SPR Newsletter
February 2014

In this Newsletter:

Stationers' Hall, Venue for the 2013 Annual Dinner

Society of Property Researchers

2014 Upcoming Events

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

All Star Lanes, Brick Lane, London E1 6QL

Whether you're a king-pin professional or just want to give it a go for the first time, come down to Brick Lane in February.

There will be food and drinks in the bar afterwards, giving you the chance to regale researcher colleagues with your bowling stories. In particular, if you are a new SPR member, this is a great way to get to know some of your fellow members.

How to raise your professional profile, 25th February 2014

Cass Business School, 106 Bunhill Row, London EC1; 2.00pm

Sponsored by: cobalt recruitment

Whether you aim to raise your own profile, that of the company your work for, or both, this workshop should be for you. Every professional needs to be aware how their professional profile is judged in the industry. Nowadays you need to have a clear on-line presence besides networking in the more traditional sense. The way in which you present yourself or your company and the channels you should use have changed drastically in recent times.

SPR offers its members the opportunity to attend a tailor-made workshop run by two professionals specialising in career transition and advice, Jennifer Holloway and Janet Moran. Jennifer and Janet will be educating attendees about the concept of personal brand, the benefits of defining and promoting who you are, what you have to offer and how you go about it in the most effective manner.

During the afternoon - 14.00-18.00 - Janet and Jennifer will interactively provide you with a blend of theory, case studies, exercises, discussion and material to take away.
Attendance is strictly limited to 40 attendees only at the hugely subsidised cost set at just £10 per person.

Additionally, **networking drinks will be held in the Corney & Barrow at City Point (EC2Y 9HT) from 6-8pm, open to all SPR members** (**drinks free of charge, courtesy of Cobalt Recruitment**). The drinks will enable those attending the workshop to put into practice what they learned earlier. Other SPR members and Cass Real Estate students looking to network are also invited to attend. Please notify Fiona Trott if you are attending to help us estimate numbers.

To book the seminar or the networking drinks, please email Fiona Trott. Payment for the seminar to be received by 11th February.

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

AECOM, MidCity Place, 4th Floor 71 High Holborn London WC1; 6.00pm

Building design refers to the architectural, engineering and technical aspects of real estate development. It is a complex task which does not include a P&L or cash flow analysis at the outset. In this joint ULI/SPR seminar, we will look at two examples of recent London developments and aim to understand how the choices in terms of design affected the performance of the building as an investment.

We will look at Kings Place, developed by Parabola Land Ltd, and Central Saint Giles, designed by Renzo Piano and owned by Legal & General. Speaking from different perspectives, each speaker will present the design, the implementation and the success of the two schemes. In a debate that draws the viewpoints of architects, engineers, developers, occupiers and real estate fund managers, the seminar will seek to identify lessons learnt in the development of these two new buildings.

Chair:
Chris Choa, *AECOM Principal & Executive Board Member, Urban Land Institute*

Speakers:
Simon Wilkes, *Head of Development, Legal & General Property*
Peter Williams, *EMEA Building Engineering Leader for AECOM*
Ziona Strelitz, *Director, ZZA Responsive User Environments*
Peter Millican, *Director, Parabola Land Limited*

Registration will take place from 17.30 and networking drinks will be available from 19.00

Recovery in the regions gathering pace: Joint Northern meeting with IPF, 20th March 2014

Royal Bank of Scotland, 1 Spinningfields Square, Manchester; 4.00pm

Sponsored by: RBS

Chair:
Roy Beckett - *Partner at Irwin Mitchell LLP*

Speakers:
Victoria Hill - *Senior Director, Real Estate Finance, Royal Bank of Scotland Plc*
Other speakers tbc

Registration and welcome drinks from 16.00

Earth, Wind and Fire: Property Investing in the Renewables Sector. Joint IPF/SPR Seminar, 28th March 2014

King & Wood Mallesons SJ Berwin, 10 Queen Street Place, London EC4, 8.30am

Over the last 5 years much has been made of the potential for property investors to make significant returns from the renewables sector. However, we have not yet seen the real emergence of a new asset class. In this seminar, we examine how the energy crisis is driving the sector, how policy and planning are reacting to the sector and as a result what property requirements companies in the sector may have.

