

Steady yields tempt investors back

Real estate

Influx of capital focused on cities in Europe, the US and Asia, writes Daniel Thomas

The recovery in commercial real estate in many developed markets around the world has sparked a return of interest in the asset class among leading institutional investors. They have pinpointed prime property in particular as offering a safe haven in otherwise uncertain markets.

Real estate remains the largest allocation in alternative assets for pension funds of about 55 per cent, according to Towers Watson, and this proportion increased at the expense of other asset classes in 2010.

The return of institutional capital marks a sharp turnaround from the previous two years, when the crashing market forced many pension investors to flee from real estate funds in the hope of cutting losses. Many failed to leave in good order, causing widespread losses.

However, the global property market rebounded sharply from a nadir in mid-2009, and for once fund investors were at the forefront of the wave of capital gains, helping to negate the traditional reputation of pension money chasing real estate markets rather than leading them.

Even so, the influx of capital into global real estate has tended to be much more focused than during the last boom in real estate, with much of the capital targeting only key cities in Europe, the US and Asia, and in those locations only the better quality property. The real estate managers that saw asset values increase the most have been those invested in these areas already, according to Douglas Crashaw, senior investment consultant at Towers Watson.

Such real estate assets are seen as attractively defensive in uncertain times given generally long leases to companies with strong balance sheets, offer-

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ing a yield with corporate bond-like characteristics in its income returns and security but also with the underlying physical asset of the property.

Property has also become more attractive to pension funds given the fears over increasing inflation, with many asset managers regarding property as a partial hedge to rising prices.

William Hill, head of real estate at Schroders, says: "It is one of few asset classes that is locally priced

so you can get genuine diversification of risk, whereas equities and bonds can be inter-linked. Real estate drivers are different around the world."

Mr Crawshaw says the geographical allocations in this year's survey shows funds were spreading capital in different areas to secure such diversification benefits. The allocations to Asia doubled during 2010, which Mr Crawshaw says reflects fund managers looking for diversification in the emerging markets.

Indeed, the inflation in Asia only slowed in countries such as China during the global property downturn, even if the recovery has been widespread since. The flows of funds back into such property began in earnest in 2010 when it became clear that a bottom had been reached.

Early movers were able to buy at attractive prices, but the weight of money targeting a similar narrow tranche of well-located properties has swiftly re-rated property in many leading countries. Now with much of this bounce priced into established markets, most funds are targeting the more steady income characteristics rather than the capital gains that only really manifest in a boom.

Simon Kinnie, senior investment analyst at Standard Life Investments, says: "At this point in the cycle with global economic growth gradually improving and most asset class yields generally remaining rela-



Global real estate investors are focusing on prime property in the City of London Bloomberg

tively modest, investors can benefit from the attractive attributes which global real estate can add to a diversified, multi-asset portfolio.

Mr Kinnie says that careful selection of markets and individual assets remains paramount. London has been a particular focus for global investors, from a raft of established European and US institutional funds to new entrants from Asia, including a wave of national pension and corporate schemes from coun-

tries such as Malaysia and Korea.

This has caused yields to narrow close to 5 per cent for offices in the City and 3 per cent for retail in the West End, which is around the same level as the peak of the market in 2007.

Simon Hope, managing director of capital markets at Savills, says: "We have already seen significant interest from Norwegian, Canadian, Korean and Australian pension funds among others and with a

scarcity of buying opportunities in their homelands we expect to see a continued focus on London, which has become a city state."

There has been similar interest in prime properties in cities such as Paris, Frankfurt, New York and Washington, although this interest often comes at the exclusion of the wider national property markets that remain in the doldrums with little investor interest and a wave of potential debt problems.

