German Open-End Real Estate Funds

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Abstract

Open-end Real Estate Funds (OEREFs) are the predominant type of securitized real estate investments Germany. This chapter explains the institutional and legal environment of this investment vehicle, which is designed to provide the risk-return benefits of private market real estate. We review the historical performance and portfolio composition of German OEREFs as well as possible reasons for their track record. A special emphasis is placed on the turbulences in the aftermath of the recent financial crisis and the legal changes that were undertaken to stabilize German OEREFs.

Keywords

Open-end real estate funds • Liquidity transformation • Financial crisis

1 Introduction

This chapter discusses (OEREFs) as the predominant type of securitized real estate investments in Germany. We distinguish between OEREF structures for institutional investors (*Spezialfonds or "special funds"*) and for private investors (*Publikumsfonds or "public funds"*). Legal requirements of OEREF for institutional investors are considerably lower than for private investors and information is

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usually confidential. Therefore, we will focus on OEREF for private investors.[1] With a total market capitalization of about 82 billion euros, OEREFs made up approximately 10 % of the total German mutual industry in August 2015.[2] The structure of OEREFs in Germany has a unique institutional design that clearly distinguishes them from other securitized real estate investments, such as Real Estate Investment Trusts (REITs). In contrast to listed property companies that issue a fixed amount of shares, the number of OEREF shares is variable. Hence, short-term liabilities have to be matched with long-term real estate investments. This feature is referred to as *liquidity transformation* and constitutes the key characteristic and core competency of OEREFs.

Historically, the open-end construction has proven to be overall successful in Germany. In contrast to stock returns, returns on OEREFs exhibit a high degree of stability and a moderate mean (Maurer et al. 2004b). By construction, OEREFs originally represented an investment opportunity for private investors. The group of OEREF shareholders is, however, remarkably heterogeneous. In addition to private investors, institutional investors as, for instance, pension funds, banks and non-financial firms are nowadays engaged in "public" OEREFs.

Because of liquidity transformation, OEREFs are subject to liquidity risk. During the global financial crisis many OEREFs suffered from liquidity shortages that led to the suspension of the redemption of shares and even to the liquidation of several funds. With the intention to enhance investor protection and to improve the liquidity transformation of the funds, the legal environment underwent a significant reformation focusing on three key aspects: redemption of shares, property valuation and fund liquidation. Especially institutional investors increasingly tended to use OEREFs as a substitute for money market funds to store liquidity. The main objective of the 2011 law reform of the German Investment Companies Act (InvG) was to avoid such misuse by increasing the overall investment horizon of the typical shareholder. In general, the regulation of open-end funds is much less intense than the rigorous regulation of banks.

In contrast with listed property companies, prices of OEREF shares depend on property appraisals and are not directly determined by demand and supply of a secondary market. Instead, the price—quoted daily—equals the total value of the fund's assets, less debt, divided by the total number of shares. The value of a fund's assets reflects valuations of the properties by professional appraisers. Hence, prices are not directly exposed to financial volatility. As the valuation of a certain property takes place only once a year, the quoted price incorporates just part of the market price of the underlying properties.

Since the first OEREF was launched in 1959 the number of OEREFs in Germany has grown strongly. Several new funds emerged in the 1960s, which led to the inclusion of OEREFs in investment regulation. Important changes in legislation

[1] Unless noted otherwise, the term OEREF refers to public funds.

[2] See the German Association of Investment and Asset Management (BVI) statistics 31/08/2015. On the same date, the total market capitalization of all special funds was 51.1 billion euros.

