



LIGHT AT THE END OF THE TUNNEL

Following a torrid two years, fund managers have seen UK assets under management rise 17% this year. Bridget O'Connell reports on who is making the most of the bounce

After two years marred by plummeting values and redemptions, property fund managers are hoping that a full recovery could at last be within sight.

Having seen the recession wipe more than 40% off the value of their funds, the UK's largest 59 fund managers clawed back a combined £23bn in the 12 months to June 2010.

This 17% rise in asset values means that, according to the latest annual survey of fund managers by research firm Property Funds Research for *Estates Gazette*, the top property fund managers are now overseeing UK assets totalling £152bn.

However, this figure is still a long way off the 2007 peak, when the top 54 largest managers weighed in at a gargantuan £216bn.

This year's rise has been driven by a combination of factors. Firstly, the recovery in values – the IPD index posted a 16.6% increase in capital values over the 12-month period to June 2010.

Secondly, managers saw a return to net inflows as investors ventured back to the market – a change from the dark days of 2008 and 2009 when a wave of redemptions meant that cash was in very short supply.

Net inflows were £5.8bn over the 12 months to June which, according to the Association of Real Estate Funds, was the highest figure on record since 1998.

The strength of the rebound

TOP MANAGERS BY TOTAL VALUE OF ASSETS UNDER MANAGEMENT

Rank 2010	Rank 2009	Company	Total real estate assets (£m) 2010	Change (%)
Top 10				
● 1	1	Aviva Investors	18,249	16.97
● 2	2	PRUPIM	12,657	20.24
▲ 3	5	Legal & General Property	9,300	53.94
▼ 4	3	Standard Life Investments	7,957	14.18
▲ 5	7	LaSalle Investment Management	7,289	42.92
▲ 6	11	Schroder Property Investment Management	6,308	48.43
▼ 7	6	Aberdeen Property Investors	6,039	12.88
▲ 8	15	ING REIM	5,730	48.45
▼ 9	4	Hermes REIM	5,717	-12.38
▲ 10	16	Threadneedle Property Investments	5,529	43.80
Top 11-20				
▲ 11	12	Scottish Widows Investment Partnership	5,424	31.04
▲ 12	13	Henderson Global Investors	5,316	29.79
▼ 13	10	CB Richard Ellis Investors	5,047	16.00
▼ 14	8	F&C REIT	4,800	3.58
▼ 15	9	Invista REIM	4,581	2.17
▼ 16	14	AXA REIM (AXA Real Estate)	4,200	6.60
▲ 17	27	Rockspring Property Investment Managers	2,600	105.37
▲ 18	19	Royal London Asset Management	2,330	24.33
▲ 19	28	Unite Group	2,296	83.68
▲ 20	32	DTZ Investment Management	2,285	131.04
Top 21-30				
▲ 21	23	BlackRock	2,050	21.81
▼ 22	18	RREEF	2,047	-22.29
▲ 23	25	Ignis Asset Management	2,004	22.27
▼ 24	21	Brandeaux Managers	1,886	10.29
▼ 25	20	UBS Global Asset Management	1,861	4.52
● 26	26	Grosvenor Fund Management	1,797	12.02
▲ 27	-	Orchard Street Investment Management	1,600	-
▼ 28	19	Warner Estate Holdings*	1,400	-17.65
▼ 29	30	BNP Paribas RE Investment Management	1,254	12.57
▲ 30	-	Highcross Strategic Advisers	1,200	-

* Includes JV assets

was illustrated in November last year when two of the UK's oldest blue-chip institutional property fund managers – Hermes and Threadneedle – set up measures to limit cash inflows because of the sheer weight of money trying to enter the property sector.

Aviva Investors held onto the top spot for the seventh year in a row with total property assets under management of £18.2bn.

It was followed by PRUPIM which manages assets worth

BOUNCING BACK

£152bn

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

£130bn

The total value of the UK's biggest property funds in 2009

£12.6bn, and Legal & General, with AUM of £9.3bn.

Among the top-20 ranked managers, just one firm – Hermes Real Estate Investment Management – experienced a decrease in AUM over the 12-month period. This can be explained by the loss in April of its contract to manage the Royal Mail Pension Plan's £1.6bn property portfolio, after more than 27 years.

The loss not only contributed to a 12% reduction in the firm's AUM to £5.7bn, but also pushed it out of the top five.

Conversely, LaSalle Investment Management, which won the coveted

mandate, has climbed from seventh to fifth place with assets of £7.2bn.

Mandate wins also boosted smaller players such as Rockspring Property Investment Management, which more than doubled its managed assets to £2.6bn after being appointed by the National Pension Service of Korea to invest up to \$1bn.

DTZ Investment Management grew its managed assets by a massive 131% over the period, which included winning a property investment mandate from Strathclyde council to run its £750m property portfolio.

According to PFR, companies that have slipped down the ranks of the top-20 include F&C REIT Property Asset Management and Invista Real Estate Investment Management.

Both firms dropped six places because their AUM remained relatively stable, growing 3.6% and 2.2% respectively, allowing other companies to leapfrog them.

