

Open-ended REIFs as a means of investing in real estate

The retailization of open-ended real estate investment funds (REIFs)

COUNTERING ILLIQUIDITY IN REAL ESTATE INVESTMENT

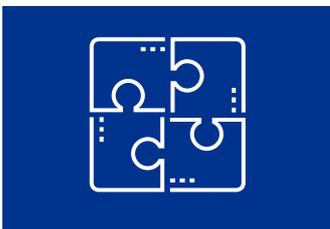
The main characteristic of real estate as an asset class remains its illiquidity – a factor which can significantly reduce its attractiveness as an investment class, especially in the retail market. Creating open-ended real estate funds helps solve this issue by introducing greater flexibility.

RETAILIZATION OF REIFs

In an open-ended fund, investors can purchase and sell units on demand at the fund's net asset value (NAV). The NAV fluctuates daily, based on the price of the stocks and bonds in the market or, in the case of real estate, the properties held by the fund. There is no limitation on the number of units that can be issued in these funds – and no set maturity period for them either. When an investor redeems units, those units are taken out of the fund. So, use of open-ended structures for real estate funds will contribute greatly to their "retailization", making them more appealing to retail investors.

At present, when we look at real estate held in funds, only 8 percent of Luxembourg REIFs are fully open-ended (with no restrictions on redemptions) – and 2 percent are semi open-ended – indicating that not many fund promoters are currently utilizing this option. Some moves toward offering REIF investors more flexibility are starting to be seen though, as indicated in ALFI's 2020 REIFs survey. This report also suggested that liquidity management tools should enable relevant safeguards to be put into place so that funds may be launched as open-ended that would otherwise have been closed-ended.

Advantages of an open-ended REIF structure include:



Access to liquidity

No restrictions on redeeming units of an open-ended fund



Performance tracking

Investors can consider historical performance in their decision-making



Systematic options

Automated plans for investments and withdrawals



Professional management

Experienced fund managers to make investment decisions

“Real estate is among the first sectors to benefit from a post-crisis lift, so we remain optimistic and expect that, together with infrastructure, it will continue to be favored by investors. KPMG has significant experience with open-ended REIFs, regarding audit, tax and advisory services”

Pierre Kreemer, Head of Real Estate, KPMG Luxembourg

ADVANTAGES OF OPEN-ENDED STRUCTURES

Liquidity access

- No restrictions on redemption of units
- Investors have access to liquidity when they wish
- Investors can redeem units at the NAV on the day of redemption (subject to queuing mechanism)

Performance tracking

- Investors can track the fund's past performance
- Availability of historical data helps investors make the best investment decisions for them

Availability of systematic options

- Investors can use systematic plans
- These could automate fund investments and withdrawals

Professionally managed funds

- Funds are run by an experienced fund manager
- Managers have the expertise, experience and resources to make sound investment decisions for the investors

Returns

- Open-ended REIFs may provide better long term returns as there is the potential to redeem at the fund's best performance points, instead of waiting for its closure
- For investors with a short-term investment horizon, due to early redemption possibilities, open-ended funds can also offer a suitable solution

POTENTIAL ISSUES – ASPECTS TO BEAR IN MIND

Valuation

- Valuations are less readily available, so robust valuation processes are needed to ensure accurate fund NAVs

Pricing

- Taxation options vary from country to country
- Fund managers must ensure suitable pricing mechanisms

Redemption management

- "Waterfall" redemption priorities may be applied to ensure a fund's continuous liquidity
- There may be greater cost implications with real estate redemptions

Suspension mechanisms

- A NAV suspension mechanism should be in place in case a fund experiences problems (valuation, liquidity or other)

Taxation

- Taxation aspects should be given equal consideration
- E.g. Potential NAV adjustments due to exit mechanisms

Meet the team



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