

Coming soon...

## ***SPR Golf Day, Tuesday 23<sup>rd</sup> June***

### **The highlight of the sporting summer**



#### **Aldenham Golf and Country Club**

Following the great success of last year's event, you are cordially invited to the SPR Golf Day 2009. The day as a whole offers the opportunity for golfers of **all levels of experience and ability** to enjoy great facilities, food and refreshments with fellow property research professionals.

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## ***Property Derivatives Seminar II*** **2<sup>nd</sup> July 2009**

The SPR's held its first property derivatives seminar of 2009 in April. This follow-up meeting on **Property Derivatives Pricing** will take place at Legal & General Property, One Coleman Street, London, EC2.

The meeting will provide an introduction to the theory and practice of pricing for the most widely used property derivative instruments – including an examination of the relationship with performance forecasts.

Chair: **Iain Reid**, Protego Real Estate Investors

Speakers:

**Colin Lizieri**, University of Reading

**Christophe Cuny**, Eurohypo

**Stuart Heath/Charles Ostroumoff**, EUREX

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June 23rd 2009

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#### **IPD RealWorld Conference in association with SPR**

***London***

September 10<sup>th</sup> 2009

#### **Property Derivatives Seminar II**

***Legal & General Property, 1 Coleman Street, London, EC2***

July 2<sup>nd</sup> 2009

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***Legal & General Investment Management, 1 Coleman Street, London EC2***

January 29<sup>th</sup> 2009

#### **SPR Research Meeting**

***The challenges facing the UK Retail property market in 2009***

***Grosvenor, 70 Grosvenor Street, London W1***

March 5<sup>th</sup> 2009

#### **IPF/SPR Joint Research Meeting**

***The Outlook for Global Property, 2009***

***Hammerson, 10 Grosvenor Street, London W1***

March 19<sup>th</sup> 2009

#### **Property Derivatives Seminar I**

***Development of Property Derivatives and their Integration into Investment Strategy***

***M&G Investments, Governors House, Laurence Pountney Hill, London, EC4***

April 20<sup>th</sup> 2009

A full report of this event will be included in the next SPR newsletter.

### **Recent Site Visit:**

#### **Westfield Shopping Centre**

April 15<sup>th</sup> 2009

## Coming Events

### SPR Golf Day 2009

**Aldenham Golf Club, Tuesday 23rd June 2009**

Following the great success of last year's event, plans are well underway for the SPR Golf Day 2009. This year's course – Aldenham Golf Club - offers some of the most attractive, challenging and enjoyable golf in and around Greater London.

The day as a whole offers the opportunity for golfers of **all levels of experience and ability** to enjoy great facilities, food and refreshments with fellow property research professionals.

[www.aldenhamgolfclub.co.uk](http://www.aldenhamgolfclub.co.uk)

As in previous years, participants will be able to enjoy:

**Coffee and bacon baguettes on arrival**  
**9 hole pairs competition**  
**Lunch**  
**18 hole individual and team competition**  
**Awards presentation**

Prizes will be awarded to the winners of the 9 hole pairs competition, winners and runners up of the 18 hole competition and also for the longest drive and closest to the pin. There is, of course, the prestigious SPR Trophy at stake for the winner of the 18 hole as well as several team prizes.

Due to the success of the team format last year, the pricing for the day is designed to encourage booking in teams. However, you do not have to be part of a team to enter. Due to the kind subsidy provided by the SPR and donations from sponsors (yet to be announced), the prices per player are as follows:

**Teams of 4 or more - £30 per person**  
**Individuals - £32.50 per person**

**To book your place on the day or for further details, please get in touch through the contact details below.** As ever, please feel welcome to invite colleagues or friends.

If you or your employer would be interested in the benefits of sponsoring the event, please contact either of us for details of the range of options available.

