



The International Real Estate Finance Summit 2008

Presenter Chris Laxton, Aviva Investors

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Asset allocation strategies for the UK 2009



- End of the world.....?

- Fantastic opportunity?



Firstly the bad news....there have been issues



- Liquidity:
 - Open Funds closing
 - No market for secondary units in closed funds



- Gearing:
 - Loan to value breaches
 - Income cover
 - Availability / cost of debt

Telegraph.co.uk

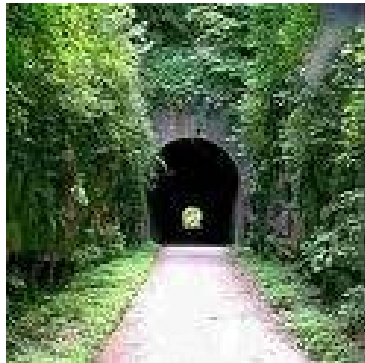
New Star suspends trading of its International Property fund

New Star has suspended trading in its £470m International Property fund because of an "extraordinary level" of redemptions.

By Paul Farrow
Last Updated: 5:16PM GMT 25 Nov 2008

- Pricing:
 - Uncertainty as to value

The slightly better news.....



- There is light at the end of the tunnel:
 - Prices to bottom in 2009
 - Prices will probably overshoot on the downside
 - Real estate likely to look attractively priced relative to the assets

- UK market one of the most attractive globally:
 - Transparent
 - Robust lease structure
 - Relatively liquidity



Cell	Formula	Value	Cell	Formula	Value
A1	=SUM(B1:D1)	100	F1	=AVERAGE(G1:I1)	33.33
B1	50	50	G1	10	10
C1	30	30	H1	20	20
D1	20	20	I1	3	3
E1	=B1+C1	80	J1	=D1+E1	23
F1	=D1/E1	0.23	K1	=F1*G1	2.3

- There are many ways to invest, e.g.
 - Unlisted Funds
 - Listed real estate shares
 - Derivatives

Opportunities in the unlisted UK funds – Retail Funds



- Considerations:
 - Returns influenced by cashflows
 - Investment constraints
 - Largely for UK investors



- What are they?
 - Highly regulated open end funds
 - Ungeared
 - Daily priced



- Opportunities:
 - Good core / core+ assets
 - Ungeared
 - Open for investment / disinvestment

Opportunities in the unlisted UK funds – closed Funds



- Considerations:
 - Gearing having negative impact on returns and risks
 - No liquidity in secondary units
 - More sellers than buyers



- What are they?
 - Fixed life vehicles (typically 5 – 10 years)
 - Geared (typically target 50% LTV)
 - Sector focused



- Opportunities?
 - Chance to buy shares at very large discounts
 - There is some mispricing
 - Sophisticated investors hovering over the sector

Opportunities in the UK listed sector



- What is the listed real estate sector?
 - 53 companies*
 - 20 REITS*
 - £18bn market cap*

- Considerations?
 - Discount to NAV is c. 50% and yield 7.5%**
 - Rights issues in 2009 very likely
 - Volatile



- Opportunities:
 - Some good companies at big discounts
 - Likely to bounce back ahead of the direct market

* Source: REITA 10/12/08 www.reita.org

**Source: Aviva Investors 04/12/08

Other opportunities in the UK market

(HELP) for explanation. P240c EquitySWPM

Receive Asset		Property		Pay Finance	
Ticker	Series	LogP	Ticker	Series	LogP
10	RM		10	RM	-14.0000%
Country	GB - United Kingdom	Curr	GBP	Curr	GBP
Effective	12/31/07	Index	1PDRPROP	Effective	12/31/07
Maturity	12/31/10	Previous Index	1512.313	Maturity	12/31/10
FirstPmt	12/31/08	Next Index	1217.412	FirstPmt	12/31/08
NotLastPmt	12/31/09	Pay Freq	Annual	NotLastPmt	12/31/09
DiscountCn	22	Leverage	11.0000	DiscountCn	22
PayableCn	All Property			PayableCn	British Pound
Valuation	Curr	12/04/08	Valuation	12/04/08	All Values In
Market Value	-4,035,753.83	0V01	-374.95	Market Value	4,035,753.83
Accrued	0.00			Accrued	0.00
Net	Principal	0.00	CallDate	Premium	
	Accrued	0.00	Premium	0.00000	101
	Market Value	0.00	Unsold PV	0.00	139.66

