The Association of Real Estate Funds

Survey of Financial Advisors Quarterly Report

March 2017

AREF

Introduction

This Survey of Financial Advisors provides a unique source of reliable insight into the advisor industry and the evolving advice environment.

A minimum of 300 online interviews are conducted with advisors every quarter, including at least 200 wealth advisors (IFAs and restricted advisors); the base also includes mortgage advisors and paraplanners. Respondents are sourced from a regularly refreshed panel of 2,000+ advisors.

The research is undertaken by NMG Consulting, a leading multinational consultancy focusing solely on investments, insurance and reinsurance markets.

This report has been designed for AREF to present the findings from their regular tracking, which monitors use of and attitudes towards property investments.

The results shown in this report are based on 246 advisors who generate 25% or more of their income from savings, investments or pensions.

Fieldwork was undertaken between 15th and 27th February 2017.

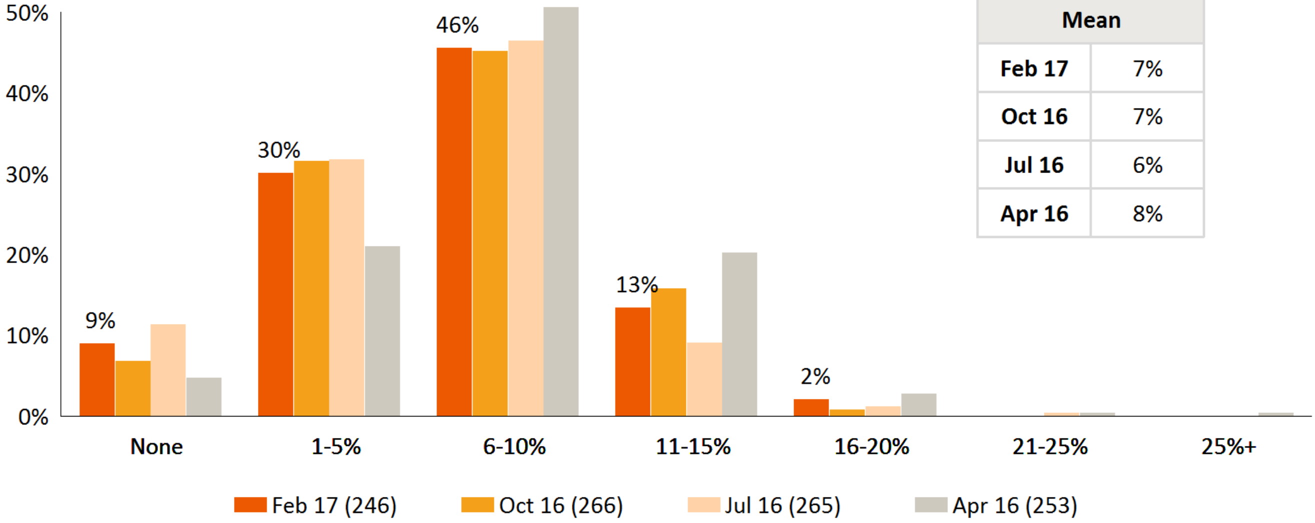
Headlines

- At the beginning of 2017 levels of property investment appear stable, both in terms of adviser recommendation and clients' actual level of investment; diversification is the lead reason for investing in property
- Expected 1 year returns on property have continued to increase although they are still not back to the levels seen before the EU Referendum
- Over time the proportion of advisors avoiding PAIFs because of the limited access to the underlying funds is slowly decreasing but non usage is still high
- Expected use of UK Authorised property funds for collectives has decreased although general use of UK and European property investment is unchanged and advisors increasingly expect to recommend USA property investment
- UK bricks and mortar funds remain the best fit with adviser needs although direct investment in commercial property has improved the most.

Cover photo: Lothbury Property Trust - 55 St James's Street, London

Recommended % of portfolios allocated to property investments

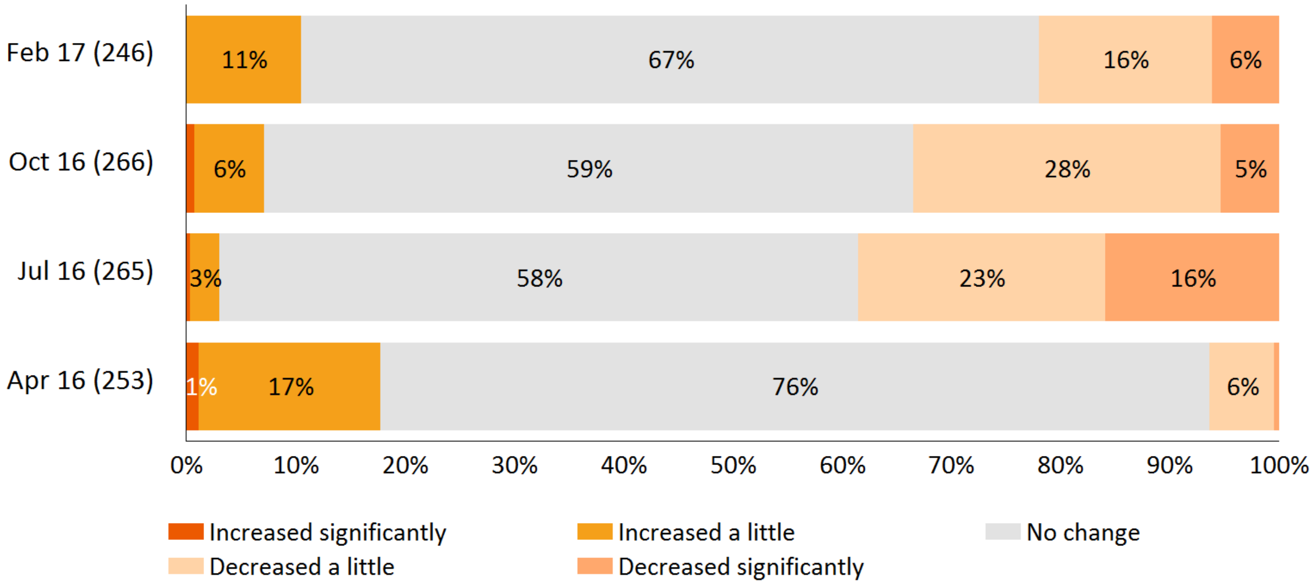
The recommended level of investment in property has stabilised with the average recommendation at 7%.



