property funds research

EuroRating services

the indirect property market

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the property funds research report

Property Funds Research global universe tops 2,250 funds

Our global universe of unlisted (and rarely traded) real estate vehicles currently stands at 2,178 (excluding funds of funds) with an estimated gross asset value of €1.2tr.

In comparison, the FTSE EPRA/NAREIT Global Market Review (September 2008) covers 1,465 listed real estate companies with a total market capitalisation of €1.1tr, which translates to an estimated gross value of approximately €2.0tr.

Fund breakdown

The current geographic split of the Property Funds Research (PFR) universe continues to show the majority of funds (43% by number, 53% by estimated value) based in Europe and the UK, although it should be borne in mind that the maturity and relative transparency of the European market means that the data held by PFR is slightly skewed towards the European markets.

Just over a quarter of the PFR universe by estimated gross asset value is accounted for by global vehicles which invest in more than one continental region. These global vehicles are predominantly opportunistic in their investment style. Of the remaining funds, 18% invest in listed securities and secondaries while just under 10% are classed as development and/or infrastructure funds.

PFR currently holds information on nearly 250 Asian vehicles with an estimated gross asset value of €93bn. Of these, 69% are single-country vehicles with the majority (by number) investing in Japan, India and China (36%, 32% and 19% respectively). The Japanese vehicles are on average twice the size of those vehicles investing in India and China. In the Asian market balanced funds predominate but, not surprisingly, development funds are the most significant sector specialist funds in India and China, with funds targeting the residential sector being the most important in Japan.

The Australasian market, historically dominated by listed vehicles, is seeing an increase in the number of unlisted funds. PFR covers 80 Australasian vehicles with an estimated gross asset value of €28bn, the majority of these having a value-added investment style. 84% are single country funds.

Within the North American market, PFR holds information on 330 vehicles worth an estimated €142bn. While this is probably not yet reflective of the true state of the entire unlisted North American market, this information covers the majority of the significant and recently launched funds.

The emerging markets of Latin America, Africa and the Middle East account for 102 funds (estimated gross asset value of over €15bn) in the PFR universe. Single-country funds dominate, accounting for 76% of vehicles, with a concentration on the Latin American countries of Brazil, Mexico and Chile, where large amounts of North American, and to a lesser extent European, investment has contributed to the rapid growth of the real estate markets in these countries.

Funds of funds investing

In addition to a wide variety of real estate funds, PFR also holds information on 110 fund of funds vehicles with over €22bn of gross assets. 44% of these funds by number have a pan-European investment focus (just under a third of these only invest in UK funds). 36% invest across more than two continental regions. 48% of the fund of funds vehicles have a value-added strategy with only 16% having an opportunistic mandate. As Figure 3 illustrates, fund of funds investing is a relatively recent event with the most well established funds being pan-European in origin.

