



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.



The Association of Real Estate Funds (AREF)

AREF has 70 member funds representing £22 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 Fund 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 – Q3 2009
POOLED PROPERTY FUNDS SEE NET INFLOWS FOR SECOND QUARTER**

The Association of Real Estate Funds (AREF) today issues its Investment Quarterly (IQ) for Q3 2009 which examines trends in the UK unlisted pooled property funds (PPFs) industry through data provided by 67 member funds, representing a net asset value of £21.5 billion.

In Q3 2009, PPFs raised £704 million of new money, more than double the £320 million raised in Q2 and the highest level for two years. At £255 million, redemptions were broadly level with the previous quarter (£268 million) and the lowest since 2006. In net terms, inflows were £449 million, the second consecutive quarter of positive net inflows, and this shifted the year to date total into positive territory at £231 million. Included within these figures are net inflows to retail funds of £338 million for the quarter, three-quarters of total net inflows, and £152 million year to date.

On a three-month basis, the All-pooled funds index saw its first positive return for two years, returning 1.7%. A comparison with long-term trends suggests that PPF returns have over-corrected in the downturn.

The weighted average PPF yield for the quarter was 5.0% (previous quarter 5.7%) compared with 3.8% (previous quarter 4.7%) for the FTSE All Share Dividend Yield and 3.7% (previous quarter 3.6%) for long-dated Government bonds.

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

“Net sales were positive for the second consecutive quarter, generated by the best inflows for two years and a significant slowdown in redemptions. It is interesting to see that it is not only retail investors driving the new money into property funds, partly driven by the search for yield in a low interest world, but that institutional clients are also coming back into the market.”

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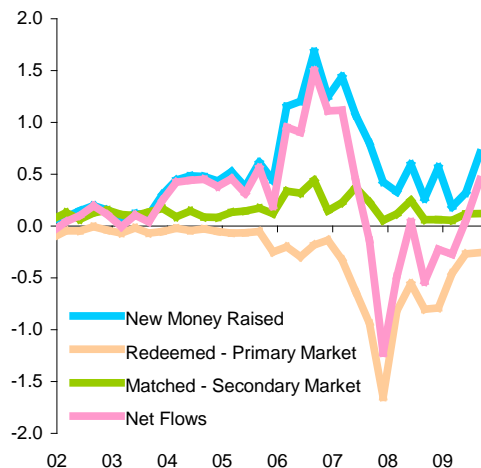
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Improved market sentiment

Financial market conditions improved further during the third quarter of 2009, as investors became less risk averse. The upward drift in market sentiment was reinforced by more sanguine economic prospects. Australia was the first major economy to have started the monetary tightening cycle, sending upbeat messages to the market that the worst of the economic crisis was over. The financial markets have switched from pricing in a great recession to a scenario consistent with a healthy recovery in the economy. Indeed, commodity prices and commodity related currencies have edged higher, a conspicuous sign of risk taking. More interestingly, carry trades are back with investors borrowing from a low yielding currency and investing in higher yielding assets. That said, while it was widely expected that the UK would emerge from recession in Q3, the first estimate of GDP shocked the market with a fall of 0.4% over the quarter. The current downturn is not only the longest recession in living memory – with 6 consecutive quarters of falling output; it is also one of the most severe. The market seems to have acknowledged the fact that the nascent recovery is likely to be more sluggish and protracted than previously expected.

Positive net flows

Fig. 1: Net flows, £bn



Sources: AREF/ IPD

Nevertheless, the improvement in sentiment is proving to be good news for pooled property funds. AREF member funds attracted net inflows for the second consecutive quarter, recording £449m in Q3 and shifting into positive territory for the year to date at £231m.

Figure 1 shows that this has been delivered by both growing levels of new money raised and lower redemption experience. Indeed, AREF member funds raised £704m of new money in the quarter, the highest level for two years. Meanwhile the quarter's redemptions of £255m were the lowest since the end of 2006.

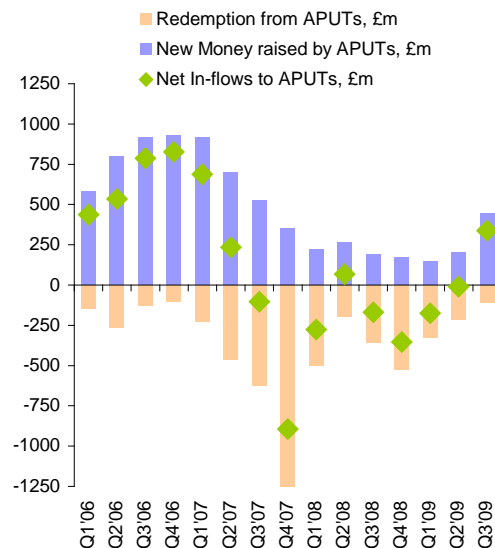
Sustained secondary market activity

A further sign of improved sentiment was seen in the form of £121m of recorded secondary market transactions, slightly above the level in the previous quarter.

