

# ADVERSITY MAKES A COMEBACK

After enjoying a partial recovery from the decimation of 2008-09, the past year has seen a return to tough times for fund managers. Bridget O'Connell looks at who fared best and worst

**H**aving seen the recession wipe more than 40% off the value of their assets, the UK's largest 59 property fund managers clawed back a combined £23bn in the 12 months to June 2010, pushing the value of their UK assets under management to £152bn.

The next 12 months were not quite so pretty.

According to new numbers compiled exclusively for *Estates Gazette* by Property Funds Research for the year to June 2011, assets under

management (AUM) grew by a comparatively slight £4.3bn – or 2.8% – to £156.3bn for the top 51 managers.

The free ride is over.

After being buoyed by a strong recovery in values that kicked off in 2009 and lasted for around 18 months, fund managers are now operating in an environment where rising capital values are a fond but distant memory.

In the 12-month period under review, the IPD index showed a 2% increase in capital values. The monthly increase has slowed even more since then, although it

stubbornly clings on to positive territory.

The slowdown in capital value growth goes a long way

## SLOW PROGRESS

# £156.3bn

The total value of the UK's biggest property funds in 2011

# £152bn

The total value of the UK's biggest property funds in 2010

towards explaining the stagnation of the AUM figure, which is stuck at a level that is far less than the 2007 peak, when the top 54 largest managers weighed in at a gargantuan £216bn. Income is now the all-important component of total returns.

Legacy issues from the property crash, including the restructuring or repositioning of debt-laden funds, were also still being addressed during the period under review.

On top of this, the fundraising environment was extremely difficult. Although there was a short-lived yet



exuberant return to net inflows following the dark days of 2008 and 2009, when investors rushed for the exit, the trend since then has been a gentle yet steady decline in inflows.

Figures from the Association of Real Estate Funds show that net inflows were £994m over the 12 months to June. This is a huge drop on the previous months, when net inflows ran to £5.8bn – the highest figure on record since 1998.

And even if fund managers were able to raise money, it was not always easy to deploy, as competition for coveted stock

from cash-rich private investors and foreign buyers drove up prices.

Throughout this tumultuous period, Aviva Investors has maintained its spot as the investment manager with the most UK assets under its control. This year was no different as it comes in number one for the eighth year in a row after it added a further 8% to its UK portfolio, taking its AUM to £19.7bn.

It was followed by PRUPIM, which rose by 5% to £13.3bn to maintain second place, while Standard Life usurped Legal & General to return to third place.

