

BOOM LOSES BANG

Five extraordinary years have seen UK property funds triple in value to £93bn. But fund managers have now put launches on hold in the face of low opportunity for growth and a waning appetite for property from the man in the street. *Chris Bourke reports. Illustrations by Andy Potts*

Boom-time is finally over for UK property funds. While the total amount of money indirectly invested in UK property has reached new heights this year, it has almost certainly peaked.

According to the latest annual survey compiled by *EG* and Property Funds Research, the sector has more than tripled in size over the past five years. However, as valuations swing into reverse mode and funds face redemption calls, the survey reveals that launches are drying up.

“I can’t believe there’ll be growth next year, in terms of funds under management – absolutely not,” says Ian Womack, head of property at Morley Fund Management, which tops the table as the fund manager with the most UK property under management for the fourth year running.

Womack’s team are now sitting on around £16bn-worth of property invested in 28 indirect vehicles. Five of those vehicles rank in the top 20 largest UK property funds, with the Norwich Property Trust and Mall funds taking the two top spots with a combined value of £7bn.

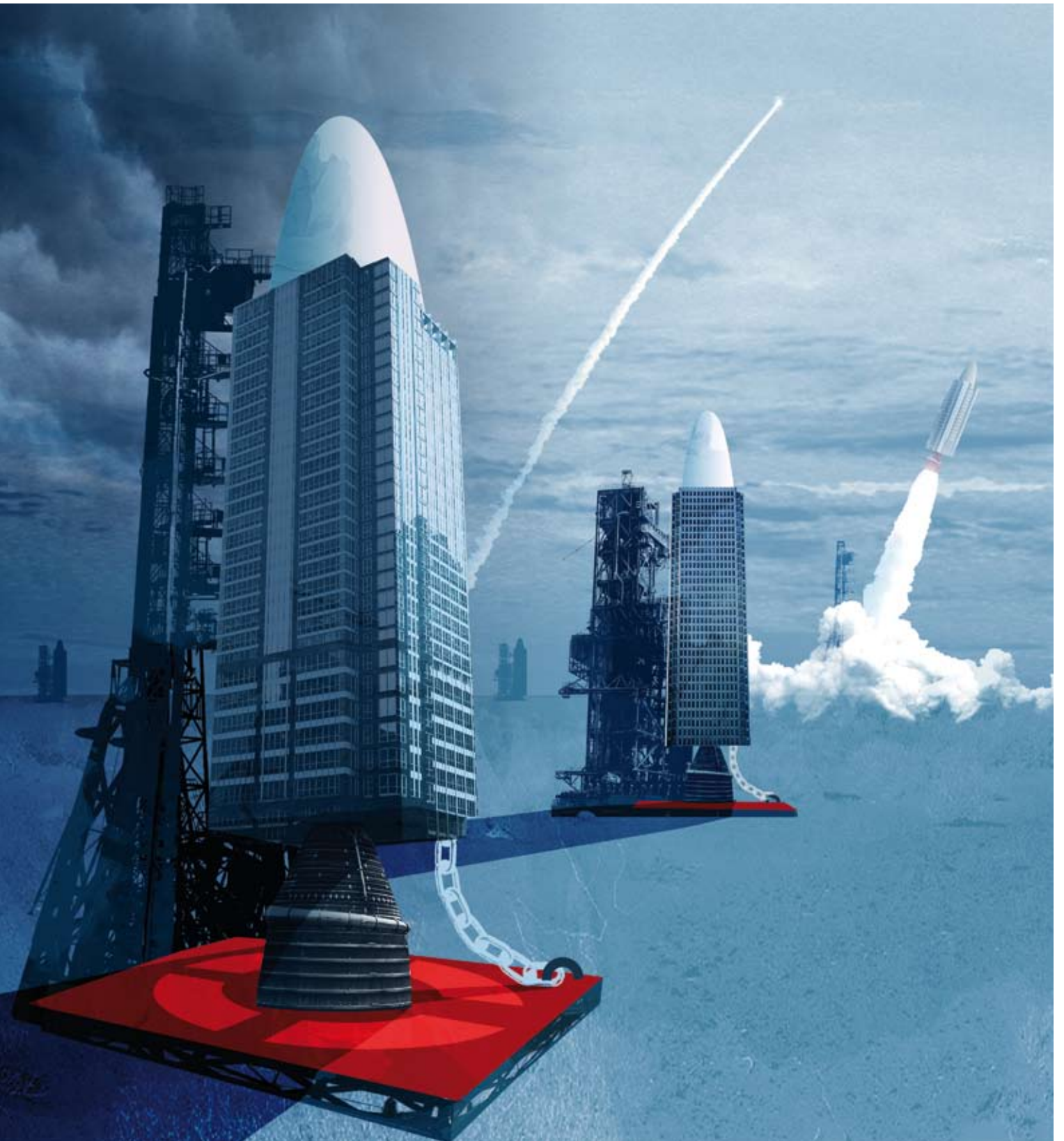
As of today, there are 384 UK-invested indirect collective vehicles with a gross asset value of £92.7bn, which is more than one-fifth (22%) up on last year. And that combined value is more than three times the £29bn reported in the first *EG/PFR* survey published back in 2002-03.

