

CRASH AND BURN

It will surprise no one to hear that property funds have had a torrid 12 months. So whose fingers have been worst burnt, and who is best placed to rise from the ashes? By *Mike Phillips*

Fall in the value of the UK property fund market (a 16% drop)

£15bn



With private investors rushing for the exits and the value of commercial property plummeting, UK property funds are experiencing one of their worst years ever.

The latest annual survey compiled by Property Funds Research and *Estates Gazette* found that from June 2007 to June 2008, the UK property fund sector shrank for the first time since the report began in 2002-3.

UK property assets under management fell from £93bn to £78bn, according to the survey, and only two of the top 20 managers saw the value of the assets they manage increase. At the upper end of the chart, CBRE Investors increased assets under management, mainly thanks to attracting new investors to its multimanager business, which invests in other property funds. Further

“Price chipping is not frowned on and everyone does it. But you have to draw the line somewhere when things become too cheap”

Cliff Hawkins, head of global real estate at UBS

down the chain, investors such as Frogmore were successful in raising third-party money, and managers such as Unite, in the resilient student accommodation sector, also raised new capital. Absolute return funds, which are designed to provide positive returns even in a downturn, were also successful, as long as they lived up to that billing – CBRE’s and Reech AiM’s property hedge fund was the perfect example, trebling in size (see p46).

While there has been little change in the rankings of the top fund managers, the value of assets managed by the top 10 managers dropped by an average of 18%. The top 10 funds have seen almost £6bn wiped from their value, an average drop of 22%. The reasons are painfully obvious; the Investment Property Databank quarterly index shows that values dropped by 19% between June 2007 and June 2008, and the Association of Real Estate Funds found that open-ended funds saw net outflows of £2.3bn over that period.

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Some fund managers profess to be excited about the opportunities that this unprece-

ented repricing is creating. But the majority point to difficult economic conditions, difficulty raising new capital, the indirect effects of the fall in stock market values, overleveraging and the weak being picked off by the strong.

The managers that have suffered the most are those which have had to deal with redemptions. Last winter, UBS, RREEF and Aviva Investors were forced to freeze redemptions on some of their UK funds, to give them breathing space and ensure that assets did not have to be offloaded at fire-sale prices. This, however, was easier said than done.

“It becomes difficult to sell assets in that kind of environment,” says Cliff Hawkins, managing director and head of global real estate at UBS Global Asset Management. The flagship UBS property fund, Triton, was one of the first funds to freeze redemptions last November, when it told institutional investors that they would have to wait for up to a year to withdraw their cash. “Price chipping is not frowned upon and everyone does it, which makes it hard to achieve sales. You have to draw the line somewhere when things become too cheap, but you have to balance the needs of those exiting with those people who are staying in.”

November marks a one-year anniversary for many funds which put a bar on redemptions, and while most funds will have completed the asset sales necessary to pay back investors, others still need to raise cash. Some, such as the Glanmore Property Trust – managed by Cardales Chartered Surveyors – have extended redemption freeze periods for a further six months, and now have to sell into an even more difficult market.

The funds most vulnerable to redemptions have been the open-ended vehicles favoured by private investors. Among the top 10 largest indirect vehicles, the Aviva-managed Norwich Property Trust and New Star Asset Management’s Property Unit Trust – both balanced funds – experienced the sharpest drops in gross asset value, falling 38% and 35% respectively.

Do private investor property funds have a future? “They will remain out of favour while the perception exists that values will fall,” says Chris Laxton, managing director of global real estate business development

