a high rate confirms the marketability of the manager's properties.

Open-ended retail estate funds – sorted by occupancy rate 2018

Fund name	ISIN	Occupancy rate 2015	Occupancy rate 2016	Occupancy rate 2017	Occupancy rate 2018	Difference 2017-2018 in PP
Deka-ImmobilienNordamerika	DE000DK0LLA6			94.7%	99.9%	5.2
Leading Cities Invest	DE0006791825	100%	97.4%	97.7%	99.3%	1.6
UniInstitutional German Real Estate	DE000A1J16Q1	99.7%	92.6%	99.1%	98.7%	-0.4
grundbesitz Fokus Deutschland	DE0009807081				98.1%	new
UniImmo: Deutschland	DE0009805507	97.3%	97.4%	97.7%	97.7%	0.0
UniInstitutional European Real Estate	DE0009805549	97.1%	97.1%	96.1%	96.7%	0.6
UniImmo: Europa	DE0009805515	95.4%	95.4%	96.4%	96.4%	0.0
Deka-ImmobilienGlobal	DE0007483612	93.9%	95.7%	94.4%	96.4%	2.0
WestInvest ImmoValue	DE0009801431	97.0%	97.4%	96.7%	96.3%	-0.4
UniImmo: Global	DE0009805556	97.0%	94.1%	94.6%	96.2%	1.6
WERTGRUND WohnSelect D	DE000A1CUAY0	97.2%	96.2%	95.8%	95.3%	-0.5
hausInvest	DE0009807016	90.3%	91.8%	93.5%	94.8%	1.3
grundbesitz europa	DE0009807008	94.4%	93.2%	92.9%	94.5%	1.6
WestInvest InterSelect	DE0009801423	89.8%	90.5%	89.1%	94.3%	5.2
Deka-ImmobilienEuropa	DE0009809566	92.6%	93.1%	94.1%	94.0%	-0.1
grundbesitz global	DE0009807057	88.0%	82.9%	90.6%	93.2%	2.6
FOKUS WOHNEN DEUTSCHLAND	DE000A12BSB8			97.1%	91.9%	-5.2

Source: latest asset manager publications; Record date for each year is 31.05.

Debt ratios remain low

Debt ratios have been low for some years and this trend continued in 2017. However, funds' debt ratios have increased this year, especially for funds which are increasingly investing in the US Dollar area. This is due to rising currency hedging costs, caused by the significant difference between dollar and euro interest rates. Currency matching acts as natural hedging, reducing costs and thus stabilising returns.

The fund with the largest increase in debt ratio – Leading Cities Invest – uses the higher leverage primarily for increasing performance.

Debt ratios for retail funds 2015-2018

Fund name	ISIN	Debt ratio 2015	Debt ratio 2016	Debt ratio 2017	Debt ratio 2018	Difference 2017-2018 in PP
UniInstitutional German Real Estate	DE000A1J16Q1	0.0%	0.0%	0.0%	0.0%	0.0
UniImmo: Deutschland	DE0009805507	10.5%	6.0%	4.5%	0.4%	-4.1
hausInvest	DE0009807016	19.1%	12.7%	7.7%	8.2%	0.5
UniInstitutional European Real Estate	DE0009805549	15.9%	10.6%	8.1%	9.2%	1.1
FOKUS WOHNEN DEUTSCHLAND	DE000A12BSB8			23.8%	11.0%	-12.8
grundbesitz Fokus Deutschland	DE0009807081				15.7%	new
UniImmo: Europa	DE0009805515	16.5%	15.2%	13.2%	16.5%	3.3
Deka-ImmobilienEuropa	DE0009809566	14.7%	17.5%	16.5%	17.0%	0.5
WERTGRUND WohnSelect D	DE000A1CUAY0	24.2%	18.4%	16.2%	17.9%	1.7
grundbesitz europa	DE0009807008	18.1%	19.7%	17.9%	18.0%	0.1
grundbesitz global	DE0009807057	25.8%	26.6%	17.7%	19.0%	1.3
UniImmo: Global	DE0009805556	23.0%	20.1%	21.2%	19.6%	-1.6
WestInvest ImmoValue	DE0009801431	24.5%	21.6%	19.6%	20.2%	0.6
WestInvest InterSelect	DE0009801423	25.5%	19.6%	17.4%	20.6%	3.2
Deka-ImmobilienNordamerika	DE000DK0LLA6			24.6%	24.2%	-0.4
Deka-ImmobilienGlobal	DE0007483612	22.9%	23.5%	22.7%	28.1%	5.4
Leading Cities Invest	DE0006791825	29.6%	26.0%	18.3%	28.4%	10.1

Source: latest asset manager publications; Record date for every year is 31.05.

Real estate funds drive significant change in investment activity

Germany replaces the USA as the most popular investment destination

Between 2016 and 2017, investments made by open-ended retail real estate funds increased by 50%. Germany replaced the US as the most popular investment destination, while the average price of purchased properties also increased significantly.

Investment volume increased by almost 50%

The 19 open-ended retail real estate funds evaluated by Scope acquired 66 commercial properties and 324 residential properties in 2017 for an investment volume of EUR 9.3bn (EUR 8.7bn in commercial properties and EUR 0.6bn in residential properties). By comparison, in 2016 only 60 commercial properties and four residential properties were purchased, for EUR 6.2bn and EUR 137m respectively, equivalent to a 50% year-on-year uplift.