The numbers may be up on last year, but gauging the health of the property fund sector is a more onerous task today than it was a year ago. While everyone was expecting a slowdown in 2007, nobody could have guessed just how slow the going would be. The credit crunch that struck in mid-July exacerbated what was already looking more like a downturn. ▶

“I can’t believe there’ll be growth next year, in terms of funds under management – absolutely not”

Ian Womack, head of property, Morley Fund Management





Top 20 managers by value of their indirect vehicles

Change	Rank	Rank	Manager	Vehicles	GAV (£m)	GAV (£m)
	2007	2006			2007	2006
Top 10						
●	1	1	Morley FM	28	15,824	12,434
●	2	2	Standard Life Investments	22	14,781	11,046
●	3	3	Schroders*	18	7,216	6,537
▲	4	6	Legal & General Prop	12	5,320	3,402
▼	5	4	Henderson Global Investors	8	4,930	4,334
●	6	6	ING Real Estate Inv Man (UK)	12	4,429	2,514
▲	7	13	Invista Real Estate Inv Man	11	4,215	1,258
▲	8	-	Hermes Real Estate Inv Man**	3	3,400	-
▼	9	7	UBS Global AM (UK)	3	3,033	2,317
▼	10	8	PRUPIM	7	3,000	2,244
11-20						
▲	11	-	BlackRock	2	2,834	-
▼	12	10	Grosvenor Inv Man	5	2,318	1,858
▲	13	-	RREEF	6	2,008	-
▼	14	11	Threadneedle Prop Investments	5	1,996	1,759
▲	15	-	Goodman International	2	1,953	-
▼	16	14	Rockspring PIM	3	1,613	1,205
▲	17	-	F&C Prop AM	3	1,600	-
▼	18	15	Scottish Widows Inv Partnership	33	1,528	1,103
▲	19	-	Resolution AM	8	1,471	-
▼	20	17	Cardales	3	1,450	1,000