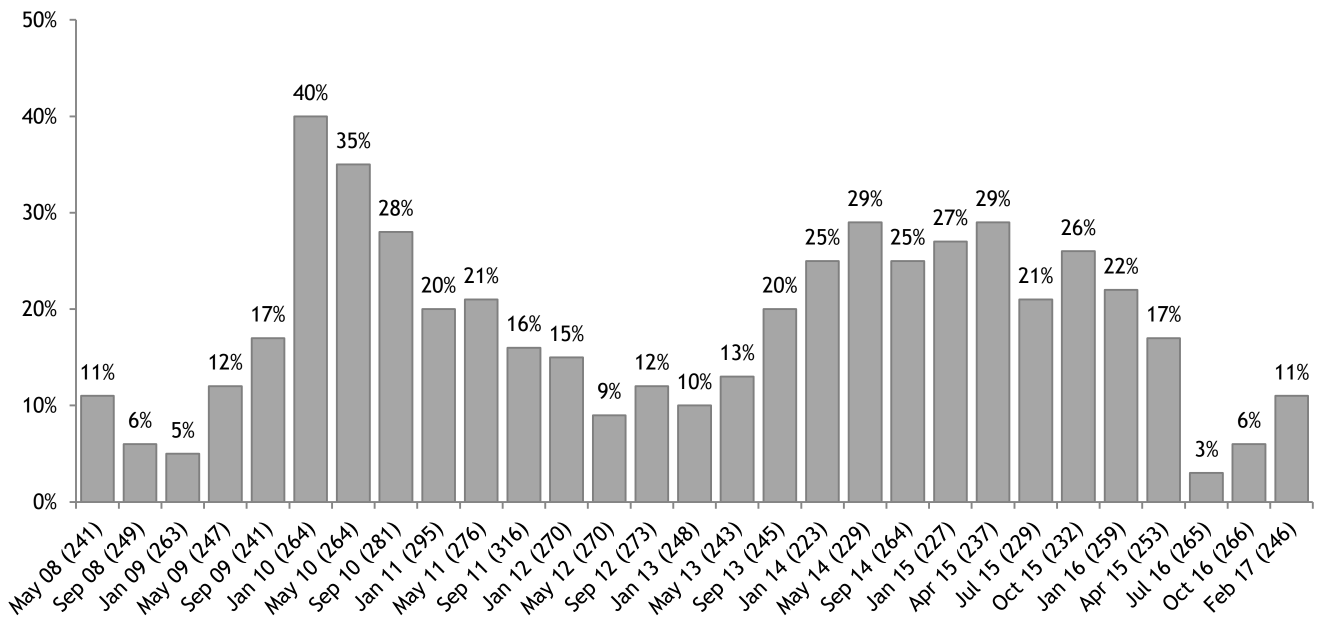
Mean	
Feb 17	7%
Oct 16	7%
Jul 16	6%
Apr 16	8%

Changes in recommendations to invest in property

Advisors' own assessment of how their property recommendations have changed over the past 3 months also reflects stability.

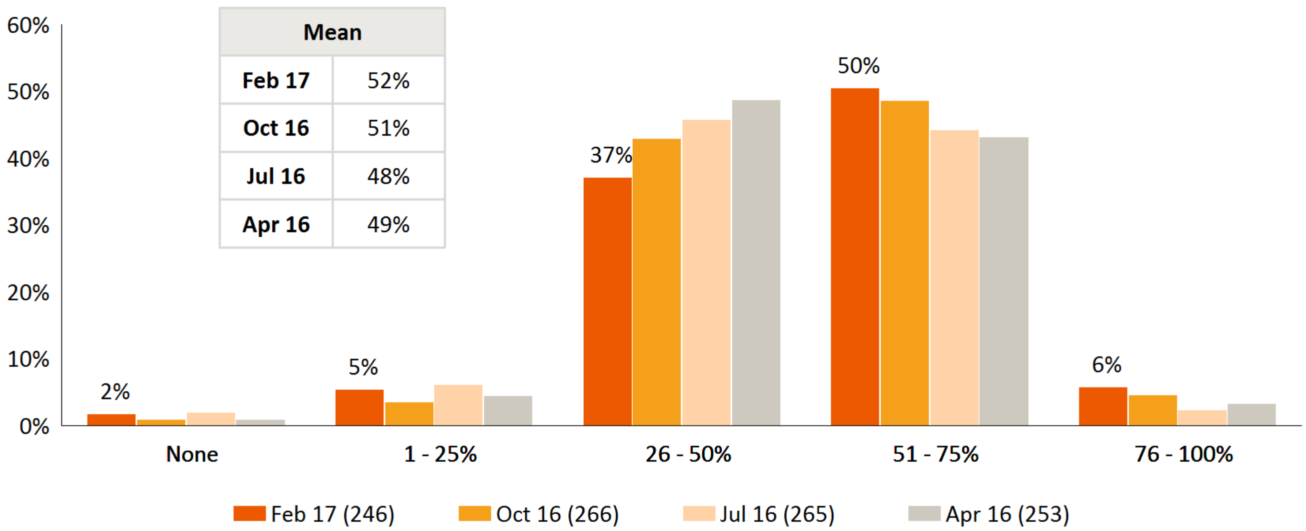


The percentage of advisors advising that their clients should increase their property investment increased 5%:



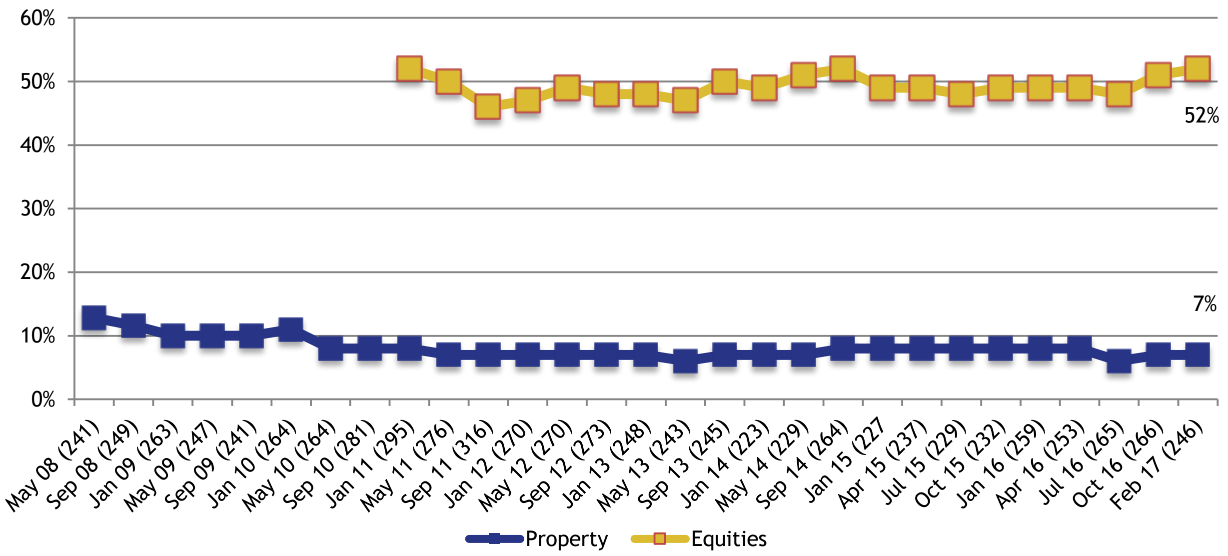
Recommended % of client portfolio allocated to equities

Meanwhile, there has been a very slight rise in the recommended allocation to equities at the start of 2017.



Mean	
Feb 17	52%
Oct 16	51%
Jul 16	48%
Apr 16	49%

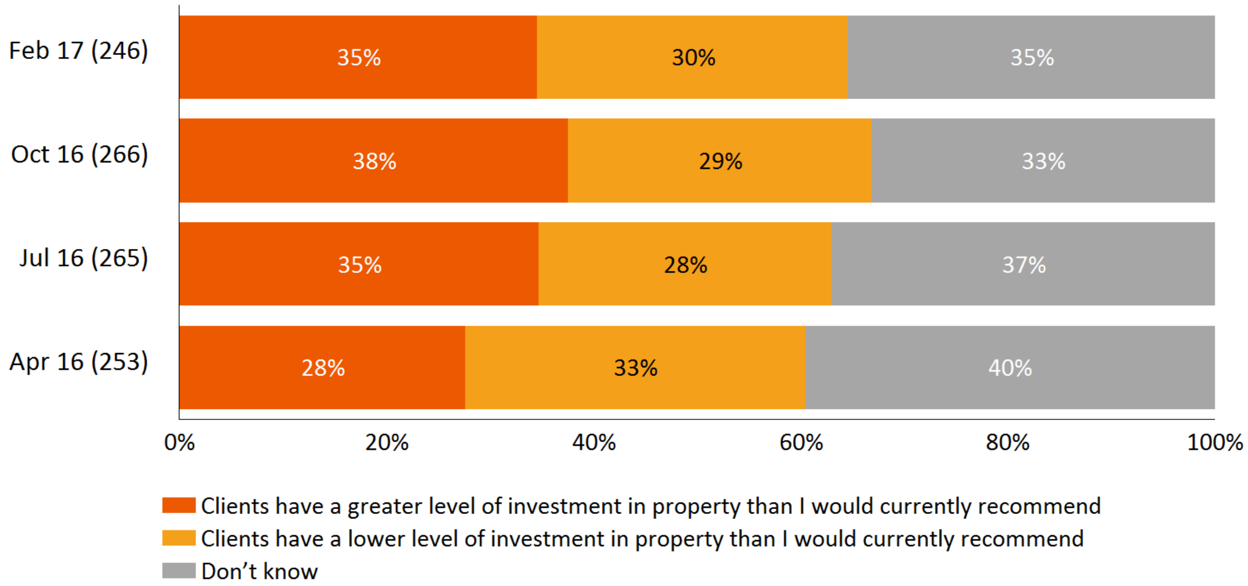
Average recommended portfolio allocations:



Clients level of property investment

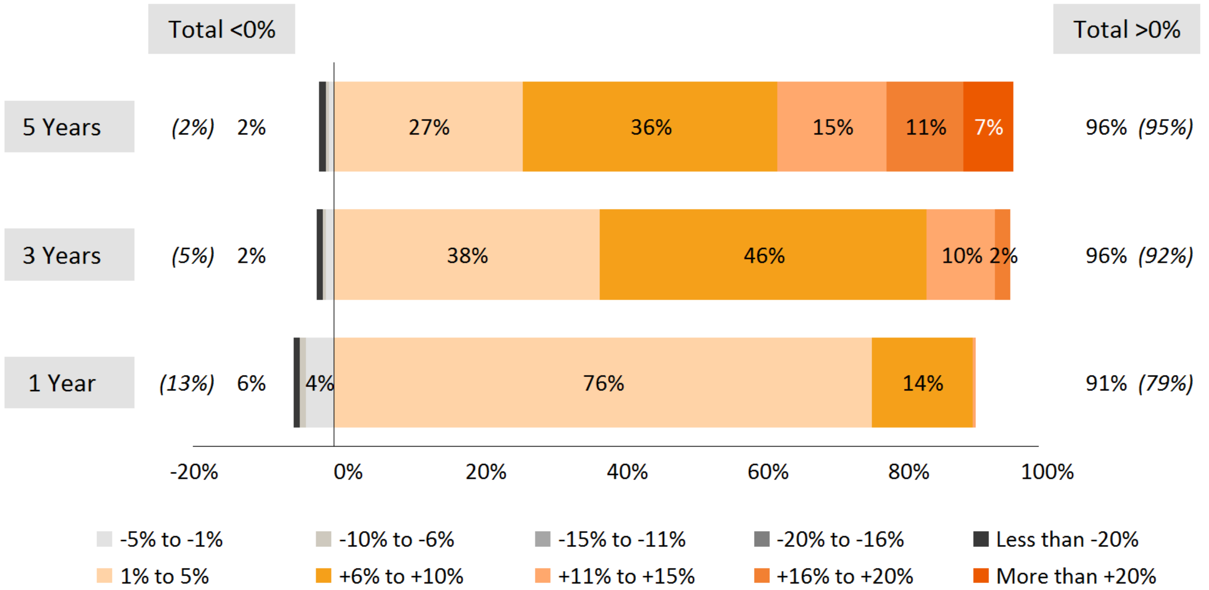
Lack of movement in the way client holdings compare to adviser recommendation implies holdings are also stable.

