SPR Newsletter
June 2014

In this Newsletter:

Society of Property Researchers

Upcoming Events

Is Overseas Investment Fuelling a Bubble in the London Residential Market? Joint Seminar with CPPS, 10th June 2014

Nabarro, Lacon House, 84 Theobald's Road, London WC1; 5.30pm for 6.00pm start

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Only a year ago the 'London residential bubble' was forecast to burst. As prices rose, journalists and property researchers began to share the same view. Residential prices in the UK have defied predictions of strong price falls in the past, as the market is driven by low supply, high demand and available cash. Demand comes from many sources due to London's status as the economic and financial growth engine of the UK, experiencing strong influxes of workers coupled with its status as a safe-haven for investment. The influx of overseas capital into development schemes in select locations has been discussed in depth, and the debate about how 'hot' money is pushing up prices or leaving prime homes empty is on-going.

In recent years this overseas capital has increasingly originated in Asia, with both institutions and private investors targeting London residential. Not just focusing upon established prime locations such as Knightsbridge and Mayfair, Asian investors have flocked to new residential developments in areas such as Battersea, Stratford and Canary Wharf.

With speakers from across the residential sector, including one of Asia's foremost developers active in the London market, this seminar will expand on these discussions with a particular focus on foreign investment flowing into London from Asia.

Chair: Simon Staite, *Nabarro*

Confirmed speakers:
Mr Li, *General Business Development Manager, Greenland Group*
Jason Presence, *Residential Development team, RBS*
Jacqui Daly, *Director Residential Investment Research & Strategy, Savills*
Sophie Chick, *Associate, Residential Research, Savills*

Panellist:
Ken Xiao, *CBRE and President of the Chinese Property Professionals Society*

There will be networking drinks available after the meeting, kindly sponsored by Nabarro.

Global Real Estate Strategies: from real estate investment to real estate lending. Joint Breakfast Seminar with APL, 3rd July 2014

Taylor Wessing, 5 New Street Square, London EC4; 8.30am

In association with Sponsored by

The insatiable appetite for real estate shows no signs of abating – the weight of capital, from both debt and equity sources, has driven prime yields down to near record low levels, with investors increasingly targeting secondary assets. At a macro pricing level, where external influences have an undoubted and massive impact, there is nothing to suggest a turning point for capital flows; on the contrary, allocations to real estate continues while an increasing number of debt funds are being launched.

Although this may seem like a recent turn of events, there are growing concerns that parts of the global real estate market are becoming increasingly overpriced – we may not yet be in a bubble or on the brink of a major pricing correction, but given the events of recent years, it would be prudent to start considering what strategies would help in positioning portfolios optimally for the next stages of the cycle.

Please join our panel of experts to hear their views on the opportunities and challenges of the current market landscape, and debate which global strategies will provide the best outcomes for the future.

Chair:
Ali Imraan*, Director of Private Equity Real Estate Finance, Royal Bank of Scotland Group*

Speakers:
Lee Galloway, *Executive Vice President, Portfolio Manager, Pimco*
Dennis Lopez, *Global Chief Investment Officer, Axa Real Estate*
Anuj Mittal, *Managing Director, Angelo, Gordon & Co*
Jon Rickert, *Head of Real Estate Finance and a Managing Partner, Renshaw Bay*

SPR/IPD RealWorld Conference, 10-11 July 2014

St John's College, Cambridge

Sponsored by

Accessing the inaccessible

The RealWorld conference is now in its 10th year. This IPD/SPR conference brings investors, managers, and practitioners together to provide modern research and specialist market insight. This year's event explores the new prospects for the industry, as real estate develops into a key component of a multi-asset-class portfolio.

The event will include a series of sessions, including on real estate in a multi-asset class context. What role does real estate play in relation to traditional and alternative asset classes for institutional investors? How can managers tailor their investment products to suit investors' needs?

The event will go on to cover more granular aspects of investors' objectives, risk management, and real estate portfolio management, examined from a range of perspectives, from technical papers to applied real world examples.