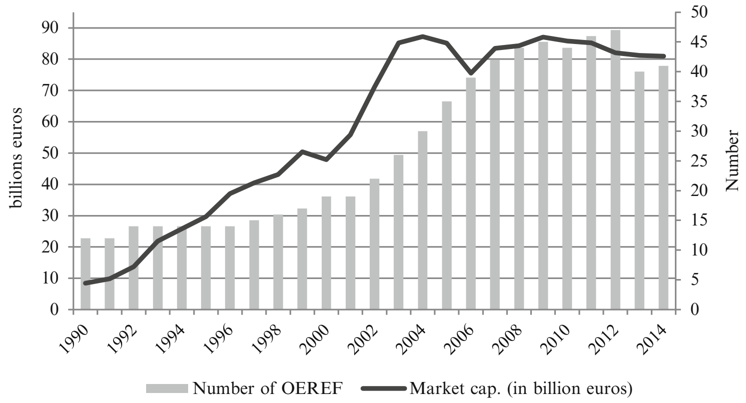

Fig. 1 Market capitalization and number of OEREFs in Germany. *Source*: BVI (public funds only)

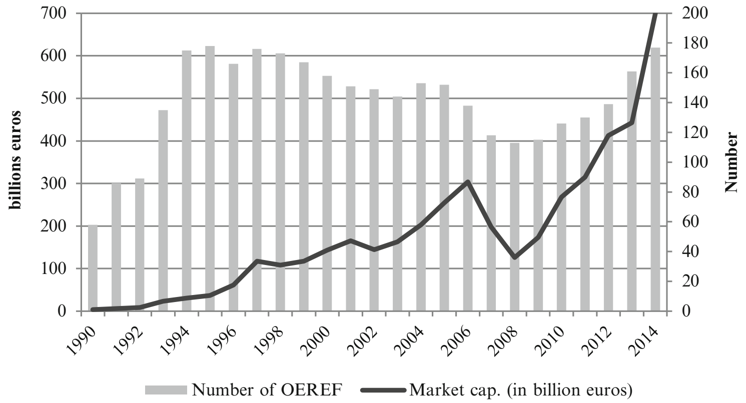

Fig. 2 Market capitalization and number of REITs in the USA. *Source*: REIT.com

included successive approvals of investments in the European Economic Area (EEA) and of investments outside the EEA up to 20 %. During the last decades the market capitalization of German OEREFs increased by a factor of about 10 from 8.4 billion euros in 1990 to 81.0 billion euros in 2014 (see Fig. 1). For the sake of comparison, the US Equity REIT created in 1960 has seen its market capitalization soar from roughly 3.8 billion euros in 1990 to 846 billion euros in 2014. In the same period the number of US Equity REITs increased from 58 to 177, whereas OEREFs increased from 12 to 41 (see Figs. 1 and 2).

Similar to Germany, open-end funds enjoy increasing popularity in many other countries (see Downs et al. 2016). However, some countries have abandoned the open-end fund structure after experiencing problems with the investment vehicle. A prominent example is given by the RODAMCO case in the Netherlands. During the late 1980s, RODAMCO was the world's largest open-end fund. Due to liquidity problems, the fund had to be transformed into a stock-listed closed fund (for more details see Little 1992; Sebastian and Tyrell 2006). Comparable phenomena have been observed for US mutual funds with illiquid assets (Chen et al. 2010).

The next section takes a closer look at the institutional design and the legal environment of OEREFs. In order to better characterize their role within the German financial market, Sect. 3 provides an overview of the historical performance, the portfolio composition, and the amount of assets under management of OEREFs. A review of possible explanations for the track record of German OEREFs and a brief description of the turbulences in the aftermath of the financial crisis are found in Sect. 4. Section 5 contains concluding remarks.

2 Institutional Design and Legal Environment

German OEREFs have to be managed by investment companies (Kapitalverwaltungsgesellschaften). The investment companies themselves are usually owned by banks or insurance companies. This generally implies that investors in open-end funds are different from those of the managing investment company. The investment companies mostly take the legal form of stock or limited liability companies. An OEREF is treated as a special asset and is strictly separated from the other assets of the managing investment company.

The replacement of the Investment Companies Act (Investmentgesetz, InvG) by the Capital Investment Act (Kapitalanlagegesetzbuch, KAGB) in July 2013, constitutes the decisive element of the legal environment of OEREFs. Furthermore, the InvMaRisk (Minimum Standards for Risk Management), a circular published on June 30, 2010 by the Federal Financial Supervisory Authority (BaFin), clarifies 'general' requirements for risk management (e.g., regular stress tests). The implementation of a risk management policy is part of the 'special' requirements (see BaFin Quarterly Q3/10).