The proportion of advisors stating that their clients have a lower level of investment in property than they would recommend increased slightly from 29% to 30% this quarter, meanwhile the number of advisors indicating their clients had a greater exposure than they would advise decreased slightly, from 38% last quarter to 35% this quarter.



Average expected annual returns from property investments

Expectations for return on property over the short term have again increased, with three quarters expecting 1-5% returns over the next year.

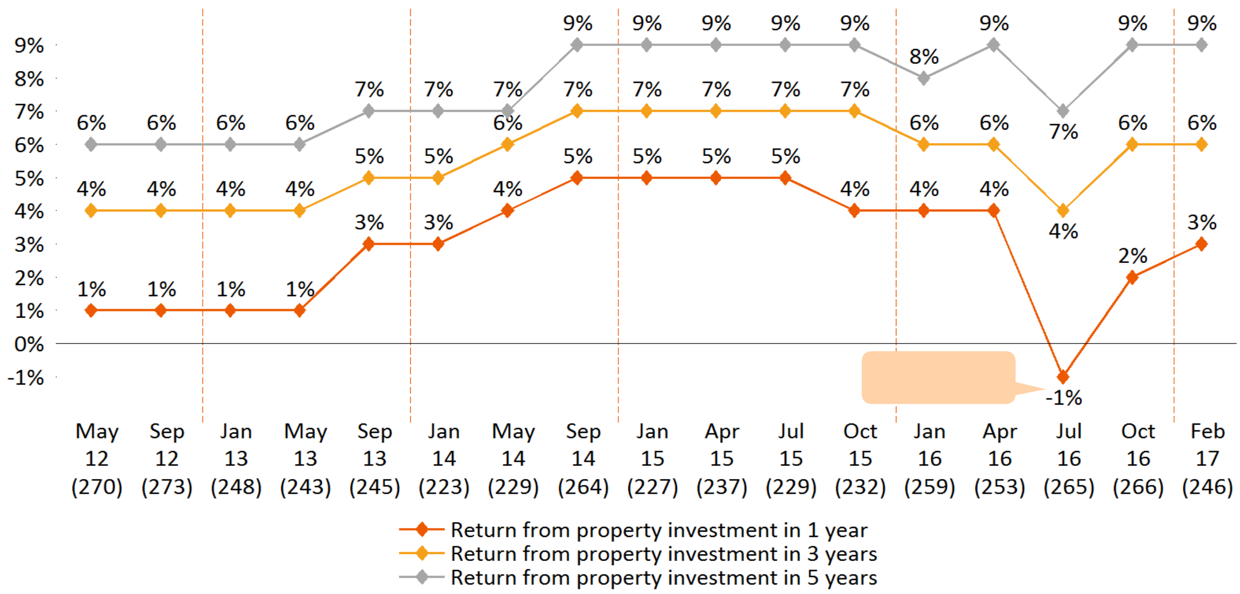


Over a one-year period, 90% of respondents recorded expectations of between 1 - 10% (78% last quarter) with 76% advisors expecting a 1-5% return from property investments (69% last quarter).

When asked about three-year returns, 38% predicted returns of between 1% and 5%, with 46% expecting total returns over three years to range between 6% and 10%, compared to 38% in the last survey. Those expecting three-year returns to exceed 10% per annum increased from 11% in the last survey to 12% this time.

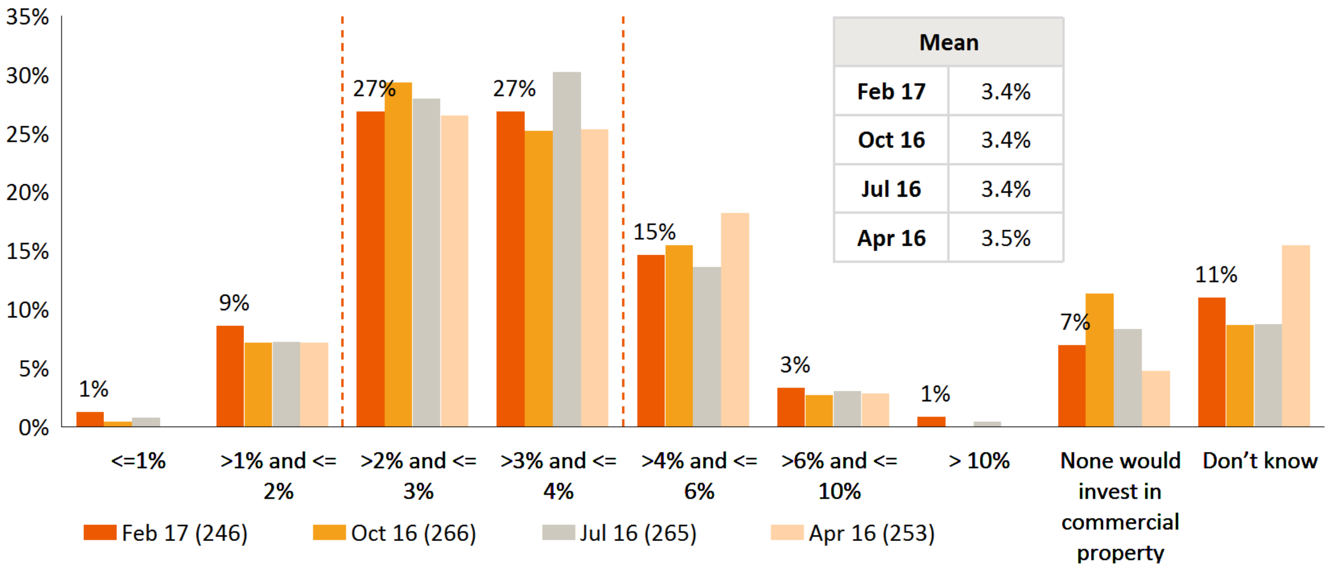
Looking at five-year returns, 27% expected returns of between 1% and 5% (24% last quarter), with 36% expecting returns over five years to range between 6% and 10% (43% last quarter). 34% expect returns over this time period to exceed 10% per annum (29% last quarter).

