

UK REAL ESTATE

IS THE HOUSE BACK IN ORDER?

Philip Nell

Fund Manager, Aviva Investors Property Trust

KEY THEMES

- WHY UK REAL ESTATE?
- WHY NOW?
- CASE STUDY – THE AVIVA INVESTORS PROPERTY TRUST

“Real estate cannot be lost or stolen, nor can it be carried away. Purchased with common sense, paid for in full, and managed with reasonable care, it is about the safest investment in the world.”

-Franklin D. Roosevelt

WHY UK REAL ESTATE?

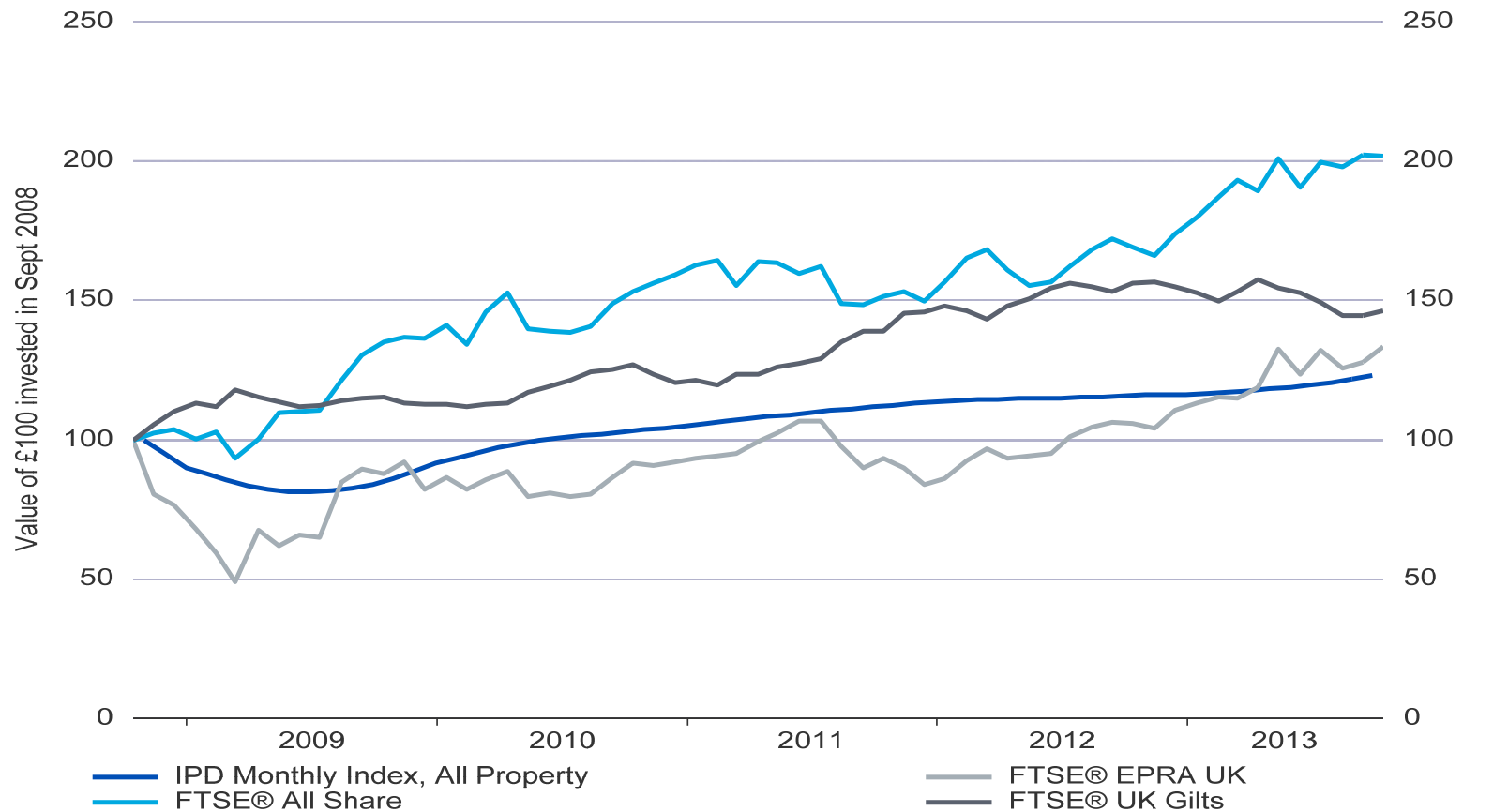
MARKET OVERVIEW

RECENT MEDIA COMMENT

- Commercial property on course to deliver double-digit returns [Citywire Asset Allocation 360°](#)