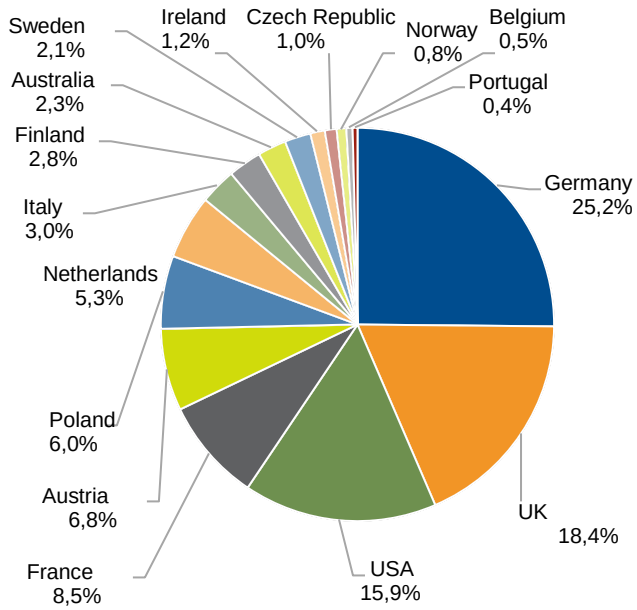
Increased investment volumes were primarily due to continuing high cash inflows. In 2017, funds recorded a net inflow of around EUR 6.7bn, even though many imposed limitations on new capital. To prevent the build-up of excess fund liquidity, which dilutes returns, fund managers had to invest.

High investment volume in high-price market can carry risks

In the current market environment where prices are high, increased investment volume can carry risks, as properties purchased during a high-price phase may require value adjustments in times of falling real estate prices. Funds with broadly diversified portfolios developed over many market cycles can usually mitigate such risks better than smaller funds, whose real estate portfolios are still in ramp-up.

To avoid low returns, many fund managers are shifting towards acquisitions outside of the core office segment, such as project development, locations outside city centres and hotel properties.

Fig. 3: Figure 1: Open-ended retail real estate funds 2017 investments – allocation per country



Source: Asset managers; As of: 31.12.2017; Presentation: Scope Analysis

Germany ahead of UK as most popular investment region

In 2016, one third of total investments were made in the US. However, the US is no longer the most popular investment region. In 2017, Germany ranked first by allocation per country, receiving a quarter of total investments, or EUR 2.3bn. Germany is also one of the most popular investment regions internationally.

The UK follows Germany in second place with EUR 1.7bn or 18% of investments.

It remains one of the core markets for funds and investments, especially as London's real estate market has recently experienced price corrections – partly caused by Brexit. Some funds exploited these price corrections to purchase properties. Despite Brexit, London remains one of the most transparent and liquid real estate regions worldwide.

While the US is no longer the most popular investment region, fund managers still invested EUR 1.5bn in US real estate. This corresponds to 16% of total volumes.

Increased hedging costs make US real estate unattractive

Increased currency hedging costs are a key reason for the decline in investments made in the US. The significant difference between US Dollar and euro interest rates led to much higher hedging costs, making US investments less attractive for euro-based investors.

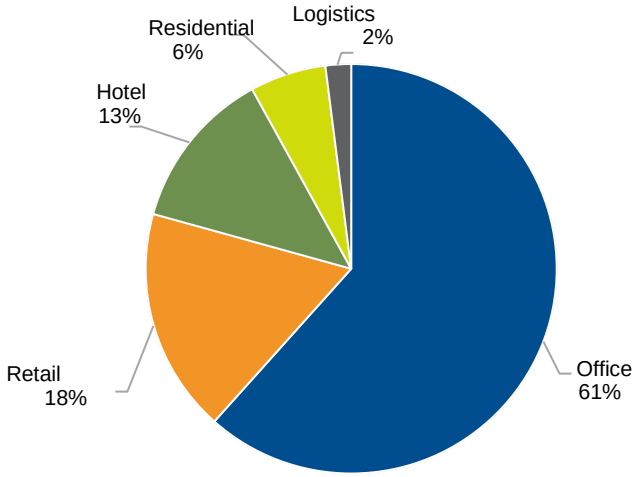
Hotels instead of shopping centres

Office properties have always dominated the portfolios of open-ended real estate funds. In 2017, over 60% of investments were made in office properties – with a similar proportion in 2016.

Hotel property acquisitions worth EUR 1.2bn in 2017

But hotel real estate has established itself alongside retail as a permanent fixture in the portfolios of open-ended real estate funds. In 2017, funds acquired around EUR 1.2bn of hotel properties. This corresponds to around 13% of total purchase volumes. By comparison, in 2014 this figure was only 3%.

Fig. 4: Open-ended real estate fund investments 2017 – by investment type



Source: Asset managers; As of: 31.12.2017; Presented by Scope Analysis.

The increasing importance of hotel real estate comes down to its attractive risk-return profile. In Europe, it is becoming increasingly difficult to find suitable properties in the traditional core office segment. Fund managers are therefore shifting towards alternative segments.

In 2017, the proportion of retail real estate fell to 18%, below 20% for the second year in a row. In 2014 and 2015, the figures were 21% and 22% respectively. The decreasing importance of retail properties for open-ended real estate funds reflects the growing significance of online retail. This has led to lower visitor numbers in shopping malls, which clouds the segment's future.

Residential real estate only plays a role for sector funds

Once again, residential real estate was insignificant for conventional, large volume open-ended real estate funds, although specialised sector funds are still active in this segment. Last year, UniImmo: Wohnen ZBI was launched. At the end of 2017, the fund had 318 properties in its portfolio and a market value of EUR 454m.