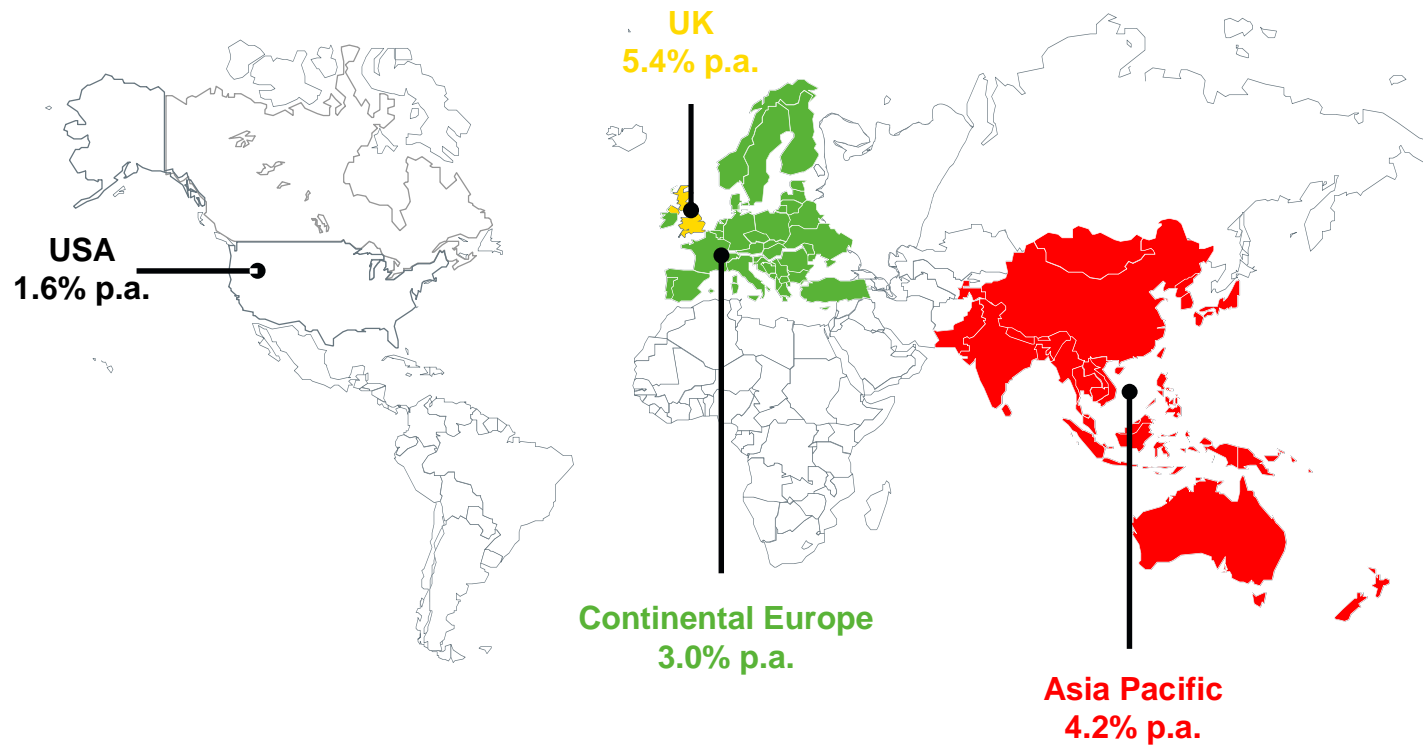
- Derivatives:
 - Some attractive pricing
 - Derivatives market pricing UK yields going to 9%+

