



**BNP PARIBAS  
REAL ESTATE**

RESEARCH |



**ASPIM**

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## **1. Introduction to Italian Property Funds**

- Main characteristics and market evolution

## **2. Liquidity Issue in the Italian Property Funds**

- Closed-ended funds reserved to institutional investors
- Closed-ended funds listed in the stock exchange market
- Semi closed-ended funds

## **3. Conclusion**

# Main Characteristics of Italian Property Funds

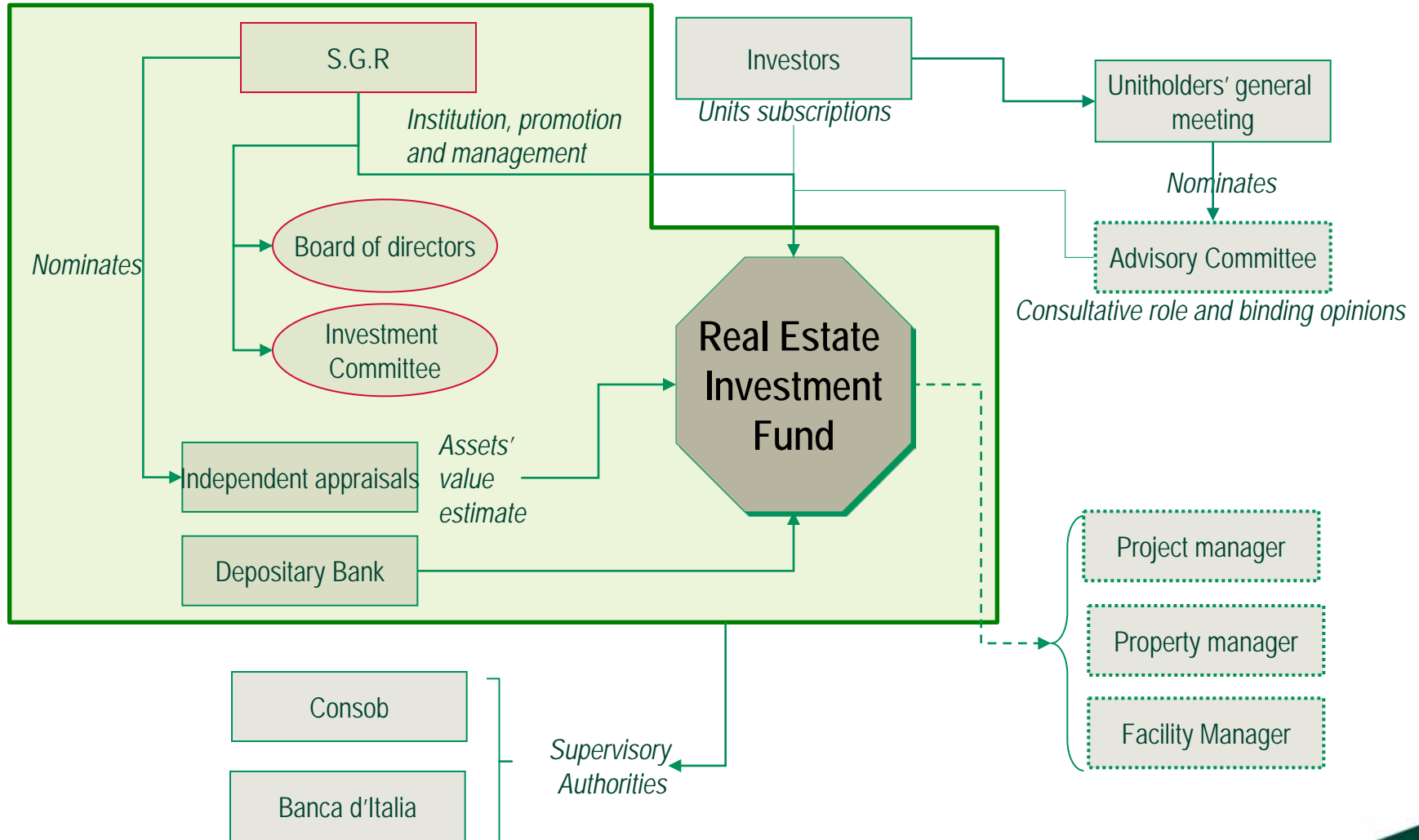
**Investment Funds:** shall mean equity raised independently through the issue of one or more fund units from among a number of investors, with the aim of investing the equity raised in accordance with a pre-established investment policy; divided into units pertaining to a given number of investors; managed upstream in the interests of the investors and fully independent of those investors

**SGR** are in charge of collective asset management services and subject to the supervision of Bank of Italy and Consob (Italian equivalent of SEC, AMF...)