In 2017, asset manager Industria Wohnen's FOKUS WOHNEN DEUTSCHLAND fund acquired development projects and existing properties in four locations. On the other hand, WERTGRUND WohnSelect D only effected one transaction in 2017.

Swiss Life REF (DE) European Real Estate Living and Working, launched in December 2016 and diversified across the office, retail, residential and healthcare segments, had a market volume of EUR 162m at the end of 2017. In the same year, it purchased a residential property in Berlin. All above-mentioned residential real estate purchases were in Germany.

hausInvest and UniImmo: Europa most active buyers

Four funds account for 56% of total investment volume

The two most active funds in 2017 were hausInvest and UniImmo: Europa. Both funds acquired properties for more than EUR 1.5bn. Deka-ImmobilienGlobal and WestInvest InterSelect were the next most active funds, each investing almost EUR 1bn. Together, these four funds represent 56% of total investment volume of Scope's fund universe in 2017.

Outside of funds still in ramp-up, grundbesitz global is the most active buyer, purchasing properties for EUR 600m. This represents 21% of its current fund volume. On the other hand, Deka-ImmobilienEuropa acquired properties for EUR 686m, accounting for 5% of its assets.

Average purchase price increases to EUR 129m

The average purchase price of commercial properties increased significantly. In 2016, the average was EUR 103m; whereas in 2017, acquired properties had an average volume of EUR 129m. This represents an average increase of 25%.

Purchasing large-volume properties is generally more efficient for fund managers. Due diligence and the overall purchasing process are not significantly more complex or expensive for large properties than for smaller acquisitions. Purchasing larger properties therefore helps to invest a fund's uninvested capital efficiently. However, this increases a fund's concentration risks. This may restrict fungibility in certain market phases.

Assessment

Only those real estate transactions were evaluated where all rights, entitlements and obligations were assumed by the purchaser in 2017. This means real estate registered in 2017, but whose transfer was not effected until 2018, were not included. Investment totals presented in the report refer to the actual purchase prices paid or to market values determined by an expert at the end of 2017. Generally, both values are very similar in the year of purchase.

Market study: Positive mood – New funds – Higher returns

In May 2018, Scope asked 19 open-ended real estate fund providers for their market assessments and expectations. The assets under management of those surveyed amount to EUR 187bn.

Mood remains at record level

All providers of open-ended real estate funds assess their position this year as good or very good, repeating observations from last year's survey. Furthermore, the mood is showing no signs of changing for 2019.

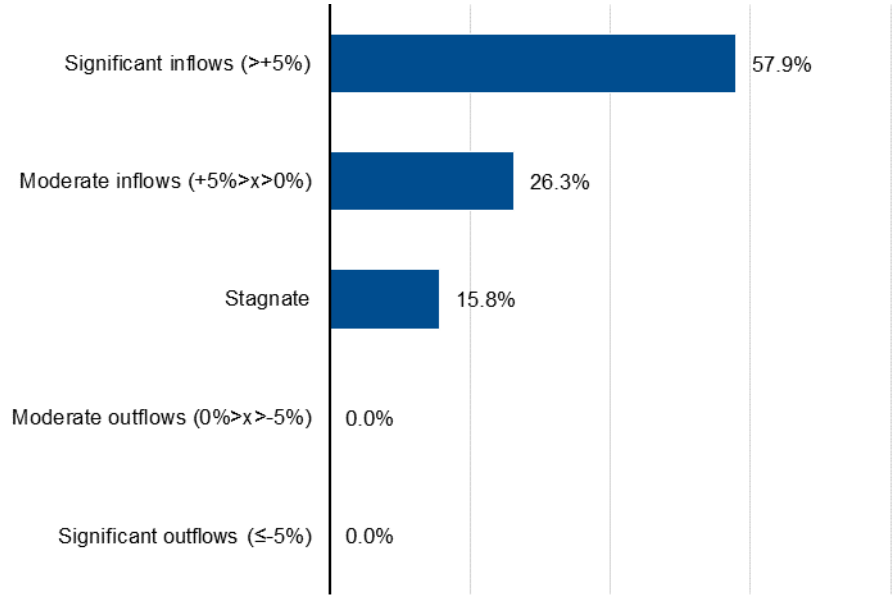
Providers of both retail and special open-ended real estate AIF were particularly optimistic. Nevertheless, retail AIF providers felt more positive with 40% of managers assessing their situation as very good, compared with just under 25% of special AIF providers. Special-AIF are aimed exclusively at institutional investors.

High capital inflows expected – New products in the pipeline

Bullish market perceptions are partly due to net increases in capital inflows across the whole sector. Almost 60% of providers anticipate significant inflows of more than 5% of their portfolio volume. Around a quarter of those surveyed expect moderate inflows. Only 15% predict a fall in inflows and no providers expect net capital outflows.