Figure 1: Geographic breakdown of the PFR vehicle universe

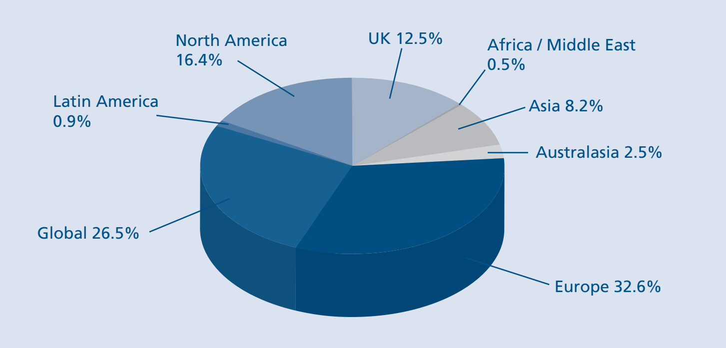


Figure 2: Target sector breakdown

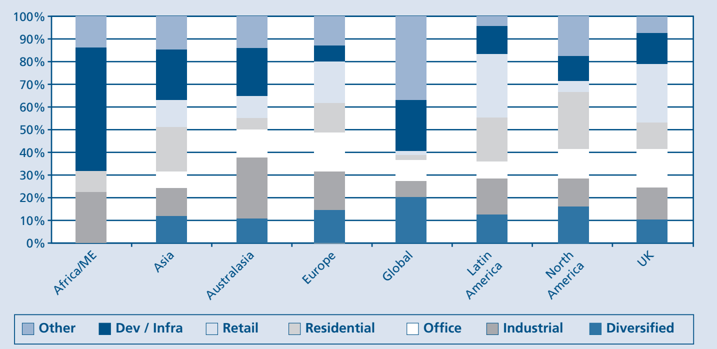
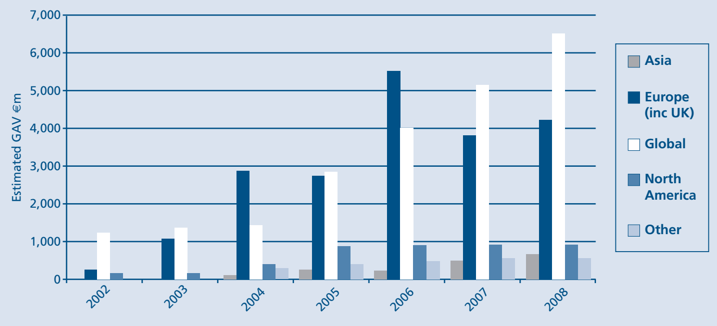


Figure 3: Growth of fund of funds investing (€m)



Capital flows… or not

Property Funds Research and EG Capital have over the past 18 months conducted three surveys examining the fund raising activities of unlisted property funds. This article combines the findings of the last two surveys providing information on 80 individual fund raisings, 62 of which were for funds launched in the period September 2007 to September 2008, with the remaining 18 funds re-opened to investment during the period April to September 2008.

In the period in question, €10.5bn of equity was raised for newly launched funds and an additional €3.1bn was raised by funds during further raisings. If the survey findings are analysed further, it is clear that the rate of new launches has slowed dramatically; most of the new funds that closed in the last six months did so by July, with only two new funds closing in September, along with a further secondary closing. In Q4 2007, 20 new funds were launched with a total of €3.8bn of equity and a combined target GAV of €17.5bn. We are very unlikely to see anything like this in the coming months.

With a target GAV of €53bn and only €10.5bn of equity raised in the period September 2007 to September 2008, a natural assumption would be that the funds would be highly geared. In total, 13 funds had gearing levels over 75% while only 11 anticipated that they would actually take on that level of debt. In fact, of those 11, eight of the managers surveyed responded in the period September 2007 to March 2008, leaving only three managers expecting to take on high levels of debt in their vehicles in the latter half of 2008.

The desire to further understand investor behaviour has been one of the drivers for undertaking these surveys. With a total of just under €14bn of equity committed to 80 funds over the past year, we can begin to piece together an interesting picture. 58% of the equity raised (where investor domicile and type were disclosed) not surprisingly came from European sources with a further 17% coming from North America. Asian and Middle Eastern sources accounted for an additional 6%. The breakdown of the European investors reveals that UK-domiciled investors provided the majority of the equity raised, followed by those from the Netherlands, Finland, Germany and Denmark. By investor type, Pension and Insurance Funds were by far the largest investors in the real estate funds, accounting for 52% of the invested equity. Other institutions accounted for a further 37%, while fund of funds vehicles accounted for over 4%.

Europe is by far the most prominent target destination, accounting for 86% of the equity committed, followed by 6% and 3% to Asia and North America respectively. €2.3bn has been committed to the UK (€9bn in terms of target GAV), €664m to Germany, and over €400m each to Sweden, Italy and the CEE countries. By target GAV allocations, Germany is the next favoured location after the UK, with over €4.7bn. A further €2.8bn, €2.4bn and €1.9bn are targeting Italy, the CEE countries and Sweden respectively. The attractiveness of the Asian market in these difficult times is illustrated by the fact that over 20% of the target GAV of the vehicles surveyed is allocated to the region.

Figure 4: Total equity committed to funds September 2007 to September 2008 (€m)

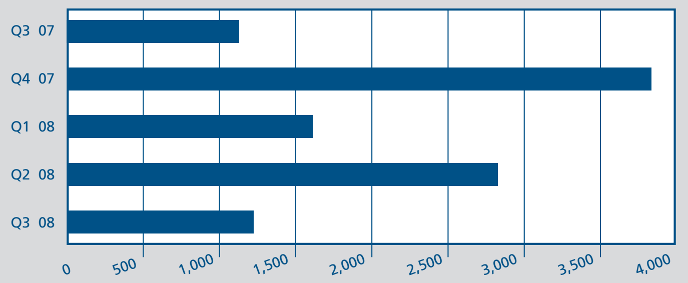
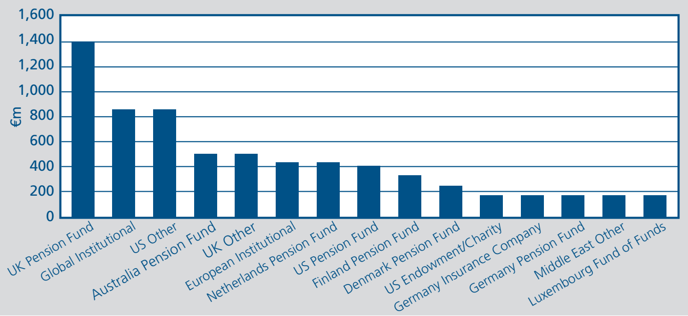