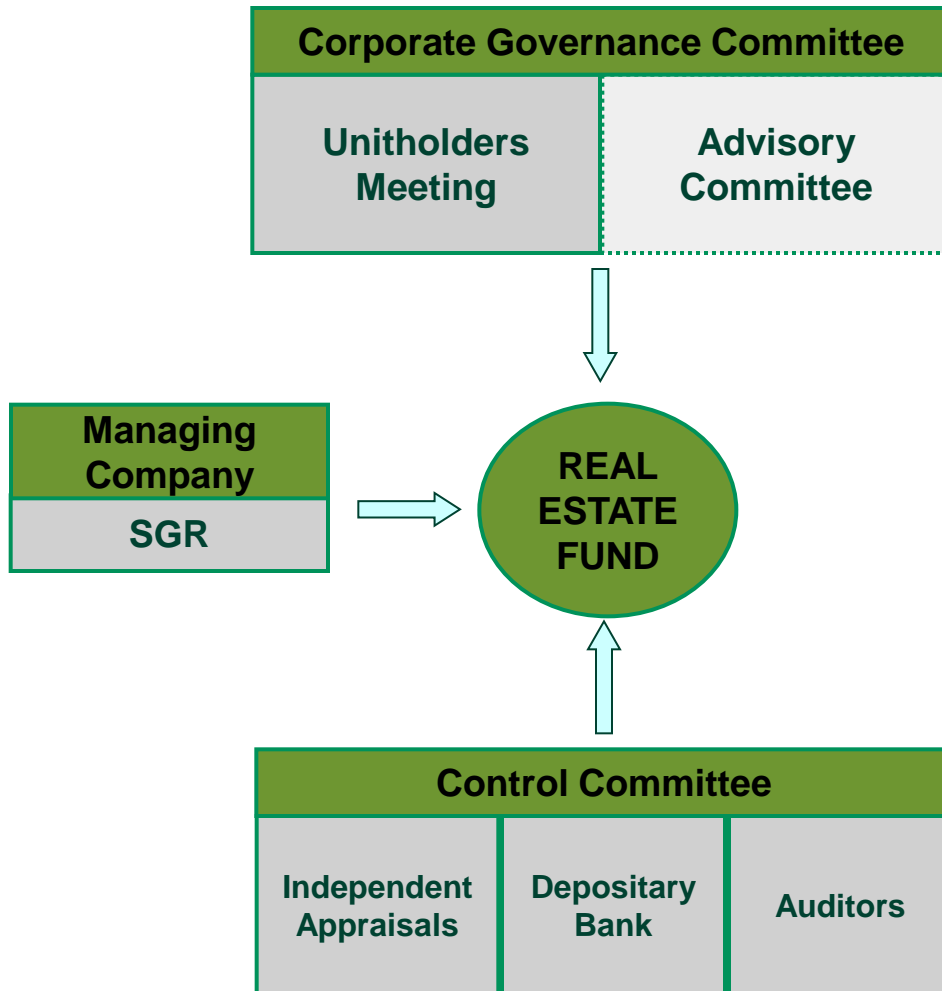
**Real Estate Investment Fund** can invest in real estate assets, real estate rights and equity of real estate companies for an amount no less than 2/3rd of the value of the fund

(1) Italian Real Estate Investment Funds are not compliant with UCITS regulation

# Italian Property Funds Structure



# Italian Property Funds Corporate Governance



The **Advisory Committee** is usually instituted in institutional funds (while it is not instituted for retail funds, usually) and it is formed by 3-5 members, elected by the unit holders. Members are usually in charge for 3 years.