Despite the increase, expected 1 year returns are still not back to the levels seen before the EU Referendum.



Minimum threshold rate of return for commercial property

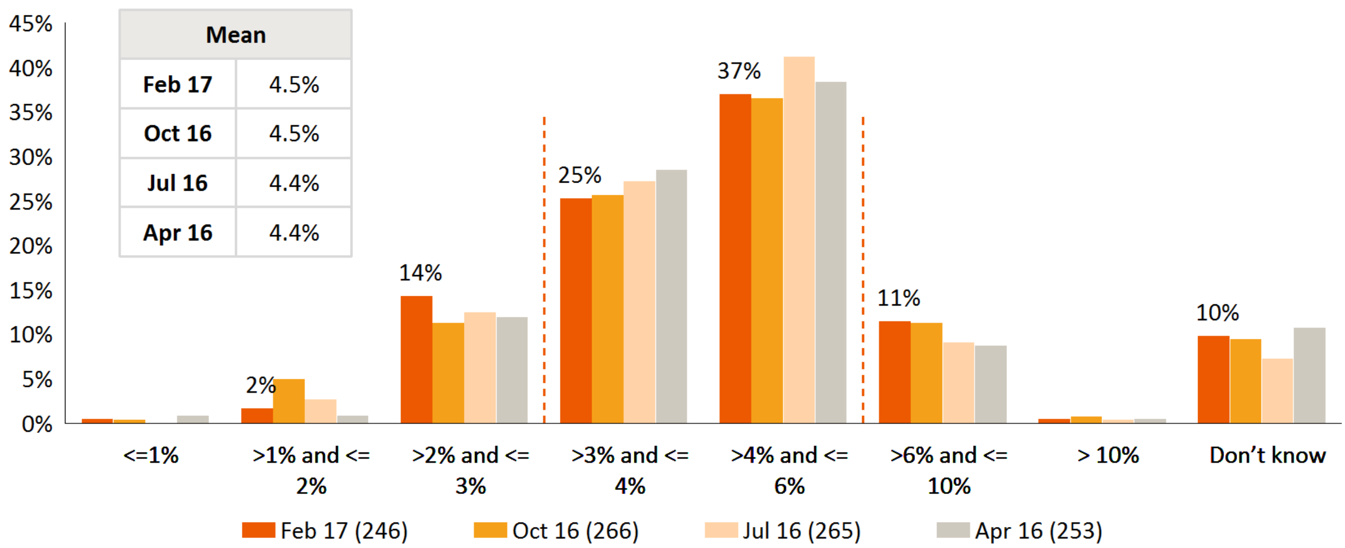
The average minimum rate of return above a risk-free rate that clients require from commercial property remains at 3.4% and more advisors have clients that would invest in commercial property.



Mean	
Feb 17	3.4%
Oct 16	3.4%
Jul 16	3.4%
Apr 16	3.5%

Minimum threshold rate of return for equity investments

For equity investments the average minimum rate of return above risk-free required by clients is also stable at 4.5%.