Invesco Real Estate experienced the most dramatic ratings fall. It dropped from 29th to 45th position as its AUM plummeted by 70%, partly due to the loss of a £700m advisory mandate which was taken in house by a client.

Although fund managers now have some positive results to report to investors, there is still a considerable degree of caution in the market.

Investors, concerned about the effects that government cuts could have on the economy, and still wary of a double dip recession, are putting their money where their mouths are.

"The recovery story is no longer attractive given the economic uncertainty," says Jason Rodrigues, investment analyst at Henderson Global Investors.

"The funds being promoted are more defensive. Those that invest in assets with long leases and secure income, and which undertake little or no development, are appealing."

According to PFR, 20 funds were launched in the past

nine months. These include Legal & General's £500m Limited Price Inflation Income Property Fund, which targets property with long leases and aims to meet the need among defined benefit pension schemes for stable long-term income.

The lack of bank financing has also encouraged the emergence this year of funds targeting structured debt, such as LaSalle Investment Management's Special Situations vehicle.

The period also saw more consolidation. In November 2009, US investor Cornerstone bought Protego Real Estate Investors for £25m and, in May 2010, ING UK REIT successfully acquired rival Rugby REIT.

More activity is expected across the board. Dutch bank ING is in the process of finding a buyer for its property fund management arm, ING Real Estate Fund Management Investment, with three US bidders vying for the business.

And prospective buyers are already circling the UK's largest listed property fund manager, Invista REIM, after Lloyds Banking Group last month began withdrawing £2.4bn of mandates.

As the Lloyds mandates account for 39% of Invista's asset management revenue, the bank's move gave the manager little choice but to put itself up for sale.

Some managers suggest that the smaller investment houses – hit by the costs of increasing corporate governance and regulatory requirements – will push to consolidate in a bid to reduce overheads.

However, Alex Price, chief executive of Palmer Capital Partners, says that most movement could be seen in the middle ground. "Investors still want to see some smaller, nimble companies, as well as the longstanding leviathans of the industry," he says.

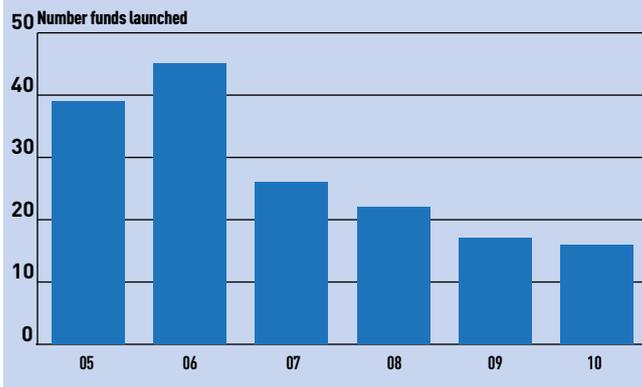
"There is room for a number of big insurance players in the market, such as AXA and PRUPIM, and for smaller niche fund management businesses."

And in this new world, fund managers will have to work harder for their money according to Legal & General's managing director of property, Bill Hughes.

"We are in the sort of market

NUMBER OF UK PROPERTY FUNDS LAUNCHED SINCE THE BOOM

The number of property funds launched in the UK has fallen significantly since the boom years of 2005 and 2006. In 2006, managers launched a total of 45 funds in a bid to take advantage of growing investor appetite. Since the recession, this number has fallen, and in 2010 PFR recorded just 16 launches.



BIGGEST VEHICLES LAUNCHED OVER THE 9 MONTHS TO JUNE

Name	Manager	Type	Target sector	Launch	Target GAV (£m)
Altyon Fund	Altyon	LP	Commercial	Sep-09	1,000
Mansion Student Accommodation Fund	PSG Fund Management	Investment Co	Residential	Oct-09	1,000
Rockspring UK Value Fund	Rockspring Property IM	LP	Diversified	Nov-09	600
Sustainable Property Fund	Bridges Ventures	LP	Diversified	Nov-09	85
Cordea Savills UK Income & Growth Fund	Cordea Savills	PUT	Commercial	Dec-09	500
Aviva Investors UK RE Recovery Fund	Aviva Investors	PUT	Diversified	Jan-10	250
CR Property Fund	British Land Fund Management	LLC	Residential	Jan 10	300*
Aegon Target Healthcare PUT	AEGON Asset Management	PUT	Health/education	Feb 10	300
Columbus UK Real Estate Fund	Schroder Property Invest Mgt	LP	Diversified	Feb 10	500
UK Pension Property Portfolio	First Property Asset Management	LP	Commercial	Feb 10	106
Limited Price Inflation Income Prop F'd	Legal & General Property	Managed fund	Diversified	Feb 10	500
Aegon Active Value Property Fund	AEGON Asset Management	Managed fund	Diversified	Mar 10	300-500
evolve All Saints Property	evolve Fund Services	LP	Diversified	Mar 10	100
UK Property Income Fund	Legal & General Property	LP	Diversified	Mar 10	1,000
Henderson Central London Office Fund II	Henderson Global Investors	LP	Office	Jun 10	500

* Target equity

LP = limited partnership; PUT = property unit trust; LLC = limited liability company

RISE IN VALUES

£15.2bn

Combined gross asset value of top 10 property funds in 2010

£13.4bn

Combined gross asset value of top 10 property funds in 2009

where the difference between the best and the worst fund managers will be wider than normal because success will be driven by sourcing skills and active management, so you have to pick the managers that can repeatedly add alpha.”