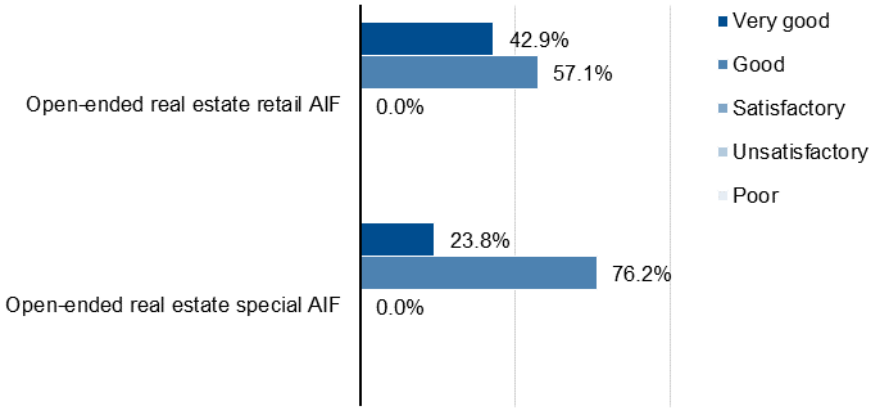
Existing products will not be the only beneficiaries of the expected capital inflows as fund providers will also back new products. Almost a third plan to issue a retail real estate AIF in the coming three years. As many as 80% of respondents are involved in open-ended special AIF.

Fig. 5: What are your expectations for net capital across the whole sector in 2018 (excl. funds in liquidation)?



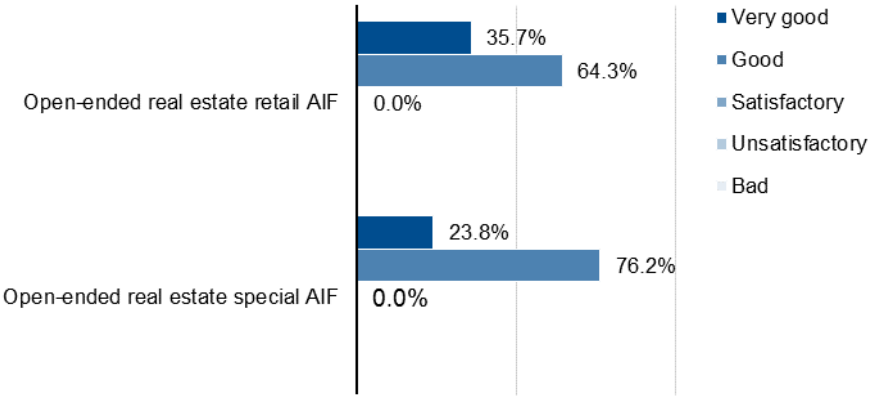
Source: Scope Analysis

Fig. 6: How do you assess your situation for the current year (2018)?



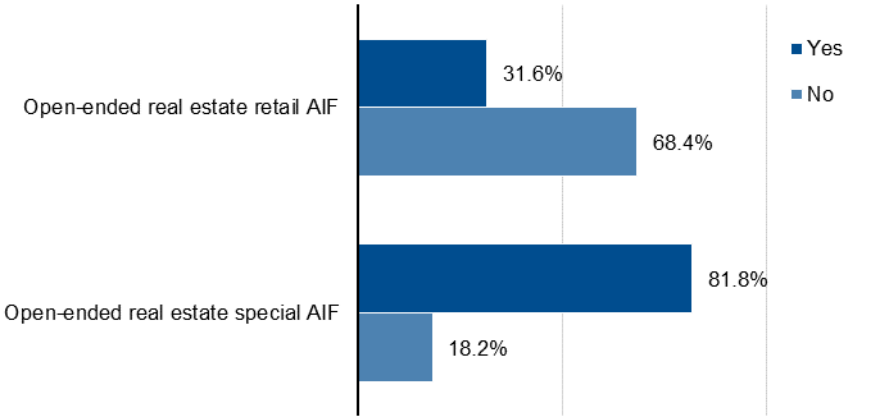
Source: Scope Analysis

Fig. 7: How do you assess your situation for next year (2019)?



Source: Scope Analysis

Fig. 8: Do you plan to issue new products in the next three years (2018-2020)?



Source: Scope Analysis

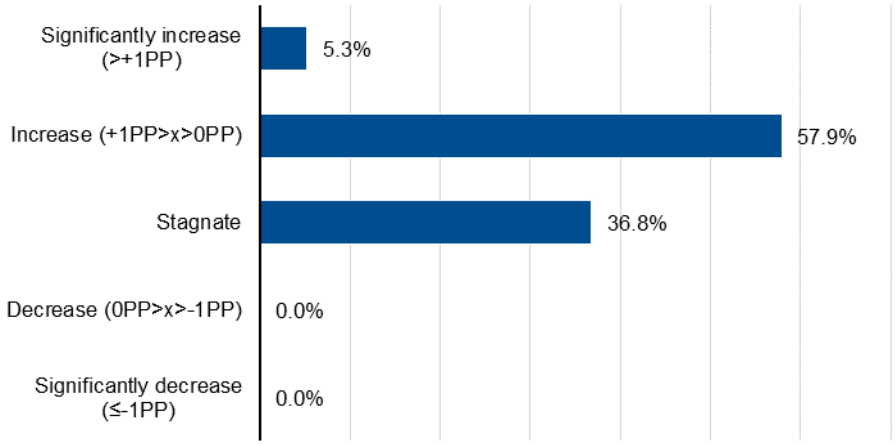
Occupancy rates continue to increase

Fund providers' positive perceptions are based not only on increased capital inflows but also on expected fund performance. One of the most important fund performance drivers is the occupancy rate – i.e. the proportion of a portfolio which is rented and thus generates income.

Around 60% of providers expect increasing occupancy rates

At 95%, the average occupancy rate for open-ended real estate retail AIF is already at a very high level (see report from 16.05.2018). Nevertheless, almost 60% of respondents expect a further increase of up to one percentage point. No providers anticipate a decline in the occupancy rate.