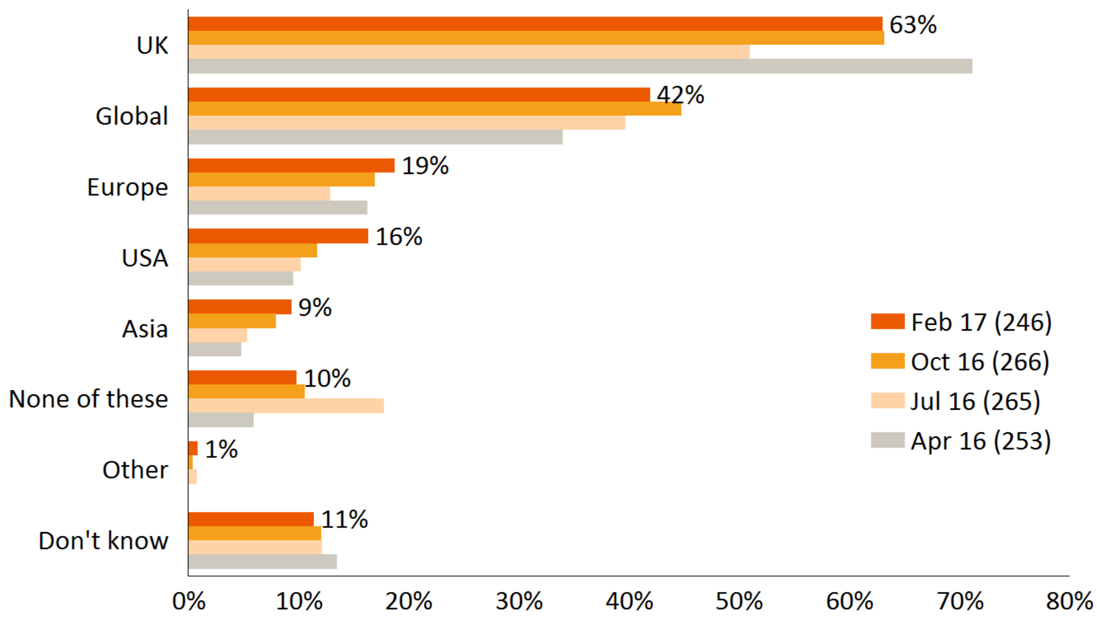


Mean	
Feb 17	4.5%
Oct 16	4.5%
Jul 16	4.4%
Apr 16	4.4%

Likely geographic areas for property investments

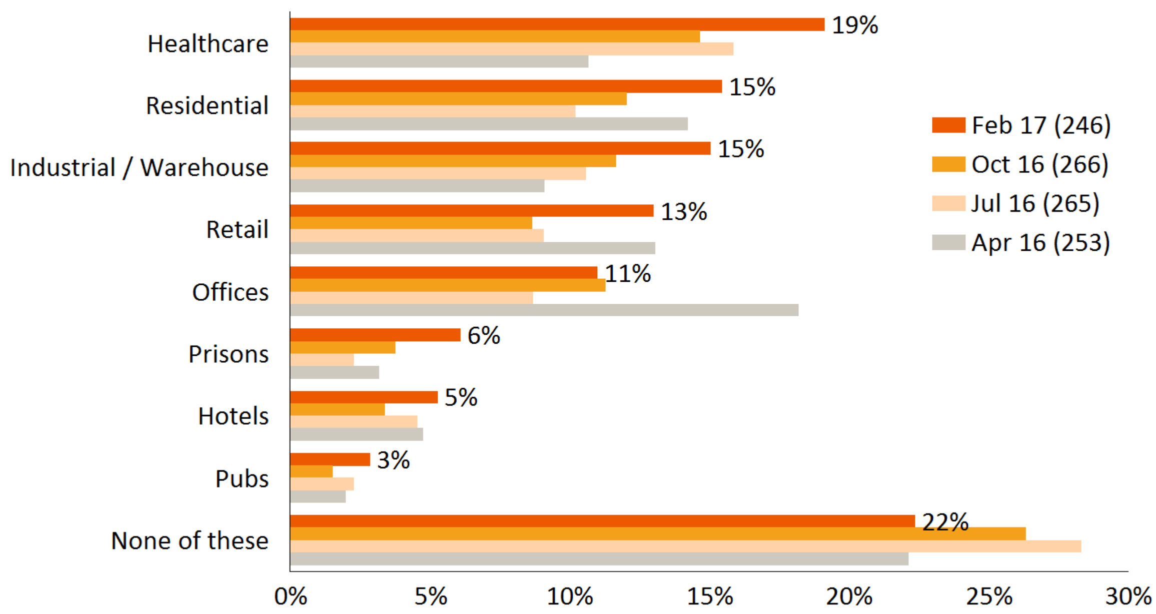
Expected use of UK and European property investment in the next 6 months is unchanged, whilst advisors increasingly expect to recommend USA.

UK property continues to be the most likely location to be recommended, with 63% of advisors indicating that they would support investment in this market (same as the last survey). Investing in global real estate is advocated by 42% of advisors (45% in the last survey) whilst interest in European real estate increased from 17% last survey to 19% in this survey.



Anticipated demand for sectors over the next 6 months

Anticipated demand for sector specific property investment has increased, particularly for healthcare and residential.

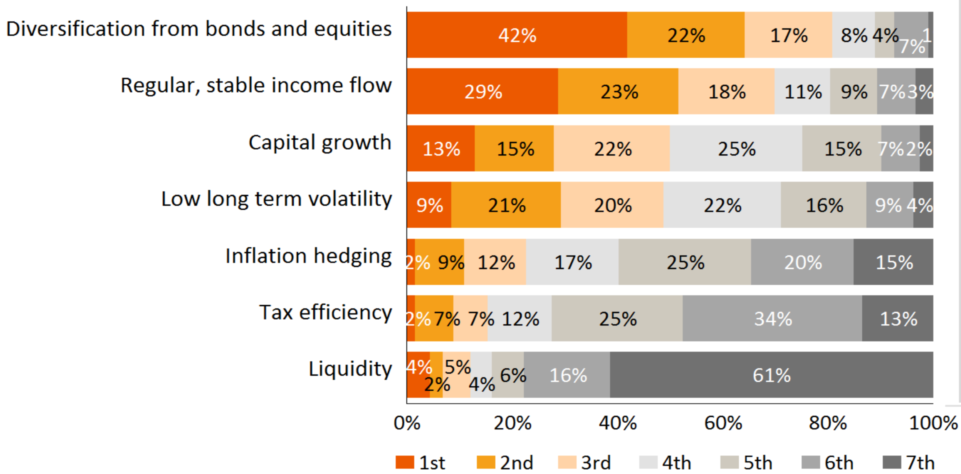


Importance of features of property as an investment

Diversification from bonds and equities has long been a key feature of property investments although it has pulled ahead of income stability this wave, with 42% and 29% listing them both as first choices and 81% and 70% placing them in the top 3 characteristics.

Capital growth is the third key attribute although only 13% of advisors list it as their first choice; 50% in total list it in their top 3.

Only 4% of respondents list liquidity as the most important characteristic whilst 61% list it as the least important.

