THE ASSOCIATION OF REAL ESTATE FUNDS INVESTMENT QUARTERLY (AREF IQ) aims to provide a clear commentary on the performance of the UK unlisted real estate sector, via data gathered from the Association's member funds. It forms part of AREF's ongoing commitment to improve the transparency and profile of unlisted UK property funds.

About Association of Real Estate Funds (AREF)

AREF has 69 member funds representing around £29 billion of NAV and includes pooled property vehicles promoted by all of the UK's leading fund managers. The Association acts as spokesperson for the UK unlisted real estate funds industry on tax and regulatory matters and works towards a conformity and ease of comparison across member funds via the AREF Code of Practice and the AREF/Linklaters sponsored IPD UK Pooled Property Funds Indices. The Association also publishes the AREF Investment Quarterly (AREF IQ), which provides data and commentary on fund returns, liquidity, yields, new money raised and gives a valuable overview of the UK unlisted real estate funds market. www.aref.org.uk.

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THE ASSOCIATION OF REAL ESTATE FUNDS: INVESTMENT QUARTERLY – Q1 2010
POOLED PROPERTY FUNDS IN FIRST QUARTER

UK UNLISTED POOLED PROPERTY FUNDS:

- Net Asset Value as at March 2010: £28.9 billion (March 2009: £22.4 billion)
- Gross sales for Q1 2010: £2.0 billion (Q1 2009: £0.2 billion)
- Net flows for Q1 2010: + £1.5 billion (Q1 2009: - £0.3 billion)

The Association of Real Estate Funds (AREF) today issues its Investment Quarterly (IQ) for Q1 2010 which examines trends in the UK unlisted pooled property funds (PPFs) industry through data provided by 66 member funds, representing a net asset value of £28.9 billion.

In Q1 2010, PPFs raised £2.0 billion of new money, the second highest figure on record and following the exceptional £3.2 billion raised in the previous quarter. Net flows remained positive at £1.5 billion.

The All-pooled property fund index saw a strong positive total return of 5.9% in Q1 2010, although down from the 10.4% recorded in the previous quarter. During the 12 months to March 2010, PPFs delivered a positive return of 12.6% and over 10 years an annualised return of 5.0%.

The weighted average PPF yield was 4.6% in Q1 2010, which is down from 4.9% in the previous quarter.

Commenting on the latest IQ, John Cartwright, AREF Chief Executive, said:

"The first quarter continues the positive news seen towards the end of 2009, albeit at less dramatic levels both in terms of returns and capital flows. The continued inflows into property funds illustrate continued investor confidence in pooled funds as an effective way of accessing property returns. As was the case last quarter, the flows of capital are relatively evenly balanced between institutional and retail investors."

-ENDS-

The Recovery Continues

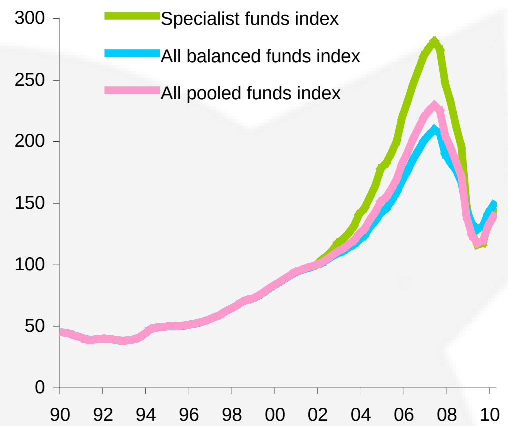
The UK economy officially came out of recession in Q4 2009, ending the continuous run of negative quarterly growth since Q2 2008.

The latest GDP estimates for Q1 2010 point to an economic expansion of 0.2% for the quarter, the weak growth said to be due in part to the poor weather conditions at the beginning of Q1. Having said that, Tim Besley, the former MPC member at the Bank of England, suggested that the UK economy remains in a fragile state while the jobless recovery is still relatively weak at this stage.