- Direct market:
 - Few buyers
 - Some distressed sellers



- Debt:
 - CMBS/RMBS
 - Mezzanine finance

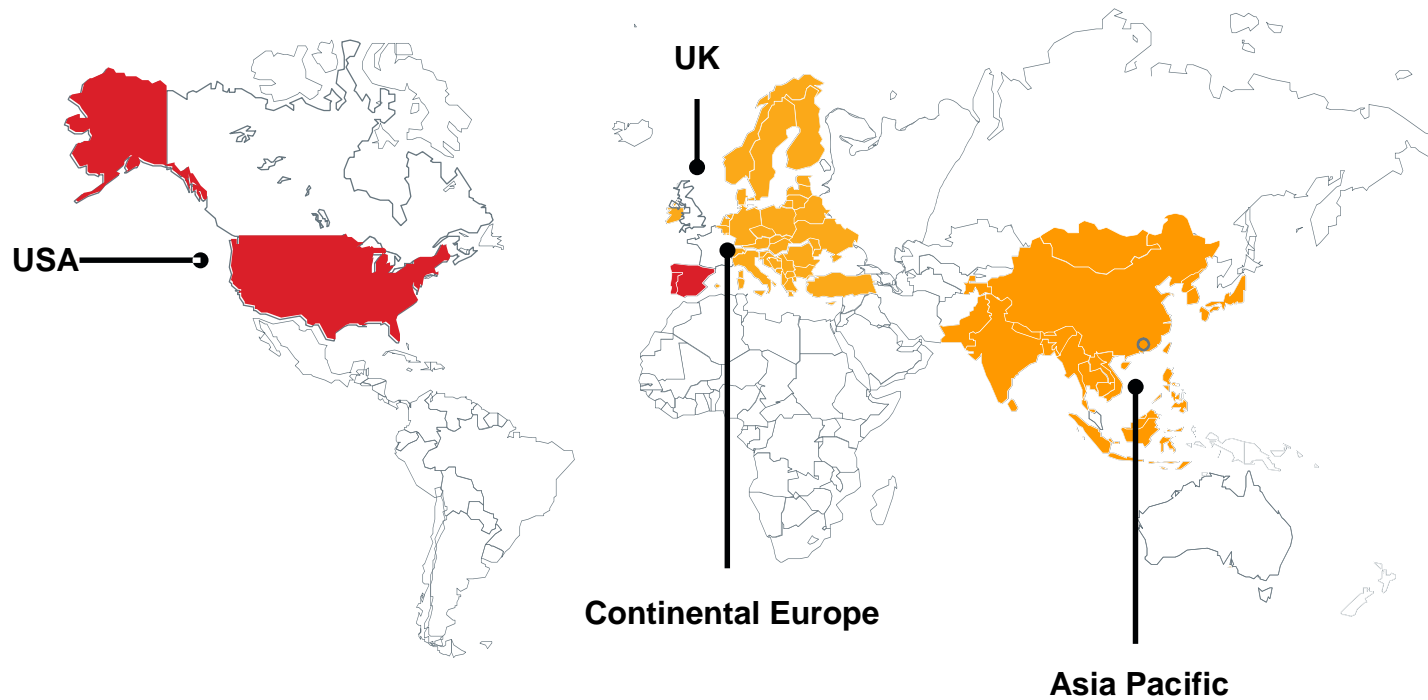
How does the UK compare to elsewhere? 2009 – 2013* total return forecasts






Global average return 3.0% p.a.

Source: Aviva Investors 10 December 2008 (in local currency)
*5 years inclusive

Which markets will get to fair value first?



-  First markets to hit fair value
-  Second markets to hit fair value
-  Last markets to hit fair value

Summary

- The UK market is going through a major correction



- There will be continuing issues through 2009

- Attractive opportunities are starting to appear



Except where stated as otherwise, the source of all information is Aviva Investors as at 30 September 2008.

The value of an investment and any income from it may go down as well as up, and the investor may not get back the original amount invested.

Where funds are invested in real estate, investors may not be able to switch or cash in their investment when they want because real estate in the fund may not always be readily saleable. It should also be borne in mind that the valuation of real estate is generally a matter of valuers' opinion rather than fact.

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