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Fund Commentary: Open-Ended Institutional Property Funds Distributed an Annual Average of 3.2 Percent over the Past Ten Years

- ◆ Distribution of earnings barely fluctuated
- ◆ In 2022, the funds distributed 5.2 billion euros or 3.13 percent of their net fund assets
- ◆ INTREAL expects net cash-on-cash returns to go up in the longer term

Open-ended institutional property funds distributed an average of about 3.19 percent of their net fund assets to institutional investors over the past ten years (2013 - 2022). This is the upshot of an analysis of Bundesbank statistics that quotes the distribution of earnings for funds of this type. The amounts distributed remained relatively constant over the past ten years, even as the industry as a whole grew rapidly. Having stood at 40.9 billion euros in 2013, the total value of the net fund assets of all open-ended institutional property funds had more than quadrupled by the end of 2022, growing to 166.2 billion euros.¹ At 2.78 percent, the lowest dividends during the quoted time period were paid in 2013, whereas the highest rates were paid in 2017 at 4.15 percent.

In 2022, the funds distributed 5.2 billion euros in earnings, which implies a net cash-on-cash return of 3.13 percent. This means it was slightly higher than in 2021 when the funds disbursed 4.2 billion euros or 2.94 percent.

Michael Schneider, Managing Director at INTREAL, commented: “The figures document the growing popularity of the property funds and illustrate one major advantage that real estate investments boast: Their distributions are rather stable. For institutional investors, it is a decisive criterion because many players in this group are subject to periodic payment obligations, e. g. on account of pension entitlements or benefit commitments under insurance contracts. The fact that institutional property funds have worked out particularly well for this target group in particular also demonstrates their great macro-economic significance.”

Distributions of around 3.0 Percent Reflect Low Interest Rate Environment

The quoted net cash-on-cash returns still mirror the low interest rate environment of the past ten years. Schneider commented the fact: “Going forward, I expect the cash-on-cash returns of property funds to keep going up because the amounts distributed are often based on inflation-indexed rent rates. Given the low inflation rates during the past observation period, rent reviews based on indexation clauses played only a negligible role. Another positive aspect is that managers generally report very high occupancy rates for their fund properties.”

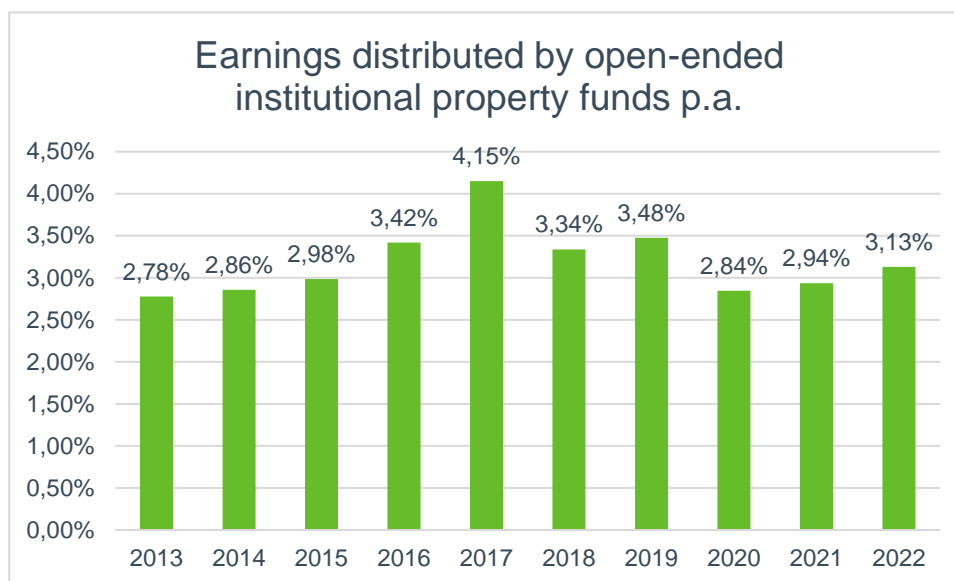
Then again, other classes of investments regain their appeal in times of rising interest rates. Uwe Janz, Head of Treasury at INTREAL, had this to say on the subject: “At present, a German ten-year government bond pays around 2.3 percent in returns, whereas ten-year US government bonds currently yield 3.6 percent.² Even if you apply a risk premium of 150 to 200 basis points to property funds due to their lower fungibility,

¹ Average net fund assets for all twelve months.

² Source: www.investong.com [21/03/2023]

property funds should soon start paying competitive cash-on-cash returns again. The two main drivers are growing rent rates and the recent return to more affordable price levels.”

However, these are not the only factors to consider when talking about returns. Schneider, Head of INTREAL, elaborated: “When investing in real estate in currencies outside the eurozone, for instance, you need to take currency risks fully into account. The hedging costs to secure them can be quite high. Yet without hedging, every change in interest or exchange rate levels will cause property values to fluctuate.” Taxes are another important aspect. Carina Berberich, Head of Taxes at INTREAL, added: “Most relevant for investors, of course, is the net return after taxes. Here, property funds have one major advantage: Depending on the structure of a given fund, many institutional investors collect the amounts distributed largely tax-free.”



Source: Bundesbank

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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 every service an AIF management company (KVG) provides without having to form one of their own. Options include the launching of open-ended and closed-end property funds or the outsourcing of AIFM back offices to INTREAL. Employing 490 staff, the INTREAL Group offers long-term real estate know-how along with detailed and highly professional fund management expertise.

In Luxembourg, the largest investment fund centre in Europe, INTREAL is represented by its subsidiary, INTREAL Luxembourg. INTREAL Luxembourg is an independent AIFM and central administrator for Luxembourg-domiciled property funds and property-related assets classes for German and international clients.

Through another subsidiary, INTREAL Solutions, the company makes its comprehensive property fund experience available to other market players within the scope of best-practice consultancy. These advisory services combine the IT subject with other specialist areas like ESG, risk management and process consulting.

INTREAL collaborates with a large number of third-party fund partners to administrate 297 investment funds with a combined investment volume of c. 62.1 billion euros (all figures as of the end of Q4 2022).