* excludes underdrawn commitments of £61m

** Hermes did not participate in last year's survey

Top 20 managers by value of discretionary mandates

Change	Rank	Rank	Manager	Total Vehicles capital (£m) 07	Total Vehicles capital (£m) 06	Vehicles 06
	07	06				
Top 10						
●	1	1	Morley FM	14,310	24	14,993
●	2	2	PRUPIM	13,000	5	14,825
▲	3	-	Hermes Real Estate Inv Man	10,100	2	-
▼	4	3	Legal & General	8,317	4	7,788
▲	5	6	LaSalle Inv Man	6,457	17	6,155
▲	6	9	CB Richard Ellis Investors	5,300	27	4,527
▼	7	5	Threadneedle Prop Investments	5,041	5	6,565
▼	8	4	Invista Real Estate Inv Man	4,012	4	6,609
▲	9	10	Goodman Prop Investors	3,799	7	2,945
●	10	10	ING Real Estate Inv Man (UK)	3,139	27	2,400
11-20						
▲	11	-	Royal London AM	3,103	3	-
▼	12	8	F&C Prop AM	2,195	12	4,818
▼	13	11	Resolution AM	1,392	7	2,700
▲	14	-	DTZ Inv Man	1,375	7	-
▲	15	18	Henderson Global Investors	1,327	18	856
▲	16	-	Atisreal Inv Managers	1,250	4	-
●	17	17	Scottish Widows Inv Partnership	1,212	1	1,123
▼	18	17	Standard Life Investments	1,154	4	909
▼	19	15	Schroders	1,004	20	1,156
▲	20	22	Colliers Capital (UK)	535	3	450
Bubbling under						
●	21	21	PROTEGO Real Estate Investors	500	3	465
▲	22	-	Cushman & Wakefield Investors	474	2	-
▲	23	26	Wilky FM	436	3	315
▲	24	-	Rutley Capital Partners	401	2	-
●	25	25	OLIM	400	7	400
▼	26	19	Cordea Savills	369	1	807
▲	27	-	Rockspring PIM	230	1	-
▲	28	-	CIT Group	212	1	-
●	29	29	UBS Global AM (UK)	129	6	144
▲	30	-	Patron Capital	60	3	-

"You're seeing a lot of people taking stock," says Womack. "Deals are happening, but many, many fewer than there were six months ago. People are sitting back and thinking very carefully."

Confidence is clearly down. The number of property fund launches has halved from an impressive 60 in 2006 to a rather more modest 30 this year.

The targeted gross asset values are also on the conservative side, with just five of the funds launched in 2007 aiming to raise more than £1bn – and four of those five declared their target sums before the credit crunch hit the sector.

Huge fall on previous quarter

Cash is still coming into the sector, albeit at far lower levels than a year ago. According to the Association of Real Estate Funds, a healthy £800m flowed into property funds over the third quarter. However, that is half the amount of a year earlier, and only £13.9m of that amount came from new investors – an 80% fall on the previous quarter, and 96% down on last year's third quarter.

And while inflows are down, outflows (ie the amount of cash leaving property funds for another home) are up. This summer saw a spate of press reports sounding the death knell for commercial property after some of the UK's biggest funds altered their prices to deter the exit of easily scared retail investors.

Those outflows doubled in the second quarter of this year, and have continued to grow. According to AREF, the total amount of redemptions for UK property funds leapt another 50% in the third quarter to £939m. Investor outflows, therefore, have exceeded inflows to property funds for the first time in four years.

"There are no bucketloads of cash screaming to find a home in UK property just now, so you're not going to go out there and raise the equity for investing in it," says Womack.

"I'd say all the ideas are there, all the opportunities are there, but people are waiting for when the time is right [to launch funds]."

"The big mutual funds are limited by their lack of liquidity, qualities that are increasingly sought after by big international investors"
Duncan Owen, Invista

Top 20 by total value of assets under management

Change	Rank 2007	Rank 2006	Manager	Prop assets under man (£m) 2007	Prop assets under man (£m) 2006
Top 10					
●	1	1	Morley FM	30,134	24,737
●	2	2	PRUPIM	17,300	16,000
●	3	3	Standard Life Investments	15,935	11,955
●	4	4	Legal & General	13,637	11,200
▲	5	-	Hermes Real Estate Inv Man	13,500	-
▼	6	5	Invista Real Estate Inv Man	10,250	7,900
●	7	7	Schroders*	8,220	7,200
▲	8	10	ING Real Estate Inv Man (UK)	7,860	6,200
▲	9	11	Scottish Widows Inv Partnership	7,735	5,900
▲	10	-	Goodman Prop Investors	7,352	-
11-20					
▼	11	9	LaSalle Inv Man	7,309	6,500
▲	12	13	Henderson	7,287	5,517
▼	13	12	Threadneedle Prop Investments	7,037	5,604
▲	14	15	CB Richard Ellis Investors	6,400	5,319
▲	15	35	F&C Prop AM	4,368	4,818
●	16	16	Cushman & Wakefield Investors	4,300	3,950
▲	17	-	Royal London AM	3,326	-
▲	18	31	Warner Estate Holdings**	3,221	753
●	19	19	UBS Global AM (UK)	3,162	2,399
▼	20	18	Resolution AM	2,863	2,700
Bubbling under					
▼	21	17	Lend Lease Inv Man	2,932	2900
▲	22	-	BlackRock	2,834	-
▼	23	20	Grosvenor Inv Man	2,318	1,858
▲	24	-	DTZ Inv Man	2,300	-
▲	25	-	RREEF	2,249	-
▲	26	-	Goodman International	1,953	-
▼	27	24	Rockspring PIM	1,843	1,282
▼	28	21	Atisreal Inv Managers	1,750	1,750
▲	29	-	Invesco Real Estate	1,712	-
▼	30	22	Teesland iOG	1,700	1,700
▼	31	23	Cordea Savills	1,675	1,671
▼	32	28	Cardales	1,450	1,000
▼	33	26	PROTEGO Real Estate Investors	1,195	1,150
▲	34	-	CIT Group	1,073	-
▲	35	-	JER	944	-
▼	36	34	Highcross	900	550
▼	37	29	Close Investments	895	950
▲	38	39	Palmer Capital Partners	770	300
▲	39	-	Cluttons	650	-
▲	40	-	KBC AM (UK)	637	-
▲	41	-	Colliers Capital (UK)	630	450
▲	42	-	Rutley Capital Partners	535	-

