



THE STATE OF THE UK REIT MARKET

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MANAGEMENT -- IN OR OUT?

STATUS UPDATE 10 YEARS AFTER INTRODUCTION OF UK REIT LEGISLATION

- Many new externally managed REIT are successfully launched by fund managers
- Pros and cons of externally managed REITs
- Lessons we can learn from the US or other markets

WHY IS CONSENSUS ON EXTERNALLY MANAGED REITS NEGATIVE?

US perspective prevails

- Management team might not be fully aligned with shareholders and incentivised to maximise the fee stream, rather than the share price
- Potential conflicts exist for management team in allocation of time and deals
- Low likelihood of upside for shareholders from corporate activity as buyers also needs to buy out the management contract

US REIT History

- Externally advised REITs under-performed their self-advised counterparts by 7% per year based on a Capozza & Seguin study in 2000
- Share of externally advised REITs fell from 48% in 1986, to 26% in 1992 and to under 10% in 2005 based on Capozza's 2005 study.
- Internal management led to REITs being more actively managed, also doing new development, property management and other services.

HOW ARE REITS STRUCTURED AROUND THE WORLD?

Most markets seem to have both

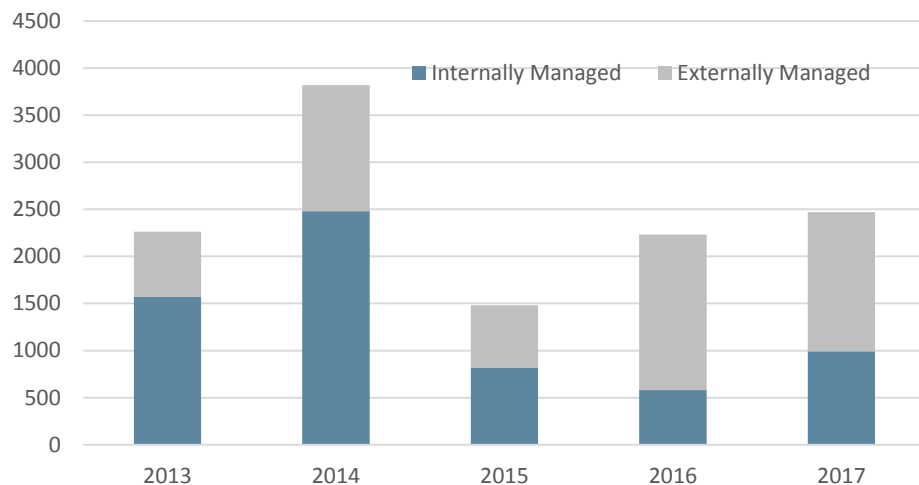
Country / Region	Dominant Structure	Comment	REIT Market Cap in US\$ trn (Jun-17)	REITs as % of Overall Market (Jun-17)
USA	Internally managed, but few still external	Cont. transition to internal	27.0	13.2
Europe	Internally managed mostly		14.2	6.0
UK	Internally, but some externally		3.4	6.3
Japan	Externally managed		5.7	10.3
Australia	Both internally & externally managed	Transition to internal picking up	1.3	18.5
Canada	Internally, but some externally	Cont. transition to internal	2.1	9.7

Source: AEW, EPRA & Moody's Investors Service Inc.

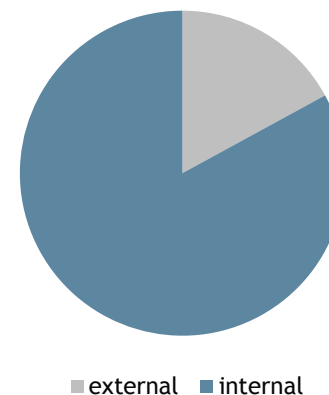
EXTERNALLY MANAGED UK REITS MAKE UP 17% OF OUTSTANDING

But, nearly 50% of issuance since 2013

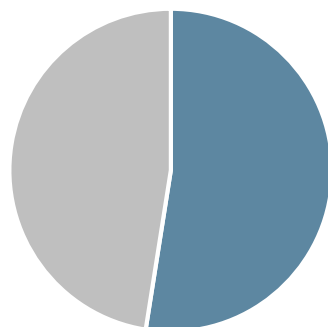
Annual equity issuance in GBP mn



Total capitalisation as % total (Sep-17)