Understanding how real estate's role in institutional portfolios is changing will be a key advantage in defining a successful strategy from an asset owner's perspective, and in defining a modern performance and risk-monitoring framework for asset managers.

Confirmed speakers include:

Alex Moss, *Founder*, **Consilia Capital**
Roger Urwin, *Global head of investment content*, **Towers Watson**
Simon Mallinson, *Executive managing director*, **Real Capital Analytics**
Steven Cochrane, *Managing director*, **Moody's Analytics**
Nick Mansley, *Senior visiting fellow*, **Department of Land Economy, University of Cambridge**
Charles Ostroumoff, *Founding director*, **Arca Property Risk**
Robin Goodchild, **LaSalle Investment Management**
Kiran Patel, *Chief Investment Officer*, **Cordea Savills**

For further registration details, http://www.ipd.com/events/ipdspr-real-world-conference.html

Property Research in the Real World. SPR Property Research Course, 27-28 November 2014

Madingley Hall, Cambridge

Research plays a key role in businesses involved in the global property market. Effective property researchers provide advice and analysis that informs investment decisions, impacting on the bottom line. This short course will equip you with the skills you need to take your career in property research to the next level.

The course takes place at Madingley Hall, a Grade 1 listed building three miles west of Cambridge. Fees include all teaching, meals and one night's accommodation.

The course is divided into three modules:

What is Property Research: Paul McNamara

- An outline of property research
- Practical research methods
- Where property research is applied and for who
- Framing research questions in a property context
- The research and investment process

Applied Research Methods: Robin Goodchild

- Key metrics and variables
- Property data sources
- Global differences in data and definitions
- Identifying key trends and market drivers
- Introduction to valuation methods

Property Investment and Strategy: Andrew Baum

- The global property universe
- The strategy & research process: building a portfolio by country, sector, vehicle and capital structure
- Benchmarking property performance

At the end of the course you will participate in a practical team exercise. You will be using applied research methods to create a market strategy with the guidance of an industry team leader.

Key Learning Outcomes:

- Understand the role of property research
- Learn how to frame research questions
- Understand the key metrics, variables and data sources
- Learn how to identify key trends and market drivers
- Understand the research considerations in creating a strategy

SPR members are entitled to a 30% discount off the full course fee. Now open for booking.

A certificate of attendance will be given to participants who complete the course.

Social Event Reports

SPR Winter Social: King Pin Bowling, 6th February 2014

All Star Lanes, Brick Lane, London E1

30 SPR members made up the five teams which took part in this year's bowling competition. The team from CBRE came first with an impressive score of 740. Their top scorer was Simon Brown with 140 points.

Savills were not far behind in second place with a score of 654, of which Nick Gregori amassed 143 points.

But the highest individual score was posted by Simon Mallinson of RCA (the shy one in the middle of the photo above), his total of 148 earning him the honour of an elaborate cocktail provided by George Armitage – which he was obliged to down in one.

DTZ were meanwhile unable to match their 2013 winning achievement, only managing fourth place this year.

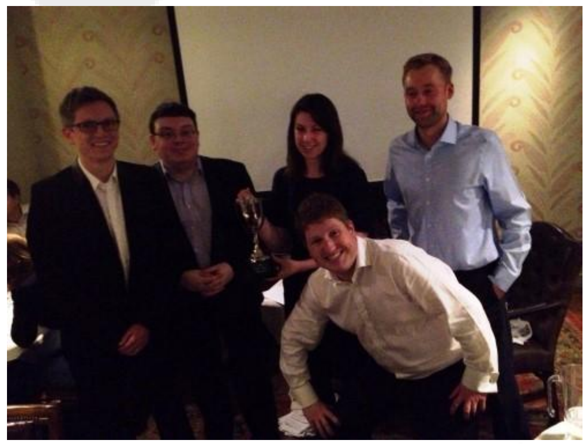
An enjoyable evening was rounded off with (more) drinks and excellent finger food in the All Star Lanes bar.