* excludes cross-holdings and underdrawn commitments of £63.8m

** includes assets in jv vehicles



The time is not right now. I don't think it will be before Christmas; let's see what happens in the spring."

On the face of it, a 22% rise in the gross asset value of indirect funds may sound a trifle high considering the ongoing torrent of gloomy stories.

However, it is worth noting that, because of the time-consuming work involved in gathering this data, the respondents' provided values as at 30 June this year. And, despite the lack of launches in the period from July 2006 to June this year, the IPD index shows that UK commercial property racked up a pretty decent 12.4% return in that time.

Five months later, we inhabit a different world. But aside from the sharp change in financial fortunes, the survey also indicates a changing playing field. One notable debut in the top 20 managers by value of assets under management is Goodman, the Australian-listed fund manager, which acquired Arlington Securities in 2005.

Aussies descend on UK

Goodman now has £9.3bn of UK assets under management in both indirect and direct holdings. The group's rise is part of a wider trend for Australian groups descending on the UK to buy companies and property in the absence of domestic opportunities. Other examples in 2007 have included Stockland buying Halladale and Valad buying Teesland.

UK listed fund manager Invista also has a bigger presence in this survey than last year. The group, headed by Duncan Owen, is by far the biggest mover in this year's table of top 20 managers by value of indirect vehicles. Invista now has £4.2bn of UK property wrapped up in funds, and a total value of £10.3bn of assets under management. The