- Building the next boom - commercial property may benefit from its appeal [The Economist](#)
- Putting property back on the map - multi-asset managers reveal their strategies as the sector returns to favour [Professional Adviser](#)
- Finding diversification in a correlated world [Citywire Wealth Manager](#)
- Commercial property turning a corner? [Financial Times](#)
- Can property raise the roof again? Property sector to retake its place in portfolios as a diversified, income-generating mainstay [Fund Strategy](#)



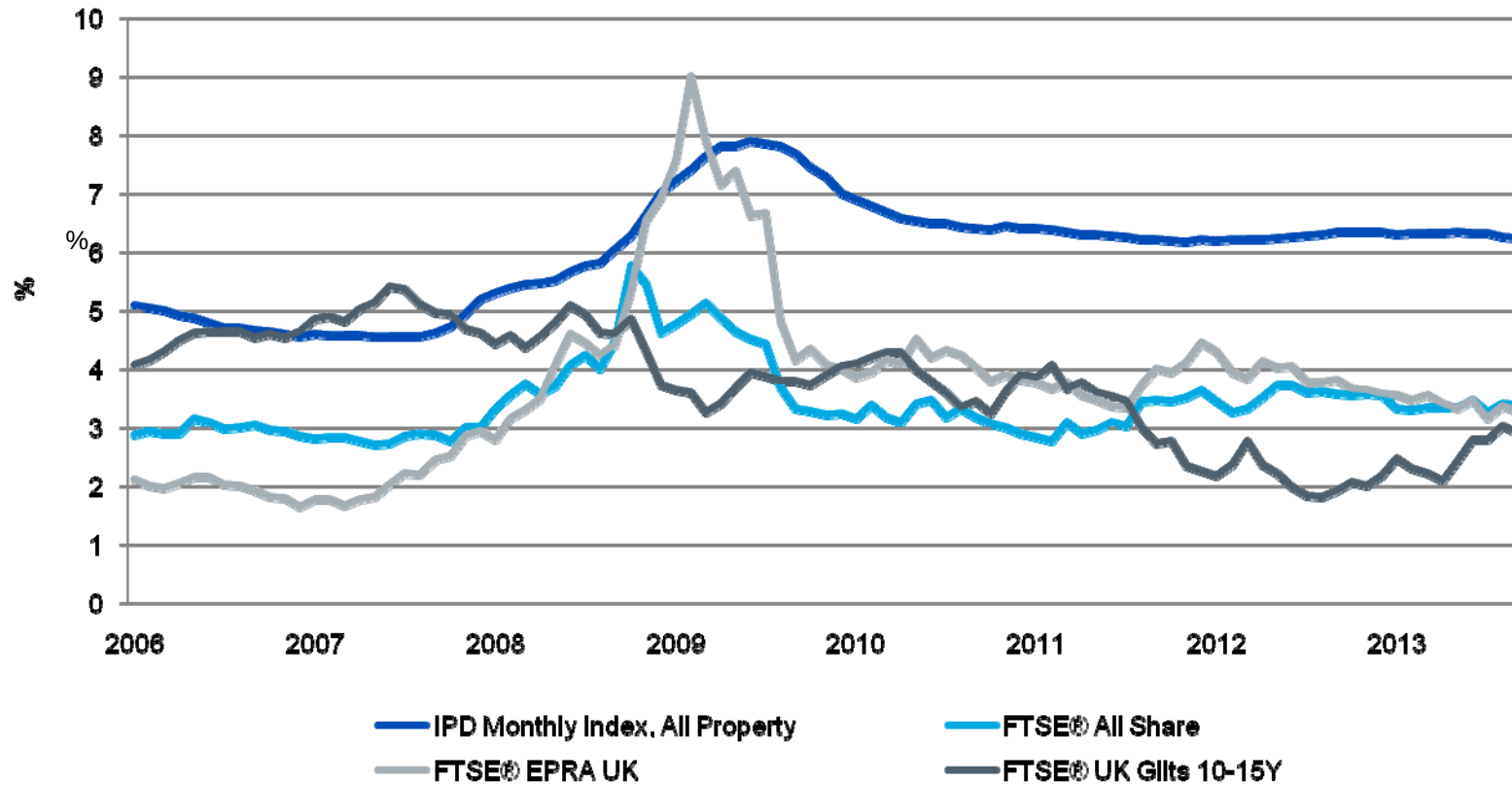
UK REAL ESTATE MARKET FIVE-YEAR RELATIVE RETURNS