SPR Quiz Night, 20th March 2014

The Horniman At Hay's, Thames riverfront, Hay's Galleria, London SE1

The annual SPR Quiz Night once again proved a great success, with 13 teams competing fiercely and the team from Schroders walking away with the coveted SPR Quiz trophy after a tie breaker.

The Schroders team (see photo below) also received a case of wine for their efforts.



For the second year, the event was held in a private room at the Hornimans pub in Hays Galleria, near London Bridge. For the first time, drinks as well as food were provided free of charge by the society.

Andrew Marston of CBRE was responsible both for researching and delivering the questions, a role which his clear tones have now made his own.

Ping Pong Social at Bounce, 10th April 2014

Bounce, 121 Holborn, London EC1N

Described as Europe's first 'Social Ping-Pong Club' Bounce offers a new kind of night out featuring "table tennis, cocktails, high-end dining and eclectic beats".

Set over 12,000 square feet of a new Russell Sage-designed space in Holborn, it features 17 ping-pong tables, a 40 foot bar serving seasonally-inspired drinks and a raised restaurant overlooking the action.

The first SPR social event at Bounce proved popular, with 45 people signing up. Those lucky enough to be there seemed to really enjoy themselves, with lots of batting of ping pong balls, shrieks and talking. The venue was busy and really buzzing, even at the start of the event early in the evening.

The event also attracted a number of students - one of the society's current priorities - including some from CASS, the London School of Economics, London South Bank University and even as far afield as Reading.

Other organisations who participated included PMA, Aecom, CACI, JLL and CBRE.

The unique attractions of table tennis were confirmed by one female SPR member, for whom this was the first social event she had attended in nine years since joining the society.

While some people didn't take the games too seriously, others were very competitive. On future occasions it might be possible to organise a more formal competition, at least for those who want it.

Site Visit

London Gateway, 24th April 2014

London Gateway is the UK's newest container port and will ultimately cost £1.5 billion. The port and its adjoining logistics park are bigger than the City of London.

Having overcome the challenge of finding the correct entrance to the 560 acre London Gateway site, around 20 SPR members benefited from a detailed introduction to the project by Peter Ward, the Commercial Director of London Gateway.

Ward explained that this is currently the UK's largest privately funded infrastructure project and is set to create the largest logistics park in Europe. The scheme's combination of an operational container port with a logistics park, is also unique in Europe, but follows the concept pioneered in Dubai by the owners, DP World.

The port, which saw its first commercial arrival in November 2013, is able to accommodate the world's largest container ships. This has required a massive dredging programme for the Thames estuary, with much of the silt used to build up the site, which was formerly home to a Shell oil refinery. The first three of the port's six berths are now operational, as is a new dedicated rail link, which is expected to carry a third of the goods going through the port. On average six ships are now docking at the port each week.

Thames Gateway is intended to act as a hub for the whole of the UK, not just the South East, taking advantage of its position relative to the UK motorway network, which will make it better placed than either Felixstowe or Southampton, currently the country's leading ports.

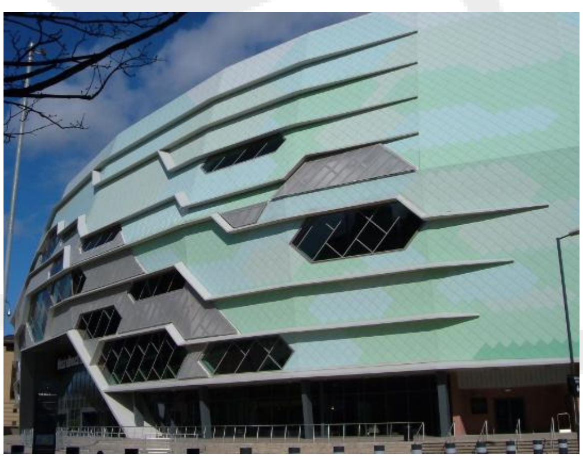
Ward emphasised that although most of the traffic passing through Thames Gateway would not use the logistics park, its 10m square feet of space would have advantages for many operators in terms of reducing costs and the time needed to reach key markets. While large retailers are expected to build their own logistics warehouses on the site, DP World is also building a common user facility which will be leased out to a variety of different operators.