Figure 5: Equity committed by investor type and domicile (€m)



The rise and rise of infrastructure funds

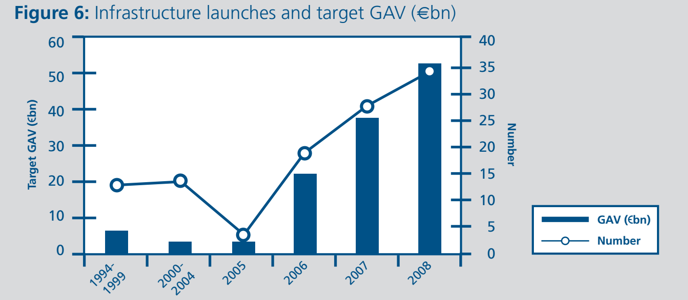
The need for diversification and new sources of return has forced pension funds to seek investments in alternative assets in recent years. In particular, infrastructure funds have been looking increasingly appealing, not only because the selection of funds on offer has never been better, but also because for some investors there is a need to demonstrate sustainable or socially responsible investing, which is increasingly popular with public and industry-wide pension funds.

Predictions for the continued growth in this sector are supported by estimates made by supranational institutions, where figures as large as €42 trillion are reportedly required for global infrastructure investment over the next 25 years[1], with the developing countries having an especially high need.

PFR regards infrastructure funds as an increasingly significant part of its private fund universe. Funds will be included in the PFR universe where there is investment in physical assets, such as roads, bridges, public buildings and energy producing installations. To date, PFR holds information on 113 infrastructure funds, of which 35 have been launched since the beginning of 2008. The total estimated GAV of these 35 funds stands at €54bn, compared with €40bn for vehicles launched during 2007, as Figure 6 shows.

Europe accounts for 34% of the infrastructure funds in PFR's universe, with a target GAV of €44bn. Global funds are the second largest group with a total of €26bn. The emerging markets of the Middle East, North Africa and Latin America account for a surprisingly low aggregate target GAV of €17bn. This could be due to the perceived increase in risk attached to developing markets, with many pension funds restricting their activities to the more developed countries. The target GAV for both Australia and North America is approximately €21bn.

Figure 6: Infrastructure launches and target GAV (€bn)



1 FT Adviser Financial Times, Author James Spellman, 13/03/08

UK fund managers' declining assets

Property Funds Research has just completed the 2008 UK Fund Manager Survey. This year, 58 fund managers took part, accounting for a total of £185 billion of real estate assets under management. This represents a 19% decline in assets compared to those recorded in 2007, for those managers who took part in both surveys. Many fund managers have experienced drops in assets under management to levels recorded in the 2006 survey.

In the past year the combined gross asset value of the vehicles under management reported in the 2007 and 2008 surveys has dropped from €92bn to €77bn, representing a 16% decline in assets.

Table 1: Indirect real estate investment vehicles under management

Rank 2008	Rank 2007	Manager name	Number of vehicles managed	GAV (£m) 2008	GAV (£m) 2007	% change in total fund values
1	1	AVIVA Investors	28	12,894	15,824	-19
2	2	Standard Life Investments	17	11,516	14,781	-22
3	5	Henderson Global Investors	18	5,400	4,930	10
4	3	Schroder Property Investment Management Ltd	13	5,390	7,216	-25
5	4	Legal & General Property	13	4,625	5,320	-13
6	6	ING Real Estate Investment Management (UK)	12	3,743	4,429	-15
7	13	RREEF	13	3,208*	2,008	60
8	7	Invista Real Estate Investment Management Ltd	-	3,016	4,215	-28
9	9	UBS Global Asset Management (UK) Ltd	3	2,500	3,033	-18
10	10	PRUPIM	8	2,337	3,000	-22
11	12	Grosvenor Investment Management Ltd	5	2,281	2,318	-2
12	11	BlackRock	2	2,258	2,834	-20
13	-	AXA REIM UK	5	2,119	n/a	-
14	8	Hermes Real Estate Investment Management	3	2,000	3,400	-41
15	14	Threadneedle Property Investments	5	1,524	1,996	-24

* Includes UK assets in non-UK vehicles.

