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INTREAL-SURVEY: 40 PERCENT OF FUND PARTNERS WANT TO TAKE PROFITS AND SELL PROPERTIES

- ◆ Long-term fixed interest rates are the most important precaution against a price decline
- ◆ Two-thirds of survey respondents anticipate a small interest rate rise (less than 100 basis points)
- ◆ The majority expect property prices to remain stable

More and more fund providers want to take profits, reveals a survey by INTREAL, Germany's leading third-party real estate AIFM, of its fund partners. It found that 40 percent of those surveyed believe that now is a good time to take profits and are planning sales. However, only around a quarter of the fund providers are planning to liquidate funds completely.

Michael Schneider, Managing Director of INTREAL, explains: "Our survey shows that only a quarter of our fund partners are planning to liquidate entire funds. These cases relate mostly to older funds that have reached the end of their planned duration. In contrast, 40 percent of the fund partners want to sell individual properties in a targeted manner. This discrepancy shows that selling is not necessarily the same as fund liquidation. Most of the sale proceeds are to be reinvested – in properties."

Long-term fixed interest rates are an important precaution

What precautions are fund partners taking against a market correction? The vast majority (87 percent) are working with long-term fixed interest rates. A quarter are banking on core properties with long-term leases. The fund partners are also showing restraint with regard to the use of outside capital. Around three quarters have debt capital ranging from 30 to 50 percent. Six percent are working with relatively low debt ratios of between 10 and 30 percent, and another six percent are operating with pure equity funds.

On this, Schneider says: "Our fund partners are conservative when it comes to outside capital, as demonstrated by the relatively low leverage ratios. This is of course due partly to regulatory requirements and corresponds with the cautious targets of the majority of investors. Long-term fixed interest rates are particularly important. The vast majority of those surveyed have secured themselves the current low interest rates for the long term."

Stable interest rates and prices expected

Despite their sales plans, most of INTREAL's fund partners are fundamentally relaxed about the development of property prices and interest rates in the next 18 months. Two-thirds of those surveyed expect a rather small (= less than 100 basis points) interest rate rise in the next year and a half. The rest expect

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monetary policy to remain expansionary. Nobody anticipates an interest rate rise of more than 100 basis points.

There are also few negative expectations for the future development of property prices. Around 54 percent expect stable property prices in the next 18 months; another third expect prices to continue rising. Only around 13 percent assume that property prices will fall – but not by more than ten percent.

New business difficult in the event of market correction

Despite the generally rather optimistic assessment of the near future, the fund partners were also asked what would be their biggest problem in the case of market correction. The survey defined “market correction” as a price decline of at least 10 percent. The findings show that for around half (46 percent) of those surveyed, the biggest challenge would be to continue with new business. The second-biggest problem (33 percent) would be potential additional security requirements on the part of the financing banks. Third place is shared (around 27 percent each) by falling ongoing income due to declining assets under management (AuM) and the fact that planned fund liquidations would not be possible as forecast.

INTREAL also asked the fund partners if institutional investors would reduce their property investments if prices were to fall. Around two-thirds of those surveyed are certain that institutional investors will retain their existing investments, because ongoing cash flow is more important to them than value changes.

Around 30 INTREAL fund partners were surveyed in total. The survey was conducted in June and July 2018.

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About INTREAL

As a third-party AIFM, INTREAL concentrates exclusively on the business of launching and managing regulated real estate funds on behalf of third parties under the German Capital Investment Act (KAGB). The platform lets clients take advantage of all the options of a real estate AIFM without having to set up one in their own right. Options include the launching of property funds or the outsourcing of AIFM back offices. Employing 228 staff, the INTREAL Group offers long-term real estate know-how along with detailed and highly professional fund management expertise.

INTREAL collaborates with a number of third-party fund partners to administrate 121 investment funds with a combined investment volume of c. EUR 20.4 billion (all figures as of 30/06/2018, not including the business mandates of INTREAL Solutions).

INTREAL is a fully-owned subsidiary of Warburg-HIH Invest Real Estate GmbH in Hamburg, and part of the HIH Real Estate Group.

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