After the chance to ask questions, SPR members were taken on a bus tour of the port. The highlight was the chance to view the massive cranes, which at 138m are taller than the London Eye, and to watch the trainee crane operators honing their skills. Ward noted that theirs were the first of more than 10,000 jobs that were envisaged for London Gateway, though the precise total will only be known through the course of the 10-15 year development period.

Leeds Retail and Leisure Asset Tour, 8th April 2014

SPR invited its members to Leeds for a guided tour of three transformational retail and leisure assets; Trinity Leeds, The First Direct Arena and The Light.

The tour started at **Trinity Leeds**, the largest retail and leisure scheme to open in 2013. Developed by Land Securities, the scheme has over a million sq ft of floor space and is anchored by Marks & Spencer, Topshop, Primark and the first Everyman Cinema outside of London. The scheme has a concept food area "Trinity Kitchen", hosting both permanent tenants and rotating "pop-up" vendors – which provided an ideal stop for lunch.



The second tour took in the **First Direct Arena**, a 13,500 capacity entertainment-focused arena, the first in the UK to have a fan-shaped orientation. The arena officially opened its doors on 4 September 2013 with Sir Elton John playing. The opening season also hosted The Kaiser Chiefs, Bruce Springsteen and Rod Stewart. The tour group were shown the dressing rooms, the back stage loading bays and inside a hospitality suite.

Finally there was a visit to **The Light**

Purchased by Legal & General Property in June 2013 this leisure scheme comprises over 200,000 sq ft covered space arranged over four floors. Anchored by a Vue cinema and a 147-bed Radisson Hotel there are over 40 tenants operating within the scheme which is to be positioned as a pure leisure destination.

It was interesting to see how these three assets complement each other in Leeds town centre which is set to be further boosted by the development of Victoria Gate.

Recent Technical Events

Meeting reports written by Tim Horsey unless otherwise stated

SPR Workshop: *How to raise your professional profile*, 25th February 2014

Cass Business School, 106 Bunhill Row, London EC1

Sponsored by:

This workshop, tailor-made for the SPR, was run by two professionals specialising in career transition and advice, **Jennifer Holloway** and **Janet Moran**. Holloway is founder of Spark, which specialises in personal branding for business, while Moran is owner of The CV House, an executive CV writing services provider.

Over one afternoon they provided a combination of theory, case studies, interactive exercises and discussion, explaining the importance of personal brand and the steps individuals can take the improve their companies' or their own profile. While imparting a great deal of useful information, this was done with an informality and lightness of touch that made for an enjoyable and at times inspiring meeting.

Jennifer Holloway opened the workshop by asking what those present wanted to get out of it. Responses ranged from gaining a better understanding of one's own brand, how best to use social media and networking for profile raising, to the challenges for a woman of achieving a presence in the male-dominated world of fund management.

Holloway emphasised that everyone has their own personal brand, but that each individual needs to understand, manage and promoted this to gain the maximum benefit for their career. An individual's brand may be seen as a pyramid of layers stretching from values, drivers and reputation at the top to behaviours, skills and image further down, the lower levels reflecting the more practical aspects of working identity. Although it is important to add style to substance in promoting one's brand, it is also crucial to be clear, authentic and consistent.

After a short refreshment break, Janet Moran explored the means by which individuals can develop their profile, in particular online. She gave some detailed advice on using LinkedIn, which has become a crucial tool for raising personal profiles, and stressed the importance of populating one's entry fully, using the facility for a personal summary, and completing the key words section which covers skills and attributes. Besides its role as an online CV, Moran also emphasised the usefulness of LinkedIn as a way of keeping in touch with your network. In addition she noted the value that can be gained from recommendations (not endorsements), especially if they are from respected industry figures.

In the final section of the workshop, Holloway discussed face-to-face networking, including the importance of first impressions and body language. She stressed the importance of smiling and focusing on the other person rather than yourself. After making contact it is then important to follow up and maintain the contact through further interaction.