“Those who just deliver market returns will come in for more scrutiny on things like fee rates, transparency, alignment of interest, and the quality of corporate governance.

“Managers guilty of asset accumulation – that is, organisations who get paid fees based on gross asset value, those that just accumulate assets by using debt because that enhances their fees – have been found out. This is a manager-motivated model which only works in an upward-only market, and pays insufficient regard to the views of investors.”

TOP VEHICLES BY GROSS ASSET VALUE

Rank 2010	Rank 2009	Vehicle	Manager	GAV (£m) 2010	Change (%)
Top 10					
▲ 1	2	BlackRock UK Property Fund	BlackRock (Channel Islands)	2,050	25.30
▲ 2	7	Aviva Investors Property Trust	Aviva Investors	1,840	41.17
▼ 3	1	Hercules Unit Trust	Schroder Property Managers (Jersey)	1,645	-0.45
▲ 4	11	SWIP Property Trust	Scottish Widows Investment Partnership	1,633	83.63
▼ 5	3	Standard Life Pooled Pension	Standard Life Investments	1,627	9.29
▼ 6	4	Mall Fund	Aviva Investors	1,387	-5.59
▲ 7	8	Trust	Standard Life Investments	1,285	13.62
▼ 8	6	Arlington Business Parks Partnership	Legal & General Property	1,281	-3.47
▲ 9	23	M&G Property Portfolio	Prudential Property Investment Managers	1,240	119.36
▼ 10	9	Schroder Exempt Property Unit Trust	Schroder Property Investment Management	1,197	6.38
Top 11-25					
▲ 11	21	Aviva Investors Pensions-Property Fund	Aviva Investors	1,133	82.37
▼ 12	5	UBS Triton Property Fund	UBS Global Asset Management (UK)	1,124	-17.36
▼ 13	10	Unite UK Student Accommodation Fund	Unite Group	1,044	16.78
▼ 14	13	Henderson UK Retail Warehouse Fund	Henderson Global Investors	1,058	28.40
▲ 15	-	AEGON UK Property Fund	AEGON Asset Management	1,055	-
▲ 16	-	Managed Property Fund	Legal & General Property	1,041	-
▲ 17	-	Threadneedle Pensions	Threadneedle Property Investments	943	-
▼ 18	15	F&C Commercial Property Trust	F&C REIT Asset Management	934	25.12
▲ 19	-	Ignis UK Commercial Property Trust	Ignis Asset Management	873	-
▲ 20	-	Henderson UK Property Unit Trust	Henderson Global Investors	812	-
▲ 21	22	Standard Life Investments UK Retail Park Trust	Standard Life Investments	796	40.14
▼ 22	16	Brandeaux Student Accommodation Fund (Sterling)	Brandeaux Managers	773	5.18
▼ 23	18	Industrial Property Investment Fund	Legal & General Property	746	14.08
▲ 24	12	Glanmore Property Fund	Deutsche Bank Private Wealth Management	736	-16.04
▲ 25	14	Quercus Healthcare Fund	Aviva Investors	683	-10.02

MARKET MAKERS: THE OUTLOOK FOR 2011



“From the investor’s point of view, there is no doubt in my mind that people remain more risk averse

and are leaning towards core funds. Property has an advantage over other asset classes in its strength of income returns.”

Kevin Aitchison, chief executive UK, ING Real Estate Investment Mgt



“There is still a fair amount of capital waiting to enter the market. It is very focused on core assets in liquid, transparent markets.

Although there are associated risks, highly leveraged funds could be the best performers we see this year if the market continues to act in a positive way. They could generate strong returns off a low base. It depends where you see the market going.”

Nick Evans, fund of funds manager at Henderson Global Investors



“A gap exists as real estate leverages and banks are unable to lend at historic leverage levels.

Our UK Special Situations Fund is looking to provide

mezzanine and preferred equity alongside senior debt providers. There is less finance on offer when the loan-to-value goes above 65%, and this is where we can see some compelling opportunities, so we are working with senior lenders to provide higher leverage facilities for specific borrowers. We are continuing to raise funds ahead of a second closing on our Special Situations Fund, and expect to see many more investment opportunities over the coming months.”

Amy Aznar, head of special situations, LaSalle Investment Management



“In the listed fund space in 2010, the strong income bias has proved attractive with investors who are

looking for yield, as there are limited choices elsewhere. The key themes for this year centred on the arbitrage between net asset value and market capitalisation. There was merger and acquisitions activity – both successful and aborted – continued focus on balance sheet management, and increased manager alignment. These themes are likely to continue into 2011.”

Michael Morris, director and fund manager of the ING UK Real Estate Income Trust