According to the KAGB the following aspects are of particular importance:

- An OEREF has to invest a minimum of 51 % of its capital into real estate (§ 253 para. 1 KAGB).
- Risk must be diversified. German OEREFs must not hold a single property that accounts for more than 15 % of a fund's capital. Additionally, the sum of all properties which individually represent more than 10 % of the fund's capital must not exceed 50 % of a fund's capital (§ 243 para. 1 KAGB).
- To ensure fund liquidity, at least 5 % of the fund's assets (but no more than 49 %) must be invested in cash or cash equivalents (§ 253 para. 1 KAGB). The amount of debt relative to the total value of the fund's real estate must not exceed 30 % (§ 254 para. 1 KAGB).

2.1 Liquidity Shortages and Recent Law Reforms

Liquidity transformation, or the financing of long-term real estate investments through daily available shares, inherently bears the risk of liquidity shortages. In spite of this inherent risk, no liquidity shortages occurred during the first 45 years after the introduction of OEREFs in Germany.

The first notable turbulences in the German market started with the announcement from Deutsche Bank on December 11, 2005, of a reappraisal of their largest OEREF, Grundbesitz Invest (market capitalization about 6 billion euros). This notification triggered the first liquidity crisis in the German open-end funds market. Investors were expecting the redemption price to fall sharply and so the fund-run finally led Deutsche Bank (not willing to undertake supporting purchases itself) to suspend redemption. Shortly afterwards, the panic spread to the whole market and finally, on the 17 and 19th of January 2006, two other funds, KanAm Grundinvest and KanAm US-Grundinvest were temporarily closed as well. Yet, on March 3rd (DB Grundbesitz Invest), March 31st (KanAm Grundinvest), April 13th (KanAm US-Grundinvest), 2006 the three funds reopened and continued redemption. Recovery of the funds took place quite fast so that the net capital flow became positive again by the end of 2006. Yet, in the course of the global financial crisis several funds again had to suspend the redemption of shares (see Sect. 4.2).

The German legislature has attempted to solve the problem of liquidity shortages by enacting two significant law changes: First, coming into effect on January 1, 2013, the InvG was changed through the AnsFug (Anlegerschutz- und Funktionsverbesserungsgesetz). The officially stated main objective of the AnsFug was to attenuate the problem of liquidity transformation. Second, about 6 months later, the majority of the changes through the AnsFug subsequently made it into the new KAGB which came into force on July 21, 2013. The following five major changes are finally reflected in the new KAGB.

1. The centerpiece of the reform regulates minimum holding periods and announcement periods for the redemption of shares. Investors must hold new shares for at least 24 months (§ 255 para. 3 KAGB). In addition, the redemption of shares has to be announced at least 12 months in advance (§ 255 para. 4 KAGB).[3]
2. Suspension of redemption is also regulated. Funds are now *obliged* to suspend redemption in case of an imminent liquidity shortage (§ 255 para. 1 KAGB). If funds do not comply with this obligation, the Federal Financial Supervisory Authority (BaFin) is empowered to issue an order to do so (§ 98 para. 3 KAGB).

[3] The former AnsFug regulation allowed private investors to redeem up to 30.000 euros per calendar half-year without announcements. Investors who bought their shares prior to July 20th 2013 still benefit from this rule.

3. There is a compulsory periodic payout to compensate for the minimum holding period and redemption fees. 50 % of the revenues have to be paid out as long as they are not needed for maintenance of the properties (§ 252 para. 2 KAGB).
4. Additional requirements have been placed on property valuation. According to § 249 para. 1S. 1, properties must be valued every 3 months by *two* independent appraisers.[4] If the redemption of shares occurs more frequently than on a quarterly basis, appraisals have to be carried out within the 3 months prior to the redemption date (§ 251 para. 1).[5]
5. Property sale is facilitated. In case of suspension of redemption for more than 12 months, properties can be sold 10 % under the valuation result in order to generate liquidity. After 2 years of suspension, the authorized deviation is increased to 20 %. After 36 months every shareholder can ask for redemption.[6] If there is still not enough liquidity, the management companies loose the right to manage the fund. The fund will then be liquidated. (§ 257 KAGB).