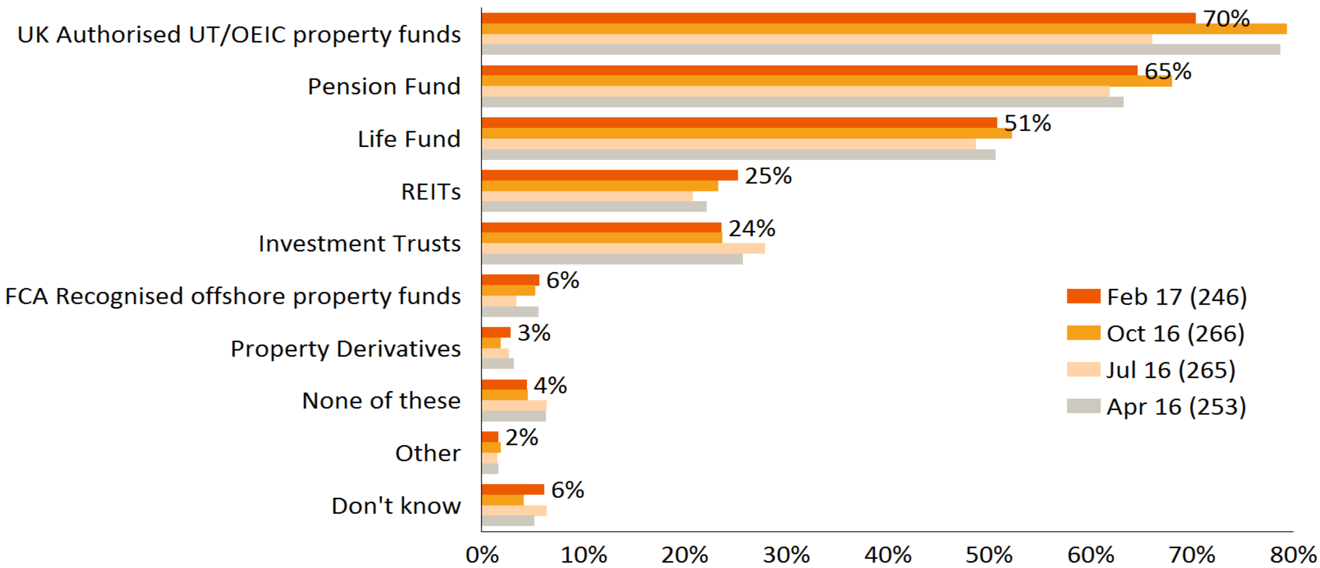


Mean rating (lowest score = highest ranking)			
F 17	O 16	J 16	A 16
2.3	2.5	2.4	2.5
2.8	2.7	2.8	2.7
3.5	3.3	3.5	3.4
3.6	3.6	3.6	3.4
4.7	4.8	4.8	4.9
5.1	5.1	5.0	5.1
6.0	5.9	5.8	6.1

Investment products likely to be used for collective investments

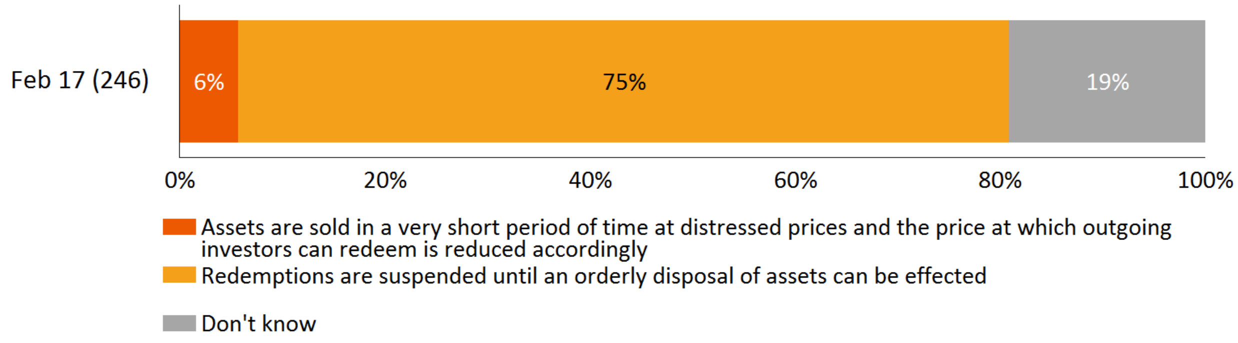
Fewer Advisors expect to use UK Authorised property funds for collectives over the next 6 months although this does remain the most popular route to investment with 70% this quarter (79% last quarter). Use of other product types were almost unchanged with Pension Funds at 65% (68% last quarter) and Life Funds at 51% (52% last quarter).

The listed alternatives, REITS and Investment Trusts are far less popular, with only 25% of advisors recommending the use of REITs for collective investments (23% last quarter) while 24% indicated they would opt for Investment Trusts (same as last quarter). Only 3% of advisors would consider property derivatives (2% last quarter).



Redemption of open-ended funds in unforeseen circumstances

Should an unexpected event render an open-ended fund unable to meet redemptions, a clear majority of advisors would prefer redemptions were suspended, rather than a fire-sale of assets.



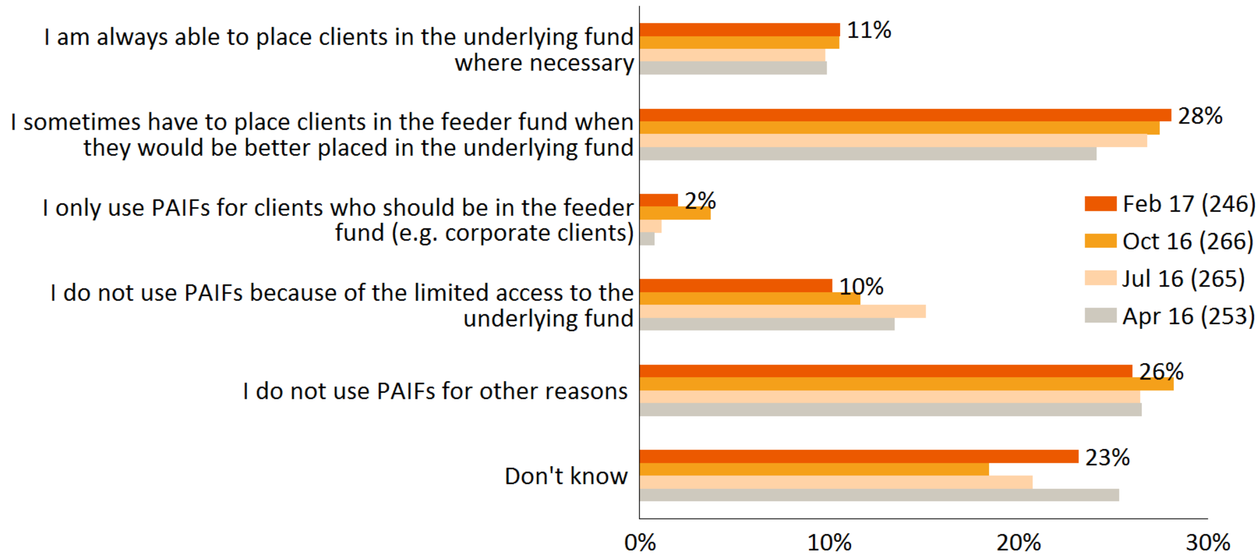
Use of PAIFs

Over time the proportion of advisors avoiding PAIF's because of the limited access to the underlying funds is slowing decreasing but over half still avoid using or don't know.