Fig. 9: How will the average occupancy rate for active funds change from 2017 to year end 2018?



Source: Scope Analysis

Increase in returns

Typically, an increase in rented space leads to higher income. This is reflected in the expected level of return for open-ended real estate retail AIF. Half of those surveyed expect an average return of up to 2.5% for retail funds in 2018, at least 31% predict a performance of up to 3.0% and nearly 20% of providers anticipate an average level of return of up to 3.5% this year.

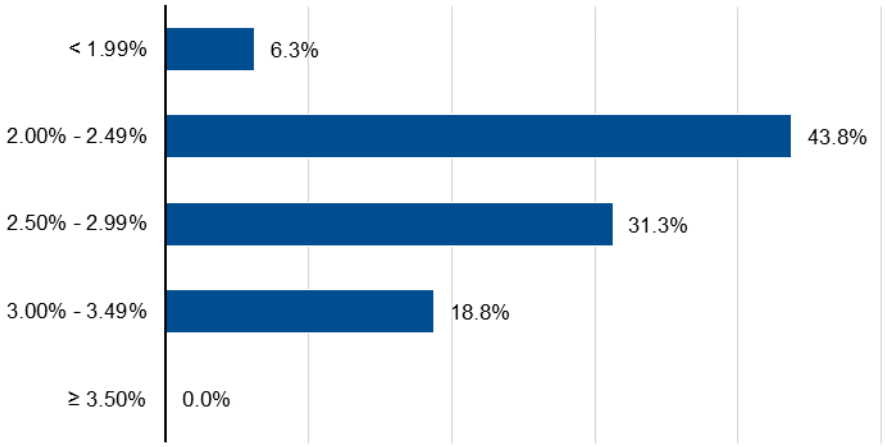
Performance expectations above previous year's level

Compared with last year's survey, expected returns have increased significantly. Last year, over 90% of retail fund providers anticipated an average level of return between 1.5% and 2.5%. Only 8% expected performance to reach up to 3% in 2017.

An increase in capital growth for properties in the portfolio is another key reason for the expected increase in fund returns. Only 5% of respondents predict an average decrease – almost half expect an increase in capital growth.

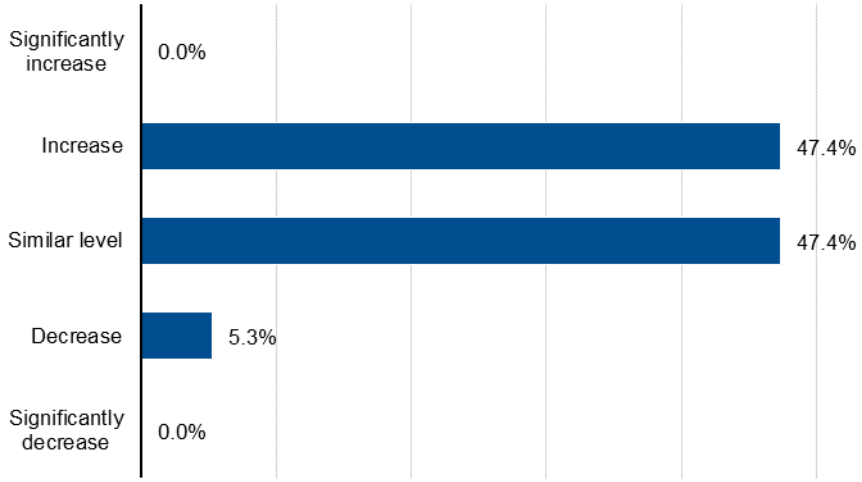
(Note: A fund's capital growth is the change in value of all fund properties within one year. Alongside net rental return and liquidity return, it is one of the three most important return components for an open-ended real estate fund).

Fig. 10: What average level of return can open-ended retail AIFs achieve at year-end 2018?



Source: Scope Analysis

Fig. 11: What are your expectations for capital growth?



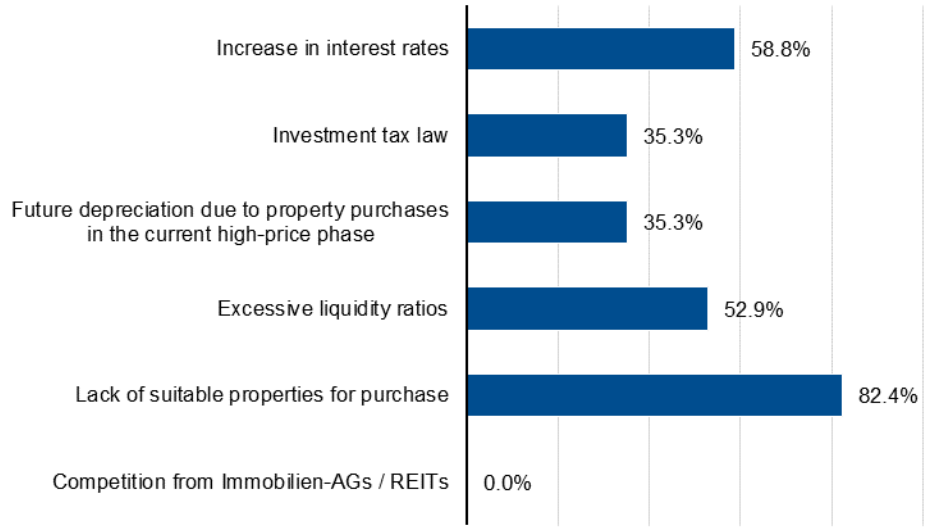
Source: Scope Analysis

Lack of suitable real estate the most significant risk to funds

More than 80% of providers indicated that the greatest risk facing the popularity of open-ended real estate funds was the lack of attractive investment opportunities. Last year, only 60% of respondents considered it to be one of the largest risks. This represents a significant increase.