Real estate showing slow but steady progress since downturn

UK REAL ESTATE IN CONTEXT

COMPARATIVE YIELDS OVER THE LONGER TERM



Real estate continues to offer an attractive yield relative to other asset types

UK REAL ESTATE IN CONTEXT

RELATIVE YIELDS SUPPORTIVE OF PRICING

	2002			2003			2004			2005			2006			2007			2008			2009			2010			2011			2012			2013		
Initial / *Equivalent Yield vs:	q2	q3	q4	q1	q2	q3	q4	q1	q2	q3	q4	q1	q2	q3	q4	q1	q2	q3	q4	q1	q2	q3	q4	q1	q2	q3	q4	q1	q2	q3	q4	q1	q2	q3		
10yr Govt Bonds	Yellow	Green	Green	Green	Green	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow		
Corporate Bonds	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green		
*Equity Div Yield	Green	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow		
5yr Swaps	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow		
3M LIBOR	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow		
3m Real Govt Bonds	Red	Red	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow		
High Yield Bonds	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green		
Corporate Bonds BBB	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green		

KEY	Very cheap	Cheap	Fair value	Expensive	Very expensive
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Real estate continues to offer an attractive yield relative to other asset types

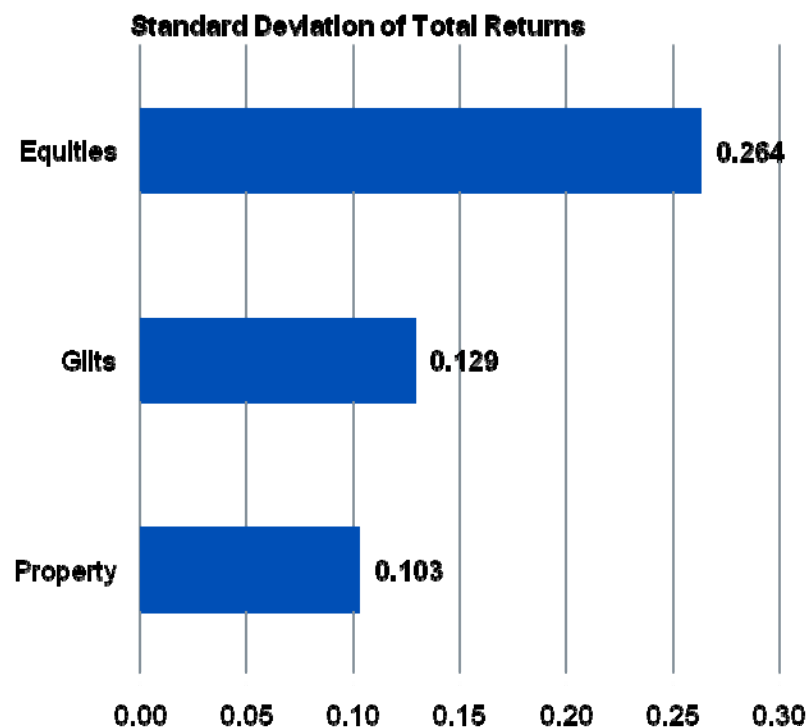
UK REAL ESTATE IN A BALANCED PORTFOLIO

LOW CORRELATION TO GILTS & EQUITIES

Asset class correlation

Asset Class	Property	Equity	Gilts	Cash
Property	1.00	0.30	0.14	0.11
Equity	0.30	1.00	0.50	0.14
Gilts	0.14	0.50	1.00	0.35
Cash	0.11	0.14	0.35	1.00