Value wiped off assets of top 10 managers

£23bn





Top managers by total value of assets under management

Chg	Rank 2008	Rank 2007	Company	Total real estate assets (£m) 2008	Total real estate assets (£m) 2007	Chg (%)
Top 10						
●	1	1	Aviva Investors	23,925	30,134	-20.6
●	2	2	PRUPIM	15,724	17,300	-9.1
●	3	3	Standard Life Investments	12,548	15,935	-21.3
●	4	4	Legal & General Property	10,600	13,637	-22.3
●	5	5	Hermes Real Estate Inv Man	10,300	13,500	-23.7
●	6	6	Invista Real Estate Inv Man	7,000	9,399	-25.5
▲	7	8	ING Real Estate Inv Man	6,785	7,860	-13.7
▼	8	7	Schroder Property Inv Man	6,746	8,220	-17.9
▲	9	14	CBRE Investors	6,745	6,400	5.4
▼	10	9	Scottish Widows Inv Partnership	6,670	7,735	-13.8
11-20						
	11	n/a	Aberdeen Property Investors	6,393	n/a	-
▼	12	11	LaSalle Inv Man	6,110	7,309	-16.4
●	13	13	Threadneedle Property Investments	5,814	7,037	-17.4
	14	n/a	AXA REIM UK	5,790	n/a	-
▼	15	12	Henderson Global Investors	4,980	6,280	-17.8
●	16	16	Cushman & Wakefield Investors	4,100	4,300	-4.7
▼	17	15	F&C Property Asset Management	3,412	4,368	-21.9
▲	18	25	RREEF	3,208	2,249	42.6
▼	19	18	Warner Estate Holdings*	2,600	3,221	-19.3
▼	20	17	Royal London Asset Management	2,572	3,326	-22.7
Bubbling under						
▼	21	19	UBS Global Asset Management (UK)	2,561	3,162	-19.0
▼	22	21	Resolution Asset Management	2,312	2,863	-19.2
●	23	23	Grosvenor Inv Man	2,281	2,318	-1.6
▼	24	22	Blackrock	2,258	2,834	-20.3
	25	n/a	Valad Property Group	1,821	n/a	-
▼	26	24	DTZ Inv Man	1,622	2,300	-29.5
●	27	27	Rockspring PIM	1,507	1,843	-18.2
▲	28	31	Cordea Savills	1,449	1,675	-13.5
	29	n/a	BNP Paribas Real Estate Inv Man	1,440	n/a	-
▲	30	32	Cardales Chartered Surveyors	1,391	1,450	-4.1
▼	31	29	Invesco Real Estate	1,193	1,712	-30.3
▲	32	33	Protego Real Estate	1,105	1,195	-7.5
▲	33	34	CIT Financial Services	993	1,073	-7.5
▲	34	36	Highcross	986	900	9.6
▼	35	20	Lend Lease Inv Man	933	2,932	-68.2
▲	36	43	Unite Group	833	525	58.6
▲	37	40	KBC Asset Management	702	637	10.2
▲	38	41	Colliers Capital	670	630	6.3
▲	39	44	Frogmore Real Estate Partners Inv Man	668	500	33.6
▼	40	39	Cluttons	650	650	0.0
	41	n/a	Rugby Estates	500	n/a	-
▲	42	45	Wilky Fund Management	418	470	-11.1
▲	43	47	OLIM	400	400	0.0
	44	n/a	CCLA Inv Man	383	n/a	-
▼	45	42	Rutley Capital Partners	371	535	-30.6
	46	n/a	Thames River Capital	363	n/a	-
	47	n/a	Doughty Hanson & Co Managers	362	n/a	-
	48	n/a	Skandia	360	n/a	-
▼	49	38	Palmer Capital Partners	357	770	-53.6
▼	50	46	Tishman Speyer	326	420	-22.4
▼	51	35	JER	280	944	-70.3
▼	52	48	Rowan Asset Management	215	210	2.4
▼	53	50	Evolve Fund Services	145	110	31.8
	54	54	Reech CBRE Alternative Real Estate	87	25	248.0
▼	55	49	Patron Capital	72	162	-55.8
▼	56	53	Inv Solutions	26	27	-3.0
	57	n/a	Forum Partners	8	n/a	-
	58	n/a	GPT Halverton	0	n/a	-

Number of UK-only
property funds,
three more than
last year

367



Growth in assets
under management
for CBRE's
Alternative Real
Estate hedge fund

248%



*includes assets in joint venture vehicles

Top managers by value of their indirect vehicles

Chg	Rank	Rank	Company	No of	GAV (£m)	GAV (£m)	Chg
	2008	2007		vehicles	2008	2007	(%)
Top 10							
●	1	1	Aviva Investors	28	12,894	15,824	-18.5
●	2	2	Standard Life Invs	17	11,516	14,781	-22.1
●	3	3	Schroder Property Inv Man	13	5,390	7,216	-25.3
●	4	4	Legal & General Property	13	4,625	5,320	-13.1
●	5	5	Henderson Global Investors	18	4,300	5,400	-25.6
●	6	6	ING Real Estate Inv Man (UK)	12	3,743	4,429	-15.5
▲	7	13	RREEF	13	3,208	2,008	59.8
▼	8	7	Invista Real Estate Inv Man	-	3,016	4,215	-28.4
●	9	9	UBS Global Asset Man (UK)	3	2,500	3,033	-17.6
●	10	10	PRUIM	8	2,337	3,000	-22.1