The role of the Committee is to provide consultancy to the SGR in relation to mayor strategic and financial issues of the funds

Advices issued by the Advisory Committee can be binding on certain topics according to the management rules such as:

- Annual business plan and its modifications
- Conflict of Interests

# Italian Property Funds Typology

Requirements for status of real estate fund:

- At least 2/3 of the assets invested in buildings, Real Estate Companies, Real Estate O.I.C.R.

**Target clients**

**Reserved to Institutional Inv.  
(blind / seeded)**

**Not Reserved  
(blind / seeded)**

Institutional

Retail

**Structure**

Closed or Semi Closed

Closed or Semi Closed

**Duration**

Maximum 50 years  
(usually 7 / 15 years)

Maximum 50 years  
(usually 7 / 15 years)

**Type of Fund**

Ordinary

Opportunistic

Ordinary

**Leverage max**

<= 60%

>60%

<= 60%

**Risk concentration**

No Limits

<= 33%

**Listed**

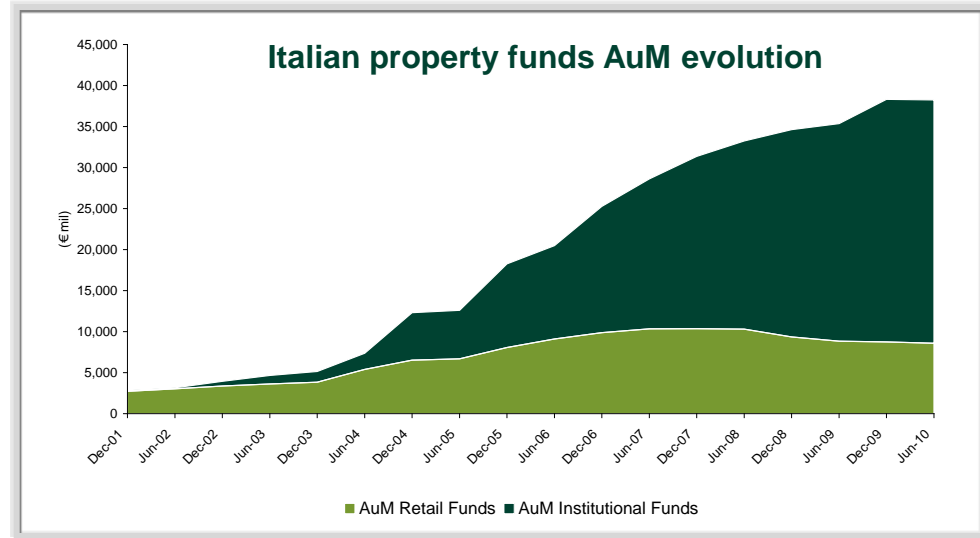
No

Yes

- Italian property funds are in principle not subject to Italian income taxes and local production tax
- Proceeds collected by non-Italian resident investors upon a redemption of units or a periodical distribution of proceeds are subject to a 20% withholding tax, which is levied as a final payment of taxes due in Italy (provided that the recipient does not have a permanent establishment in Italy to which said income is attributed for tax purpose)
- Proceeds collected by the following non-Italian resident investors are in principle exempt from the 20% withholding tax:
  1. pension funds and undertakings for collective investment that are established in a State that allows for the exchange of information between the tax authorities (“White-List” States)
  2. organizations established under international agreements ratified in Italy
  3. central banks or organizations that manage the official reserves of foreign States
- Non-Italian resident investors other than those mentioned above may claim tax treaty benefits by submitting to the Italian asset management company or other financial intermediary acting as withholding tax agent:
  - a declaration attesting that the conditions for the application of tax treaty provisions, including beneficial ownership, are met and providing information to determine the relevant withholding tax regime under the tax treaty
  - a certificate of residence issued by the foreign competent tax authority (the certificate is valid for this purpose until 31 March of the following year)