Chair: Kevin Mofid, BNP Paribas Real Estate

Speakers:
Peter Jones, Ecolateral Ltd.
Angus Evers, King & Wood Mallesons SJ Berwin
Steve Butler, Sol Environment Ltd.

Panel:
As above but to also include a Fund Manager active in the sector

Registration from 8.00am.

CPD: Qualifies for 1.5 hours' informal CPD

Bounce, 10th April 2014

Bounce, 121 Holborn, London EC1; 6.30pm

Come and enjoy a social event at Bounce, the home of ping pong:
http://www.bouncepingpong.com/

Whether you are a table tennis champion, a beginner or a spectator, come and have a fun evening with your fellow researchers and enjoy a chance to network.
If you would prefer just to spectate and enjoy the refreshments, you are also welcome!

2013 Social Event Reports

SPR Summer Drinks, 11th July

Balls Brothers, Hay's Galleria,
Tooley Street, London SE1

Back in the summer the SPR held its traditional evening social event. As always, the free drinks and food attracted a large swathe of the Society, from new members through to seasoned real estate researchers.

The location at Balls Brothers, under the canopy at Hays Galleria near London Bridge, ensured a dry evening for all, despite the rain outside (yes, even then).

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REAL CAPITAL ANALYTICS

SPR Golf Day, 13th September 2013

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Report by Craig Wright

The 2013 SPR Golf Day, held at the Silvermere Club in leafy Surrey, was another very enjoyable event in what has now become a special feature of the SPR social calendar stretching back many years. This time 30 SPR golfers met for bacon rolls and coffee on a challenging September morning.

In a popular change of format, the group split into two to dust off the cobwebs in the short game area and on the driving range. Professional PGA coaches were on hand to offer tips and advice to make sure everyone hit the ground running on the first tee.

Before a club had been swung in anger, favourites for the title included Patrick Bone of Schroders, with his snug Ian Poulter outfit, Marc Espinet, partner at PMA, renowned for his lengthy drives and precision putting and finally defending champion Neil Chegwidden, a solid all-rounder with a “roomy” handicap of 11!

However, all bets were off when the heavens opened up just as the first group teed off. The inclement weather inevitably led to some early casualties to the out of bounds areas on both sides of the fairway. Nevertheless, with most golfers aided by umbrellas, clad in waterproofs and armed with a cheery demeanour everyone made it off onto the course.

From the safety of the bar, the final groups were observed playing over a lake onto the 18th green, with every splash cheered on merrily. As the groups returned with their ineligible soggy scorecards, it was clear that the weather and the last two holes over water had tested the whole field.

A number of prizes were awarded for exceptional efforts – both good and bad. For hitting the water more times than the fairway, James Stevens received the wooden spoon - rather appropriately a crocodile driver head-cover. However, with a remarkable round of golf in very challenging conditions, Colin Chan of Jones Lang LaSalle triumphed with a remarkable Stableford score of 42 and took home the prestigious crystal trophy.

Without the kind support of the SPR and the sponsors Real Capital Analytics and Property Data, the day would not have been such a great success. For that support and for their contribution on the day we are very grateful to Joseph Kelly, Simon Mallinson and Chris Bullock.

Details of the 2014 SPR Golf Day will be announced soon.

SPR Annual Dinner, 7th November 2013

Stationers' Hall, Ave Maria Lane, London EC4

This year the SPR Annual Dinner moved to a prestigious new location in the heart of the City of London. The Livery Company building, which dates back to the 18th Century, hosted 156 SPR members for this pre-Christmas celebration. Nine leading property research organisations bought tables for their own staff and invited guests.

Francis Salway, formerly CEO of Land Securities, gave the after-dinner speech, taking the subject of how property research can be used to make better investment decisions.

The event also saw Robin Goodchild, President of the society, award an SPR Fellowship to Keith Steventon, for many years Head of Research at BNP Paribas and Weatherall Green & Smith. Steventon amused his audience with anecdotes dating back to the early days of the property research profession in the 1980s, a time when it rarely contributed to investment decisions.

The raffle, which took place at the end of the dinner, raised £1,177 for the National Council of Palliative Care.

The event was sponsored by:

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2013 Site Visit

Battersea Power Station, 11th September 2013

The SPR went on a tour of Battersea Power Station on 11th September last year. Over 20 SPR members were given the opportunity to view the site just days before construction on the iconic development started.

