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UK office space tops LaSalle's value list

REAL ESTATE

Positive pointers after a grim year

'Attractive deals' in 2009 and 2010

By Daniel Thomas, Property Correspondent

The UK commercial property market has become best value in the world for investment, according to the annual strategy review by global property fund manager LaSalle Investment Management.

LaSalle, which manages about $52bn (£34.7bn) of assets, is to tell its clients that the UK has fallen first and hardest across global property markets, making it one of the most attractive areas for investment. The fund manager's report, will give a positive end to what has been one of the worst years on record for the sector. Although it expects further modest price falls, it believes that so-called "fair value" – prices offering good rates of return compared with long-term bond rates – has been reached.

The manager will advise its clients to maintain a defensive strategy until 2011, focusing on the management of assets to maintain income flows rather than expansion by acquisition.

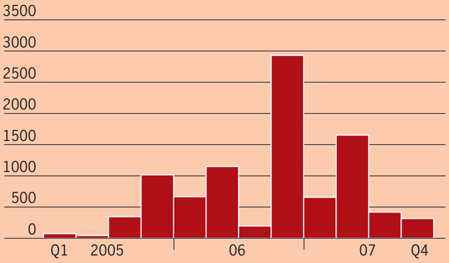
However, it thinks 2009 and 2010 will also be "great years for an offensive strategy because there will be many attractive deals for those with equity and the skills to identify good value". Australia, Germany and Korea are also recommended.

However, prospects for North America are a concern, where, it says, property sellers are not being realistic about the extent of the market downturn. "The US and UK are at very different ends of the spectrum right now," said Jacques Gordon, global strategist at LaSalle. "The UK is at the front of the correction – and we see pricing as beyond fair value now – while the US is bringing up the rear in terms of pricing."

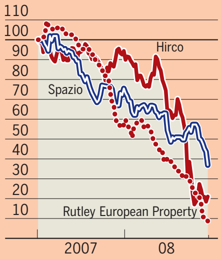
Outside the UK, the fund manager expects lower investment return across Europe and is recommending an investment ratio that is more heavily weighted to retail than offices.

Its view on Asia Pacific has been downgraded from a previously resilient outlook. It still sees the region as outperforming Europe.

Overseas property funds
Capital raised on London markets (£ million)



Hirco/Spazio/Rutley
Share prices (rebased)



Sources: Oriel Securities; Thomson Reuters

Overseas property funds are far from safe as houses

About £8.5bn has been wiped off the value of UK-listed overseas property funds over the past 18 months as the swing in investor sentiment against real estate has forced the shares in the sector down by more than 70 per cent, writes **Daniel Thomas.**

Between 2005 and 2007 about £9.6bn was raised for 62 overseas property funds, according to Oriel Securities, peaking in the last quarter of 2006 when £3bn was taken on the Aim and main markets. Oriel's overseas property fund index had a combined market capitalisation of £12bn at its peak last summer. This has fallen to just £3.5bn.

Investor appetite vanished this year, heralding a fall in share prices and ever widening trading discounts to stated net asset values.

There has been a raft of announcements about administrations, restructurings and strategic reviews. "Some companies started going down in price the moment they launched and haven't stopped falling since. The Indian ones have been particularly guilty of this," said Mark Young, analyst at Oriel.

Mr Young said share prices had, on average, fallen 70 per cent this year alone, underperforming the UK real estate sector by about a third and the UK FTSE all-share market by about half. Only one fund, Northern European Properties, has seen shares rise, partly owing to arbitrageur activity.

Overseas property funds are trading at wide discounts to net asset values, with several trading at more than 90 per cent. This reflects the shift in the wider property sector, with main-market real estate investment trusts trading at a discount to NAV of more than 40 per cent.

Investors do not believe what companies are saying about the value of assets, and have discounted share prices to reflect the expectation of future asset depreciation.

Aim-listed property funds face the prospect of negative total returns coupled with worries over high levels of debt.

Many are undertaking reviews to address these concerns as well as their discounts, which is likely to lead a contraction in the sector. While some are voluntary, others have been at the behest of activists such as Laxey Partners and Carrousel. Laxey, in particular, has expressed concern about the external management of companies.

Most Aim property companies are still externally managed. As well as management fees, most funds have performance fees.

Oriel's Mr Young said the sector should emerge stronger. "The sector needs consolidation and fresh capital but there are undoubtedly some fabulously cheap and able companies at the moment."