In the past year the combined gross asset value of the vehicles under management has dropped from £92billion in 2007 to £85billion in 2008 and if the results for managers who took part in both 2007 and 2008 surveys were compared then the rate of decline rises to 16%. As the table below shows, all of the largest vehicles saw a dramatic drop in gross asset value compared with last year. A number of funds have frozen redemptions over the past year as a means of protecting themselves, while many planned funds have been shelved.

Table 2: UK's 10 largest indirect real estate funds

Rank 2008	Rank 2007	Vehicle name	Manager name	GAV (£m) 2008	GAV (£m) 2007	% change
1	2	Mall Fund	AVIVA Investors	2,604	3,200	-18.6
2	3	Standard Life Pooled Pension Property 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 Investment Management	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

Investor activity… who is still investing?

Over 3,000 investors make up the PFR capital source universe with total assets of nearly €15tr. North American investors currently account for nearly €5tr, closely followed by European investors with a total of €4.6tr (including €1.6tr UK). The relatively non-transparent Asian and Middle Eastern markets, of €3tr and €1.2tr respectively, can in some way be explained by the existence of some of the world's largest Government Pension and/or Sovereign Wealth funds in these regions. Government funds account for 18% (€2.6tr) of the PFR universe by fund value. Pension Funds are by far the most significant source of capital in PFR's database, accounting for €9.4tr or 64% of the universe, with Insurance Funds accounting for €2.1tr (15%).

With traditional investors becoming more reluctant to invest in real estate in the current climate, Sovereign Wealth Funds have become even more important to investment funds which are in the market looking to raise capital. Sovereign Wealth Fund investment in real estate is predicted to increase by a net €573bn by 2015. As they diversify out of stocks and bonds, the real estate allocations of the Sovereign Wealth Funds are also expected to increase from 4% to 7%. Over half of the real estate investment is likely to be in direct property, with approximately 30% going to unlisted and listed funds, while as much as 25% is expected to go to real estate debt (CBRE 2008).

Domicile	Capital name	Total value of fund (€m)	Invests in property?
United Arab Emirates	Abu Dhabi Investment Authority	557,770	Globally
Saudi Arabia	Saudi Arabian Monetary Agency Foreign Holdings	336,629	Yes
Singapore	Government of Singapore Investment Corporation (GIC)	256,418	Globally
China	SAFE - State Administration of Foreign Exchange	241,915	-
Norway	Norwegian Government Pension Fund	241,435	Considering
Kuwait	Kuwait Investment Authority	168,908	Globally
China	China Investment Corporation	155,598	-
Hong Kong	Hong Kong Monetary Authority Exchange Fund	126,308	Yes
Singapore	Temasek Holdings	101,459	Yes
Russia	Russian Reserve Fund	96,168	-

Size of the global investable real estate market

The total size of the global investable real estate market is estimated at €12.5tr.[1] Using adjusted market capitalisation figures provided by EPRA and Macquarie Securities the gross value of the listed real estate market has been estimated at €2.2tr compared to PFR's unlisted market estimate of €1.8tr. To capture the parts of the unlisted market not known to PFR, the gross asset value of known vehicles is grossed up using an estimate of PFR's market coverage to provide the estimated unlisted market size.

In order to compare the listed and unlisted markets by GAV, the listed market capitalisation figure requires two adjustments. Firstly, the market capitalisation figures have been adjusted to take into account the discount or premium to net asset value (we have used the discount or premium reported by ING Clarion).[2] The estimated net assets are adjusted to incorporate debt by grossing up the net figures by estimated regional average gearing levels. Due to a lack of available data, the average gearing levels used were deduced from in depth discussions with industry experts.

As a result, PFR estimates that the global real estate market is broken down in the following way; 14.3% is unlisted, 17.4% is listed and 68.3% is in direct real estate.

There remains an estimated €8.5tr of real estate that has yet to be securitised with Europe and North America accounting for over 80% of the remaining stock.

1 REEF Research, The Future Size of the Global Real Estate Market, 2007

2 ING Clarion, Global Real Estate Securities: Market Commentary, September 2008

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