

Further to your letter to Ian Womack, please find attached a short response on some of the issues raised in your review.

By way of introduction, Morley manage over £12bn of property funds. Residential property amounts to c2%. This includes two specialist funds investing in the residential sector (one built from nothing in 1997 to 1300 retirement flats across the UK and another a portfolio of high value properties in London again started from nothing a few years ago) as well as direct ownership of a portfolio in SW London and significant investment in residential property let to housing associations.

In response to some of the issues raised:

Issue 2: Accessing finance and skills

* I am not aware of housebuilders actively seeking co-investment in their landbanks or development pipeline (they continue to be financed by a combination of equity and debt).

* Life fund investment in land generally is constrained by the solvency calculations and consequent restrictions on the proportion of investments that can be held in zero yielding investments and the consequently high returns necessary to justify investment in those that are.

* Housebuilders are typically building to sell on piecemeal basis and have not sought to build for the rental market on a bulk basis whilst life and pension funds are not "traders" but long-term investors. There is consequently something of a mismatch.

Issue 4: Why not more affordable housing and housing for rent?

* Lack of market information. The index of private market rent and yields produced by the University of York gave some useful market information but has run out of funding. The IPD residential index is also useful but its coverage leaves much to be desired.

* Management issues/lot size. Given the scale of funds we manage there are major issues about the time taken to buy small properties and their subsequent management and we need reliable partners to do this for us. The industry is still highly fragmented with relatively few professional organisations of size. It has proved very difficult to invest significantly in the sector over recent years with the average deal size a key obstacle. This has meant that despite a strategic desire to increase exposure significantly our ability to do this has been limited.

* Security of income. Given the lack of market information and management issues we have been keen to achieve some security of income, this is particularly the case for key worker/affordable housing. We have been working with Housing Associations on this for the past seven years. Our view was that they can provide income security and have robust property management capability. Obstacles to the expansion of this have included a view amongst some Housing Associations that that they want to use debt and not reduce their exposure to capital risk, a lack of management capability/commercial attitudes within housing associations to cope with diversification into private market rented, loss of more entrepreneurial staff from housing associations, strong market

conditions which have made housebuilders reluctant to enter into agreements to sell for a fixed price and simply the difficulty of trying to do something new.

* Stamp duty. The treatment of bulk purchases has put institutional investors at a disadvantage relative to individual purchases with 4% payable rather than 1%. In addition for key worker housing, the funding structure that works well for all sides eg our clients, the housing association and the occupier is a long term index-linked lease eg 35 years with annual uplifts in line with RPI - changes to lease duty threaten the expansion of this structure.

Overall we would invest more in housing if we can find investments with the right degree of security of income and management and attractive return prospects and we will continue to work with developers, housebuilders, property companies and housing associations to achieve this.

I hope you find these comments helpful. Please do not hesitate to contact me if you would like us to elaborate on any of the above.

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