

A new capital markets driver



A surge in activity on the global property market has triggered growth in the globalisation of property finance and the property securities markets. Neil Tyler reports

In the past 10 years, the global property market has been utterly transformed. The diversification of funding sources, growth in market demand, a new and larger investor base and the proliferation of sophisticated financial and investment products have all contributed towards property financing becoming a key driver of capital and financial market activity.

Property finance and the property securities markets are globalising, allowing investors to gain access to a range of property investment activities around the world. In 2006, cross-border investment accounted for 29% of the total investment market, according to real estate consultants Cushman & Wakefield, up from 25% in 2005.

The international property market is continuing to boom despite fears about its sustainability. Last year, there were record levels of investment with more than €500bn of stock being traded, up

33% on 2005. Investors have continued to pour funds into a host of projects, ranging from the traditional (industrial parks, retail outlets, hotels and office developments) to the less common (nursing homes, car parking facilities, schools, airports and other infrastructure assets).

Property becomes attractive

As investors have re-appraised their investment portfolios, property has become more attractive. In the past five years, billions of euros have poured into the sector and speculative investment is on the increase. Concerns are mounting that the market is moving towards becoming unsustainable.

Deal volumes are surging ahead, driven by increased interest in real estate as an asset class. Strong returns are attracting even more buyers as a result. As more buyers enter the market, so more money enters the global property

market and so prices continue to rise. Commentators are divided. Some talk of "irrational exuberance"; others that this is a period of structural change in the equilibrium value of global real estate.

Recent increases in interest rates in the UK may be having an impact on the domestic market. Figures at the end of 2006 suggest that the UK commercial property boom could be coming to an end. Prices began to fall at the end of last year and average net initial yields began to recover, rising to 5%, according to agents Lambert Smith Hampton.

While the commercial property boom may be easing in the UK, on the global market institutional investors are continuing to pour money into private equity, venture capital, and hedge funds that invest in real estate-related assets. A surprisingly diverse range of investors are looking at a number of markets across Europe, including Germany and the countries of central and eastern Europe. Other big movers are heading to the Middle East, Far East and India.

According to new research from the US, the commercial property market there could be poised to follow the residential market into a trough. The Urban Land Institute's 2006 survey suggests that prices for all but the best offices and shops are set to fall unless rents rise substantially in the next two years. The biggest question for investors in the coming year will be: when will yields increase?

Debt finance

This surge in activity in the global property market has triggered dramatic growth in the availability of debt finance from all sources. Securitisation continues to boom as banks convert residential and commercial mortgages, corporate loans and other debts into saleable securities.

Real estate investment trusts (REITs) were launched in the UK in January this year. The move has been heralded as a significant positive development for the commercial property market in the UK because it will increase the options available to investors both in the UK and overseas.

Institutional investors have enormous sums to invest into the listed real estate

sector. Issuance in the European market for bonds backed by assets is expected to grow significantly in the next 12 months. New issuance growth of 30% is forecast. If that proves correct, volumes could go beyond €500bn this year.

Areas that are performing well include commercial mortgage-backed securities (CMBS), where there has been continued growth in the size and number of deals. Investment banks have also been moving aggressively into

CMBS by setting up specialist lending vehicles, known as conduits. Barclays expects CMBS issuance to grow by about 45% this year compared with 60% last year.

By far the largest section of the European asset-backed market is residential mortgage-backed securities (RMBS). Strong growth was reported in 2006, with UK banks responsible for nearly 70% of the growth in the market.

Bonds, backed by commercial prop-

erty loans, are expected to remain one of the hottest areas of the European asset-backed securities market this year.

The strength of the market is helping to drive the disintermediation of banks as the main providers of capital. Growth in non-bank lenders, such as commercial mortgage conduits and specialist asset managers for the leveraged loans that finance buy-outs, are playing a significant part in the market's continuing strong performance. **TB**

Key developments in real estate investment in 2007

Europe, Asia and North America are holding real estate investment managers' interest, with a focus on developing indirect funds, according to the latest research

The **Banker** commissioned Property Funds Intelligence to collect information about real estate investment management firms and their global investment activity. Conducted in January, the research lists the top 25 fund managers by global real estate assets under management.

Details of the top 25 fund managers in terms of segregated mandates under management and the top 25 fund managers in terms of indirect real estate investment vehicles under management are also provided.