11-20

▲	11	12	Grosvenor Inv Man	5	2,281	2,318	-1.6
▼	12	11	Blackrock	2	2,258	2,834	-20.3
	13		AXA REIM UK	5	2,119	n/a	-
▼	14	8	Hermes Real Estate Inv Man	3	2,000	3,400	-41.2
▼	15	14	Threadneedle Property Invs	5	1,524	1,996	-23.7
	16		Aberdeen Property Investors	5	1,401	n/a	-
▲	17	20	Cardales Chartered Surveyors	3	1,391	1,450	-17.5
▼	18	16	Rockspring Property Inv Managers	3	1,331	1,613	-17.5
▼	19	17	F&C Property Asset Man	3	1,279	1,600	-20.1
▼	20	19	Resolution Asset Man	2	1,267	1,471	-13.9

Bubbling under

▲	21	25	CBRE Investors	4	1,232	1,100	10.0
	22		Valad Property Group	6	1,206	n/a	-
▲	23	28	Highcross	2	986	900	9.6
▼	24	23	Lend Lease Investment Management	2	933	1,160	-19.6
▲	25	34	Unite Group	5	833	525	58.6
●	26	26	CIT Financial Services	1	734	1,073	-31.6
▲	27	36	LaSalle Investment Management	4	710	464	53.0
▲	28	32	KBC Asset Management	4	702	637	10.2
	29		Doughty Hanson & Co Managers	2	671	n/a	-
▲	30	35	Frogmore RE Partners Inv Managers	2	668	500	33.6
▲	31	33	Cordea Savills	10	562	562	0.0
▲	32	39	Protego Real Estate	6	520	200	160.0
	33		Rugby Estates	3	520	n/a	-
▼	34	19	Scottish Widows Inv Partnership	9	439	n/a	-
	35		CCLA Inv Management	3	383	n/a	-
	36		Thames River Capital	3	363	n/a	-
	37		Skandia	1	360	n/a	-
▼	38	31	Palmer Capital Partners	5	357	770	-53.6
	39		Tishman Speyer	6	326	n/a	-
▼	40	30	Invesco Real Estate	1	325	840	-61.2
▼	41	27	JER	3	280	944	-70.3
▼	42	37	Royal London Asset Management	1	199	223	-10.9
▼	43	41	Evolve Fund Services	11	143	117	22.1
	44		BNP Paribas RE Inv Management	1	130	n/a	-
▼	45	43	Colliers Capital	4	129	95	35.8
	46		Reech CBRE Alternative RE LLP	1	87	n/a	-
▼	47	40	Patron Capital	2	72	162	-55.8
	48		Investment Solutions	1	26	n/a	-
	49		Forum Partners	5	8	n/a	-

at Aviva Investors. "But they will have an ongoing life as private investors want and need an allocation to property."

If 2008 has been bad, 2009 is set to be even worse. Redemptions are on the rise again – nearly twice as high in the three months to September as for the same period last year, according to AREF. On top of this, closed-ended property funds, one area where managers thought their money was safe, are being affected by nervous institutional investors.

"We have recently seen situations where

funds that have invested in underlying real estate funds have sought to modify or obtain waivers in respect of their undrawn commitment obligations," says David Rylands, head of real estate funds at law firm SJ Berwin. "This is sometimes because they are funds of funds or hedge funds, which have their own redemption issues. This gives rise to difficult relationship issues for the fund manager."

He outlines the "denominator effect", where pension funds are overweight in

property because as share prices have dropped sharply in the past two months, the value of their property portfolios has gone up as a proportion of their total assets. So some institutional investors have achieved the aim of increasing their allocation to property without actually buying anything. This is bad news for fund managers hoping to sell to them, and a hole in the supposed wall of equity waiting to invest in property.