3 Historical Performance and Portfolio Composition

Figure 3 shows the yearly inflation rate and the average return of German OEREFs from 1990 to 2014. From 2008 on, the average return graph (blue line) is also split into two components: returns on active real estate funds (green line) and returns on

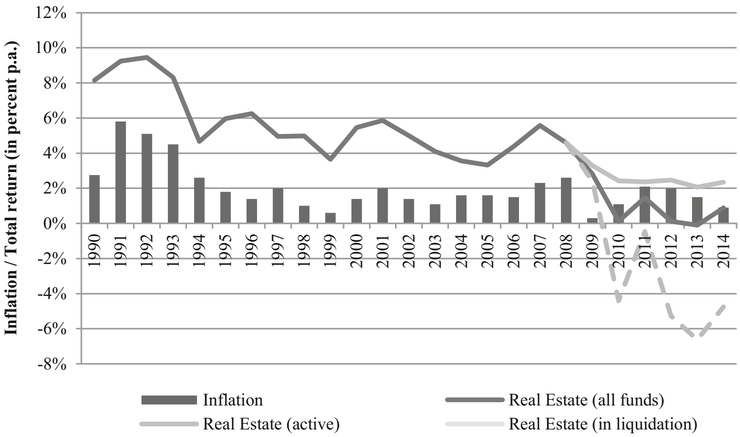

Fig. 3 Inflation and average returns of German OEREFs. *Source*: Until 2007: BVI, Datastream; from 2008: IPD (Ofix—all funds, Ofix—active; Ofix—liquidation)

[4] The AnsFug regulation specified a committee of three appraisers.

[5] The quarterly appraisal frequency was not part of the AnsFug changes.

[6] The former AnsFug regulation specified that investors would be able to demand liquidation after 30 months of suspension.

funds in liquidation (red line). Overall, returns exhibit a fairly high degree of stability, a moderate mean and substantial autocorrelation (Maurer et al. 2004a). Remarkably, prior to 2008, the average return was higher than the inflation rate in each single year, highlighting the inflation hedging characteristics of this asset class. This changed drastically during the financial crisis starting in 2008 when many funds were forced to stop the redemption of shares and sell properties under time pressure to generate liquidity. The red line shows that funds in liquidation significantly underperformed the overall market and even suffered from negative returns. In contrast, active real estate funds continued to beat the inflation rate in each year.

There are two potential explanations for the negative returns of real estate funds in liquidation. First, a recent study of Weistroffer and Sebastian (2015) suggests that in the first fund crisis of 2005/2006 the appraisal values of OEREFs were too high relative to achievable market prices. When the funds must sell off their property portfolios, these overvaluations are finally revealed, resulting in negative appreciation returns due to low sales prices relative to previous appraisal values. This can also be attributed to the funds' appraisal rules which implicitly assume a "going concern" valuation, whereas funds in liquidation had to realize market prices in a downward real estate market during the aftermath of the financial crisis. Second, open-end real estate funds in liquidation are "forced sellers", potential buyers know that the funds must sell, which effectively limits the funds' bargaining power.

The evolution of the composition of fund portfolios is depicted in Fig. 4. The fraction of properties within the average OEREF portfolio remained relatively constant, with an average of 74 %, and an overall range of 10 % points, from 68 to 78 %. The figure shows a fair degree of stability of the ratio of illiquid properties and more liquid assets, such as cash and bonds. Such a portfolio composition reflects the redemption guarantee and the associated need for a liquidity buffer.