The research lists the number of vehicles launched last year and >>

GLOBAL REAL ESTATE ASSETS UNDER MANAGEMENT

Name of fund manager	Total	Europe	North America	Latin America	Australasia	Asia
ING Real Estate	79,220	41,296	31,142	-	5488	1294
RREEF	53,685	16,548	29,777	12	6117	1231
Morley Fund Management	47,979	47,927	15	-	-	7
Morgan Stanley Real Estate	47,655	14,830	23,122	-	26	9677
Pramerica Financial Inc	46,519	3321	40,020	623	30	2516
LaSalle Investment Management	32,005	12,770	15,466	339	126	3303
Axa Real Estate Investment Managers	32,000	32,000	-	-	-	-
UBS Global Asset Management Real Estate	30,459	14,213	12,234	-	1021	3011
Principal Real Estate Investors	28,144	-	28,088	-	55	-
PRUPIM	27,666	26,072	1006	-	276	312
Curzon Global Partners/Ixis AEW Europe	27,600	13,200	14,400	-	-	-
Invesco Real Estate	21,070	5388	14,997	-	-	-
Standard Life Investments	19,989	19,443	221	-	61	262
CB Richard Ellis Investors	19,688	8989	9580	-	-	1119
Macquarie Goodman Group	19,200	13,300	-	-	3690	2210
IVG Immobilien	18,000	17,400	600	-	-	-
BlackRock	17,953	4410	12,673	-	870	-
Cohen & Steers Capital Management Inc	17,231	1460	14,427	-	502	842
Legal & General Property	17,122	17,122	-	-	-	-
Tishman Speyer	16,604	4706	11,785	113	-	-
Commerz Grundbesitz Group	13,110	11,967	1058	-	-	85
Invista Real Estate Investment Management	12,648	12,648	-	-	-	-
Schroder Property Investment Management	11,220	11,220	-	-	-	-
Threadneedle Property Investments	9996	9996	-	-	-	-
Aberdeen Property Investors	9800	9700	-	-	-	100

Source: The Banker/Property Funds Intelligence

SEGREGATED MANDATES UNDER MANAGEMENT

Name of fund manager	Total value (€m)	Europe	North America	Australasia	Asia	Total number
PRUPIM	27,665	26,077	1006	276	312	13
Principal Real Estate Investors	26,386	55	26,331	-	-	-
Morley Fund Management	25,920	25,920	-	-	-	35
Axa Real Estate Investment Managers	21,000	21,000	-	-	-	10
Pramerica Financial Inc	20,486	300	20,099	-	87	17
LaSalle Investment Management	19,317	10,445	8238	-	635	47
ING Real Estate	18,871	7724	10,768	-	379	85
RREEF	17,731	-	15,369	2362	-	74
Macquarie Goodman Group	13,570	7680	-	3690	2200	19
CB Richard Ellis Investors	13,393	6970	6423	-	-	31
Invesco Real Estate	11,635	931	10,284	161	260	62
Invista Real Estate Investment Management	10,648	10,648	-	-	-	16
Threadneedle Property Investments	8667	8667	-	-	-	7
BlackRock	7451	-	7451	-	-	17
Legal & General Property	7410	7410	-	-	-	2
CharterMac	6955	-	6955	-	-	123
Cushman & Wakefield	6319	6319	-	-	-	15
Aberdeen Property Investors	5800	5800	-	-	-	28
Royal London Asset Management	4812	4812	-	-	-	6
ABN AMRO Asset Management	3982	159	126	126	-	25
Scottish Widows Investment Partnership	3976	3976	-	-	-	7
Amvest	2860	2860	-	-	-	2
UBS Global Asset Management Real Estate	2520	392	2099	28	-	162
Kempen Capital Management	1911	1911	-	-	-	15
Schroder Property Investment Management	1710	1710	-	-	-	16

Source: The Banker/ Property Funds Intelligence

indirect vehicle launches planned over the coming 12 months.

Property Funds Intelligence found that the majority of managers stated that they were still investing in European real estate, with a specific interest in pan-European indirect investment. Future regional and single country investment was focused on the developing markets of southern, central and

‘The global real estate securities markets are undergoing structural change’

eastern Europe, with a number of managers specifically wishing to target Greece and Russia.

Many European managers said they would invest in direct property domestically and then use indirect investment for non-domestic markets.

The Asian market was also highlighted. Our research found that most

managers saw Asia as an area where they would be focusing their investment activity this year. Many saw the expansion from Europe to Asia and Australasia as a natural progression. Again the focus, for most, would be on developing indirect funds with no particular preference for the listed or unlisted route.

The investment focus of clients was often mentioned as a reason for building international and global accounts. The expansion of the listed market was also cited as facilitating easier access to foreign markets for investors as well as raising the awareness of the asset class.

In general, the managers who had a development network of global offices showed continued interest in the three main markets of Europe, Asia and North America. Many commented that they thought these markets would all continue to grow over the next year, with Asia possibly showing slightly higher growth.

The research found that global investment was carried out through securitised funds, REITs or multi-manager funds. All routes were popular, with the former being referred to slightly more often. One manager said: “The global real estate securities markets are undergoing structural change, and we believe there are unprecedented opportunities for investors to invest and realise attractive

PLANNED INDIRECT VEHICLE LAUNCHES FOR 2006/2007

Name of fund manager	Number of planned launches
IVG Immobilien AG	8
LaSalle Investment Management	6+
ING Real Estate	5
Grosvenor Fund Management	4-6
Halverton Real Estate Investment Management	3
Charter Hall Group	3
Invista Real Estate Investment Management	3
Cordea Savills	3
Lend Lease Real Estate Investment	2+
Bouwfonds Asset Management	2+
RREEF	2
Sentinel Real Estate Corporation	2
Standard Life Investments	2
Centro Properties Group	2
Pramerica Financial Inc	2
Kempen Capital Management	1
Oppenheim Immobilien-Kapitalanlagegesellschaft	1
BNL Fondi Immobiliari	1
Niam	1
Macquarie Goodman Group	1
Cushman & Wakefield	1
Protego Real Estate Investors	1
Threadneedle Property Investments	1
Patron Capita	1
Rockspring Property Investment Managers	1
Parex Asset Management IPAS	1
Hines	1
DTZ Investment Management	1

