

Aviva Investors - Commercial Property

Q4/09 Update

Hugh Linehan

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Presenter: To discuss the outlook for the Irish property market, I'm joined now by Hugh Linehan, Head of Real Estate Ireland at Aviva Investors. Hugh, it's been a difficult couple of years for the market, are there any signs of a turnaround?

Hugh Linehan: Globally yes, there's a number of positive signs. Firstly the listed sector, US and UK REITs are well ahead of their lows of the first quarter. Perhaps more significantly a lot of these companies also are now busy recapitalising, indicating a degree of confidence in the future. We're also seeing much more investment market activity with French and German funds in particular quite active in the market and also a lot of international sovereign wealth funds, so all of this is positive too. In the UK, IPD recently produced their first positive monthly capital return in 26 months and our Aviva Investors UK Property Fund has just moved from a disposal to an acquisition pricing basis, again indicating a sentiment shift there.

Presenter: That's good news for property generally, but what about Ireland specifically?

Hugh Linehan: There's no doubt that the issues we face here are wider and deeper than for other markets. In the first place economic activity is weaker and a turnaround is probably further out. This has implications for occupier markets and therefore for rental levels. There are also all the issues around impaired loans which are generally underpinned in Ireland's case directly by real estate assets and this has the knock-on effect on the availability of credit. On the other hand, a lot of investment indicators have turned positive. Firstly the sharp falls in values that we've seen over the last 18 months or so means that yields have moved out considerably to a point where they now seem relatively attractive compared to their historic norms, compared to other assets and compared to other real estate markets. We have prime properties in our Irish Fund producing income yields in excess of 8½%. Another feature that we're seeing at the moment is much stronger price discrimination and this favours prime, better quality assets which are showing relative outperformance. And finally these improved investment characteristics are generating a great deal of investor interest, including interest from

overseas, which in itself is a positive for the market.

Presenter: What's your view on NAMA, is that a positive for the property market?

Hugh Linehan: I think it's very important. Primarily it's important for the whole economy but more specifically because it offers a coordinated investment management solution to these assets over an extended period of time and, as such, it removes a great deal of uncertainty from the market. International reaction to date has been very positive and I think this is something that it's important that we build on now.

Presenter: So what are the main themes driving Aviva Investor Ireland's approach to real estate?

Hugh Linehan: We've been investing in Irish real estate for a very long time and as part of Aviva Investors worldwide we're also involved in a lot of other markets, so we're very conscious that real estate markets, like markets for other assets, are cyclical. Right now this is the worst downturn ever recorded, but even looking back from now over the long term prior to a return to growth, returns from property relative to other assets are good, particularly on a risk adjusted basis, and this is important for long term investors. What we're going to see now I think is a move away from the excessive volatility driven by exaggerated yield movements that we've seen over the last few years and a return to the basics, to the fundamentals behind real estate being an important asset class in a diversified investment portfolio, and the drivers behind the sort of high quality assets that we continue to hold and manage and from which we continue to generate strong income returns on behalf of our clients.

Presenter: Hugh Linehan, thank you.

Hugh Linehan: Thank you.

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