Overall renewed interest in primary and secondary units, coupled with stabilising redemption experience, suggests investors are more confident in the outlook for pooled property funds.

Higher inflows from retail investors

Fig 2: APUTs net flows, £m



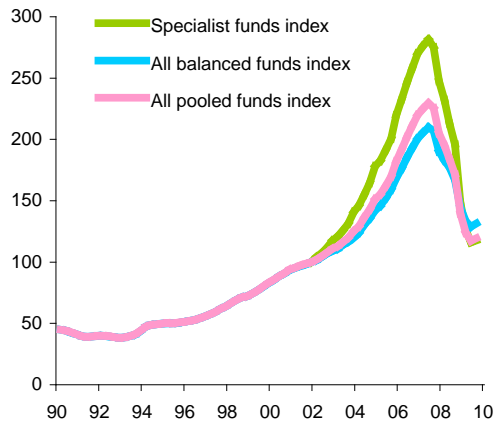
Sources: AREF/ IPD

Interest in retail investor funds reinforces the message that confidence in pooled property funds is returning. Authorised Property Unit Trusts (APUTs) recorded net inflows of £338m in the quarter and £152m for the year to date. Figure 2 portrays a similar message as figure 1: APUT investors contributed £448m of new money in the quarter, the highest level for two years. Meanwhile they withdrew £110m, the lowest level since 2006.

Returns turn positive

The quarter has seen the first positive returns recorded for two years: the all pooled funds index returned a positive 1.7% in the quarter.

Fig. 3: Pooled Property Fund Indices, December 2001 =100



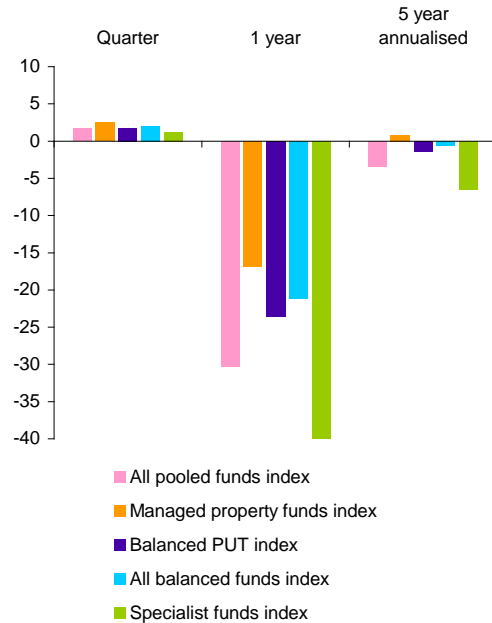
Sources: AREF/ IPD

Figure 3 shows that the index has returned to levels last seen in 2003. The chart suggests that, relative to the long term trend, there has been an over-correction in the market since its peak in 2007.

The breakdown of the pooled property funds sub-sector indices' returns are shown in Figure 4.

The bullish mood of the markets is captured well in Figure 5 which illustrates that all asset classes recorded positive returns in the quarter. In particular, the more volatile equity indices, the FTSE All-Share and FTSE Real Estate Indices, saw exceptional returns of 22.4% and 32.1% respectively.

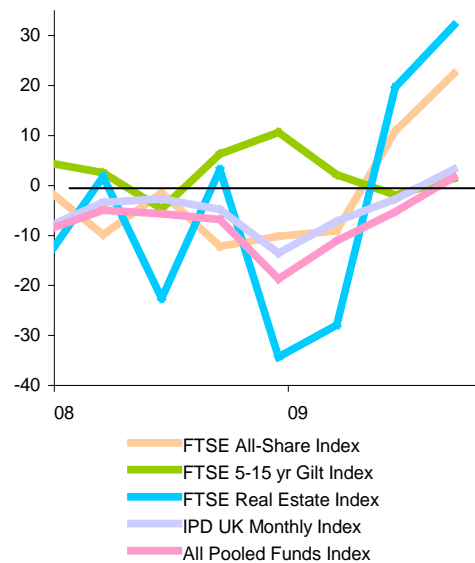
Fig. 4: Total returns, %



Sources: AREF/ IPD

However, direct and indirect property assets, which normally appeal to long term investors, have delivered positive quarterly growth consistent with longer term expectations. Note that direct property returns as measured by the IPD UK Monthly Index also saw the first positive quarterly growth in two years, echoing the performance in the pooled property funds sector.