At the end of the meeting delegates were asked to review the course and whether it had met their initial objectives. The overwhelming response was that it had been successful.

The event was followed by networking drinks at the Corney & Barrow wine bar, just round the corner from Cass Business School. This gave attendees the chance to put into practice some of the lessons they had learned on the course, while enjoying drinks and snacks provided free of charge by Cobalt Recruitment.

Joint meeting with ULI: *Design for Investment*, 6th March 2014

AECOM, MidCity Place, 71 High Holborn, London WC1

This joint ULI/SPR seminar looked at two examples of recent London developments, considering how design choices were likely to affect the performance of the buildings as investments.

The seminar focused on Kings Place, developed by Parabola Land, and Central Saint Giles, designed by Renzo Piano and owned by Legal & General.

These two apparently contrasting projects shared a number of similar characteristics. Both were built on difficult sites: **Simon Wilkes**, Head of Development at Legal & General Property, explained that L&G had owned the St Giles site since 1958, but that social problems – in part caused by their own previous building there – had blighted the location. This created the need for a radical scheme that would transform the area.

Kings Place has been built on a site with water on two sides, requiring deep basements surrounded by meter-thick concrete, according to **Peter Millican**, Director of Parabola Land Limited, the developers. The project has been something of a step into the unknown, building in a completely new location, with an unusual mix of uses: offices combined with arts space in the form of a music auditorium.

Ziona Strelitz, Director, ZZA Responsive User Environments, the design consultants for Kings Place, stressed that like Central St Giles the project is well integrated with the local community, and is designed to be a welcoming local attraction.

Both buildings have strong energy-efficiency credentials, with Central St Giles achieving a BREEAM excellent rating. **Peter Williams,** EMEA Building Engineering Leader for AECOM, the engineers, explained that this sustainability profile, incorporating a biomass boiler and a green roof for the building, was important to Camden Council when they approved the project.

He stressed that this was a high-spec project, with the overall costs 11% higher than the average for similar buildings. Much of the extra spending was concentrated on the facades, with their striking colour scheme, architects fees, and the roofscape. The lettability of the scheme was enhanced by highly-flexible floor plates, a strategy that has proved successful as the building is now fully let to tenants including NBC and Google. Attracting technology firms to occupy the building was an important element in the transformation of the local environment.

It was stated that both projects had proved highly profitable in the construction phase, with Kings Place generating a development profit of £34 million. However this is just the first stage of these buildings' investment life cycles. Healthy performance from now on will depend on the ability to maintain occupational levels. And Simon Wilkes also emphasised the importance for Central St Giles minimising depreciation over the long-term – an aspect that is critical for a long-term investor like L&G.

Joint Northern meeting with IPF: *Recovery in the Regions Gathering Pace*, 20th March 2014

Royal Bank of Scotland Plc,
1 Spinningfields Square, Manchester

Sponsored by RBS™

Meeting report by Craig Wright

Roy Beckett, Partner at Irwin Mitchell, opened the seminar, noting the difference in its title from last year's "Value in the Regions". Could the return of investment appetite be driven by a genuine improvement in underlying fundament-als or was it just down to an over-spill of capital from London?

Damian Waters, Director at the CBI, confirmed that UK regional markets were seeing an improvement in business confidence, which was now at its highest level since 1964. But while consumer spending drove the recovery in 2013, there however remains significant slack in the economy, with the unemployment rate disguising significant under-employment.

Looking ahead, Waters noted that consumer spending has so-far grown through reduced savings, a trend that cannot be sustained in the long term. The CBI therefore expects consumer spending to decelerate through 2014, before real wage growth kicks in. Meanwhile productivity continues to hold back the UK regions, and the UK's business investment now accounts for the lowest share of GDP in Europe. Stable growth will depend on businesses investing to improve efficiency and increasing their competitiveness.

Craig Barton, Director of Investment at DTZ, explained that while underlying fundamentals have improved in some regional locations over the last year, the main driver of improving investment markets was the weight of capital. This has led to big yield reductions, for example a multi-let industrial which attracted a net initial yield of 7.6% early in 2013 could now be priced at close to 6%, based on evidence from a similar asset. Purchasers in these deals are often London based and backed by international capital, a trend that has brought the yield gap between core London and the regions down to less than 5%.

