

# WHAT'S ON THE HORIZON? 2009

Real Estate Investment for UK Pension Funds



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# FOREWORD

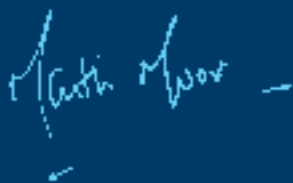
Martin Moore and Vince Linnane

The first PRUPIM / PMI survey of UK pension funds' attitudes to real estate investment took place in the Summer of 2008 against the backdrop of a collapsing global real estate market which was to worsen further under the banking crisis which followed in the final quarter. From the feedback we received, it seems clear that our survey provided both pension funds and the wider property market with some useful insights. As a result, we have decided to repeat the exercise to determine whether and how UK pension funds and investment consultants' views have changed over the intervening 12 months.

This year's survey took place in June 2009 at a time of continuing falls in property values in many markets around the world. However, a handful of markets, including the UK, were beginning to show signs of stabilisation and increasingly appearing as fair value. Given this context, now seems an ideal moment to once again gauge pension fund appetite for investment in property.

Our 2009 research was again based on a survey conducted through the Pensions Management Institute (PMI) membership by PRUPIM, a global real estate manager. It looked at current perceptions of real estate as an asset class by pension funds and their investment consultants, both in the UK and overseas. Being the second such study, this year's results can also be compared to those from last year to identify any major trends that have emerged or been sustained over the last 12 months.

We hope you find the survey both useful and of interest. Our aim is to identify and advance understanding of key themes and trends in relation to the real estate industry. We would be delighted to receive any feedback and invite you to contact us if you wish to discuss any of the findings further.



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# KEY FINDINGS

The key findings to come out of the 2009 survey are as follows:

- Over 50% of UK pension funds plan to increase their allocation to real estate over the next three years, with a further 30% intending to maintain their allocation to the asset class.
- The recent difficulties experienced in UK and overseas commercial property markets have generally not altered pension funds perception of the benefits of the asset class with 80% of pension funds saying that their view of real estate has not changed.
- Diversification remains by far the most important reason why pension funds of all sizes invest in commercial real estate and unlisted real estate funds remain their preferred route for acquiring real estate exposure.
- International investment still seems important for medium and large funds but smaller pension funds in this year's survey are showing more of a preference for domestic UK exposure than last year. Europe remains noticeably the most favoured destination for UK pension fund capital but over a fifth of funds described themselves as 'global' investors this year.
- 80% of pension funds believe sustainability will be 'important' or 'very important' to real estate investment performance over the next five years and two thirds of pension funds think investment managers are not doing enough to reduce the environmental footprint of their portfolios.
- The top three key selection criteria for successful real estate managers by trustees and consultants continue to be clear investment process, good operational risk controls and top quartile performance.

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