# Evolution of Italian Property Funds Industry

- First property funds were launched in 1999
- The evolution of the market is divided in two main periods:
  1. **“First generation” (1999-2003):** subjects with banking origin (BNL/BNP Paribas, Deutsche Bank, Unicredit...) mainly launched, targeting **retail investors, blind funds** with **low risk** profile: high diversification (almost entirely invested in office and retail, with few investments in secondary sectors such as hotels, health care...), low leverage, no development operations...
  2. **“Second generation” (2003-today):** different kind of subjects mainly launched, targeting **institutional investors, seeded funds** with **different risk profiles** depending on investors needs

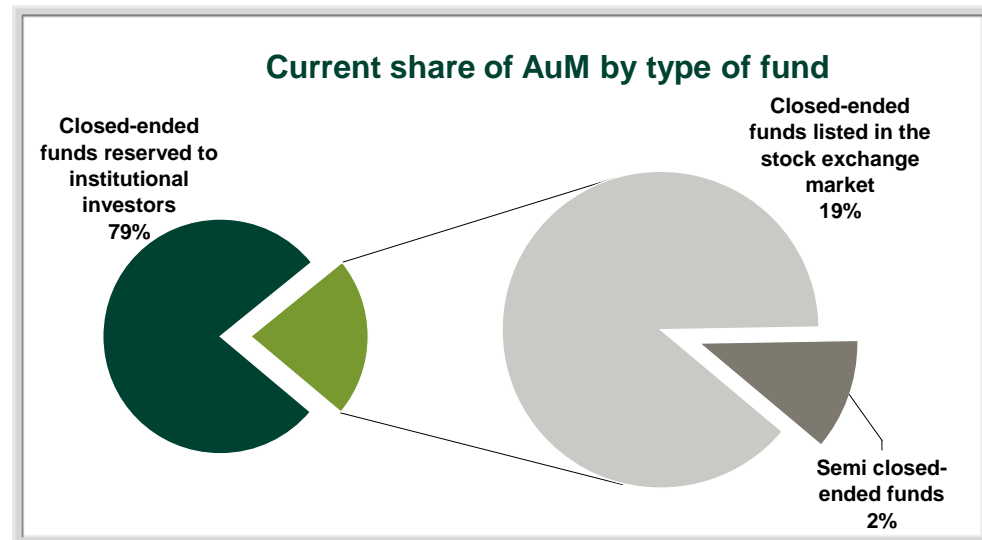


Source: BNP Paribas Real Estate Research on Assogestioni and Bank of Italy data

# Current Figures of Italian Property Funds Industry

Current figures indicate:

- almost 80% of the market is represented by funds reserved to institutional investors which are not listed
- all funds reserved to institutional investors are closed-ended
- listed funds represents 19% of the market
- semi closed-ended funds represents only 2% of the market and, for the moment, none of them are listed



Source: BNP Paribas Real Estate Research on Assogestioni and Bank of Italy data

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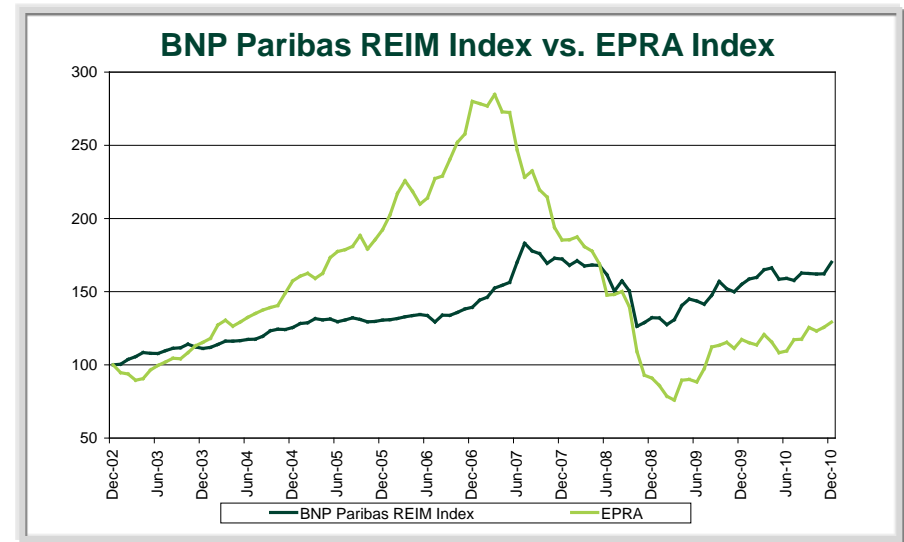
Italian reserved funds are not a liquid vehicle because:

- They can not be listed
- They can only be closed-ended
- Units can be transferred only privately among investors depending on their will

# Closed-Ended Funds Listed in the Stock Exchange Market

## Main Features

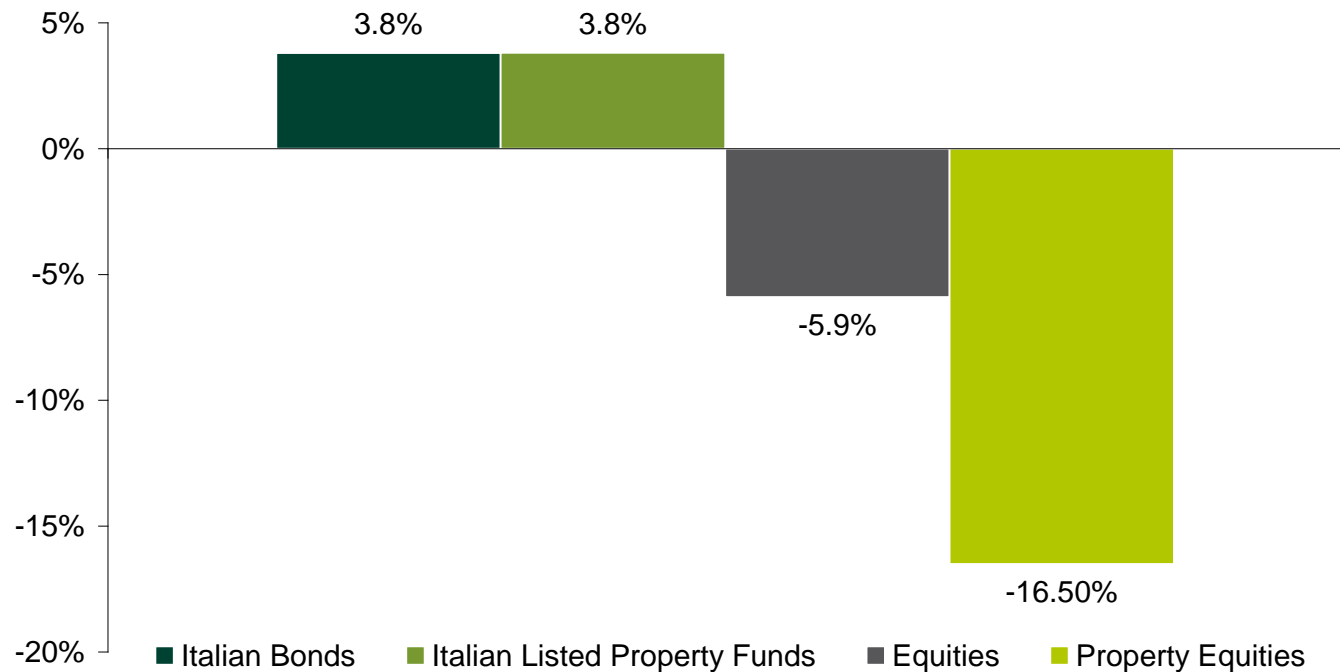
- Today there are 23 property funds listed in the stock exchange market, of which 18 were listed before 2006 and therefore referring to the “**first generation**” funds (after equity raised is called, 24 months is the maximum period for listing the funds)
- Capitalization of the market reached his maximum in the summer 2007 being close to € 6 bil. Since then, **capitalization decreased to €3.4 bil** (below € 150 m per fund on average) because of units values decrease and partial/total liquidation of some funds
- BNP Paribas REIM Index (which analyzes the performance of property funds listed considering unit price variation in the month, paid dividends and capital refunds) shows that **property funds have a much more stable trend** compared to real estate listed companies