Source: The Banker/ Property Funds Intelligence

INDIRECT REAL ESTATE INVESTMENT VEHICLES UNDER MANAGEMENT

Name of fund manager	Total number	Total per manager
Morgan Stanley Real Estate	29	34,421
Morley Fund Management	31	22,028
Standard Life Investments	12	18,647
IVG Immobilien	100	18,000
Pramerica Financial Inc	8	15,856
Tishman Speyer	10	11,555
Axa Real Estate Investment Managers	-	11,000
Commerz Grundbesitz Group	8	10,284
RREEF	35	10,282
Schroder Property Investment Management	24	10,012
Legal & General Property	12	9686
Centro Properties Group	40	9301
UBS Global Asset Management Real Estate	18	8707
BlackRock	-	8313
Cohen & Steers Capital Management Inc	24	7084
Patron Capital	4	6500
LaSalle Investment Management	22	6342
CB Richard Ellis Investors	13	5423
WestInvest Gesellschaft fur Investmentfonds	3	5200
Invesco Real Estate	21	4579
Bouwfonds Asset Management	20	3620
Macquarie Goodman Group	13	3365
Hines	12	3293
Aberdeen Property Investors	11	3100
Grosvenor Fund Management	12	2974
The Praedium Group	-	2759
Sentinel Real Estate Corporation	10	2281
Orion Capital Managers	3	2186
Invista Real Estate Investment Management	15	1999
Citigroup	4	1967
The Carlyle Group	7	1876
Lend Lease Real Estate Investment	4	1771
Threadneedle Property Investments	8	1328
Matrix Property Fund Management	2	1327
Cordea Savills	10	1304
Niam	1	1200
Charter Hall Group	7	1184
Pradera - AM	3	1150
KBC Asset Management	4	1141
Halverton Real Estate Investment Management	3	1107
Palmer Capital Partners	6	1033
Skandia Investment Management	3	932
Kempen Capital Management	2	634
Frogmore Real Estate Partners Investment Management	1	590
MacarthurCook	5	442
Protego Real Estate Investors	2	325
Royal London Asset Management	1	315
CharterMac	-	103
Imorendimento	6	91
Scottish Widows Investment Partnership	1	68
Helios Gullwing Asset Management	2	44
Parex Asset Management IPAS	3	37
ING Real Estate	68	32
BNL Fondi Immobiliari	9	3
Sierra Asset Management - Gestao de Activos	1	1

Source: The Banker/ Property Funds Intelligence

returns in real estate markets via REITs and other listed property companies.”

Several managers said that they would be developing opportunistic

funds; fewer reported that they would be creating value-added products.

The future fund launches reported in this survey are to be dominated by

VEHICLES LAUNCHED IN 2006

Name of fund manager	Number of vehicles launched to date in 2006
The Carlyle Group	8
Aberdeen Property Investors	7
Cordea Savills	7
Bouwfonds Asset Management	5+
The Praedium Group	5
ING Real Estate	5
Cohen & Steers Capital Management Inc	5
Niam	4
Axa Real Estate Investment Managers	4
LaSalle Investment Management	4
MacarthurCook	4
Pramerica Financial Inc	4
IVG Immobilien	4
Centro Properties Group	3
Morley Fund Management	3
Patron Capita	3
Invista Real Estate Investment Management	3
Citigroup Property Investors	3
CharterMac	2+
RREEF	2
Matrix Property Fund Management	2
Imorendimento	2
Halverton Real Estate Investment Management	2
Legal & General Property	2
Charter Hall Group	2
Parex Asset Management IPAS	2
Achmea Vastgoed	2
Pradera - AM	2
Helios Gullwing Asset Management	1
Lend Lease Real Estate Investment	1
Schroder Property Investment Management	1
BNL Fondi Immobiliari	1
Macquarie Goodman Group	1
Sentinel Real Estate Corporation	1
Standard Life Investments	1
KBC Asset Management	1
UBS Global Asset Management Real Estate	1
Protego Real Estate Investors	1
Grosvenor Fund Management	1
Rockspring Property Investment Managers	1
TOTAL	106

Source: The Banker/ Property Funds Intelligence

launching limited partnerships and the closed-ended real estate structure. These vehicle types more than doubled the number of open-ended funds that were expected to be created this year. FCPs, FGRs, SICAVs and REITs were also mentioned as possible vehicles. Only 10% of the future funds were reported as listed, the remainder were unlisted.

Diversified funds were reported as being by far the most popular in terms of the sector allocations. Single sector funds were rarely mentioned, though when they were, the target sectors were the key sectors of office, retail and residential. **TB**