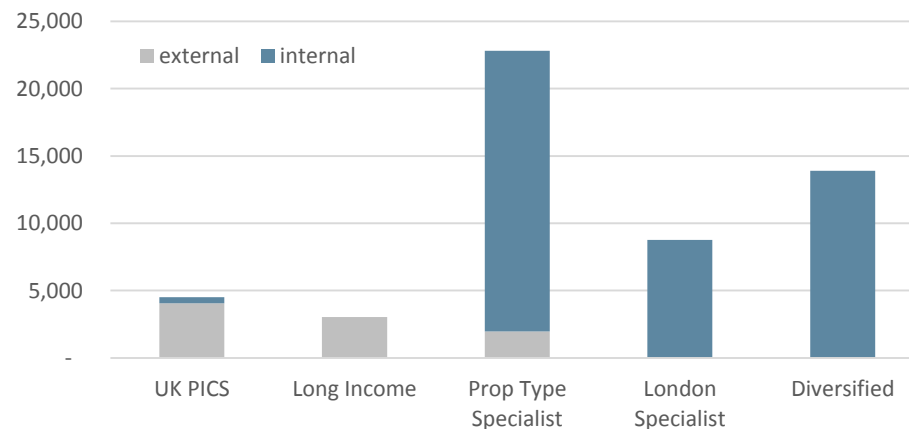
Cumulative equity issuance 2013-17



■ Internally Managed ■ Externally Managed

Sources: AEW & Numis Securities

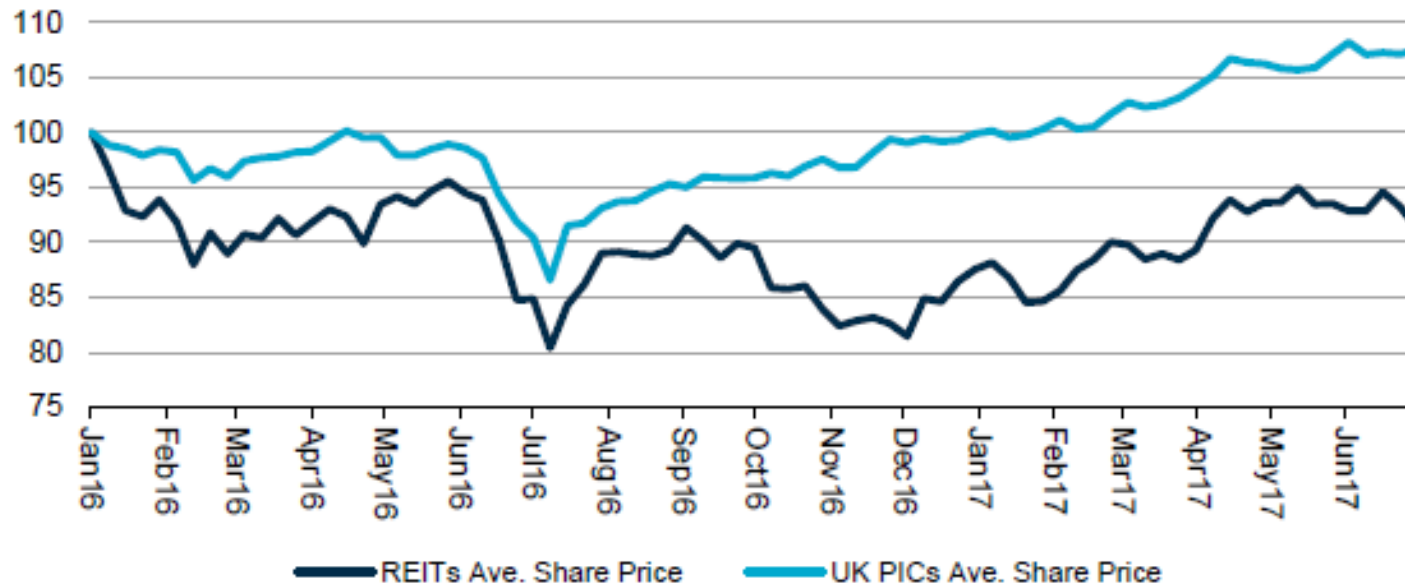
Capitalisation per sector (Sep-17)