## TOP MANAGERS BY TOTAL VALUE OF UK ASSETS UNDER MANAGEMENT

| Rank 2011        | Rank 2010 | Company                                 | Total real estate assets (£m) 2011 | Change (%) |
|------------------|-----------|-----------------------------------------|------------------------------------|------------|
| <b>Top 10</b>    |           |                                         |                                    |            |
| ● 1              | 1         | Aviva Investors                         | 19,695                             | 8          |
| ● 2              | 2         | PRUPIM                                  | 13,260                             | 5          |
| ▲ 3              | 4         | Standard Life Investments               | 10,400                             | 31         |
| ▼ 4              | 3         | Legal & General Property                | 10,300                             | 1          |
| ▲ 5              | 11        | Scottish Widows Investment Partnership  | 8,147                              | 50         |
| ▼ 6              | 5         | LaSalle Investment Management           | 7,200                              | -1         |
| ▲ 7              | 12        | Henderson Global Investors              | 6,793                              | 27         |
| ▼ 8              | 6         | Schroder Property Investment Management | 6,247                              | -26        |
| ▼ 9              | 8         | ING REIM                                | 6,080                              | 7.5        |
| ● 10             | 10        | Threadneedle Property Investments       | 6,073                              | 10         |
| <b>Top 11-20</b> |           |                                         |                                    |            |
| ▲ 11             | 14        | F&C REIT                                | 5,160                              | 7.5        |
| ▼ 12             | 9         | Hermes REIM                             | 5,062                              | 11         |
| ▼ 13             | 7         | Aberdeen Property Investors             | 4,995                              | -18        |
| ▼ 14             | 13        | CB Richard Ellis Investors*             | 4,777                              | 5          |
| ▲ 15             | 16        | AXA REIM (AXA Real Estate)              | 4,515                              | 7.5        |
| ▲ 16             | 23        | Ignis Asset Management                  | 3,300                              | 27         |
| ▲ 17             | 20        | DTZ Investment Management               | 3,206                              | 40         |
| ▲ 18             | 27        | Orchard Street Investment Management    | 2,512                              | 57         |
| ▲ 19             | 22        | RREEF                                   | 2,391                              | 17         |
| ▼ 20             | 18        | Royal London Asset Management           | 2,371                              | 2          |
| <b>Top 21-30</b> |           |                                         |                                    |            |
| ▼ 21             | 17        | Rockspring Property Investment Managers | 2,275                              | -12.5      |
| ▼ 22             | 21        | BlackRock                               | 2,120                              | 3          |
| ▲ 23             | 26        | Grosvenor Fund Management               | 2,071                              | 15         |
| ● 24             | -         | JP Morgan Asset Management              | 1,906                              | -          |
| ● 25             | 25        | UBS Global Asset Management             | 1,511                              | -18        |
| ▲ 26             | 30        | Highcross Strategic Advisers            | 1,300                              | 8          |
| ▲ 27             | 29        | BNP Paribas RE Investment Management    | 1,286                              | 2.6        |
| ● 28             | 33        | Cordea Savills LLP                      | 1,263                              | 8          |
| ● 29             | 34        | Cushman & Wakefield Investors           | 977                                | -1         |
| ● 30             | 35        | Lothbury                                | 883                                | 19         |
| <b>Top 31-40</b> |           |                                         |                                    |            |
| ▼ 31             | 32        | Valad Property Group                    | 827                                | -25        |
| ▼ 32             | -         | Pramerica Real Estate Investors         | 712                                | -          |
| ▲ 33             | 45        | Invesco Real Estate                     | 700                                | 103        |
| ▲ 34             | 37        | Knight Frank Investors                  | 683                                | 33         |
| ▲ 35             | 36        | LVAM                                    | 650                                | -12        |
| ▲ 36             | 38        | Colliers Capital                        | 530                                | 3          |
| ▲ 37             | 40        | Cluttons                                | 500                                | 11         |
| ▲ 38             | 50        | MGPA                                    | 401                                | 0          |
| ▲ 39             | 41        | Cornerstone Real Estate Advisers        | 399                                | -10        |
| ▲ 40             | 44        | Grainger Group                          | 384                                | 5          |
| <b>Top 41-51</b> |           |                                         |                                    |            |
| ▲ 41             | 46        | Doughty Hanson & Co                     | 384                                | 5          |
| ▲ 42             | 47        | Franklin Templeton                      | 362                                | -6         |
| ▲ 43             | 48        | Mountgrange Investment Management       | 306                                | 0          |
| ▲ 44             | 49        | Palmer Capital Partners                 | 270                                | 8          |
| ● 45             | -         | Pradera                                 | 240                                | -          |
| ● 46             | -         | Russell Investments                     | 227                                | -          |
| ▲ 47             | 51        | Rugby Asset Management                  | 160                                | -28        |
| ▲ 48             | 53        | Evolve                                  | 135                                | 4          |
| ● 49             | -         | Patron Capital                          | 100                                | -          |
| ● 50             | -         | First Property                          | 85                                 | -33        |
| ● 51             | -         | Reech CBRE Alternative Real Estate      | 70                                 | -31        |

\*excludes assets held by GMM and Clarion Securities' public REIT

## SNAPSHOT

50%

Increase in value of SWIP's UK assets under management

8

Number of years running that Aviva has topped the table

51

Number of fund managers participating in the research

"The old pooled fund model with 50 investors is gone. Now you need to find the right product in the right location"

"The headwind is tenant risk due to economic uncertainty. But strong property returns provide a tailwind"

However, a period of mandate maturities and consolidation has resulted in some major changes in the rest of the ranks, notably Scottish Widows Investment Partnership, which increased its AUM by 50% to £8.1bn.

This hike – after it took control of £2.4bn of Lloyds Banking Group funds formerly managed by Invista Real Estate Investment Management – propelled it into fifth position from 11th.

It was the proceeding wind-down of Invista – a name that has disappeared from the table this year – which also resulted

in a 57% boost to Orchard Street Capital's AUM following the end of the period but reflected in its 18th place in the table (see box, below).

Henderson Global Investors has made an appearance in the top ten this year after amassing a 27% hike in its AUM on the back of its purchase of a £871m 50% stake in Westfield Stratford on behalf of APG and Canada Pension Plan Investment Board.

According to PFR, firms that have slipped down the ranks include Aberdeen Property Investors which lost 18% from its AUM. It is understood that

this was because of the loss of one "fairly large" institutional mandate.