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## **SPR Summer Drinks**

**July 16th 2009, Balls Brothers, Hays Galleria, London SE1**

**Spend a convivial evening in the sunshine\* with your fellow property researchers...**



Balls Brothers, Hays Galleria

\* climate conditions may be subject to last minute change

## **IPD RealWorld Conference 2009 in association with SPR**

**10<sup>th</sup> September, Norton Rose, 3 More London Riverside, London SE1**



As in previous years, the 2009 IPD *RealWorld* Conference is being organised with programme input from the SPR.

The content of this year's event focuses on **occupational markets** and their implications for property investment. IPD says:

"Property investors are often accused of not caring about tenants: they certainly get a pretty poor rating for client service in The RICS' Occupier Satisfaction Index Survey. So the IPD *RealWorld* conference ask what we, as researchers, know about occupiers, and how to make them happy – and whether having happy occupiers pays back in investment performance. Expert speakers will review what we do and don't know about the businesses that pay the rent, the key drivers of occupational change in each sector of the market, and how to account for tenant satisfaction in cash flow models. All these issues, and you, will contribute to our concluding debate on whether the property industry gives tenants a good service, or has to try harder.

Whilst there is an obvious linkage with investment strategies and tactics, this year the IPD *RealWorld* conference turns its attention to the group who are the ultimate providers of property incomes – the occupiers. Who are the key customer segments for institutional grade property? What is happening to their businesses? How are their needs and requirements changing? How reliable are the key indicators of demand? Focusing on the changing dynamics of the occupier market, this conference will provide the opportunity for an in-depth evaluation of this, often neglected aspect of market performance."

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## **Recent Social Event**

### **SPR Quiz Night**

**The City Flogger, Fen Court, 120 Fenchurch Street, London EC3, Wednesday 25<sup>th</sup> March 2009**

More than 100 members of the society gathered at the City Flogger wine bar to take part in the traditional Spring quiz night. The 20 tables available were fully occupied, and a buffet was provided at half time to allow the teams to recharge their mental batteries.

As usual a high level of competitiveness was in evidence, with quizmaster Mark Charlton bringing the perfect combination of humour and firmness to the proceedings.

This year the SPR Quiz Trophy went to the King Sturge team, who pipped Drivers Jonas and Atisreal (last year's winners) at the post into joint second place.



The triumphant King Sturge team

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## **Recent Technical Events**

### **IPF/SPR Joint Research Meeting**

***The Outlook for Property and the Economy, 2009***

**14<sup>th</sup> January 2009, King's College, 150 Stamford Street, London SE1**

**James Knightly**, Senior Economist at ING, began the event by placing the UK economy in a global context. He considered that in many ways the UK is "the most worrying economy", due to the size of the recent housing bubble and the high debt level compared to other leading nations – which now have to go through the full process of unwinding.

In his presentation, which was entitled "Outside the Comfort Zone", he suggested that a severe recession comparable to that of the 1980s was likely, with ING forecasting a fall in output of 3.1% in 2009, despite the relatively positive policy response being taken by governments around the world. The UK's reliance on financial services, which account for 21% of national income, make it particularly exposed in this crisis, and he believes the effect of a rapidly declining sterling is unlikely to have much positive impact on the economy in the short term.

**John Betteridge**, Investment Director at M&G, responsible for asset allocation strategies, suggested that UK property remained over-valued, while both equities and credit looked cheap by long-run standards. "Investors will now be requiring higher rates

of return from risky assets than they did in the past," he said, "and therefore the current yield on property makes it still look relatively expensive." As an asset allocator he had concerns about the true liquidity of property, its suitability for supporting debt, and the accuracy of investment valuations. Betteridge also pointed to the inevitability of additional regulation in the wake of recent market turmoil, the ultimate implications of which were as yet difficult to predict.

**Bill Hughes**, Managing Director of Legal & General Property, suggested that UK property values as shown by market indices, still had a further 15-20% to fall at the start of the year before they reflected the bottom of the market. He argued that some of the transactions taking place in the market were in fact 15-20% below valuations, and that these reflected the values to which indices were likely ultimately to fall. "Direct market indices have about 20% to fall," he said, "but transactions are already getting there."