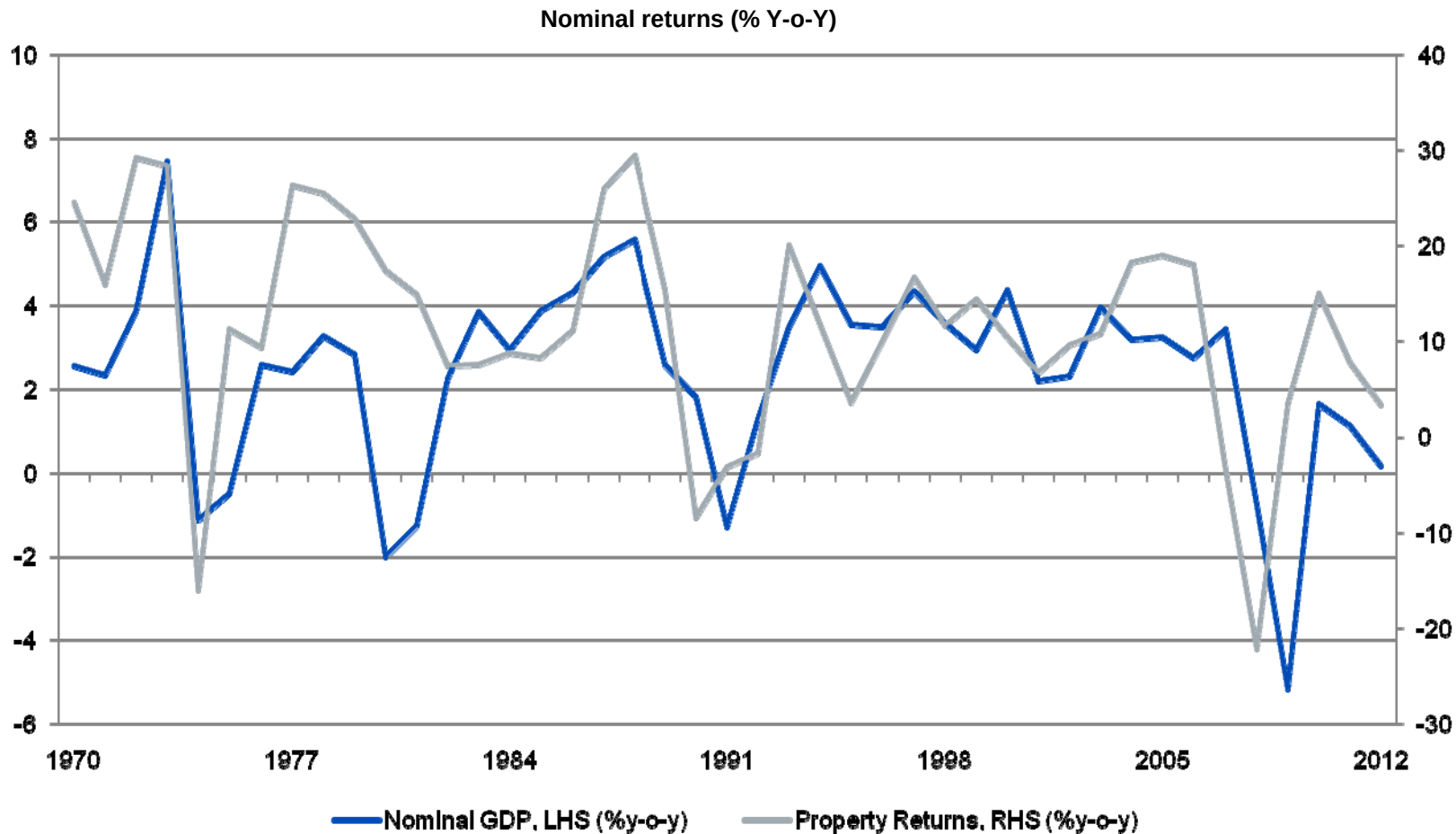
- Equity and bonds are more closely correlated with one another than with property