Vehicles launched over past 12 months

Vehicle	Manager	Launch year	Month	Vehicle type	Target sector	Target GAV (£m) (Actual)
Standard Life UK Prop Dev Fund	Standard Life Investments	2006	Nov	LP	Div	400
Serviced Land Fund No.2	Cordea Savills Wealth Man	2006	Nov	LP	Dev	100
IPD UK Monthly Tracker Fund	Bespoke Financial Consulting	2006	Nov	Inv co		(4)
G:res1	Grainger Trust	2006	Nov	N/k	Resi	(435)
Rock City Park	Rock Capital Group	2006	Nov	PUT	Comm	(68)
EuroSelect Balanced Portfolio UK	IVG ImmobilienFonds	2006	Nov	N/k	FOF	73
Strategic Partners UK III	CB Richard Ellis Investors (UK)	2006	Dec	LP	Div	1,300
UK Logistics Fund	Logistics Man	2006	Dec	PUT	Ind	1,000
Unite UK Student Accom Fund	USAF Jersey Manager	2006	Dec	PUT	Resi	1,000
Capmark UK Realty Partners LP	Capmark Investments	2006	Dec	LP	Div	
Goodman UK Fund of Funds	Goodman International	2007	Jan	FCP	FOF	250
Strata Fund	Evolve Fund Services	2007	Jan	LLP	Resi	
SPREFS Prop Dev Fund II	Strutt & Parker RE Fin Serv	2007	Feb	LP	Dev	
Threadneedle UK Prop Trust	Threadneedle Investments (Ch I)	2007	Feb	PUT	Div	140
Sarasin RE Equity IIID Fund	Sarasin Chiswell	2007	Feb	Inv co	Listed secs	100
IQ Prop Partnership	Quintain FM	2007	Mar	L P JV	Health/ed	600
CuroSterling (Dumfries) Unit Trust	Curo Prop Funds	2007	Mar	PUT	Retail	23
ARC Prop Fund	Legal & General Prop	2007	Mar	PUT	Retail	1,000
Cautious Strategic LMF	Capita Financial Managers	2007	Mar	LP	Land	
Diversified LMF	Capita Financial Managers	2007	Mar	LP	Land	
Rock UK Ind Fund	Rock Capital Group	2007	May	PUT	Ind	63
Rowan UK Commercial Prop Fund III	Rowan AM	2007	May	PUT	Comm	50
Ediston Opportunity Fund	Ediston Properties	2007	May	PUT	Div	400
Assetz Commercial Prop No 2 LP	Assetz FM	2007	June	LP	Office	21
M&G Secured Prop Income Fund	PRUPIM	2007	June	PUT	Comm	
Westfield UK SCF	Westfield	2007	July	N/k	Retail	(524)
ING Healthcare Prop Fund	ING Real Estate Inv Man (UK)	2007	Sep	N/k	Health/ed	512
Rowan UK Commercial Prop Fund IV	Rowan AM	2007	Sep	PUT	Div	30
Spectrum	Legal & General Prop	2007	Sep	N/k	FOF	
UK Residential Index Fund	Alpha Beta FM	2007	Nov	N/k	Resi	
Glebe London	Glebe Holdings	2007		Corp	Office	1,000
MGI High Income UK Prop Fund	Mercer Global Investments	2007		N/k	FOF	

Top 20 vehicles by their UK gross asset value

Vehicle	Manager	GAV (UK, £m)	Type	Target sector
1 Norwich Prop Trust	Morley FM	3,865	PUT	Div
2 Mall Fund	Morley FM	3,200	PUT	Retail
3 Standard Life Pooled Pension Prop Fund	Standard Life Investments	3,161*	Man fund	Div
4 Hercules Unit Trust	Schroder Prop Managers (Jersey)	2,960	PUT	Retail
5 UBS Triton Prop Fund	UBS Global AM (UK)	2,503	LP	Div
6 BlackRock UK Prop Fund	BlackRock (Channel Islands)	2,314	PUT	Div
7 Schroder Exempt PUT	Schroder PIM	2,253	PUT	Div
8 New Star PUT	New Star AM	2,100	PUT	Div
9 Standard Life Investments UK SCT	Standard Life Investments	1,895*	PUT	Retail
10 Arlington Business Parks Partnership	Legal & General Prop	1,834	LP	Office
11 Henderson UK Retail Warehouse Fund	Henderson Global Investors	1,590	PUT	Retail
12 Junction	Morley FM	1,520	PUT	Retail
13 RREEF UK Core Prop Fund	RREEF	1,360	PUT	FOF
14 SWIP Prop Trust	Scottish Widows Inv Partnership	1,315	PUT	Div
15 M&G Prop Portfolio	PRUPIM	1,300	PUT	Div
16 F&C Commercial Prop Trust	F&C AM	1,285	Inv co	Div
17 Morley Pooled Pensions Prop Fund	Morley FM	1,226	Man fund	Div
18 Glanmore Prop Fund	Cardales	1,200	Inv co	Div
19 Ashtenne Industrial Fund	Morley FM	1,124	PUT	Ind
20 Standard Life Investments UK Retail Park Trust	Standard Life Investments	1,079*	PUT	Retail

Notes to tables: *net asset value; AM = Asset Management; Corp = corporate; Div = diversified; FOF = fund of funds; FM = Fund Management; Man fund = managed fund; N/k = not known; PIM = Property Investment Managers; Prop = property; PUT = property unit trust; SCT = shopping centre trust

fund manager felt the chill of the slowdown last month when it posted a 7.8% fall in net asset value for its flagship fund, Invista Foundation Property Trust.