EVIDENCE IS A BIT MORE MIXED

In fact, recent pricing seems clear

UK PICs & REITs Ave Share Price

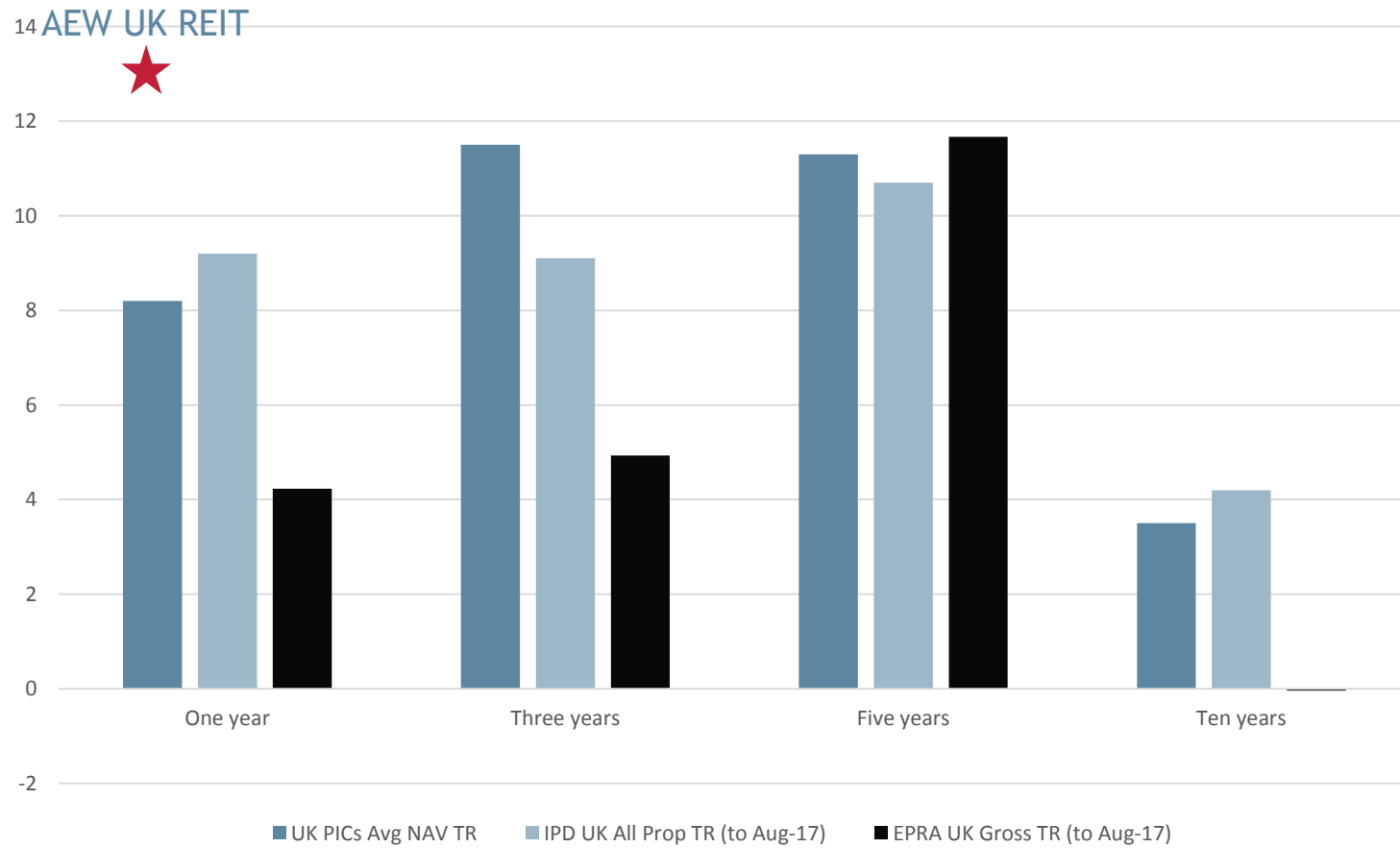


Source: Company & Numis Securities Research Department as at 5 July

G&A expenses (as % of total revenues)	Externally Managed REITs	Internally Managed REITs
Range	4-6%	5-7%
Median Ratio	5.22%	6.60%

Sources: AEW, Fitch Ratings & Numis Securities

EVEN ON LONG TERM BASIS TOTAL RETURN LOOKS ATTRACTIVE



Sources: AEW, EPRA, IPD/MSCI & Numis Research

HORSES FOR COURSES

	Internally Managed REITs	Externally Managed REITs
History	PropCos converting to REITs	Tax efficient Funds converting to REITs
Type of returns	Lower Yields	Higher Yields
Investment Focus	Specialised & Development	General & Income Producing
Shareholder Base	Equity Income-focused Generalists & Specialists	High Net Worth Individuals / Private Wealth
Volatility	Higher	Lower
Median G&A ratio	Higher	Lower



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