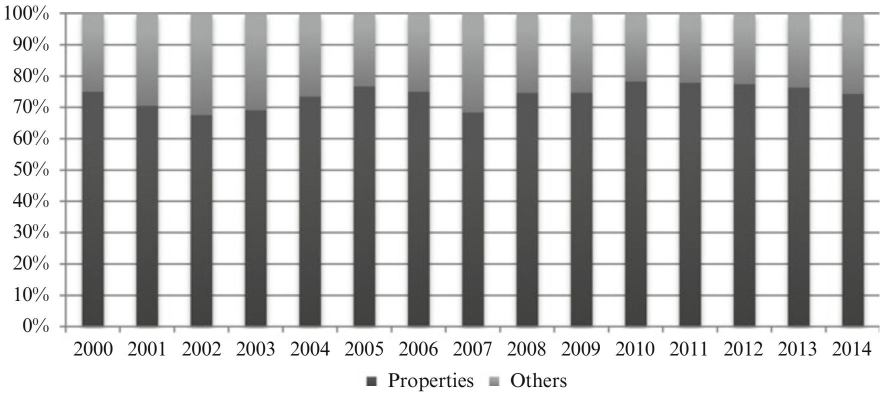

Fig. 4 Portfolio composition. *Source*: German Central Bank, Capital Market Statistic

Table 1 Regional distribution of OEREF investments

Regional focus	31-Jan-1990 (%)	31-Jan-2002 (%)	31-Jan-2014 (%)
Germany	100.00	44.49	25.54
France	0.00	10.15	13.84
UK	0.00	10.24	6.96
Netherlands	0.00	8.77	8.38
Italy	0.00	0.88	7.53
USA	0.00	4.20	4.32
Belgium	0.00	3.39	2.82
Spain	0.00	0.83	7.38
Sweden	0.00	0.00	1.43
Austria	0.00	1.09	1.98
Luxembourg	0.00	0.13	2.47
Others	0.00	15.83	17.35
HHI Region	100	25.47	14.13

Source: Company reports. HHI is the Hirschman-Herfindahl index

Table 2 Sectorial distribution of OEREF investments

Property type focus	31-Jan-1990 (%)	31-Jan-2002 (%)	31-Jan-2014 (%)
Office	59.62	73.86	67.26
Retail	28.12	8.83	17.04
Hotel	7.53	2.14	3.39
Car and parking	0.00	0.29	3.66
Storage and logistic	1.82	5.88	5.67
Residential	2.57	0.16	1.24
Leisure	0.00	0.04	0.71
Others	0.35	8.80	1.03
HHI property type	44.12	56.50	48.74

Source: Company reports

Tables 1 and 2 show the regional and sectorial distribution of investments of OEREFs. In 1990 OEREFs were exclusively investing in Germany with a property type focus on office (59.6 %) and retail (28.1 %). Over the following two decades more and more properties were located in other countries, mostly in France, the Netherlands, and the UK. The decreasing Hirschman-Herfindahl index (HHI)[7] illustrates the increasing international diversification. During in the same period the funds show a tendency to increase their investments in offices (67.3 % in 2014) and decrease their investments in retail property (17.0 % in 2014).

[7] The HHI index is a measure of concentration. The index is bound between values of 0 and 1. The lower the index, the more diverse is the distribution.

4 Understanding the Success of OEREFs in Germany

By the end of 2014, the total fund size of all German OEREFs represented 10.3 % of the total size of all German mutual funds.[8] This indicates that the OEREF construction is well established in the German mutual fund market. Apart from the 2005/2006 liquidity shortage and the current turbulences, German OEREFs have experienced a remarkable track record during the last 50 years. There are two common theoretical arguments of particular importance in explaining this phenomenon, the *liquidity insurance* argument and the *disciplining device* argument (see Bannier et al. 2008). These arguments are discussed below and briefly evaluated with respect to the German institutional design.

The first argument, liquidity insurance, stems from notion that some investors are uncertain about when they will need liquidity. Of course, risk averse investors demand insurance and prefer smooth returns. The possibility of a daily redemption for investors (due to the reformation of the InvG in 2012, this possibility became very limited) served as liquidity guarantee and the risk-aversion assumption implies this insurance to be welfare-enhancing.[9] Moreover, the redemption price, based on expert property valuations, simply results from the fund's total value of assets divided by the number of shares. Since every property was appraised only once a year (or in case of a sell or a buy) this procedure induced a strong smoothing effect and hence low return volatility. However, the liquidity insurance argument is attenuated by a counteracting effect. In order to meet redemption the OEREF is required to invest a considerable part of its capital (see Fig. 4) into liquid assets. This usually lowers the average return of the portfolio below the return that could have been realized through pure long-term property investments. The shorter the average investment horizon of shareholders the more costly the effect becomes.[10]

