Non-listed Real Estate Funds: Asymmetric Effects and Drivers of Performance

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Abstract

The study presented here looks in detail at the drivers of unlisted fund performance With the increasing significance of non-listed real estate funds as an investment vehicle, research on the performance attributes of non-listed real estate funds is becoming increasingly important. Nevertheless, there have been few published studies on non-listed real estate funds (Fuerst & Matysiak, 2013).

Using proprietary information from INREV and IPD (the Investment Property Databank), this study examines the drivers of fund returns and fund outperformance. Analysis of an 11-year panel dataset, capturing the initial years of explosive growth and sharp compression during the global financial crisis, seeks to determine how performance drivers behaved differently in market downturns and upturns.

This research aims to provide a better understanding of the key drivers of European non-listed real estate funds performance, which in turn will aid portfolio managers in making more informed investment decisions. It seeks to understand the extent to which stock-selection and management skills contribute to a fund's total return. The attribution of fund performance is primarily based on average return data in the markets to which the fund is exposed. Using the unique database compiled by *INREV* covering the period 2001-2012, allows us to analyse the characteristics and performance of non-listed funds, and to investigate whether funds performance depends solely on leverage and market/sector exposure to deliver above-average returns. It is also possible to track fund performance and its drivers through the years of rapid expansion of the sector, followed by the sharp contraction during the global financial crisis to determine whether performance drivers have a differential impact on fund performance during market upturns and downturns. Ultimately, the research finds that while fund performance was predominantly driven by their underlying market and sector exposure, gearing, fund size, fund age, GDP and competing asset classes also played a significant role.

The paper starts off by discussing non-listed real estate funds as an asset class in general, followed by an analysis of data characteristics and present the panel data results.