In terms of new funds, 2008 saw a continued decrease, with 28 launched compared with 30 in 2007. The type of fund being launched is an indicator of what 2009 will be about: 10 of the new vehicles are opportunity funds. The UK is where investors are now looking, as testified by the number of "recovery vehicles" designed to buy up distressed assets. The type of manager taking this approach ranges from old hands such as Threadneedle and Schroders to UK investors making debuts in this space, such as Evans

"These funds have a five-to seven-year life. Whether you are a quarter early or not coming in is neither here nor there over that period"
Don Jordison, head of property at Threadneedle

Randall, or foreign players such as Valad and Gulf Finance House.

As well as the Threadneedle Opportunity Fund, launched in March, Threadneedle has recently raised £50m of equity for a second opportunity fund. Don Jordison, head of property at Threadneedle, says the first fund has already started investing, and the fact that the market has dropped since then does not mean it dived in too early. "These funds have a five- to seven-year life and are closed-ended," he says. "Whether you are a quarter early or not coming in is neither here nor there over that period."

Jordison admits that raising equity in the current market is tough, but adds: "You know it's the right time to launch a fund when it is hard to raise equity."

Consolidation among funds and managers has already begun. Aberdeen Asset Management has repurchased its former UK business from Goodman Property Investors, and Protego UK Property Fund merged with the Threadneedle Property Unit Trust.

"In a frictionless world, consolidation of individual vehicles would be common," says Jordison. "In reality, there are issues with governance, and finding funds with likeminded investors and managers. But you will have investors looking at performance of managers, and I think you will see the top performers take over and merge with other funds."

Next year, assets under management, the number of investors and the number of fund managers are likely to diminish further. Even the top performers are likely to see further falls in fees, thanks to falls in values and further redemptions. Fund managers had better keep their tin hats on for a while yet.

Top managers by value of their discretionary mandates

Chg	Rank 2008	Rank 2007	Company	No of mandates	Tot value of mandates		Chg (%)
					2008 (£m)	2007 (£m)	
Top 10							
▲	1	2	PRUPIM	8	12,177	13,000	-6.3
▼	2	1	Aviva Investors	42	11,218	14,310	-21.6
●	3	3	Hermes Real Estate Inv Man	2	8,300	10,100	-17.8
▲	4	17	Scottish Widows Inv Partnership	4	6,231	1,212	414.1
▼	5	4	Legal & General Property	4	5,962	8,317	-28.3
▼	6	5	LaSalle Inv Man	17	5,400	6,457	-16.4
▼	7	6	CBRE Investors	21	4,349	5,300	-17.9
▼	8	7	Threadneedle Prop Invs	4	4,290	5,041	-14.9
	9	-	AXA REIM UK	5	3,671	-	-
▼	10	8	Invista Real Estate Inv Man	10	3,616	4,012	-9.9
11-20							
	11	-	Aberdeen Property Investors	10	2,920	-	-
▼	12	10	ING Real Estate Inv Man	31	2,636	3,139	-16.0
▼	13	11	Royal London Asset Man	4	2,478	3,103	-20.1
▼	14	12	F&C Property Asset Man	12	1,697	2,195	-22.7
▲	15	19	Schroder Property Inv Man	23	1,346	1,004	-34.1
▼	16	13	Resolution Asset Man	7	1,045	1,392	-24.9
	17	-	BNP Paribas Real Estate Inv Man	2	900	-	-
▼	18	14	DTZ Inv Man	7	893	1,375	-35.1
▼	19	15	Henderson Global Investors	2	680	880	-22.7
▲	20	22	Cushman & Wakefield Investors	7	558	474	-17.7
Bubbling under							
●	21	-	KBC Asset Man	43	501	-	-
▲	22	23	Wilky Fund Man	4	418	436	-4.1
▲	23	25	OLIM	7	400	400	0.0
▼	24	20	Colliers Capital	2	300	535	-43.9
▲	25	26	Cordea Savills	1	260	369	-29.5
▲	26	29	UBS Global Asset Man (UK)	6	258*	129	-
▼	27	24	Rutley Capital Partners	1	220	401	-45.1
▼	28	27	Rockspring Prop Inv Managers	1	176	230	-23.5