Property can play an important role within a mixed asset portfolio

UK REAL ESTATE IN A BALANCED PORTFOLIO

PROPERTY RETURNS AGAINST UK GDP

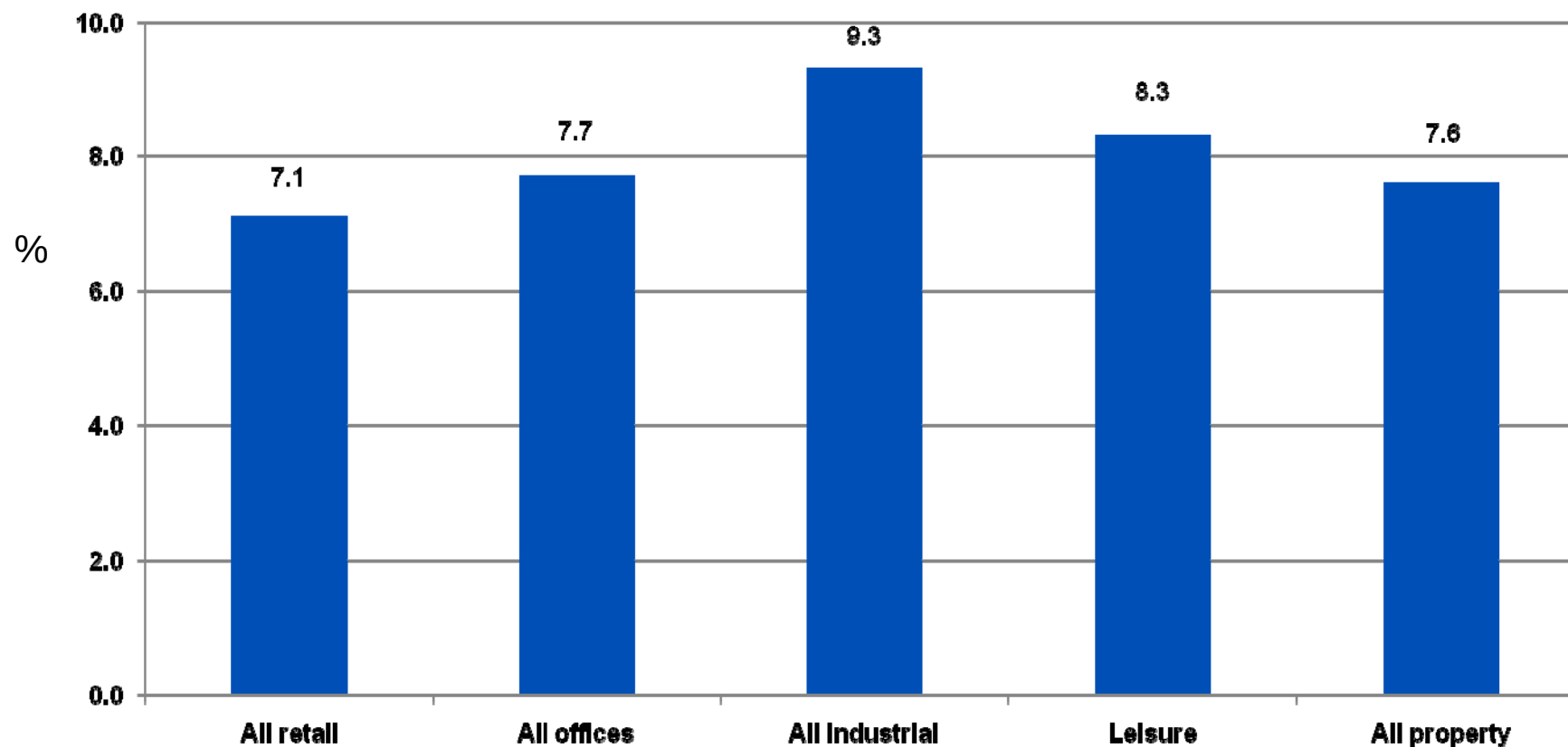


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WHY NOW?