Barton identified Manchester as the favoured regional market for investors, due to its position as a regional hub with unrivalled airport links, strong educational infrastructure and an extensive industrial market, while there has been no speculative office development for five years. Concluding, he stressed that the regions should outperform London in the next few years due to improving fundamentals, although the patchiness of the recovery will mean that investors need to be selective.

Allan Lockhart, Property Director at New River Retail, the retail REIT, put a positive spin on regional retail markets: regional cities account for 88% of UK retail spending but have only 80% of the shops. However, he warned against purely focusing on the difference between prime and secondary when looking at the regions. It is as important to find the right balance between competitive yields and secure income based on strong underlying retail sales. There should an attractive asset management angle while rents must be affordable for the tenants.

New River tends to invest in retail which is dependent on non-discretionary spending, which is likely to be more sustainable over the long-term. Better-performing assets also tend to be supported by diverse catchments. These cash flow factors are crucial when one considers that 80% of real estate returns come from income.

Victoria Hill, Senior Director of Real Estate Finance at RBS, considered the changing structure of the UK lending market, noting that 70% of outstanding UK debt is outside London, with 20% in the North. While the overall level of UK debt has come down significantly, £25- £40 bn per annum needs to be refinanced, and 25%

of outstanding loans having LTV ratios over 100%.

New entrants to the lending market, in particular debt funds, are undoubtedly here to stay, though they are finding it harder than expected to get established and raise funding. This is often due to difficulties understanding the dynamics of the market in terms of size of loans, risk appetite, and the balance between senior or junior tranches. CMBS, mezzanine funds and private equity are meanwhile making something of a comeback.

Looking ahead, Hill quoted the de Montfort survey, in which 50% of banks said that they would increase their existing loan book and origination, while all non-bank lenders said they would do so. However, she stressed that this was not a return to the heady days of 2007, as lenders are far more selective in terms of property fundamentals and the sustainability of cash flows.

A question and answer session followed.

Joint Seminar with IPF: *Earth, Wind and Fire: Property Investing in the Renewables Sector,* 28th March 2014

King & Wood Mallesons SJ Berwin
10 Queen Street Place, London EC4

Chair:
Kevin Mofid, BNP Paribas Real Estate

In this seminar on the potential for investing in real estate assets for renewable energy, **Peter Jones** (pictured left) of Ecolateral emphasised that the economic and political backdrop for waste re-use is as important as the state of technological development. The Landfill Tax effectively made waste re-use viable in the UK in around 2010, using the technology then available. Combined with the income that can be made from selling power to the National Grid, this has led to a massive growth in the renewables sector, which now employs 150,000 people.

However, it is difficult for investors to assess the likely risks and rewards to capital, Jones suggested, as the government's subsidy framework is constantly changing, while fossil fuel electricity generation is *de facto* also heavily subsidised. Meanwhile the planning regime for waste-to-energy developments is confused and the data available on the market is fragmented. But Jones stressed that the UK is in a good position to expand this sector, given its record of investment and its strong scientific tradition.

From the viewpoint of property investment for renewables, it is crucial to have an in-depth understanding of the technology as well as a robust financial model, according to **Steve Butler** of Sol Environment.

He examined the property context for five broad groups of energy generation technologies, which he ranked from the least to the most risky: solar, wind, biomass, anaerobic digestion and thermal conversion. Butler explained that Renewable Obligations Certificates (ROCs), effectively credit notes provided by the UK government to renewable energy producers, are currently providing good incentives based on the risk level of the investment, but that the system would shortly be altered – though probably along similar principles.

Butler went on to describe the real estate aspects of investing in each of the five areas, though keeping his greatest enthusiasm for advanced thermal treatment technologies, which convert solid waste material into gas; here he proposed that the highest risks would be matched by the highest potential investor returns.

