

Open-ended real estate funds: five ways to optimise liquidity

BVI petition to the German Finance Ministry focuses on private investor protection

Frankfurt/Main, 31 May 2010. A reform of open-ended real estate funds (OEREFs) should be primarily aimed at protecting private investors. The problems that have arisen must be addressed first and foremost by optimising liquidity management, without altering the product to the disadvantage of the investor. This was emphasised by the German Investment and Asset Management Association (BVI) in its statement on the proposed draft of a bill to increase investor protection and improve the functionality of the capital market.

OEREFs should perform maturity transformation – as every bank does. In the past, maturity transformation has proven a largely viable process, especially from 2005 to 2009. During this five-year period, OEREFs issued units to the value of EUR 97.5 billion and acquired real estate for EUR 43.7 billion. In the same period, EUR 97.9 billion was paid out to investors on the return of units and real estate was sold for EUR 37.7 billion. This highlights the fact that OEREFs do indeed perform maturity transformation and are in a position to do so. The following reform proposals put forward by the BVI demonstrate how this maturity transformation process can be optimised in five ways:

In the past, institutional investors as well as high net-worth individuals have often been known to invest large sums of money in OEREFs for only a few weeks or months. However, rather than serving as a real-estate investment, these OEREFs were used as a liquidity investment and the daily return option was abused. As a suitable measure, the BVI proposes that OEREFs introduce a minimum holding period of one year for all investors.

The professional business approach taken by institutional investors involves assessing every investment decision on a daily basis. As opposed to private investors, institutional investors react swiftly in the same direction and with large sums of money. Private investors are often the main victims of redemption suspensions triggered by institutional investors returning units. In future, care should be taken to prevent institutional investors from causing a “greyhound race” atmosphere and consequent redemption suspensions by withdrawing large sums of money in a short space of time. As a suitable measure, the BVI proposes the introduction of a notice period of one year for all non-natural persons.

As a value investment, OEREFs offer intrinsic inflation protection and are therefore particularly suitable for retirement planning. In addition, investors must be able to invest at any time during the savings phase (regularly every month). Moreover, monthly withdrawal plans that serve as a supplementary pension must always be paid out reliably, even if the fund has to temporarily suspend redemptions. The BVI urges that units continue to be issuable and redeemable at any time. In the event of a redemption suspension, withdrawal plans should be continued and additional liquidity maintained for this purpose.

In difficult market conditions, disposing of real estate at bargain prices is not in the interest of long-term investors. On the

- 1. Protect OEREFs from temporary investors**
- 2. Take account of the investment behaviour of institutional investors:**
- 3. Optimise OEREFs for private retirement planning**
- 4. Make the consequences of redemption suspensions fair for investors**

other hand, long-term redemption suspensions will invariably make investors prefer to pull out and accept certain losses. These diverging interests can be catered for by applying redemption discounts arising as a result of real estate disposals below their fair value during redemption suspensions only to those investors who trigger those disposals by returning their units.

The OEREF market has changed considerably in breadth and depth since the 1990s. The underlying legislation should support the variety of products now available by creating flexible parameters instead of rigid rules. These should include the option of agreeing notice periods of more than one year in individual contracts with institutional investors.

5. Differentiate product range with the help of flexible rules

Your BVI contact:

Andreas Fink

069/15 40 90-254

Felix Fortelka

-244

presse@bvi.de

Editorial note: BVI now on Twitter

Follow the latest industry news via Twitter – fast and direct.

Simply visit <http://twitter.com/FondsNews>