Indeed the labour market has not yet turned around fully. Despite the falling trend in claimant count statistics, the number of unemployed actually hit a new high of 2.5 million in the three months to February 2010. This is accompanied by more jobs disappearing over the same period, with employment declining to 24.7 million, pushing the jobless rate to 8%, the highest level since 1994

The Greek debt crisis of recent weeks has unnerved the financial markets. With investors becoming more risk averse, it is not surprising to see returns on riskier asset classes, such as the wider equity market, under pressure. However, despite the recent setback and looking at Q1 as a whole, equities still posted some encouraging returns. On the other hand, the pooled property funds saw slowing but very positive quarterly returns over the same period, after very strong returns at the end of 2009.

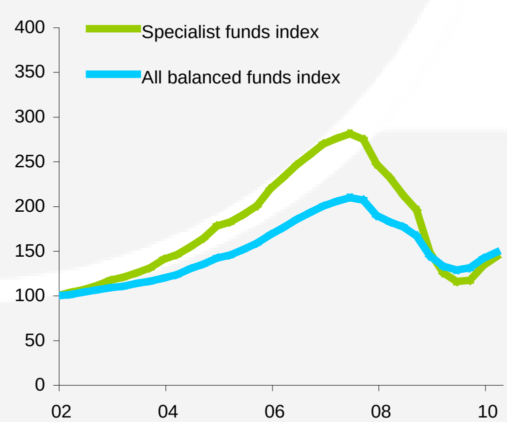
Fig. 1: IPD UK Pooled Property Fund Indices, Dec'01=100



Source: IPD/ AREF

The return recorded by the IPD UK Pooled Property Fund Index (PPFI), sponsored by AREF and Linklaters, was 5.9% for Q1 2010, a slowdown from the extraordinary 10.4% seen in Q4 2009. Note that pooled property fund returns only returned to positive territory in Q3 2009 after two years of negative figures.

Fig. 2: Specialist Funds & All Balanced Funds Indices, Dec'01=100



Source: IPD/AREF

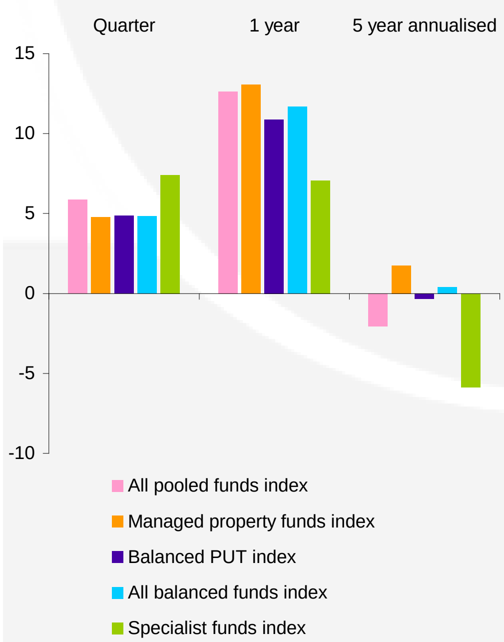
Taking a closer look at the components of the headline index, Figure 2 shows that the Specialist funds once again delivered a distinctively higher three-month return than that of the All Balanced funds in Q1, at 7.4% and 4.8% respectively, although the gap has narrowed substantially this quarter compared with the last.

This differentiation of Specialist fund returns is not uncommon given the higher level of gearing normally employed, coupled with highly focussed investment strategies.

Overall the All Pooled funds sample returned 5.9% for the quarter, a major improvement from the fall of -11.1% seen twelve months ago.