Angus Evers of King & Wood Mallesons SJ Berwin stressed that these kinds of real estate investment have specific legal risks due to the processes taking place on the property. Owners of these assets can sometimes be responsible for tenants' acts and omissions, while if the tenant becomes insolvent the landlord may inherit certain obligations. There may also be liabilities for decommissioning once the plant reaches the end of its working life. The most important way of limiting these risks is to ensure that leases are drafted properly and that appropriate insurance is in place.

Taking the real estate investor perspective, **Ruth Hollies** suggested that investing in these areas was very much a niche activity at present and one that is largely restricted to specialist funds. She proposed that institutional involvement in this kind of real estate was unlikely to be common for another five years at least.

SPR Seminar: *Beyond Forecasting: How to make better-informed decisions about the future*, 15th May 2014

DTZ, 125 Old Broad Street, London EC2

Sponsored by

The Financial Crisis and its economic consequences have raised serious questions about the value of real estate forecasting, and a number of SPR meetings have confronted this issue over recent years. These have tended to acknowledge the technical difficulties in forecasting, particularly in rapidly changing markets associated with catastrophic 'Black Swan' events.

The aim of this latest seminar was to move the debate forward from this rather negative position by considering the options now available to real estate market players, not just from the viewpoint of formal modelling techniques, but also looking at the possibilities for anticipating structural shifts in the demand for real estate assets.

Rachael Unsworth of Future Directions, who chaired the meeting, opened by challenging the panellists and the audience to answer a number of questions relating not just to forecasting but to the wider role of - property research. On one hand she focused on the need for those involved in forecasting to maintain their independence from clients' interests, asking whether "we really believe the view of the future we purvey". On the other she wondered if researchers should play a bigger role in shaping the cities of the future, taking a rather more proactive role than they have considered appropriate in the past.

Andrew Burrell, JLL and **Rob Harris** (pictured left) from Ramidus Consulting proceeded to give formal presentations on possible future approaches. Burrell emphasised the value of the traditional approach to forecasting, given that the recent past was an unusually volatile period that most agreed was unlikely to be repeated in the near future. Investors need to have a rational framework within which to make decisions and formal forecasting allows all the assumptions to be laid out clearly. However he conceded the importance of recognising the difficulty of forecasting capital values, as yields depend largely on capital market flows, which are notoriously difficult to model.

Structural step changes are not however confined to capital markets but can also have a dramatic impact on occupational demand, albeit over a longer time horizon. This theme was taken up by Rob Harris, who preferred to talk about "casting forward" rather than forecasting. His approach is to analyse the underlying drivers of occupier demand – business sector growth and locational preferences – relying on in-depth surveys of occupational trends and opinions. Using a number of case studies, Harris showed that this kind of work has proved very useful in a planning context. But he challenged investors to move further in this direction, considering that property investment is likely to be a long-term decision.

Speaking as a panellist, **Martin Beck** from Oxford Economics suggested that formal forecasting should be seen as "not so much about the precise destination you are going to reach, but more about the terrain and the direction of travel," while inputs to value changes, for instance interest rates, would always be difficult to model. **Fergus Hicks** of DTZ agreed, stressing the need to use forecasts intelligently and to realise that they would be unlikely to work well in periods of rapid structural change. **Christine Whitehead**, LSE, echoed this view, proposing that market players should be integrating their understanding – based on past experience – of when rapid downturns are likely to occur. But she also stressed the need for greater transparency from forecasters, so that users can see the assumptions that have been made.

The meeting was rounded off with some forthright views from the audience, reflecting the importance of this topic for property researchers. While **Tony Key**, Cass Business School, suggested that the inaccuracy of forecasts was encouraging as it reflected an increasingly efficient real estate market, **Malcolm Frodsham** proposed that property forecasting should be open to improvement in much the same way as weather forecasting has been over the past century. In part this would mean improving the data available in the industry, for example on effective rents and on bank lending. Others stressed the conflicted position in which forecasters often find themselves. **Robin Goodchild** of LaSalle, emphasising the tendency toward herd behaviour, noted that "there's a huge pressure not to be wrong on your own." **Nigel Roberts** of Hermes suggested that real estate managers had wanted forecasts partly as a way of gaining credibility for the asset class, while **Hans Vrensen**, DTZ, saw this as one of the influences behind the movement towards quarterly forecasting.