Source: BNP Paribas Real Estate Research

# Closed-Ended Funds Listed in the Stock Exchange Market Performance

## Five Years Annualised Returns by Asset Class



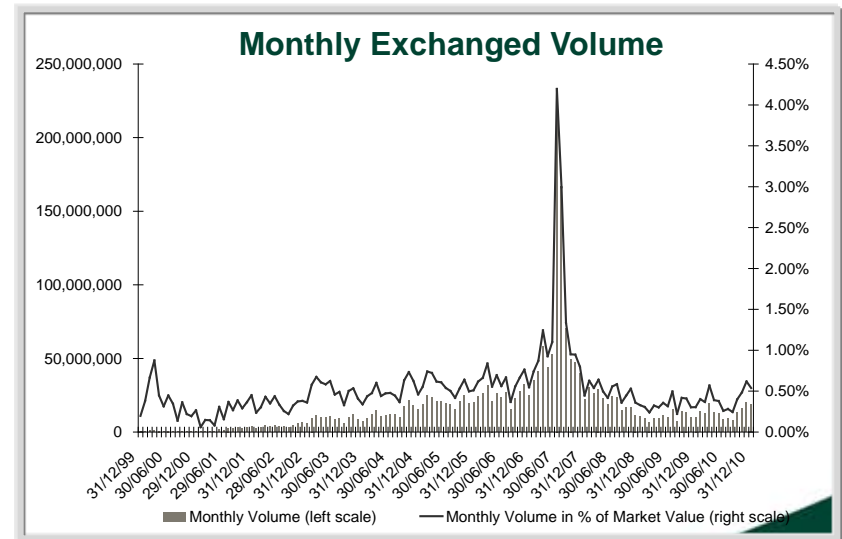
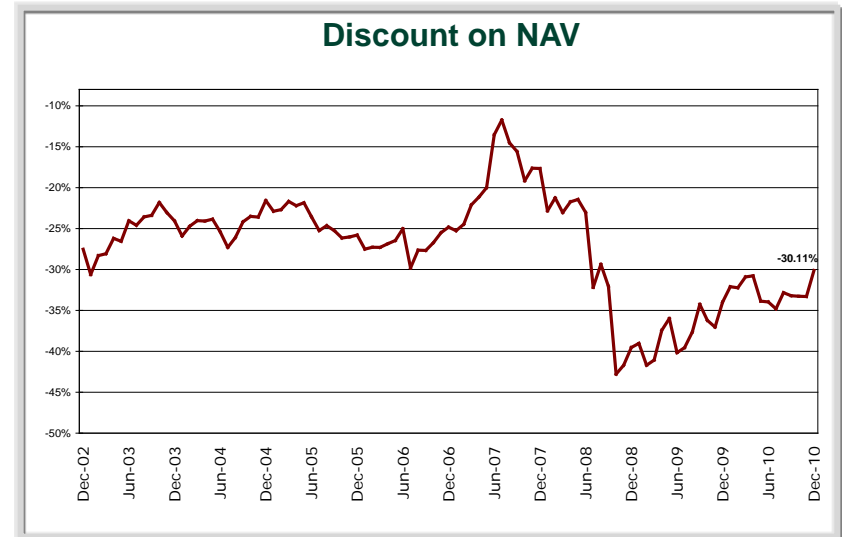
Considering NAV variations, capital reimbursements and dividend distributed Italian listed property funds had a performance on the same level of bonds and higher than equities

Source: BNP Paribas Real Estate Research, IPD

# Closed-Ended Funds Listed in the Stock Exchange Market

## Discount on NAV and Liquidity Issue

- Discount on NAV is a common characteristic of **all the listed funds**, why?
  - Perception of property funds to be similar to an holding structure
  - The discount is due to the duration of the fund
  - Investors does not have complete confidence on funds properties independent appraisals reliability
  
- **The sector is illiquid:** usually less then € 20 million monthly, out of a current capitalization of €3.4 billion
  - investors buy units at initial NAV value and, also because of discount, they maintain the units till liquidation
  
- The only moment with an higher degree of liquidity in the market was the summer 2007 when some funds became target of **take-over bids by some institutional investors**