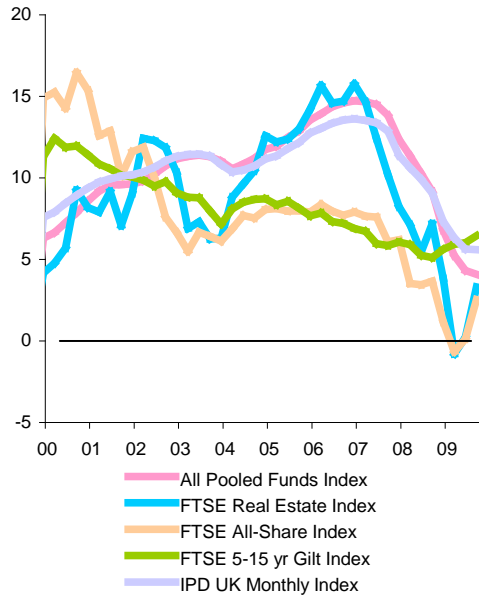
Fig. 5: Quarterly cross-asset total returns, %pq



Sources: AREF/ IPD

The long term returns shown in Figure 6 clearly illustrate the lower volatility of pooled property funds' returns and their benefits as a proxy for the underlying market.

Fig. 6: 10-year annualised total returns, %pa



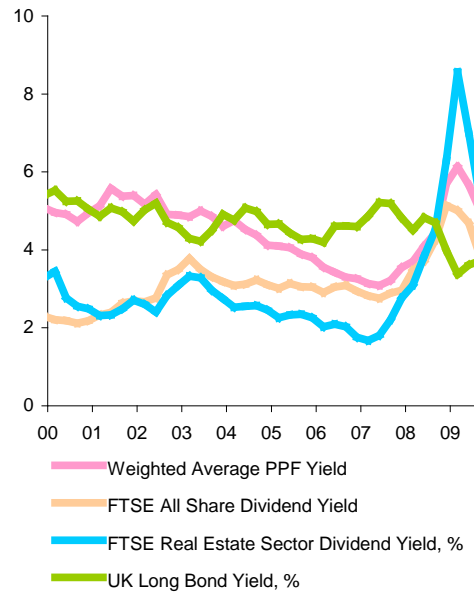
Sources: AREF/ IPD

Over the 10 years to September 2009, pooled property funds delivered an annualised return of 4.1%pa, compared with the 2.5%pa return from the broader equity market and the 3.3%pa return from real estate stocks. Pooled property funds returns are expected to display slightly higher volatility compared to returns in the direct property market due to the impact of the gearing used in the specialist funds sub-set.

Yields

Figure 7 shows property yields compared with other asset classes. Pooled property funds and property securities delivered 5.0% and 5.3% respectively compared to 3.8% for the FTSE All Share Dividend Yield and 3.7% for long dated Government bonds. However, it should not be forgotten that rental values continue to fall across the market, albeit at a reducing rate.

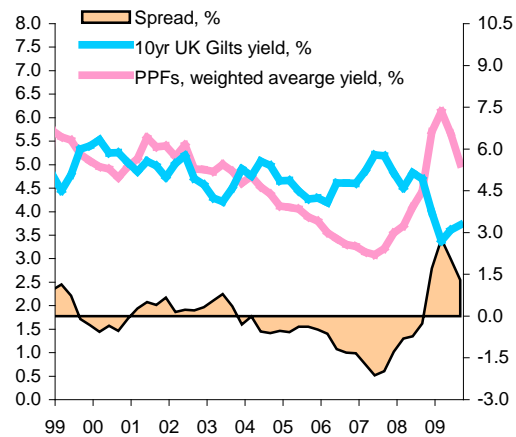
Fig. 7: Comparative yields, %pq



Sources: AREF/ IPD

Figure 8 indicates a tightening of the PPFs/Bond yield gap since it peaked in the first quarter of the year at 276bps. The current level of 130bps *remains much higher than the historical average of just -10bps.*

Fig. 8: PPFs & long bond yield spread, %

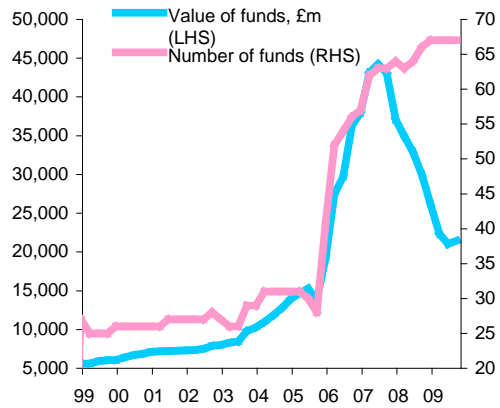


Sources: AREF/ IPD

Notes for Editors

This survey of AREF's member funds covers data collected from 67 pooled property funds with a combined value of over £21.5 billion.

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



Sources: AREF/ IPD

The 7 APUT fund members, representing £4.6 billion of this total, are Aviva Investors Property Trust, Ignis UK Property Fund, Legal & General UK Property Trust, M&G Property Portfolio, New Star Property Unit Trust, Skandia Property Fund and SWIP Property Trust.