However, the market now appears to be moving in favour of specialist independent managers, such as Invista, and the likes of Morley and Standard Life's reign at the top may be coming to an end. As the size of the specialist vehicles increases, Owen believes it is inevitable that some of the older funds' will lose their dominance.

Demand for transparency

"There is a definite trend of more investors going through specialist vehicles managed by funds like ours, Goodman's and ING's, for example. The fact is that the big mutual funds are limited by their lack of transparency and lack of liquidity, qualities that are increasingly sought after by the big international investors."

Another new factor is the increasing interest in property derivatives. There is some encouragement for this fledgling sector, with



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Fund managers have been slow to adopt the instruments, largely due to limitations in their mandates that prohibit them from taking short positions.

But the year ahead looks set to be a relatively quiet one across the fund management industry. Respondents to the survey were also asked to provide details of planned launches in 2007, and the list is sparse.

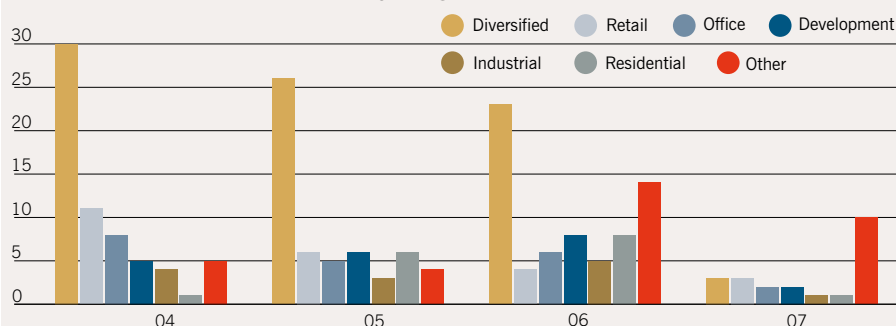
Around a dozen vehicles are in the planning stage, with only three of the top 10 managers by assets declaring their intentions, including a fund of funds from Legal & General. Invista is in the process of undertaking a second fund-raising for its opportunity fund and is also launching an open-ended European fund.

Most of the sector is staying quiet about the medium term, waiting for a clearer picture to emerge. What is clear is that the results of next year's survey are likely to be rather different from this one.

The total UK indirect market

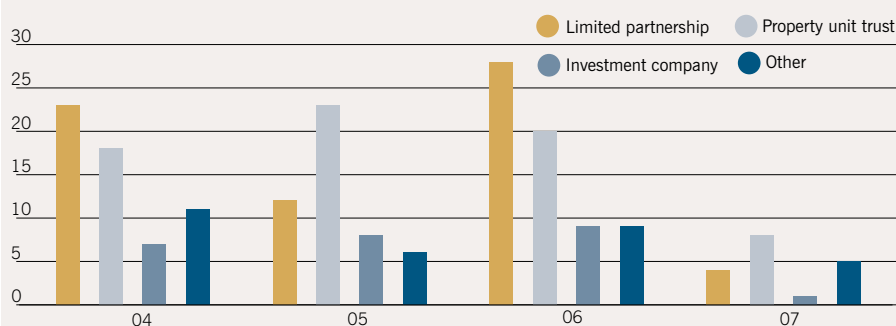
This year saw the lowest number of launches since the survey began, plus a continued demand for diversification

Number of funds launched by target sector



- This year saw the lowest number of fund launches since the survey began, as well as a continued trend away from sector-based vehicles.
- There is continuing investor demand for diversified launches and "other" new funds, which largely comprise fund-of-fund vehicles.
- The most ambitious funds were launched by Legal & General and Glebe London, with a targeted value of £1bn each.

Number of funds launched by legal structure



- There has been a bias towards property unit trust launches this year, the majority of which had a targeted gross value of less than £100m each.
- The biggest limited partnership launch was the £600m joint venture between Quintain and Wellcome Trust, the IQ Property Partnership.
- In this year's survey, the "other" category largely belonged to fund-of-fund launches.

Source: EG/Property Funds Research