UBS also saw its AUM diminish by 18%, or £350m, to £1.5bn, although this did not affect its 25th-place ranking. The reduction followed the sale of its Secure Income Property Fund to Pramerica and a trail of redemptions from Triton.

CBRE's \$900m purchase of ING Real Estate Investment Management dominated headlines for much of the year, although it only completed this week. Based on the current UK AUM figures, the new

### ST JAMES'S TAKES ROOT IN ORCHARD STREET

It has been a big year for Orchard Street Investment Management.

In July this year, the fund manager, a relative minnow in the sector, was selected to manage St James's Place's property assets, valued at more than £800m, after it

terminated its contract with Invista.

The win boosted Orchard Street's UK AUM by 57%, propelling it into 18th slot, up from 27th last year on up-to-date numbers.

At a recent meeting with St James's Place's chief investment officer, Chris Ralph, and Orchard Street co-founder and chairman, Chris Bartram,

Ralph explained that the background of corporate change at Invista drove the decision to leave its inaugural property fund manager.

"The Invista management team couldn't describe the journey they were on, so we had to take an objective, rational decision and felt it was not in our best interests to continue that relationship."

## NUMBER AND VALUE OF UK VEHICLES

| Rank 2011        | Rank 2010 | Manager                                 | Total number 2011 | 1: Value of UK vehicles 2011 (£m) | 2: Col 1+ multi-country fund assets |
|------------------|-----------|-----------------------------------------|-------------------|-----------------------------------|-------------------------------------|
| <b>Top 10</b>    |           |                                         |                   |                                   |                                     |
| ● 1              | 1         | Aviva Investors                         | 25                | 9,558                             | 9,601                               |
| ▲ 2              | 3         | Legal & General Property Limited        | 15                | 7,257                             | 7,257                               |
| ▼ 3              | 2         | Standard Life                           | 11                | 6,083                             | 6,128                               |
| ▲ 4              | 5         | Schroder Property Investment Management | 14                | 5,615                             | 5,615                               |
| ▼ 5              | 4         | Henderson Global Investors              | 14                | 4,849                             | 4,849                               |
| ● 6              | 6         | Scottish Widows Investment Partnership  | 1                 | 3,622                             | 3,622                               |
| ● 7              | 7         | PRUPIM                                  | 8                 | 3,482                             | 3,482                               |
| ▲ 8              | 9         | Threadneedle Property Investments       | 7                 | 3,232                             | 3,232                               |
| ▲ 9              | 10        | ING Real Estate Investment Management   | 8                 | 2,364                             | 2,364                               |
| ▼ 10             | 8         | Hermes REIM Limited                     | 4                 | 2,356                             | 2,356                               |
| <b>Top 11-20</b> |           |                                         |                   |                                   |                                     |
| ● 11             | 11        | BlackRock                               | 1                 | 2,300                             | 2,300                               |
| ▲ 12             | 14        | Grosvenor Fund Management               | 6                 | 2,021                             | 2,021                               |
| ▲ 13             | 18        | Ignis Asset Management                  | 2                 | 2,000                             | 2,000                               |
| ▲ 14             | 12        | Rockspring Property Investment Managers | 4                 | 1,356                             | 1,483                               |
| ▲ 15             | 20        | Highcross Strategic Advisers Ltd        | 3                 | 1,300                             | 1,300                               |
| ▲ 16             | 17        | AXA REIM UK                             | 4                 | 1,285                             | 1,370                               |
| ▲ 17             | 22        | F&C REIT Property Asset Management      | 3                 | 1,157                             | 1,157                               |
| ▼ 18             | 15        | UBS Global Asset Management (UK) Ltd    | 2                 | 1,073                             | 1,394                               |
| ▲ 19             | 26        | Lothbury                                | 3                 | 864                               | 864                                 |
| ▲ 20             | 21        | Valad Property Group                    | 6                 | 827                               | 827                                 |

company, CBRE Global Investors, would catapult into third place, shaking up the top five rankings.

It was an eventful and tough 12 months, and no-one expects the next 12 to be any easier.

The holy grail of income will continue to dictate activity for the next 12 months. Henderson Global Investors' head of global property investment, Mike Sales explains: "Everyone is searching for assets that offer the highest yield but will still provide equity protection."

He also added that the fundraising environment is expected to continue to be

challenging. "The old pooled fund model with 50 investors is gone. Now you need to find the right product in the right location, which offers the right returns to get investors interested," he said.