The second argument focuses on the functioning of liquidity transformation as a disciplining device and follows the reasoning of Calomiris and Kahn (1991) regarding banks that issue demandable-debt (bank notes and giro accounts). The mismatch of the maturity of property investments and that of liabilities creates the possibility of permanent liquidity shortages. Put differently, the redemption guarantee of OEREFs permits investors to 'vote with their feet', redeeming shares means withdrawal of confidence in the fund's management. The obvious incentive to withdraw when monitoring misbehavior of the management is further strengthened as the individual investor may expect the same behavior from other investors. In the extreme case, a fund-run would be the consequence. Therefore, investors observing a declining redemption price may potentially suspect moral hazard that

[8] See the German Association of Investment and Asset Management (BVI) statistics 31/08/2015.

[9] For a detailed discussion on the theoretical aspects of liquidity insurances it is referred to Bryant (1980), Diamond and Dybvig (1983) and Qi (1994).

[10] For example, if the fraction of institutional investors using OEREFs as a giro account (that even pays interest) is sufficiently large, the positive effect of the liquidity insurance may even be outweighed.

possibly even leads to the liquidation of the fund and hence to the sudden liquidation of real estate. The latter in turn is, at least in general, not possible without considerable price reduction. Simply to prevent bankruptcy of the OEREF, the management can be expected to refrain from moral hazard.[11]

An explanation for why liquidity transformation has worked comparatively well as disciplining device in Germany can be found in the aforementioned institutional design. The typical German construction is a universal bank as the owner of an investment company that in turn manages the OEREF viewing it as a special asset. Because the universal bank usually has a huge network of additional business relationships (especially within the real estate market), portfolio restructuring entails small transaction costs. Due to this unique institutional design German OEREF shareholders have an exceptionally strong incentive to monitor the fund's management and hence the redemption guarantee effectively imposes discipline on the behavior of the management.

There is another aspect of the German institutional design that has proven to be one of the main reasons for the success of OEREFs. Because the bank is the typical owner of the investment company it is able to provide OEREFs with additional liquidity in case the funds' liquidity buffers are depleted. Such supporting purchases have, in fact, played an important role in the German OEREF market; for instance, in 2004 during a liquidity shortage of funds managed by DekaBank, HypoVereinsbank, and Commerzbank (cf. Fecht and Wedow 2014).

4.1 The Nature of Liquidity Crises

Understanding the nature of liquidity crises facilitates the understanding of the open-end concept and the related issue of liquidity shortages. It also sheds further light on the recent law reformations. The classification of crises to be considered here distinguishes between *fundamental* and *non-fundamental* crises.

A fundamental crisis is triggered when the price of an OEREF share differs too much from the actual market prices of real estate. There are two reasons why this might occur. Firstly, prices of German OEREFs are quoted once a day whereas property valuation takes place much less frequently. Hence, the price of an OEREF share reflects valuations that are up to 12 month old, which induces a strong smoothing effect (Geltner 1993). Secondly, in practice, appraisals tend to lag behind market prices because appraisals are based on lagged transaction evidence, thus valuation uncertainty of future market developments can be reduced (see Quan and Quigley 1991).[12] As a result, OEREF shares are typically undervalued when the real estate market is booming and overvalued when it is on the downturn. The former scenario creates an incentive to buy and the latter to sell. If this effect is strong enough, it may lead to liquidity shortages. Private investors are usually charged a fee of 5 %, which attenuates the incentive to sell in case of a downturn

[11] Given the one-time benefits resulting from the misbehavior are sufficiently small.

[12] Geltner et al. (2003) surveys several studies on that issue.

in the real estate market. Importantly, institutional investors, who are increasingly investing in OEREFs, are usually not charged these fees.

A non-fundamental crisis is attributed to a self-fulfilling prophecy in the sense that it can be the optimal decision for investors to sell if they expect others to withdraw. If a significant number of investors believe there will be large-scale withdrawals in future, a fund-run may result even though there is no fundamental pricing problem.

