

## Pension fund contributions are the main source of capital for the UK

- > Real estate's high and stable level of income return is a key attraction for UK investors
- > Long income funds are increasingly favored by UK investors
- > A main challenge is to find a way for Defined Contribution pension funds to invest in real estate

The Investor Universe UK Study examines real estate's role in UK institutional investment, describing the overall investment landscape and investigating investors' motivations for holding real estate and the ways these are being implemented in practice.

The UK investor landscape is dominated by pension funds. Apart from the Netherlands, the UK has the highest proportion of household assets in pension funds among European countries. Tax advantages have encouraged individuals to save for pensions, increasingly through defined contributions (DC) rather than traditional defined benefits (DB) schemes.

The survey participants represent €67.3 billion in real estate AUM and €212.5 billion



in total AUM, as at end 2018. This amounts to around 27% of the UK institutional investor universe estimated to be around €250 billion for real estate. This estimate is based on a conservative 5% of the total value of the UK institutional investor universe of €5,022 billion estimated by the UK Office of National Statistics (ONS).

UK investors are attracted to real estate as an asset class by its return profile, in particular its income return. This particularly appeals to maturing DB pension schemes and compares favorably to low government bond

*'We are looking to increase our exposure there (i.e. continental European).'*

A charity

yields. In this context, long-income funds are increasingly favored by UK investors.

Those investors who avoid real estate generally do so because they cannot accommodate its illiquidity. Many DC pension schemes have significant difficulties with real estate because their administrative platform requires all assets to be priced at least daily.

UK investor demand for funds with secure, bond-like, income and an annual retail or consumer price index uplift is strong. This type of investment particularly helps pension funds to match their liabilities, as a substitute for index-linked government bonds. Such funds benefit from the fact that some businesses are still prepared to sign 25-year leases with 5-yearly rent reviews linked to general price inflation for new properties or for sale-and-leasebacks.

Long income funds have been created using this kind of assets, which have a low risk profile. Low risk has also meant that UK investors have tended to concentrate on the domestic real estate market, but this may be starting to change.



*'Investors aren't interested in the underlying property, they just want a solid income stream, ideally index-linked.'*

A senior consultant

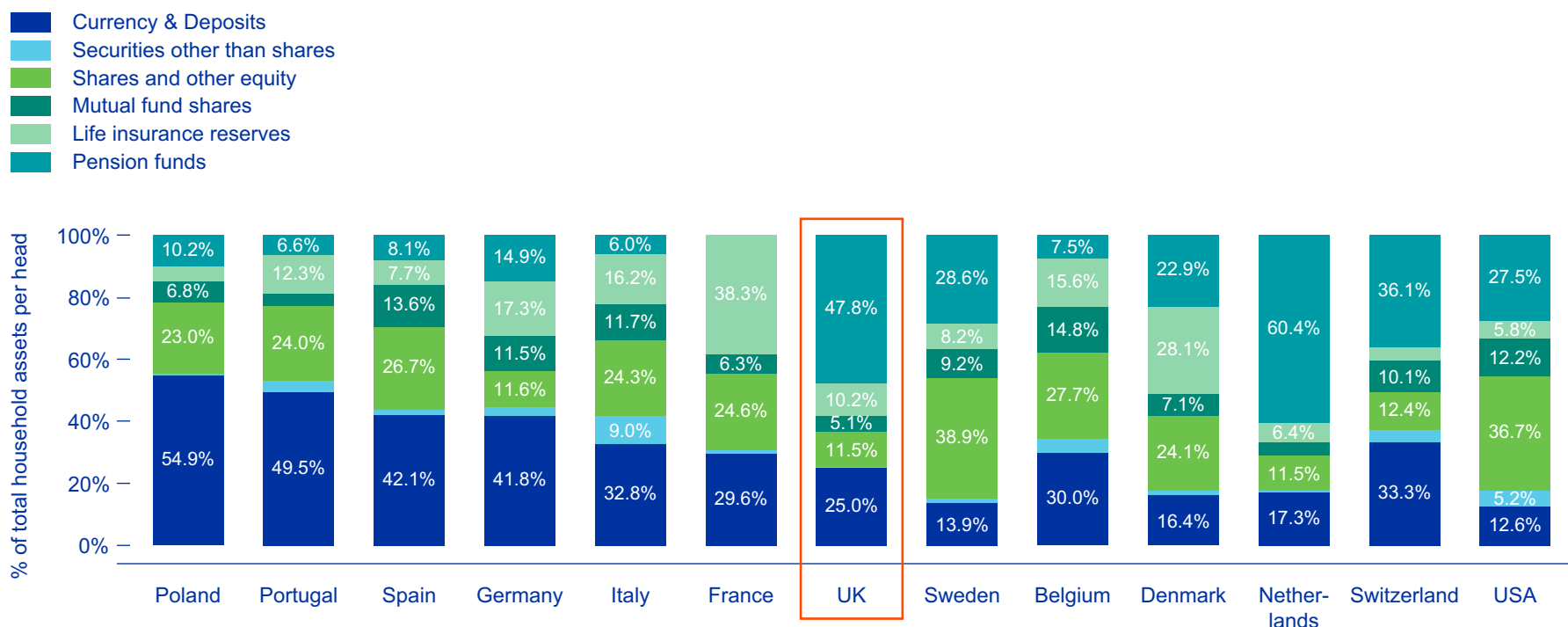
ESG issues are becoming increasingly important for pension fund trustees and are now prominent in most funds' Statement of Investment Principles. Environmental factors have now been considered by most investors and managers for at least a decade, but social factors are moving up the agenda too.

In terms of the social aspects of the ESG agenda, impact investing offers an exciting new area for the real estate market to tackle. Defined and measurable social outcomes may be gained from some of the alternative real estate sectors such as social housing.

Residential real estate still plays a relatively minor role for most UK investors, but as it grows there may be an increasing recognition of its impact investing potential.

For further details contact [research@inrev.org](mailto:research@inrev.org). The full report is available to members at [inrev.org/research](http://inrev.org/research).

**Figure 1: International comparison - structure of savings industries\***



\*Countries ranked by total household assets per head – lowest to highest

Source: OECD <https://data.oecd.org/hha/household-financial-assets.htm>