There has again been a slight increase in the proportion of Advisors who sometimes have to place clients in the feeder fund when they would be better placed in the underlying fund within a PAIF, 28% this quarter compared to 27% last quarter.

The proportion of advisors saying that they do not use PAIFs decreased from 41% last quarter to 36% this quarter.

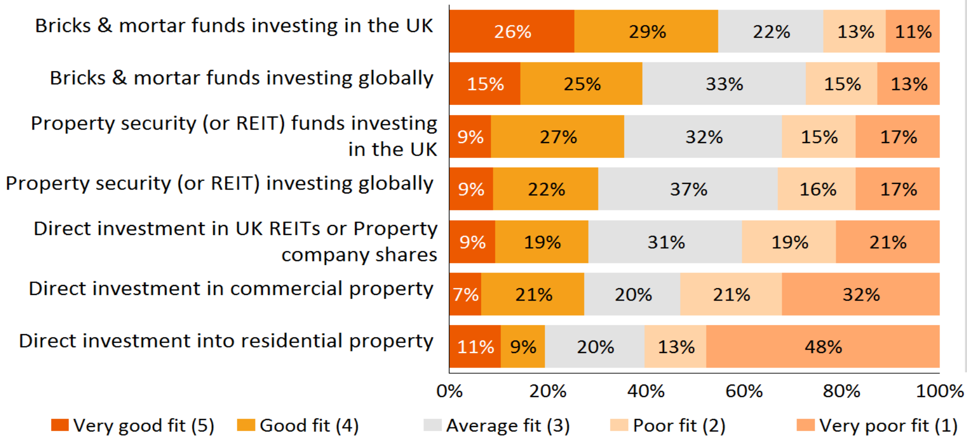
Those advisors always able to use the underlying fund remained the same this quarter at 11%.



Investment vehicles

'Bricks and mortar' funds continue to be rated the best fit with investment requirements, with 26% of respondents considering UK invested funds to be a 'very good' fit (27% last quarter) and 29% a "good fit" (25% last quarter). Global 'bricks and mortar' funds were considered next most compatible with requirements (at 15% 'very good' and 25% 'good' fit respectively).

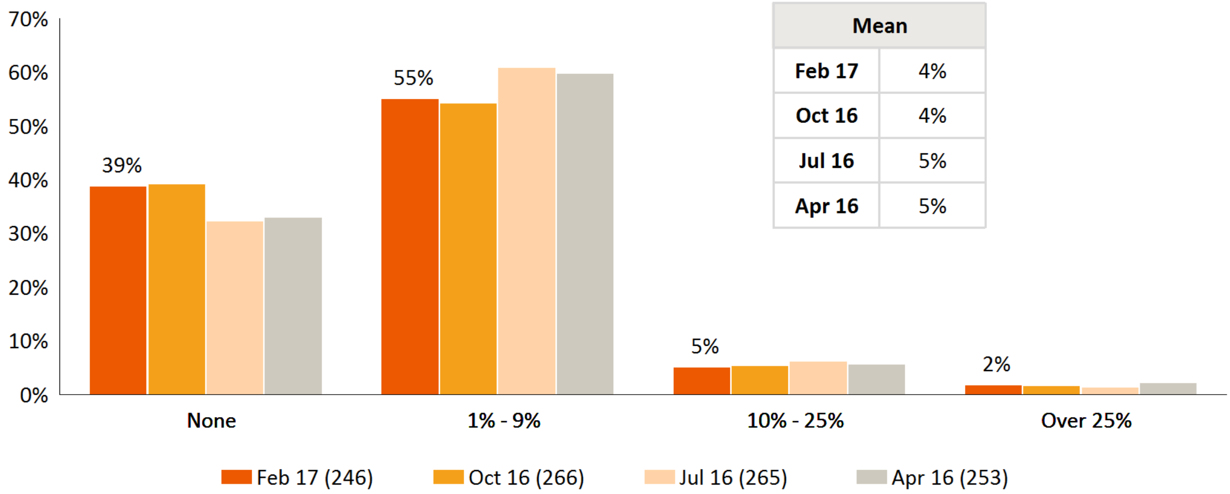
The poorest fit was considered to be direct investment into the residential sector with 48% saying that it represents a 'very poor fit' with requirements and 13% a "poor fit". Direct commercial property saw the biggest improvement since the last survey.



Mean rating (highest score = best fit)			
F 17	O 16	J 16	A 16
3.5	3.4	3.2	3.5
3.1	3.0	3.0	3.1
3.0	2.9	2.7	3.0
2.9	2.7	2.6	2.8
2.8	2.6	2.6	2.7
2.5	2.2	2.2	2.4
2.2	2.1	2.2	2.2

Ethical investments

As with previous surveys, the proportion of clients who raise the topic of socially responsible or ethical investment issues with their advisors remains low. Over half of respondents (55%) said fewer than 10% of their clients had raised these issues (54% last quarter), while 39% said none of their clients had mentioned this to them.



Mean	
Feb 17	4%
Oct 16	4%
Jul 16	5%
Apr 16	5%

Notes:

The source of all information is: NMG Group, Feb 2017

This research is funded and commissioned by The Association of Real Estate Funds (AREF) as part of our growing research activities, in support of one of our key objectives of influencing the evolution of the real estate funds industry. The Survey of Financial Advisors is carried out four times a year on behalf of AREF by NMG Group and is part of a wider Financial Advisor Census.

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For further information, please contact info@aref.org.uk.

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