4.2 Turbulences in the German Market

Bannier et al. (2008), for instance, categorize the 2005/2006 crisis as a prime example of a non-fundamental liquidity crisis. As explained, the crisis was triggered by the revaluation announcement from Deutsche Bank of its fund Grundbesitz Invest. Remarkably, on March 3, 2006, when Grundbesitz Invest reopened, the redemption price had fallen by less than 2.5 %.

During the course of the worldwide financial crisis, liquidity problems recurred. In 2008 several German OEREFs suspended redemption for considerable periods of time, including large funds such as SEB Immoinvest or CS Euroreal (see Table 3). In 2009, 10 reopenings took place. However, via a press release on September 30, 2010, the first liquidation was announced by the KanAm fund US-Grundbesitz (600 million euros). The Degi Europa and the Morgan Stanley P2 Value followed briefly afterwards, announcing their liquidations in October 2010. The peak of the crisis occurred in 2011 and 2012 when 4 and 7 funds respectively, had to announce their liquidation. The situation cooled down somewhat in 2013 and 2014 with only 4 additional liquidations. Overall, 17 funds went into liquidation between 2010 and 2014. As of October 2015, one fund is closed, and 17 funds are in liquidation (see Table 3).

Thus far, the German OEREF industry seems to be stable. Since July 2013, only one fund (UBS Euroinvest) had to suspend the redemption of shares. Further positive signals are provided by positive net fund flows and new fund openings. Since 2012, net flows into all German OEREFs were consistently higher than 2 billion euros per year. Furthermore three new funds were opened since the peak of the crisis: the KanAm Leading Cities Invest (July 2013), the Deutsche Bank fund grundbesitz Fokus Deutschland (October 2014), and the Fokus Wohnen Deutschland (August 2015) by Industria.

A closer look at the funds that went into liquidation allows for a better understanding of the driving forces behind the stability of the surviving OEREFs. DEGI Europe is an excellent case to examine. When Commerzbank took over Dresdner Bank in January 2009, Dresdner Bank's DEGI Europe fund had already been sold to Aberdeen International. Commerzbank successfully channeled former DEGI investors from Dresdner Bank into their own open-end funds. This sudden loss of many investors has put DEGI, and thus Aberdeen International, under pressure. Likewise, the majority of the funds that went into liquidation suffered from a relatively weak distribution system. In contrast, funds managed by affiliated companies of powerful banks that provided distribution expertise and may also undertake supporting purchases [as is the case, e.g., for Grundbesitz (Deutsche

Table 3 Suspension and liquidation history of German OEREFs

Fund name	Investment trust	Suspension	Reopening	Liquidation since
grundbesitz europa	RREEF Investment	3-Dec-2005	3-Mar-2006	–
KanAm US-grundinvest Fonds	KanAm Grund	17-Jan-2006	13-Apr-2006	–
KanAm grundinvest Fonds	KanAm Grund	19-Jan-2006	31-Mar-2006	–
KanAm US-grundinvest Fonds	KanAm Grund	24-Oct-2008	–	30-Sep-2010
AXA Immoselect	AXA Investment Managers	27-Oct-2008	28-Aug-2009	–
KanAm grundinvest Fonds	KanAm Grund	27-Oct-2008	8-Jul-2009	–
Catella Focus Nordic Cities	Catella	28-Oct-2008	28-Jan-2009	–
TMW Immobilien Weltfonds	Pramerica	28-Oct-2008	11-Dec-2009	–
CS EUROREAL A CHF	CSAM IMMO	29-Oct-2008	30-Jun-2009	–
CS EUROREAL A EUR	CSAM IMMO	29-Oct-2008	30-Jun-2009	–
SEB ImmoInvest	SEB Asset Management AG	29-Oct-2008	2-Jun-2009	–
DEGI EUROPA	Aberdeen	30-Oct-2008	–	22-Oct-2010
DEGI INTERNATIONAL	Aberdeen	30-Oct-2008	30-Jan-2009	–
Morgan Stanley P2 Value	Morgan Stanley	30-Oct-2008	–	26-Oct-2010
UBS (D) 3 Sector Real Estate Europe	UBS RE KAG	30-Oct-2008	27-Oct-2009	–
UBS (D) Euroinvest Immobilien	UBS RE KAG	30-Oct-2008	6-Aug-2009	–
DEGI GLOBAL BUSINESS	Aberdeen	11-Nov-2009	–	18-Aug-2011
DEGI INTERNATIONAL	Aberdeen	16-Nov-2009	–	25-Oct-2011
AXA Immoselect	AXA Investment Managers	17-Nov-2009	–	20-Oct-2011
TMW Immobilien Weltfonds	Pramerica	8-Feb-2010	–	31-May-2011
KanAm grundinvest Fonds	KanAm Grund	5-May-2010	–	01-Mar-2012
SEB ImmoInvest	SEB Asset Management AG	6-May-2010	–	07-May-2012