Value wiped off indirect funds managed by top 10 managers



Value wiped off 10 largest vehicles



Top vehicles by gross asset value

Chg	Rank 2008	Rank 2007	Vehicle	Manager	GAV (£m) 2008	GAV (£m) 2007	Chg (%)
Top 10							
▲	1	2	Mall Fund	Aviva Investors	2,604	3,200	-18.6
▲	2	3	Standard Life Pooled Pension Prop Fund	Standard Life Investments	2,577	3,161	-18.5
▲	3	4	Hercules Unit Trust	Schroder Property Managers (Jersey)	2,519	2,960	-14.9
▼	4	1	Norwich Property Trust	Aviva Investors	2,398	3,865	-38.0
▲	5	6	BlackRock UK Property Fund	BlackRock (Channel Islands)	2,131	2,314	-7.9
▼	6	5	UBS Triton Property Fund	UBS Global Asset Management (UK)	2,069	2,503	-17.4
▲	7	9	Standard Life Investments UK Shopping Centre Trust	Standard Life Investments	1,654	1,895	-12.7
▼	8	7	Schroder Exempt Property Unit Trust	Schroder Property Inv Man	1,617	2,253	-28.2
▲	9	10	Arlington Business Parks Partnership	Legal & General Property	1,527	1,834	-16.7
▼	10	8	New Star Property Unit Trust	New Star Asset Management	1,366	2,100	-35.0
11-22							
●	11	11	Henderson UK Retail Warehouse Fund	Henderson Global Investors	1,267	1,590	-20.3
▲	12	18	Glanmore Prop Fund	Tilney Asset Management	1,097	1,200	-8.6
▲	13	14	SWIP Prop Trust	Scottish Widows Investment Partnership	1,021	1,315	-22.4
▼	14	12	Junction	Aviva Investors	995	1,520	-34.6
▲	15	19	Ashtenne Industrial Fund	Aviva Investors	979	1,124	-12.9
●	16	16	F&C Commercial Prop Trust	F&C REIT Asset Management	957	1,285	-25.5
▼	17	15	M&G Property Portfolio	Prudential Property Investment Managers	914	1,300	-29.7
	18		Industrial Property Inv Fund	Legal & General Property	913	-	-
	19		Quercus Healthcare Fund	Aviva Investors	901	-	-
▼	20	17	Aviva Investors Pensions - Prop Fund	Aviva Investors	891	1,226	-27.3
	21		X-Leisure Unit Trust	Hermes Real Estate Inv Man	890	940	-5.3
▼	22	13	RREEF UK Core Prop Fund	RREEF	846	1,360	-37.8

*includes cash and investments in UBS funds

Vehicles launched over past 12 months

Name	Manager	Type	Target sector	Launch	Target (actual) GAV (£m)
Veridian Fund	Landid		Office	Oct 2007	500
Moorfield RE Fund II	Moorfield Group	LP	Diversified	Oct 2007	1,700
ROM Capital Opport Fund	ROM Capital		Diversified	Oct 2007	
EuroSelect 14 The Gherkin	IVG Immobilien Fonds	Closed-end	Office	Nov 2007	
Strategic Land Fund Ser 3	Capita Fin Man	LP	Land	Dec 2007	30
Trillium PPP Inv Partners	LandSec Trillium		Infrastructure	Dec 2007	2000
MGI UK High Income Fund	Mercer Glob Invs	Inv co	Fund of funds	Dec 2007	250
Evans Randall Opport Fd	Evans Randall IM		Commercial	Jan 2008	1,000
Infinity Prop Fund	Infinity Asset Man		Dev	Jan 2008	100
British Prop Opp Fund	Managing Ptnrs	Mutual fd	Diversified	Jan 2008	300
PFB Data Centre Fund	Pinder, Fry & Benjamin	Inv co	Office	Jan 2008	
SPREFS Prop Dev Fund III	Strutt & Parker RE Financial Services	LP	Dev	Jan 2008	100
Valad Opport Fund I	Valad Prop Grp	LP	Diversified	Jan 2008	500
UK Residential Index Fund	Alpha Beta Fund Man	Inv co	Residential	Feb 2008	200
Highcross Reg UK Ptnrs III	Highcross Grp	LLP	Diversified	Mar 2008	1,500
UK Special Situations Fd	Orchard Street Inv Man	LP	Commercial	Mar 2008	300
Columbus UK RE Fund	Schroder Prop Inv Man	LP	Diversified	Mar 2008	750
Threadneedle UK Opportunities Fund	Threadneedle Property Investments		Commercial	Mar 2008	
Stenham UK Prop Portf 3	Stenham Prop	Closed-end	Commercial	Apr 2008	100
Stenham UK Prop Portf 3	Stenham Prop	Closed-end	Diversified	Apr 2008	100
SHIP UK II	Prudential RE Inv (UK)		Residential	May 2008	
Rowan Capital Plus Fund	Rowan Asset Man	Inv co	Diversified	May 2008	250
Gulf Atlantic RE Fund II	Gulf Finance Hse		Commercial	Jun 2008	
Prime Central London Residential Fund	Lennox	Jersey PUT	Residential	Jun 2008	200
Henderson UK Outlet Mall Fund	Henderson Global Investors	LP	Retail	Jul 2008	(400)
Nice Residential III	Arch Fin Prods	Inv co	Residential	Aug 2008	200
Performance Prop Trust	Hunter Prop Fund Man	PUT	Diversified	Aug 2008	100