Rob Harris confessed to finding the discussion somewhat disconcerting, as there seemed little willingness to consider new approaches. **Ruth Hollies**, BNP Paribas Real Estate, suggested there was potential for greater integration of the two approaches, but Burrell retorted that these would have to be quantified in some way or would be seen as another form of "judgment".

SPR/IPF/INREV Joint Event - Nick Tyrrell Memorial Seminar: *A Global Perspective on Pension Fund Investments in Real Estate*, 22nd May 2014

Lawrence Graham, 4 More London Place, London SE1

Sponsored by Lawrence Graham

Nils Kok presented the findings of his paper, which won the second Nick Tyrrell Research Prize, jointly authored with **Piet Eichholtz** and **Alexandar Andonov**, all from Maastricht University. At the start of this joint SPR, IPF and INREV seminar, **Anne Koeman** of LaSalle Investment Management and secretary of the prize presented the prize in front of an audience of more than 100 property researchers and real estate practitioners from across Europe. **Neil Turner** of Schroders, chairing the meeting, observed that the prize once again attracted a large number of entries in 2014, with May 31 the closing date for submissions.

In his presentation, Kok explained that the paper, entitled "*A Global Perspective on Pension Fund Investments in Real Estate*", employed a unique set of data assembled for the Canadian-based CEM survey, to study the performance of a global panel of almost 1,000 pension funds over a period of 20 years.

The data allowed the research to investigate the differences in pension fund real estate performance between direct holdings, held within unlisted vehicles and in listed real estate equities. It was also possible to distinguish internal and external management (which dominated the sample), and the size of pension fund, with the larger ones more likely to hold real estate and to manage that holding internally.

Over the period 1990-2007, these pension funds saw an average return of 7.0% per year from their real estate investments, with real estate equity holdings returning an impressive 10.9%. Direct holdings and those in unlisted vehicles together returned 6.9%, of which internally-managed holdings performed most strongly, returning 7.8%, significantly outstripping externally-managed funds and funds of funds. Kok noted that larger pension funds tended to perform more strongly, with smaller funds suffering in particular from their use of multi-manager vehicles, the weakest-returning management category.

The research also shed particularly interesting light on fees, with US funds generally seeing higher levels than their European or Australian counterparts, while larger portfolios were seen to attract lower fees – perhaps indicating the greater bargaining power wielded by bigger institutions. In terms of the type of vehicle used to access real estate, it was clear that funds of funds charged most, reflecting the multi-layered nature of this approach to management.

Andrew Smith, who recently joined Mill Group, was the first of the four panellists to discuss the findings. He noted that the fund management business has undergone significant change over the period covered by this research, which includes the years when the use of debt became more acceptable to pension funds, and more recently a time when vehicles have achieved better alignment with investors' requirements. Reflecting on the research, he wondered whether the full costs of managing internally had been accounted for in the analysis.

Kiran Patel of Cordea Savills and **Mahdi Mokrane** (pictured) of LaSalle Investment Management, also speaking on the panel, both noted the very wide range of nationalities and fund structures underlying the findings of this research. This was likely to disguise many different strategies and formats of input data - for example based on different property valuation methods - which could have influenced the performance outcomes. Differences in return could also have arisen from varying levels of leverage within funds, as well as their vintage. **Boris van der Gijp**, Director Strategy & Research at Syntrus Achmea Real Estate & Finance, the final panel member, praised the research for increasing transparency across both direct and indirect real estate markets, something which was highly valued by international investors in the asset class.

In the audience discussion that followed, **Neil Harris** of GIC said that he was shocked by some of the findings, particularly the relatively weak fund of funds performance, though he suspected that there might be big variations amongst this group. He also stressed that although the variation in fee levels was striking, investors should ensure that their main focus was on overall performance.