(continued)

Table 3 (continued)

Fund name	Investment trust	Suspension	Reopening	Liquidation since
CS EUROREAL A CHF	CSAM IMMO	18-May-2010	–	21-May-2012
CS EUROREAL A EUR	CSAM IMMO	18-May-2010	–	21-May-2012
AXA Immosolutions	AXA Investment Managers	26-May-2010	–	15-May-2012
UBS (D) 3 Sector Real Estate Europe	UBS RE KAG	6-Oct-2010	–	5-Sep-2012
DEGI GERMAN BUSINESS	DEGI	29-Nov-2010	–	29-Nov-2012
UniImmo: Global	Union Investment Real Estate	17-Mar-2011	17-Jun-2011	–
SEB Global Property	SEB Asset Management AG	16-Dec-2011	–	05-Dec-2013
KanAm SPEZIAL grundinvest Fonds	KanAm Grund	2-Feb-2012	–	16-Dec-2013
CS Property Dynamic	CSAM IMMO	30-Mar-2012	–	31-Mar-2014
SEB Immoportfolio Target Return	SEB Asset Management AG	13-Jun-2012	–	5-Jun-2014
UBS Euroinvest	UBS RE KAG	4-Jul-2014	04.07.2016[a]	–

Source: Bundesanzeiger, company announcements
[a]Planned reopening date, if unsuccessful, the fund will liquidate

Bank), Hausinvest (Commerzbank) or Deka (Sparkassen)] performed quite well. In that sense, the recent liquidity crisis may be a shakeout separating the weaker funds from those that exhibit the institutional conditions to overcome turbulent times.

5 Concluding Remarks

In terms of size, OEREFs are the most important German securitized real estate investment vehicle. Until the recent liquidity crisis, the *daily* redemption guarantee on the one hand, and the *long-term* real estate investments on the other hand, constituted the core competency of German OEREFs: liquidity transformation. For decades, liquidity buffers appeared to be sufficient to sustain this function. This changed with the liquidity crisis of 2005/2006 and the turbulences in the aftermath of the financial crisis.

The legislature responded with a reformation of the regulatory regime in order to optimize the functioning of OEREFs and to improve investors' protection.[13] The

[13] In contrast, the regulation of special funds, which were much less affected by the financial crisis, remained largely unchanged.

most important changes concern the restriction of the daily redemption guarantee, the reformation of the property valuation regime and the facilitation of suspending redemptions as well as fund liquidations.

The new framework for property valuations decreases the probability of a fundamental liquidity crisis, since it reduces the gap between prices of OEREF shares and real estate market prices.

The centerpiece of the law reformation is the introduction of the minimum holding period of 24 months and the announcement period of 12 months. This change effectively led to the disposal of the daily redemption guarantee for new investors, although old investors who bought their shares prior to 2013 may still redeem up to 30,000 euros per calendar half-year without any restrictions.

Going forward, the share of new investors will finally surpass old investors. While the degree of liquidity transformation provided by OEREFs is reduced, investors now benefit from more security through a reduction in liquidity risk. In addition to the law changes, investors who buy new fund shares now must be explicitly warned that the redemption may be suspended (judgement by the Higher Regional Court of Frankfurt from February 13, 2013). This warning will reduce the misuse of OEREFs as a substitute for a temporary money investment.

Overall, the law reformations have led to a stabilization of the German OEREF industry by bringing the characteristics of the investment vehicle more in line with the illiquid nature of the underlying property investments.

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