"And even then you are not talking about 20 investors. It's more like a club of four or five like-minded parties."

Managers are expected to continue to look at new funds tapping into areas such as debt to deliver returns, or inflation-hedging products and vehicles that match pension fund liabilities, according to UBS executive director, global real

The selection of Orchard Street – from a handful of shortlisted parties which Ralph unsurprisingly demurs from sharing – was driven by a "desire for a long-term relationship" with a manager "where there is an alignment of interests".

For Orchard Street, which was founded by former Haslemere chief executive

Bartram in 2004 in partnership with ex-Haslemere colleagues David Lee and Gary Felce, the mandate presents an opportunity.

"It is unusual for a firm such as ours, which specialises in segregated mandates, to have a strong relationship with a major player in the private savings market. We see it as a joint venture."

## DISCRETIONARY UK MANDATES

| Rank 2011        | Rank 2010 | Manager                                     | Number of Discretionary mandates | Value of mandate |
|------------------|-----------|---------------------------------------------|----------------------------------|------------------|
| <b>Top 10</b>    |           |                                             |                                  |                  |
| ▲ 1              | 2         | Aviva Investors                             | 48                               | 10,093           |
| ▼ 2              | 1         | PRUPIM                                      | 10                               | 8,916            |
| ▲ 3              | 3         | LaSalle Investment Management               | 22                               | 6,600            |
| ▲ 4              | 12        | Scottish Widows Investment Partnership      | 8                                | 4,525            |
| ● 5              | 5         | CBRE Investors                              | 28                               | 3,921            |
| ▲ 6              | 11        | AXA REIM UK                                 | 6                                | 3,145            |
| ▼ 7              | 4         | Legal & General Property Limited            | 3                                | 2,999            |
| ● 8              | 8         | Threadneedle Property Investments           | 4                                | 2,841            |
| ● 9              | 9         | Hermes REIM Limited                         | 1                                | 2,707            |
| ▲ 10             | 16        | Orchard Street Investment Management        | 2                                | 2,450            |
| <b>Top 11-20</b> |           |                                             |                                  |                  |
| ▲ 11             | 14        | DTZ Investment Management Ltd               | 11                               | 2,411            |
| ▼ 12             | 6         | ING Real Estate Investment Management       | 3                                | 2,253            |
| ● 13             | 13        | Royal London Asset Management               | 3                                | 2,163            |
| ▼ 14             | 10        | Aberdeen Property Investors                 | 7                                | 2,083            |
| ▲ 15             | 19        | Standard Life                               | 3                                | 1,852            |
| ▼ 16             | 15        | Schroder Property Investment Management Ltd | 29                               | 1,791            |
| ▲ 17             | 20        | Henderson Global Investors                  | 10                               | 1,652            |
| ▼ 18             | 17        | F&C REIT Property Asset Management          | 5                                | 1,099            |
| ▼ 19             | 18        | BNP Paribas REIM (UK) Ltd                   | 1                                | 853              |
| ▲ 20             | 29        | Cushman & Wakefield Investors               | 5                                | 841              |

estate, Justin Brown.

The recent economic turmoil and market volatility in Europe has not yet fed through into any numbers and it is difficult to discern exactly what effect these factors might have.

Anecdotal evidence indicates a move by fund managers to either "wait and see" mode, while others are beginning to begin to offload more stock as worries about redemptions resurface.

Others argue that the low interest rates in Europe and the UK could encourage more money into real estate, which is offering attractive returns

compared to bonds.

Pension funds subject to periodic actuarial reviews in April and May next year have an even greater reason to keep activity to a minimum.

Brown sums it up: "There is going to be an ebb and flow, rather than an avalanche, into and out of real estate."

He adds: "The headwind is economic uncertainty creating a risk of tenant failures that hit income returns. But the tailwind is that property offers relatively attractive returns of around 6% when compared with gilt yields of closer to 2%."

He adds that for a firm that was founded on the basis of just one major pension fund client and has added two more major clients over its seven-year lifetime, it presents "a very powerful new avenue".

However, this will not distract Bartram and his team, including partner John Humberstone, from the task of taking over management of the

fund and integrating six former Invista staff into what is now a 17-strong team.

Management of the two funds' current assets, which number around 59, is going to be "evolution, not revolution", according to Bartram. It will also involve the investment of around £200m of cash from the vehicles, which will target retail and multi-let assets.