Source: BNP Paribas Real Estate Research

**The discount on NAV is  
the price of liquidity**

# Case Study

## US REITs Discount on NAV



Source: Green Street Advisors, BNP Paribas Real Estate Research

- Four semi closed-ended funds currently operating in Italy, of which 3 were launched in 2005 and one in 2007
- Total AuM (at 30/06/2010) of semi closed-ended funds is € 1,121 million
- Usually there are two re-openings period every year, lasting two or three months
- New units are issued at NAV value
- Re-openings have limits: redemptions can be refused if higher than new capital raised, furthermore the fund manager could use leverage (until 10% of AuM) in order to reimburse the exceeding redemptions
- All semi closed-ended funds are targeting retail investors, but they are still not listed. Fund managers did not decided yet about listing because of the possibility that discount on NAV could affect this kind of funds too, causing problems to the re-opening structure

Source: BNP Paribas Real Estate Research

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# Pros & Cons of Different Vehicle Structures in Italy

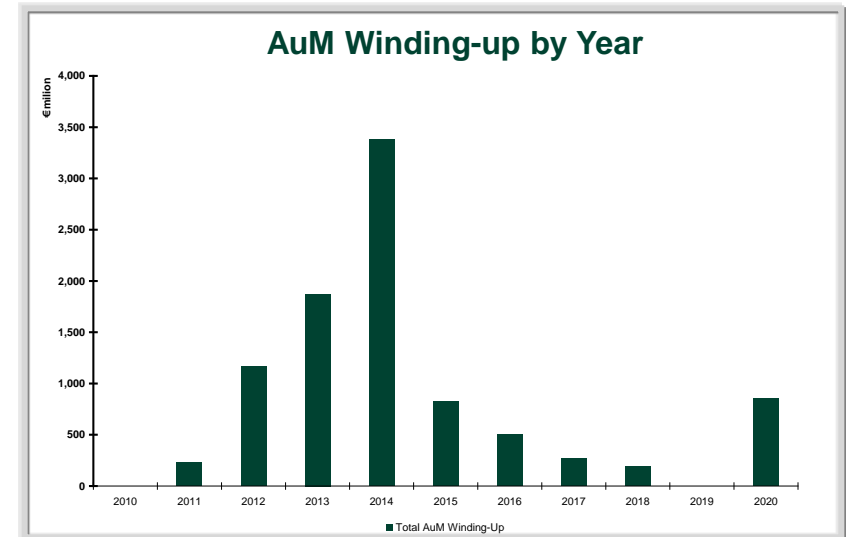
- Closed-Ended Funds Reserved to Institutional Investors:
  - Pros: no problems of massive withdrawals in negative period
  - Cons: no possibility for the investor to change strategy responding to changing market conditions
  
- Closed-Ended Funds Listed in the Stock Exchange Market:
  - Pros: possibility to sell/buy fund units on secondary market without affecting fund performance and strategy
  - Cons: low liquidity and discount on NAV made difficult to sell/buy fund units on secondary market
  
- Semi Closed-Ended Funds:
  - Pros: redemptions are possible but have limits and regulations in order to not affect fund strategy in a massive way
  - Cons: the listing of semi closed-ended funds could freeze the re-opening structure

**How the discount on NAV puzzle will end?  
Liquidation values will be closer to NAV  
values or closer to stock market values?**

We will shortly have an answer as in the next 3 / 4 years many listed property funds will reach their termination

If they will be closer to NAV values: it will be clear that buying funds units with high discounts on NAV is a profitable investment

→ discount on NAV should decrease



**Semi closed-ended funds structure showed to work quite well: even considering the financial crisis, only once a fund was forced to refuse the reimbursement of a part of redemptions because they were higher than new capital raised (and the fund managed to reimburse the exceeding redemptions in the following re-opening)**

- However, this market did not evolved as expected: only one fund was launched in the last five years

- Also because of distribution banking networks lack of interest in this kind of products

- The discount on NAV problem of listed funds makes listing hypothesis of semi closed-ended funds uncertain

- None fund manager has decided yet whether to list the semi closed-ended funds