Hughes opined that the process of bank deleveraging was likely to be the most important factor determining the speed at which values would fall through the year. "There is unlikely to be aggressive mass selling of property through 2009," he said, "simply because the banks cannot afford to do that. However there is a big concern about HBOS and Lloyds TSB, the two leading lenders to property, which also have relatively weak balance sheets. It is difficult to see how they can reduce leverage without raising serious volumes of new capital from government or the market."

He also suggested that the timing of market recovery would be dependent on the success of the deleveraging process in the banking sector as a whole. However for those investors with equity to spend, there would be opportunities to buy at levels which would provide long-term value prospects. In particular properties with bond-like qualities – such as those with long leases and strong covenants – would be likely to perform best through 2009.

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## **SPR Career Support Seminar**

**Thursday 29<sup>th</sup> January, Legal & General Investment Management, 1 Coleman Street, London EC2**

In uncertain times with unemployment rising among property researchers, the SPR organised this seminar to help members improve their job seeking skills. The event was aimed at supporting members at risk from redundancy, but was also intended to be useful for all those wishing to enhance their own personal marketability.

**Timothy Rowe** of Cobalt Recruitment, the specialist building and property recruiter, began the seminar by explaining how to produce an effective CV which would enhance the candidate's image, and also gave some tips on using employment agencies.

He emphasised that the CV is the first stage in the candidate's effort to sell him or herself, and as such should be treated as a marketing document. Marketing might not come naturally to people mainly involved in research, but creating an exciting impression should be the goal of any CV. This means emphasising strengths through a list of concrete achievements, and making a clear mission statement of where your career is heading. Strong CVs will include personal interests, and will not omit any key periods during the career.

Rowe believes that position-seekers should use recruitment agencies sparingly, restricting themselves to specialists in their chosen field. He emphasised the importance of

managing agencies to ensure they come up with the right sort of opportunities, and of networking with recruitment consultants throughout one's career, as researchers are not always on head-hunters' radar.

**Melanie Binks**, Head of Human Resources at Atisreal, stressed that in the current economic environment it usually makes sense for employees to try to optimise their existing workplace experience in order to stay within their present organisations. In some cases this might mean taking secondments or even sabbaticals in preference to entering the job market. Firms often prefer to take people in a contract role rather than on their books, while internal candidates are likely to be preferred to external ones when positions fall vacant.

She went on to describe the selection process and in particular the psychometric tests increasingly favoured by most larger-scale employers as the competition for places intensifies. It is very worthwhile to practice these tests beforehand – many are set up by SHL and can be tried out on their website, [www.shl.com](http://www.shl.com). Competency-based interviews are also now commonly used to help identify those work behaviours that organisations are looking for. These often relate to planning, communication and teamwork, and will need to be met with examples from the applicant's career. Recruitment decisions are now taking a lot longer to reach, and the process may last up to three months.

**Amanda Murray** of Distinctive Imprint Worldwide explored the ways in which candidates can present themselves in the interview process so as to achieve a positive impact. She looked at the idea of 'emotional leakage' in which people reveal their feelings by body movements. These 'tells' can be picked up by recruiters, so it is important to control them in order to sell yourself well. 'Power-tells' can be developed to produce a more dominant image. Examples of these techniques were worked through in the role-play session at the end of the meeting.

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## **SPR Research Meeting**

***The challenges facing the UK Retail property market in 2009***  
**Thursday March 5<sup>th</sup>, Grosvenor, 70 Grosvenor Street, London W1**

The meeting was chaired by **Michael Moran**, Moran Research & Consultancy Ltd.

**Neil Blake**, Director of Economic Analysis at Oxford Economics, spoke about the economic backcloth: the 'Credit Crunch', the ongoing recession and its wider implications. Rather surprisingly, the start of 2009 has seen some conflicting evidence on retail consumption. Office of National Statistics sales growth has stayed positive while the British Retail Consortium's measure of retail sales bounced back in January.