Proportion of new funds that are opportunity funds

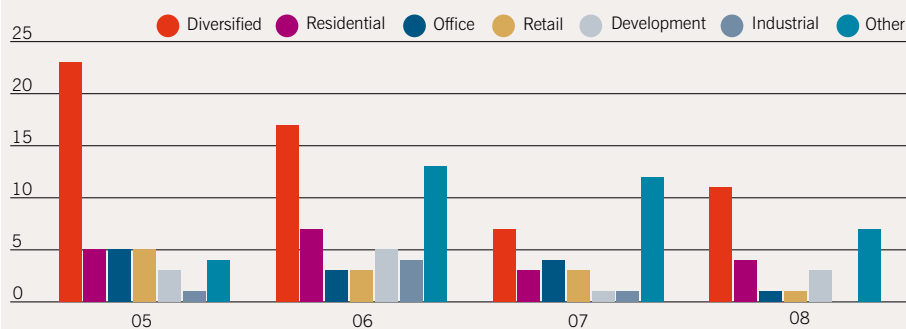
36%



New fund launches

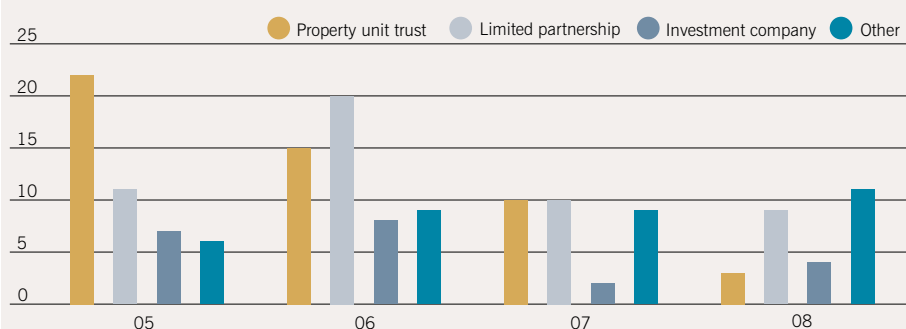
Diversified funds dominate as investors seek hot opportunities

Number of funds launched by target sector



Of the funds launched in 2008, the majority were diversified funds, a return to the norm, with 2007 proving to be an anomaly. With opportunity funds falling into this category, this is not a surprise, as investors continue committing capital to the supposed once-in-a-lifetime opportunity to make a killing. Sector-specific funds have fallen out of fashion, most likely because of investors' desire to spread risk.

Number of funds launched by legal structure



This year, the survey shows a broad diversity in the structures used by managers to establish new funds. This is a reflection of the fact that the sector is becoming more advanced, and also of the fact that managers are willing to employ very specific and individual structures to suit their needs. The vogue for unit trusts is over, with open-ended funds having fallen out of fashion as managers seek to avoid being hit with redemption problems. It will be interesting to see whether the property authorised investment funds structure, created this year, makes it onto the list in 2009.

Source: PFR