Major players as well as independents look vulnerable to consolidation, reports *Jane Roberts*

Spate of deals reshuffles the property fund manager pack

Capital may be flooding into property once more, but it isn't lifting all boats. According to Property Fund Research's figures, 75% of the investment managers that took part in both this year's and last year's survey increased assets under management – but 25% didn't.

That 25% weren't all small, independent firms. Deutsche Asset & Wealth Management has almost €37bn under management but its managed assets declined by €7.4bn between 2011 and the end of 2012 and the company slipped from fifth to 10th place in the latest rankings.

The period 2011 to late 2012 was an uncertain time for RREEF, as the real estate investment management division was called then, while its parent, Deutsche Bank, tried and failed to sell the whole of its asset management business. After struggling to raise new discretionary capital and withdrawing from opportunistic investing, Deutsche Bank rebranded RREEF this year.

RREEF was the sale that didn't happen, but consolidation continues. There have been around a dozen ownership changes in the past 18 months (see table below) and one source says there are another 10 businesses on the market.

Three big US takeovers

The three largest investment managers to merge this year were AREA, MGPA and Henderson, all European/Asian business that were acquired by larger acquisitive US businesses wanting to expand their management of real assets.

AREA Property Partners, led by Bill Benjamin in Europe, was acquired by Ares Management, an alternative asset manager with whom AREA shared common roots, while MGPA was taken over by BlackRock, the world's largest fund manager, which has big ambitions to expand its relatively small real estate footprint.

Henderson Global Investors, meanwhile, is set to merge with TIAA-CREF, bringing European know-how and creating a €62bn operation.

These transactions represent a second wave of sales, following an initial surge led by banks and financial companies in 2010-2011, before the market began its recovery.

AIG, Bank of America Merrill Lynch, Citigroup, HSBC and ING all sold their real estate businesses at that time, as did smaller banks such as Close Brothers, HSH Nordbank and KBC.

As one fund manager says, "gradually, the cards are being re-dealt".

Hodes Weill, the fund advisory boutique and placement agent, says in its latest market commentary that these nuptials underscore "that even the largest managers are finding that the evolving landscape may suggest some re-inventions".

Fund mandates are also changing hands, sometimes driven by debt and the banks and on other occasions by investors who want a change of general partner.

In anticipation of much more ownership and management changes in unlisted funds, secondary specialists Partners Group and Landmark Partners are out capital raising for new vehicles to take advantage of the opportunities.

Aberdeen Asset Management announced this month that it had raised €151.5m of initial commitments from investors, including Sweden's API, for a European secondaries vehicle.

One company that has already taken advantage of the opportunities is industrial specialist Hansteen, which has just taken over the distressed Ashtenne Industrial Fund (see panel, right).

Legal & General catches Falcon

The Legal & General-managed Industrial Property Investment Fund, which is the dominant fund in its sector, took over smaller rival Falcon last month. Falcon had performed well and was ungeared, but was too small to be an open-ended fund and provide liquidity.

Owner-managed Internos Global Investors is buying Commerzbank's spezialfonds business, Wiesbaden-based Commerz Real. The manager's nine funds, whose 41 German investors own more than 60 properties across Europe with a gross value of €1.6bn, and some of the staff, will transfer to Internos's Frankfurt office by the end of this year.

Patrizia and BNP Paribas REIM, which, along with Corpus Sireo, are also believed to have bid for Commerz Real, have bought other investment businesses this year.

Companies have different motivations for disposing of their funds or fund management businesses and are not all forced sellers. In Hodes Weill's opinion the biggest mergers this year "were driven by a desire to seek greater global scale and synergies that can contribute to more rapid growth.

"We are aware that several other mergers are being contemplated – some out of strength and some of a more Darwinian variety. Regardless of motivation, though, we expect more consolidation, with companies playing both offence and defence."

According to Jos Short, chief executive of Internos, some fund managers will struggle to raise money.

In his view: "There is going to be more merger and acquisitions activity, and the level of that activity will accelerate. The problem in the past was that sellers held out for more than potential buyers were prepared to pay. But that gap is starting to close the more time that goes by."

For more information on the seventh Global Property Fund Managers Survey contact Jane Fear at: jf@propertyfundsresearch.com

Ownership changes among real estate investment managers, 2012-13

US players seeking expansion in Europe and Asia have been behind three of this year's big deals, the takeovers of AREA, MGPA and Henderson