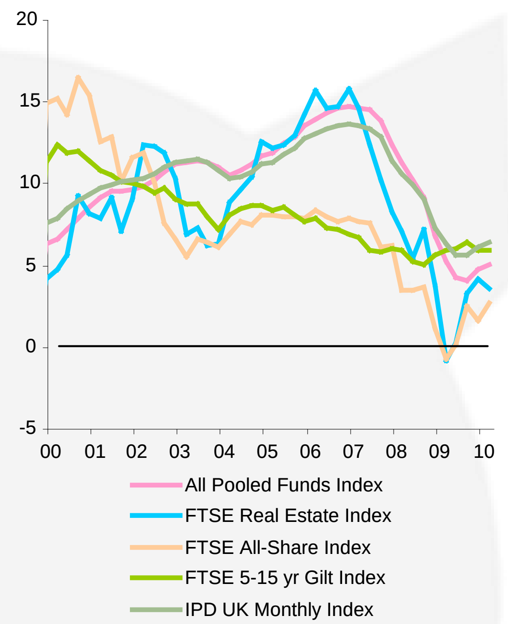
The other components of the Index all delivered attractive returns in first quarter of this year. Balanced property unit trusts saw 4.9%, Managed property funds 4.8%, and Low geared balanced funds fractionally lower at 4.7%.

Fig. 3: Property funds return in Q1'10, %



Source: IPD/AREF

Fig.4: 10-Yr annualised total returns, %pa



Source: IPD/AREF

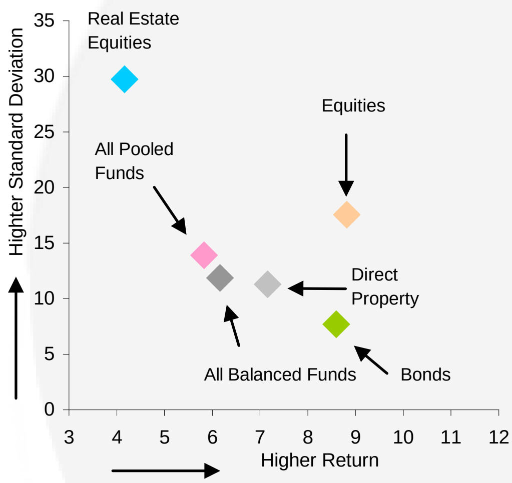
Looking at the long term, the 10-year annualised returns for All pooled funds as shown in Figure 4 was 5.0% pa, compared with those delivered by the wider equity market (2.8% pa) and real estate stocks (3.6% pa).

The characteristics of pooled funds are more obvious in a long run context. Figure 5 depicts investors' risk and return trade-off for different asset classes since the inception of the Index. It suggests that pooled funds have on average produced an annualised return of 5.8% pa over the last 19 years while keeping risk at relatively low levels – measured by standard deviation (S.D.) which came in at 13.9 in Q1 2010. Equities, the riskier asset class, generated a higher annualised return of 8.8% pa over the same period, reflecting the higher risk and volatility profile of the asset class (S.D. = 17.6).

In stark contrast, given the high-risk profile of real estate equities (S.D. = 29.8), they under-performed other asset classes significantly at 4.2% pa.

What can be seen clearly from the chart is that pooled funds, and balanced funds in particular, functioned as a sensible proxy for direct property over this period. Whilst delivered returns appear slightly lower, the direct property figures do not allow for all costs of ownership, whereas the fund figures are net of all costs, i.e. the return actually experienced by investors, and at a similar level of risk to the market as a whole.

Fig. 5: 19-Yr risk-return profile



Source: IPD/AREF

£2bn of new funds raised for AREF members in Q1'10

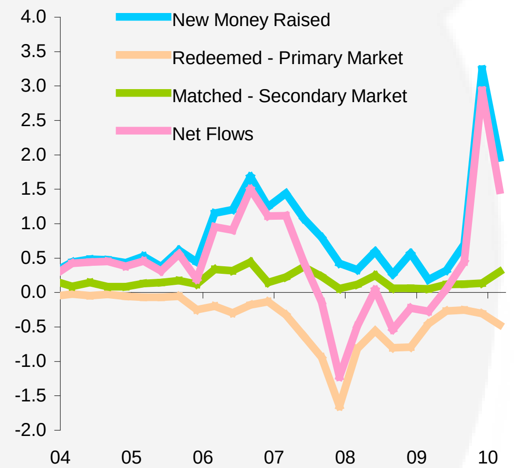
AREF member funds continued to see strong positive net inflows, of £1.5bn in Q1 2010. This remains in stark contrast to the position a year ago when outflows were prevalent.