However consumer confidence remains very weak with the impact of rising unemployment and limited credit availability – even if real incomes are on balance holding up as debt servicing and fuel bills fall. Blake believes this situation will only start to improve in 2010 when the first signs of recovery should appear. He sees this recession as likely to prove worse than that of the 1990s but not as bad as the 1980s. Amongst retailers he thinks that discounters are likely to fare best as demand at the lower end of the spectrum should hold up most strongly.



**Ken Gunn**, Senior Consultant at FSP Retail began by explaining his organisation's approach to monitoring the health of retail firms, with more than 1500 retailers' published accounts analysed to determine who are likely to be the winners and losers over the

months to come. He focused particularly on the DIUS P<sub>2</sub> Wealth Creation Efficiency Ratio, which provides a measure of value added compared to costs.

Based on this analysis nearly a third of UK retailers are currently in a 'very worrying' condition, with a further 38% keeping their 'heads above water'. Thus only a third of retailers are on balance in a healthy financial state – amongst them River Island, White Stuff, American Apparel, Ted Baker, Republic and Joules. The types of retailer most at risk are in the food and clothing/footwear sectors, whilst fewer of those businesses with larger stores are to be found in the 'very worrying' group. This kind of analysis can also be used to identify the towns most at risk, which included Blackpool, Solihull, Chelmsford and Chester, suggesting that some relatively affluent locations could be under threat. And within portfolios investors will inevitably have both strengths and weaknesses.

**John Duxbury**, Director of Asset Management, PRUPIM, surveyed the weak rental markets in prospect for 2009 and 2010, with recovery only starting to become apparent in 2011. He sees property managers coming under increasing pressure from new tenants to provide short-term deals and monthly payment regimes. These can mask the true vacancy and rental levels prevailing in the current climate. There appears to be a disconnect between how busy shopping centres look in terms of footfall and the amount of money being spent; perhaps this means that some of the more optimistic views mentioned by Neil Blake could be justified.

Letting deals are still taking place, as the strongest retailers take their chance to cherry pick the best locations. The demise of Woolworths has brought some large spaces in prime pitches onto the market, while a number of occupiers are taking the opportunity to consolidate their holdings. Many want to see capital payments for fitting out included in the deal as they are finding it difficult to raise finance, and turnover rents are becoming increasingly popular. Effective rental values are being obscured by the headline rents being paid – these may include significant concessions.

Despite all the bad news in the media, there are important structural changes taking place in retailing, in particular the increasing dominance of supermarkets, which have now moved far beyond their traditional focus on food. This is being paralleled by the continuing rise of out-of-town shopping.

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## **Joint SPR/IPF Research Meeting** ***The Outlook for Global Property, 2009*** **19<sup>th</sup> March 2009, Hammerson, 10 Grosvenor Street, London W1**

**Tim Bellman**, of ING began the event by setting out the context for global investment property, which is split almost equally by value – according to best estimates – between America, Europe and Asia. Quoting the IPD Global Index, Bellman noted that for all its recent declines, real estate remains where it theoretically should sit in terms of long-term investment performance, between equities and bonds.

Although this is undoubtedly the most synchronised global recession ever witnessed, Bellman expects the emerging BRIC economies to hold up relatively well. Globally deflation is a big threat, and this is likely to impact to the detriment of property as the asset class does not tend to fare well in these sorts of conditions. As economies recover bond rates will be likely to rise, which may imply a protracted downturn for property. In sector terms he sees retail and industrial set to be more resilient, with offices generally prone to more pronounced cyclical patterns of performance.



**Jeff Jacobson**, LaSalle Investment Management, believes that despite the obvious weakness of US economic prospects, appraised real estate values there still have a way to fall – since valuation practice is “less robust” than in the UK in particular. He believes that the NCREIF index will hit a long-run low point later in 2009, with income yields set to rise considerably above their current net level of 5-6%.



Jacobson considers that the US economy is likely to contract less than Europe through the year, but unemployment may still reach 10%, a level comparable to that seen during the Great Depression of the 1930s. The housing market should also bottom out during the year, although credit availability is likely to remain weak – a factor which is influencing the weakness of the commercial sector. Activity levels are sluggish, and there are not the forced sellers from open-ended funds

seen in some parts of Europe.