Top 50 real estate fund managers of pension fund assets

| Management group | Main country of domicile | Pension AUM (\$m) | | % change | Total 2010 AUM (\$m) | Pension AUM (as a % of total) |
|---|--------------------------|-------------------|-----------|----------|----------------------|-------------------------------|
| | | 2010 | 2009 | | | |
| Prudential Financial | US | 41,992.7 | 20,884.20 | 101.1 | 44,767.3 | 93.8 |
| JP Morgan Asset Mgmt - Global Real Assets | US | 34,983.0 | 27,771.50 | 26.0 | 39,111.0 | 89.4 |
| ING Real Estate Investment Mgmt | Netherlands | 30,790.6 | 32,363.50 | -4.9 | 88,507.5 | 34.8 |
| AEW Capital Management | US | 27,639.4 | 26,003.30 | 6.3 | 45,067.2 | 61.3 |
| CB Richard Ellis Investors | US | 27,400.0 | 24,850.00 | 10.3 | 37,600.0 | 72.9 |
| Morgan Stanley | US | 25,941.0 | 25,759.00 | 0.7 | 63,059.0 | 41.1 |
| Jones Lang LaSalle | US | 24,556.0 | 23,670.00 | 3.7 | 43,023.0 | 57.1 |
| RREEF | US | 21,872.8 | 23,339.02 | -6.3 | 43,500.5 | 50.3 |
| Principal Global Investors | US | 20,495.2 | 19,049.00 | 7.6 | 35,437.7 | 57.8 |
| Heitman | US | 19,046.7 | 18,457.10 | 3.2 | 22,385.5 | 85.1 |
| UBS Global Asset Management | UK | 18,240.0 | 17,517.90 | 4.1 | 57,596.0 | 31.7 |
| Brookfield Asset Management | Canada | 17,148.5 | 13,242.92 | 29.5 | 58,019.0 | 29.6 |
| Invesco | Bermuda | 15,200.3 | 16,883.60 | -10.0 | 36,486.7 | 41.7 |
| AMP Capital Investors | Australia | 13,586.2 | 6,248.84 | 117.4 | 16,113.5 | 84.3 |
| Hines | US | 13,133.0 | 12,511.10 | 5.0 | 23,749.0 | 55.3 |
| Standard Life Investments | UK | 11,267.7 | 10,017.10 | 12.5 | 15,642.0 | 72.0 |
| BlackRock | US | 10,544.9 | 13,552.40 | -22.2 | 13,426.0 | 78.5 |
| Aberdeen Asset Management | UK | 10,155.5 | 11,180.00 | -9.2 | 32,139.6 | 31.6 |
| Hermes Real Estate Investment Mgmt | UK | 9,745.1 | 9,340.40 | 4.3 | 10,106.4 | 96.4 |
| DTZ Investment Management | UK | 9,048.0 | new | new | 9,189.0 | 98.5 |
| Henderson Global Investors | UK | 8,835.0 | new | new | 18,500.0 | 47.8 |
| L&G Investment Management | UK | 8,481.0 | 1,008.00 | 741.4 | 16,002.0 | 53.0 |
| QIC | Australia | 7,707.6 | 6,269.40 | 22.9 | 8,715.7 | 88.4 |
| Schroder | UK | 7,619.5 | 6,039.00 | 26.2 | 14,689.9 | 51.9 |
| Rockspring Property Inv Mgrs | UK | 7,600.0 | 7,300.00 | 4.1 | 9,900.0 | 76.8 |
| Aviva Investors | UK | 6,596.9 | 3,667.60 | 79.9 | 36,446.6 | 18.1 |

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|---------------------------------------|--------------------------|-------------------|----------|----------|----------------------|-------------------------------|
| | | 2010 | 2009 | | | |
| ISPT Super Property | Australia | 6,400.0 | new | new | 6,400.0 | 100.0 |
| MGPA | Bermuda | 6,149.5 | new | new | 10,978.3 | 56.0 |
| Charter Hall Group | Australia | 5,319.8 | 2,320.50 | 129.3 | 10,400.0 | 51.2 |
| Dexus Property Group | Australia | 5,238.4 | 4,152.83 | 26.1 | 13,795.3 | 38.0 |
| BNP Paribas Real Estate Inv Mgmt | France | 5,100.0 | 366.00 | 1293.4 | 14,580.0 | 35.0 |
| Lend Lease Group | Australia | 4,769.7 | 4,023.07 | 18.6 | 9,099.6 | 52.4 |
| Cohen & Steers Capital Management | US | 4,215.8 | 3,030.00 | 39.1 | 25,494.7 | 16.5 |
| Cornerstone Real Estate Advisers | US | 4,165.4 | new | new | 30,793.0 | 13.5 |
| Bank of New York Mellon | US | 3,962.2 | 1,863.26 | 112.6 | 5,462.7 | 72.5 |
| GE Asset Management | US | 3,758.1 | 3,281.60 | 14.5 | 4,875.4 | 77.1 |
| Axa Real Estate | France | 3,500.0 | 3,160.00 | 10.8 | 53,570.0 | 6.5 |
| Franklin Templeton Investments | US | 3,204.8 | 2,961.90 | 8.2 | 4,074.9 | 78.6 |
| Secured Capital Japan | Japan | 3,062.8 | new | new | 9,343.7 | 32.8 |
| Macquarie Group | Australia | 3,051.6 | 4,128.10 | -26.1 | 4,911.6 | 62.1 |
| M3 Capital Partners/Evergreen Inv Adv | US | 2,900.0 | 1,750.00 | 65.7 | 2,900.0 | 100.0 |
| Scottish Widows Inv Pship | UK | 2,882.8 | 1,496.30 | 92.7 | 9,616.9 | 30.0 |
| The GPT Group | Australia | 2,602.0 | 2,025.00 | 28.5 | 5,185.0 | 50.2 |
| Partners Group | Switzerland | 2,588.0 | 873.00 | 196.4 | 3,393.0 | 76.3 |
| Orchard Street Inv Management | UK | 2,100.0 | new | new | 2,400.0 | 87.5 |
| Kempenn Capital Management | Netherlands | 1,732.0 | 896.00 | 93.3 | 2,257.0 | 76.7 |
| Orion Capital Managers | UK | 1,700.0 | new | new | 4,250.0 | 40.0 |
| Landmark Partners | US | 1,506.9 | 1,235.00 | 22.0 | 1,801.3 | 83.7 |
| Investa Funds Management | Australia | 1,461.0 | 1,414.00 | 3.3 | 1,931.0 | 75.7 |
| Perennial Investment Partners | Australia | 1,399.1 | 797.00 | 75.5 | 2,442.8 | 57.3 |
| TOTAL | | 532,396.4 | | | 1,079,136.2 | 49.3 |

Source: Towers Watson