UK REAL ESTATE IN CONTEXT

FORECASTS OF IPD TOTAL RETURNS %PA BY SECTOR 2013-2017

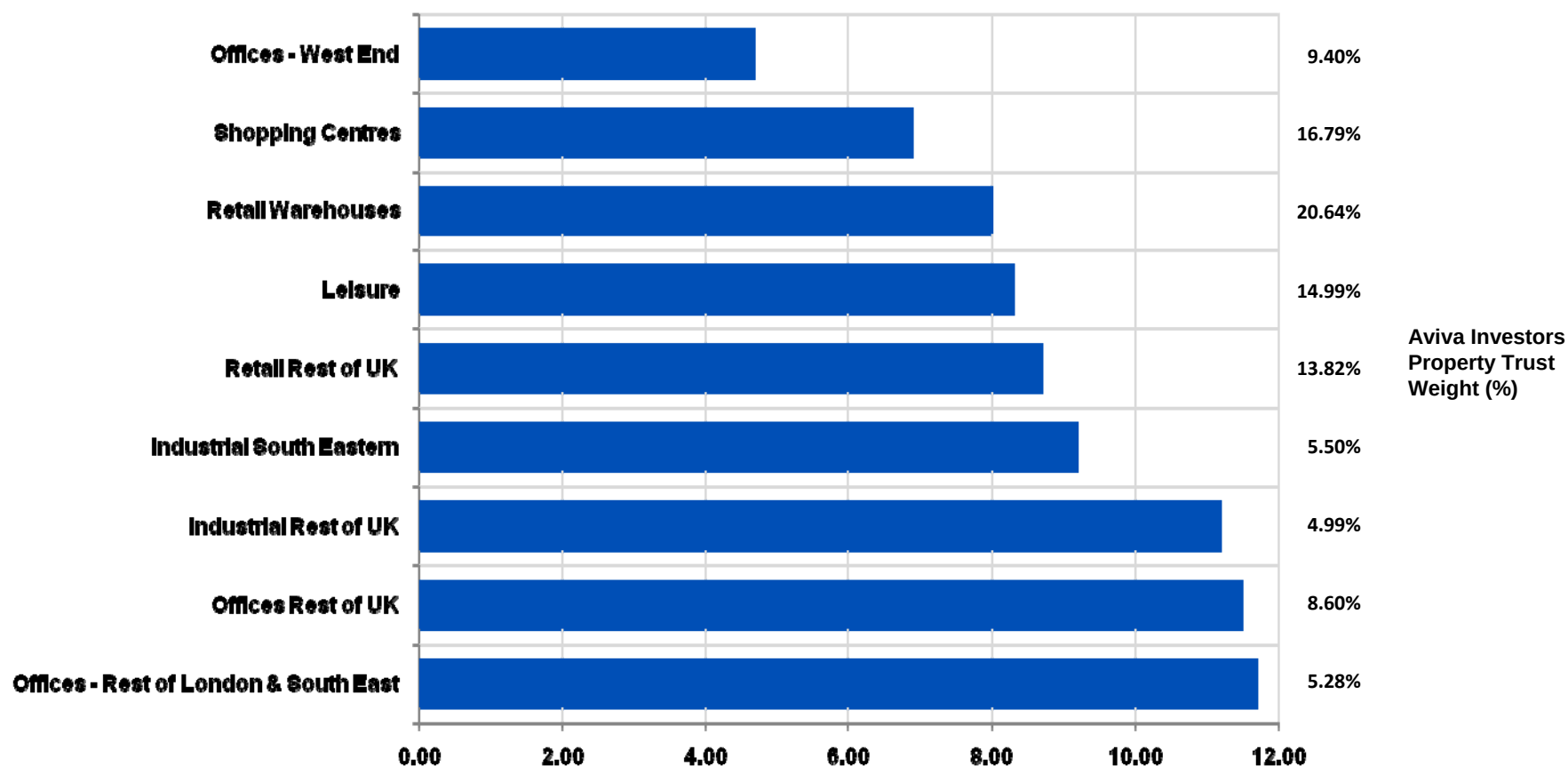


Reasonable total returns forecast for the medium term

Source: These are Aviva Investors Q4 2013 internal forecasts, which may or may not be achieved. The forecasts are based on internal business plan models and are provided for information purposes only. They are property market-level and not fund-level forecasts.

