

## Open-ended real estate funds for the retail market

*A position paper from the Association of Real Estate Funds*

March 2019

<p><b>Real estate is a popular asset class with retail investors</b></p>	<ul style="list-style-type: none"> <li>• Between 2009 and 2018, property fund assets exhibited strong growth from £10 billion to £31 billion, of which UK direct property funds totalled £19.4bn at end December 2018, according to Investment Association data<sup>1</sup>.</li> <li>• The asset class saw net, retail inflows in eight of the last ten years<sup>2</sup>.</li> <li>• These data do not include mixed asset funds, many of which also allocate to real estate or real estate funds.</li> </ul>
<p><b>These allocations are predominantly advised</b></p>	<ul style="list-style-type: none"> <li>• People know what they are buying.</li> <li>• Since the retail distribution review came into effect at the end of 2012, a large number of intermediaries have allocated to real estate funds within model portfolios, attracted partly by real estate's ability to diversify a client portfolio and generate income for it.</li> </ul>
<p><b>Fund houses are open about liquidity</b></p>	<ul style="list-style-type: none"> <li>• Fund groups offering real estate products to retail investors are open and clear about its bespoke risks and opportunities.</li> <li>• This has been partly driven by regulation, with the introduction of KIIDS and other documentation, and partly by the popularity of the asset class, as fund groups invest in thought leadership and other materials that explain how real estate works.</li> <li>• We support the FCA's proposal that information around liquidity risks should also be included in all marketing materials mandatorily.</li> </ul>
<p><b>Retail investment in real estate is a small part of both the ownership mix of UK real estate and the total retail fund universe</b></p>	<ul style="list-style-type: none"> <li>• The size of the UK commercial property investment market is estimated at £935bn.</li> <li>• The size of UK Direct Property funds in the Investment Association database is £19.4bn, just 2.1% of the overall property market.</li> <li>• Net outflows from UK Direct Property funds for the four months to end January 2019 totalled £472m, which is 2.4% of the UK Direct Property funds and 0.05% of the UK commercial property market overall.</li> <li>• At the end of 2018, total retail fund assets in the UK were £1.2 trillion, with UK direct property funds comprising £19.4 billion – that's 1.6% of the retail fund market.</li> <li>• The commercial property investment market saw a healthy level of activity in 2018 with more than £60bn of assets transacted according to Property Data.</li> </ul>
<p><b>Central authorities want to increase retail investment in alternative assets, including real estate</b></p>	<ul style="list-style-type: none"> <li>• The Financial Conduct Authority and the Department for Work and Pensions have recently issued a range of consultation and discussion papers to better understand how a broader range of investors, including retail investors through defined contribution pension schemes, can allocate to alternative investment assets,.</li> <li>• These assets include infrastructure, real estate, housing and green finance.</li> <li>• AREF has welcomed such measures.</li> </ul>
<p><b>Changes in a fund's pricing basis merely reflect the direction of fund flows</b></p>	<ul style="list-style-type: none"> <li>• Changes in a fund pricing basis is solely a reflection of the change of net flow into or out of the fund and is not used by managers to deter redemptions.</li> <li>• Fund pricing reflects the material cost of purchasing or selling the underlying investments.</li> <li>• These prices are designed to balance the interests of investors who wish to stay and who wish to leave.</li> </ul>

<sup>1</sup> All data provided by the Investment Association, as at 31 January 2019

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## About The Association of Real Estate Funds (AREF)

AREF is the body that represents the interests of its member funds, those firms that advise and support them and the end investors. Our work focuses on four complementary areas:

1. The Code of Practice - AREF has a unique code of practice, widely recognised as the gold standard in corporate governance. With investors in real estate funds increasingly looking at governance, as well as environmental and social issues, membership of AREF and hence committing to the code, allows funds to display our Quality Mark. This makes it easier for investors and their advisers to discern which funds have and which have not made this commitment.
2. The Forum - AREF brings together stakeholders from across the real estate investment spectrum to discuss and debate topical issues, to learn and to network. We seek to bring the industry together to help influence its evolution, for the benefit of both the practitioners working in the industry and the investors in the funds.
3. The Lobby - With over sixty-five fund members, representing around £72bn AUM\* and nearly as many affiliate members, advisers and service providers for our fund members, AREF acts as the collective voice of the real estate funds industry.
4. The Index - The majority of AREF's member funds choose to have their performance measured using the leading NAV-level MSCI/AREF UK Quarterly Property Fund Index and are included in the Property Fund Vision Handbook – the property fund researchers' bible. This enables investors and their advisers to compare fund performance and other relevant data, to appropriate alternative funds, either individually or at an aggregated level