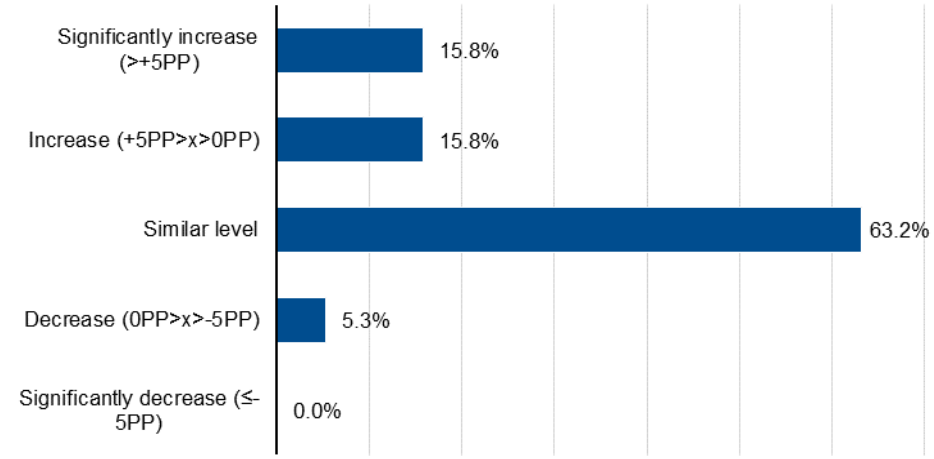
The second highest perceived risk is a possible increase in the interest rate. Almost 60% of respondents believe it to be an issue facing open-ended real estate funds. Note: A significant increase in interest rates makes alternative investments more attractive, particularly in the bond segment. This could lead to capital outflows or declining inflows for open-ended real estate funds.

Fig. 12: What are the largest risks facing the attractiveness of open-ended real estate funds?



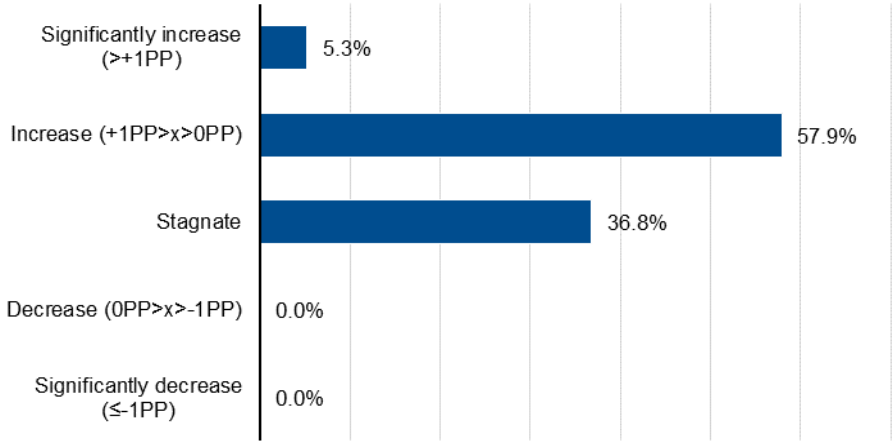
Source: Scope Analysis

Fig. 13: How will average gross liquidity ratio of active funds change from 2017 to year end 2018?



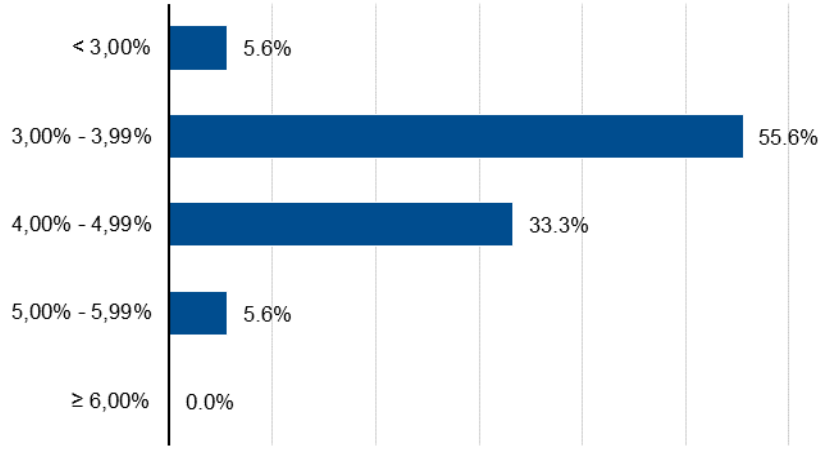
Source: Scope Analysis

Fig. 14: How will the average occupancy rate of funds active in the market change from 2017 to year end 2018?