UK REAL ESTATE IN CONTEXT

UK REAL ESTATE TOTAL RETURN FORECASTS 2013-2017 %PA



These are Aviva Investors Q4 2013 internal forecasts which may or may not be achieved. The forecasts are based on internal business plan models and are provided for information purposes only.

Diversified portfolio of properties and sectors

Source: Fund weights are as at 30 September 2013 and based on our independent valuers, Knight Frank, valuation.

CASE STUDY - THE AVIVA INVESTORS PROPERTY TRUST

ADDING VALUE

A COUPLE OF KEY ACHIEVEMENTS IN H1 2013



Merlin 310, Trafford Park, Manchester

Activity: Removed an existing tenant break clause which was due May 2013. June 2012 valuation, pre break removal, was £15.5m (i.e. 9% net initial yield). November 2012 valuation, post break removal, was £16.0m (i.e. 8.75% net initial yield).

Outcome: Sold property in June 2013 for £19.8m (i.e. circa 7.1% net initial yield). Net of sale costs and tenant incentives this provided the fund with a **total return of circa 31.5%** over the previous 12 months.



Lombardy Retail Park, Hayes

Activity: Exchanged contracts on the former JJB unit (now in administration) with the top fashion retailer TK Maxx at £36 per sq ft on a 15-year lease.

Outcome: This deal improved the rental tone for the scheme, resulting in higher ERV's on the other units. Capital uplift: circa £1.1m.

Range of asset management initiatives both completed...

Source: Aviva Investors/Knight Frank 30 June 2013. The examples are provided for information purposes only and should not be relied upon as indicating any guarantee of return from an investment managed by Aviva Investors nor as advice of any nature.

ADDING VALUE

A COUPLE OF KEY CURRENT INITIATIVES



For illustration only

Academy House, Oxford Street, London W1

Activity: Extending the ground floor retail into double height retail (ground and first floor), providing additional retail floor space. Refurbishing the office space on the upper floors to provide flexible floor plates with a new facade and floor-to-ceiling glazing.

Outcome: Forecast capital uplift: circa £5m.



For illustration only

The Corn Exchange, Manchester

Activity: Designs and tenant marketing underway for the refurbishment and repositioning as a premium dining destination.

Outcome: Creation of best-in-class dining destination alongside strong covenants and lease lengths

...and in progress

CURRENT FUND POSITIONING KEY THEMES

- inflation hedging
- long lease duration
- active management opportunities
- opportunistic sales
- “complimentary” indirect portfolio



123 St Vincent Street, Glasgow



Great Western Arcade, Birmingham

Please note: The value of an investment in the fund 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 property, investors may not be able to switch or cash in their investment when they want because property in the fund may not always be readily saleable. If this is the case we may defer their request to switch or cash in their units. The value of property is a matter of a valuer’s opinion rather than fact.

Combination of income improvement, lease duration, and capital initiatives driving returns

IMPORTANT INFORMATION

Past performance is not a guide to the future.

Except where stated as otherwise, the source of all information is Aviva Investors as at 30 September 2013. Unless stated otherwise any opinions expressed are those of Aviva Investors. They should not be viewed as indicating any guarantee of return from an investment managed by Aviva Investors nor as advice of any nature.

Investment into the fund is provided by Aviva Investors UK Fund Services Limited.

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For further information please read the latest Key Investor Information Document and Supplementary Information Document. The Prospectus and the annual and interim reports are also available on request. Copies can be obtained from Aviva Investors UK Fund Services Limited, No. 1 Poultry, London EC2R 8EJ or by contacting our Relationship Management Team on 0800 0154773* or email them on fund&salessupport@aviva.co.uk.

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