**Neil Turner**, Head of European Property at Schroders, sees the banks as key players in determining how European property investments will fare in the years to come. For the first time in the modern era, there is the possibility that the income streams flowing to property investors may decline, not just through vacancies but through falling rents with leases getting shorter and becoming less aligned to the investor’s interest. This may be exacerbated by the potentially negative impact of indexed rents in some continental European countries, ultimately meaning that for more highly geared investors there may be difficulties servicing debt interest. And in this case the flexibility of lending institutions may be tested to destruction.

On the positive side, the supply of property in European markets is relatively constrained. The problems, he emphasised, are all on the demand side, where the effectiveness of the policy response by governments is by no means certain, particularly in terms of the process of deleveraging investments and economies over the longer run. There is a significant body of opinion that believes equities prices could fall a further 50% if business earnings fail to pick up. European office market yields are starting to look good value, but demand for such property will ultimately be linked to the fate of bond yields.

Tim Bellman, who concluded the meeting by commenting on Asian property prospects, suggested that these markets perhaps represented a leveraged play on global growth: the strong performance of recent years is now likely to be followed by a more extreme downside. Long-term trends for the region are undoubtedly favourable, but as yet emerging Asia has been a relatively small market for property investment; Japan continues to dominate the continent, and its predominant JREIT structure has been afflicted by heavy forced-selling in recent months. For the continent as a whole, big picture political risks have started to emerge as an unwelcome adjunct to the economic turmoil – as failing economies are likely to precipitate governmental changes.

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## **Recent Site Visit**

### **Westfield Shopping Centre, London, 15<sup>th</sup> April 2009**

CB Richard Ellis, letting agents for the scheme, kindly hosted this SPR visit, which was enjoyed by some 30 members. The visit began with a presentation on the centre by Neil Milroy.

This newly opened shopping centre in Shepherds Bush, west London, is one of the most recent of Westfield’s 119 centres around the world, most of which are in the US and Australia, the company’s country of origin. It is one of the largest centres in the UK,

incorporating some 270 retailers, and over 50 catering outlets. The centre's managers are expecting 21 million visitors during 2009.



Westfield's principal catchment area is western London, but CB Richard Ellis suggested that its "core battleground" for gaining shoppers is the West End. This is reflected in the arrangement of tenants within the centre into six distinct zones including a 'Carnaby Street' section, a 'High Street' area and a kids' mall. One of the main features is 'The Village', a stylish area exclusively occupied by designer outlets, similar to those one might expect to see in Bond Street.

The centre has a number of unique features, including the undulating roof and ceiling, which lets in a great deal of natural light. This is enhanced by the broad design of the malls, allowing daylight to reach right down into the ground level, despite the fact that the upper floor stores have a very high ceiling height of 8.5m. This height allows for many of the larger tenants, such as Next and H&M, to incorporate mezzanine floors in their space.

Most of the key fashion tenants are to be found on the upper floor, with some like Timberland having artistically designed fascias. The ground level includes a large atrium which is used for one-off events that are intended to give the main entrance to the centre a constant buzz.

CB Richard Ellis explained that the centre is aimed at an up-market clientele, with 60% of the spend deriving from the "urban prosperity" social grouping, and within this 44% from "educated urbanites". Around four-fifths of visitors so far are arriving by public transport, an even higher proportion than was originally anticipated when Shepherds Bush underground and over-ground links were upgraded for Westfield's launch.

In the Q&A session which followed their talk, CB Richard Ellis revealed that the average rent free period being given to tenants at the time of the centre's opening was 18 months. However, except in the Village, none of the leases apply turnover rents, and the level of voids has been kept down to 1-2%. Generally the letting agents were upbeat about the centre's prospects, an impression which was strengthened by the tour of the building which followed – given that it was a Wednesday afternoon the numbers of shoppers appeared encouraging.

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