The improvement is a combination of both substantially more new money raised and much lower redemption levels. Indeed the £2.0 bn of new money raised in Q1 2010 was more than 10 times that raised over the same period last year.

It is however still important to put these figures in a wider context as all main stream asset classes have seen strong investor flows over the quarter. An example of this is the figures recorded by the Investment Management Association, which show that investment in UK funds reached record levels in Q1 and that, whilst property accounted for about 16% of net flows over the quarter, it was still some way behind Bonds.

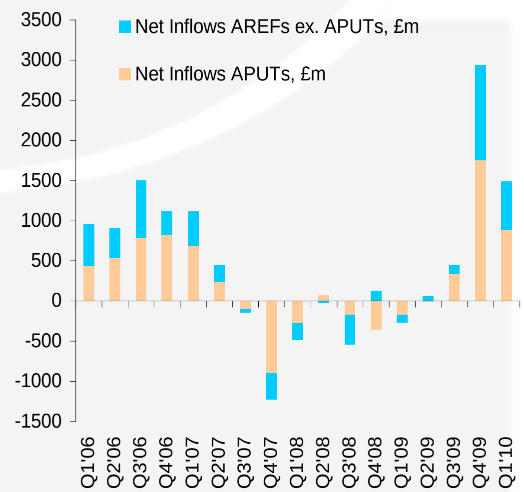
For AREF funds one particular improvement was an increase in secondary market trades at £303m this quarter, six-times higher than the low of £54m recorded only 12 months ago.

Fig. 6: Net flows, £bn



Source: IPD/AREF

Fig 7: New Inflows, £m



Source: IPD/AREF

Positive sentiment amongst retail investors

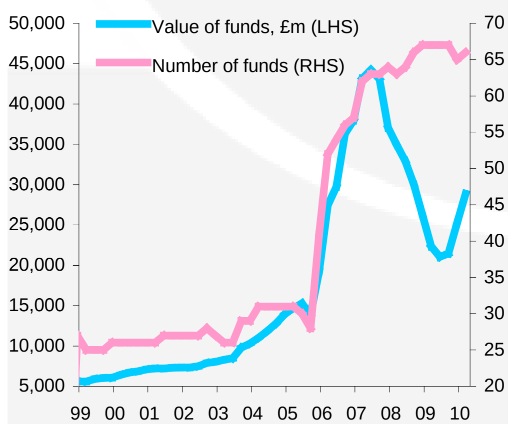
Looking at our retail investor funds, the value of all PPFs accounted for by Authorised Property Unit Trusts (APUTs) increased slightly for the fifth successive quarter to 25%. The total NAV of these funds has increased from the recent low of £4.4bn to £7.3bn in the three quarters to Q1 2010.

New capital raised by APUTs, was £1.1bn, with net inflows of £0.9bn in Q1, accounting for nearly 60% of the AREF total.

Notes for Editors

This survey of AREF's member funds covers data collected from 66 pooled property funds with a combined value of over £28.9 billion in Q1 2010. *The 7 APUT fund members are Aviva Investors Property Trust, Henderson UK Property Unit Trust, Ignis UK Property Fund, Legal & General UK Property Unit Trust, M&G Property Portfolio, Skandia Property Fund and SWIP Property Trust.

Fig N1: Number and net asset value, £m of funds analysed



Source: IPD/AREF