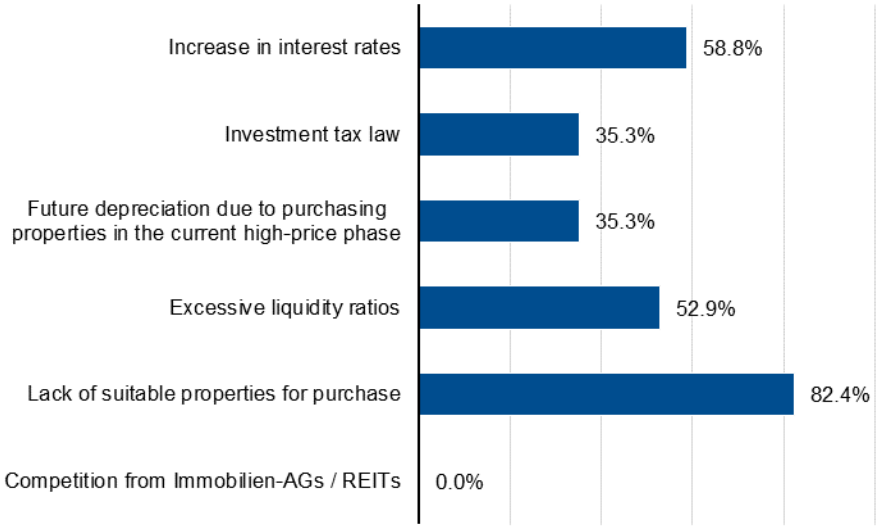
Source: Scope Analysis

Fig. 15: What average level of return can open-ended special real estate AIF achieve by year end 2018?



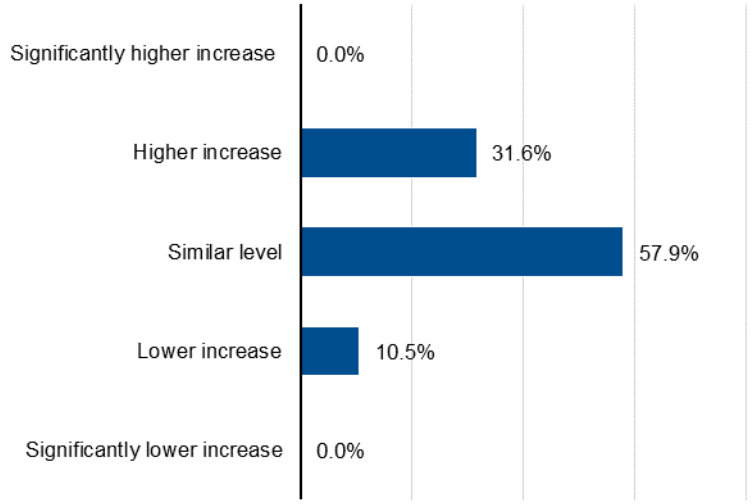
Source: Scope Analysis

Fig. 16: What are the largest risks facing the attractiveness of open-ended real estate funds?



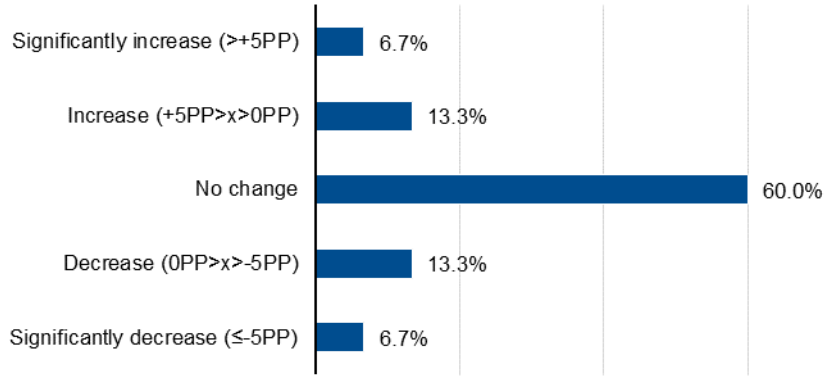
Source: Scope Analysis

Fig. 17: How will investment volume (purchases) increase across the whole sector in 2018?



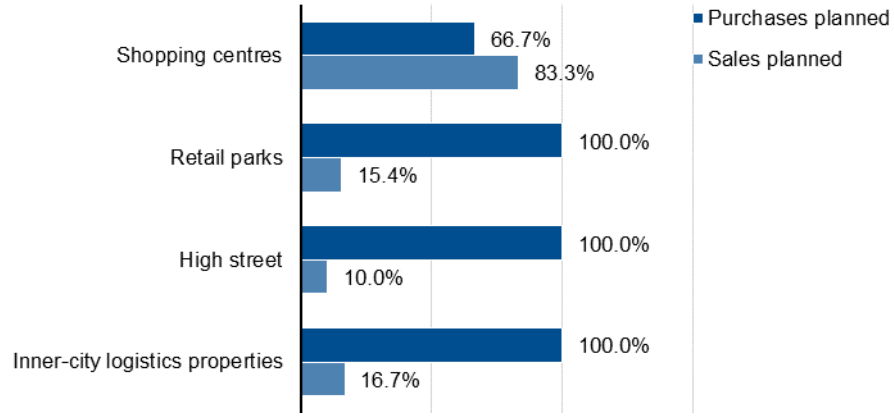
Source: Scope Analysis

Fig. 18: As a result of the increasing importance of E-commerce, how will your target allocation for "retail" change in the coming three years (2018-2020)?