Date	Name	Change
Mar 12	Grafton Advisors	Quintain paid up to £10.7m for central London asset manager run by Nigel Kempner
Mar 12	JER Partners European business	Transfer completed to LaSalle Investment Management
Apr 12	Allied Irish Polish Property Managers	Peakside Capital bought the business and management of Polonia Property Funds 1 and 2
Jun 12	Invista REIM	Townsend Group backed Palmer Capital to take over the rump of Invista REIM's assets
Dec 12	Tamar Capital	Rob Brook's company acquired by Patrizia as part of Patrizia's expansion out of Germany
May 13	AREA Property Partners	Agreed to sell to US asset manager Ares Management, which manages $59bn of assets
Sep 13	Forum Partners	Sold 24.9% stake to French investment manager La Francaise, a Credit Mutuel Nord subsidiary
Oct 13	MGPA	Completion of takeover by BlackRock, to create $23.5bn real estate investment company
Ongoing	Henderson Global Investors	Merger with US's TIAA-CREF is due to be completed in Q1 2014
Ongoing	Commerz Real	Internos Real Investors agreed to buy Commerzbank's €1.6bn AUM spezialfonds arm in Sep 13
Ongoing	iii-investments	BNP Paribas REIM agreed to buy the German group, with €4.2bn AUM, from HypoVereinsbank
Fund mandates changing hands		
Jan 12	Invista Foundation Property Trust	Transferred to Schroders as part of Invista REIM wind-down; relaunched as Schroder REIT
Jan 12	Invista European REIT	Transferred to Internos as part of Invista REIM wind-down, for liquidation
Feb 12	Celsius portfolio	Previously managed by Invista and PropInvest. Transferred to Internos by Kaupthing
Jun 12	Matrix European REIT	Schroders took over management from Matrix Property Fund Management
Dec 12	RREEF UK Property Fund	Transferred to BlackRock after falling in value from £1.3bn to £335m
Feb 13	GE Capital Polish Retail Fund	Valad bought the Luxembourg investment adviser and Polish team to manage €570m fund
Jul 13	Local Shopping REIT	Internos appointed to sell £173m portfolio over four years
Sep 13	Falcon Property Trust	Agreed to merge with Legal & General-managed Industrial Property Investment Fund
Sep 13	Ashtenne Industrial Fund	Hansteen replaced Warner as sole asset manager of AIF
Sep 13	German Prop. Performance Partnership	Management transferred from Corestate to Tristan Capital Partners
Sep 13	X-Leisure Unit Trust	Land Securities bought management and 95% of units in £590m fund

SOURCE: *REAL ESTATE CAPITAL*

Ashtenne proves its worth twice over for Hansteen

Break back property investment to basics and it's all about buying low and selling high, *writes Doug Morrison*. But doing it all over again with the same assets is a rare trick – and that is what Hansteen has done with the Ashtenne Industrial Fund (AIF).

Hansteen's joint chief executives Morgan Jones (pictured) and Ian Watson acquired the assets through former company Ashtenne before injecting them into AIF, a new 50/50 joint venture with Morley, now Aviva Investors, in 2001.

The AIF stake was the key attraction for Warner Estates when it paid £167m for Ashtenne in 2005 – near if not quite at the top of the market. While Jones and Watson swiftly established Hansteen, Warner was soon labouring under the debt that eventually sent it into administration this August. By 2009 Hansteen had bought 18.5% of Warner for just £3m from property speculator Jack Petchey.

Hansteen's shareholding allowed it to monitor Warner's deteriorating situation before negotiating a 26.3% stake in AIF for £52m on the same day as the administrator was called in. As part of the deal, Hansteen replaced Warner as sole AIF asset manager. What goes around, comes around.

Watson and Jones spent much of last month visiting the sites. Jones says the sense of déjà vu was "slightly spooky", but the deal nonetheless doubles Hansteen's UK assets under management. AIF's valuation fell to £460m in June, from £477m at Warner's March 2013 year-end. The annual rent roll is £43.5m and the net asset value, post-deal, about £250m.

Jones says there is plenty of scope to cut the current 18% vacancy rate and improve performance. "The physical assets are pretty robust but we can look at AIF with a fresh eye," he says. "The other owners have seen valuations go down remorselessly for about four years, every quarter. That affects morale and also you're trying to achieve rents that relate to two, three years ago. We hope to have a boost because we think the timing could be very good. There are more occupiers coming than going suddenly."

The new arrangement appears beneficial to Aviva, which has been joined by other investors in AIF over the years but retains the largest stake. At the time of the deal Aviva's Andrew Appleyard welcomed not just the introduction of "an experienced and well-resourced industrial property manager" but also its equity, which has cut AIF's leverage to below 50% loan-to-value level.

As Jones says, the equity stake aligns Hansteen's interests with the existing unit holders and reinforces the co-investor model that the REIT has promoted since joining AIM in 2005, then the main market in 2009.

Hansteen already runs two industrial property unit trusts alongside institutional investors, which have taken it into the German and Dutch property markets. The most recent fund was launched earlier this year with Aviva – with £35m and £70m of equity respectively, which, with gearing, provides £200m of firepower. So far, £50m has been invested.

Jones suggests there is merit in running three funds at different stages of maturity. AIF, he says, needs stabilising, but Hansteen will stick to its current work-out strategy and its original 2016-17 end date.

Neither of the co-founders could have foreseen the outcome for AIF at the time of Warner's takeover, let alone at its creation in 2001. But Jones says AIF was definitely on the radar by the time of Hansteen's prescient deal with Petchey.

"We thought it was an opportunity for us," he adds. "We knew the assets were okay, it's just you have to buy them at the right price and at the right time."