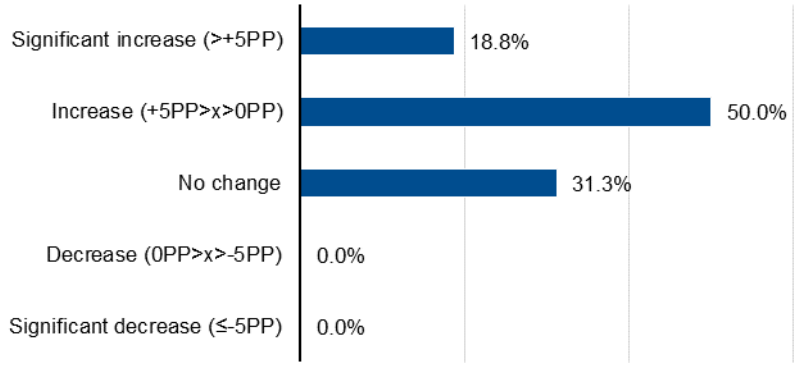
Source: Scope Analysis

Fig. 19: How does this impact your investment behaviour?



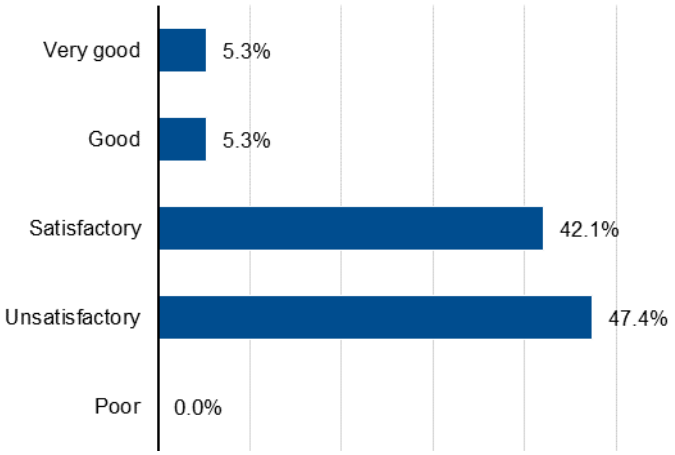
Source: Scope Analysis

Fig. 20: As a result of the increasing importance of E-commerce, how will your target allocation for "logistics" change in the coming three years (2018-2020)?



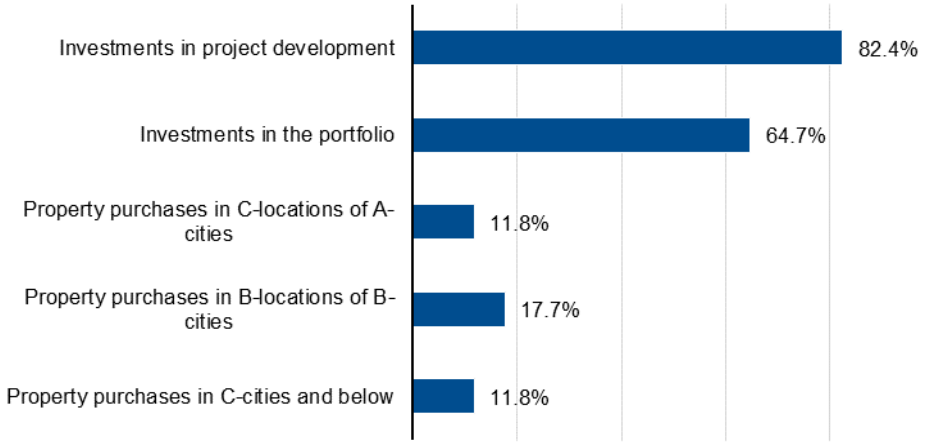
Source: Scope Analysis

Fig. 21: How do you assess the current availability of suitable investment properties?



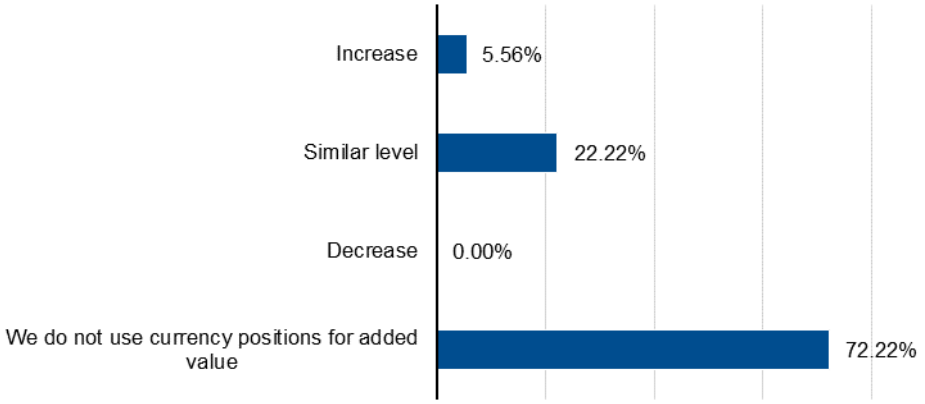
Source: Scope Analysis

Fig. 22: In the absence of suitable investment properties, which alternative investments will you pursue?



Source: Scope Analysis

Fig. 23: How will your open currency positions – as an instrument for added value – change from 2017 to 2018?



Source: Scope Analysis

Scope Analysis GmbH

Headquarters Berlin
Lennéstraße 5
D-10785 Berlin

Tel. +49 30 27891 0

info@scopeanalysis.com
www.scopeanalysis.com

Frankfurt am Main
Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Tel. +49 69 66 77 389 0

Disclaimer

© 2018 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Analysis GmbH, Scope Investor Services GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope cannot, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided "as is" without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or otherwise damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party, as opinions on relative credit risk and not as a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5, D-10785 Berlin.