The first phase of the redevelopment of the power station, which should be finished by 2016, is intended to create an urban village that will be a self-sustaining community in its own right. As well as the 850 apartments in 8 blocks, Circus West – the first phase of the development – will have a range of amenities and services. The ground floor podium will be surrounded by 10 restaurants, of various styles and types, from informal and family dining to high-end chains and destination eateries and bars. There will also be a fresh food/convenience store, a Power Station Design shop, art galleries, and a crèche. In addition the development will include a boutique theatre, 35,000 sq.ft. of creative business studios and a 15,000 sq.ft. gym, pool and health spa.

On the visit, SPR members were given the opportunity to ascend the crane lift and stand at the top of one of the chimneys with stunning views of London. We were also given the chance to visit the control rooms, untouched since the power station was decommissioned and also shown the plans for the retail led development within the actual station.

Following the tour members were given a short presentation by the team and the opportunity to ask questions.

The whole development is expected to cost £8bn and to take ten years to complete.

As part of the redevelopment, the four famous chimneys are to be demolished and replaced by replicas.

The 1938 power station is on the English Heritage Buildings at Risk register, and has been awaiting refurbishment since being taken out of service in 1983.

2013 Recent Technical Events

Meeting reports written by Tim Horsey unless otherwise stated

SPR/APL Joint Seminar: *Real Estate Lending: evolving trends, challenges and solutions,* 10th July 2013

Taylor Wessing LLP, 5 New Street Square, London EC4

Sponsored by: TaylorWessing

In association with: apl The Association of Property Lenders

Tony Key, Professor of Real Estate Economics at Cass Business School, set the scene for the discussion with his view of the 'Commercial real estate leverage cycle', in which he described how the relationship between lending to real estate and its price develop over time, based on the experience of the UK market between 1975 and the present day. In the last two such cycles lending has risen for ten years and then fallen for five, including a short period at the end of each boom when market pricing declined sharply while debt continued to expand. Key called this crisis period a 'car crash', extending his analogy of a motor vehicle without adequate controls; he argued that this has led to 'horrid market timing in the last two upswings', with peaks of lending lagging the relevant market indicators by as much as four years.

However Key noted that the data currently available did not give any precise indication of the relationship between debt levels and pricing. This was principally due to the lack of information available from banks on who was borrowing and the type of debt they were using; banks could improve this situation by pooling their data. Regulators might be inclined to make some kind of dynamic intervention restricting lending at the point when real IPD capital values were more than 10% higher than their long-run trend, but this would have the effect of choking off more than 50% of lending. Key also advocated that high-risk property debt should be kept outside core financial institutions.

Stuart Cruikshank, Head of CIB Real Estate Finance Transaction Management at the Royal Bank of Scotland echoed these views, agreeing that the disconnect between the volume of lending and market pricing in the period immediately after the last boom was 'dysfunctional'. However he suggested that in practice it was difficult for market observers, including central banks, to identify bubbles, quoting the views of Ben Bernanke to that effect. Those looking for early warning signs based on recent history might take note of the point when the property risk premium falls below 2%, but even then it can be difficult to judge if market fundamentals have shifted. Banks would have been better advised to rely more on their own assessments of purchase value and risk pricing than they did in the last cycle.

Sarah Breeden, Head of the Markets, Sectors and Interlinkages Division, Financial Stability at the Bank of England, addressed the lending cycle from the viewpoint of the overall stability of the UK financial system. At its peak in 2008, UK bank lending on commercial real estate peaked at 15% of GDP, a record level. The lending market is now at the opposite end of the spectrum, and the Bank of England has sought to encourage investors into riskier assets via quantitative easing – though as yet this has mainly boosted prime assets rather than the whole market. There is still a financing gap in terms of mezzanine lending for the middle part of the risk spectrum. But the bank is also concerned to ensure that it has a better appreciation of the risks identified by Tony Key in the future and that banks are made to hold sufficient capital to provide a buffer against future losses.

The continuing weakness of bank lending and the CMBS market have provided an opportunity for institutional capital to fill the gap, particularly given the volume of existing loans due to mature through 2013-15. **Paul Dittmann**, Head of the

Senior Commercial Mortgage Group at M&G Investments, argued that there is currently a compelling case for pension and insurance investors to enter this space, with the margin for investing in senior secured commercial mortgages versus

equivalent-rated corporate bonds standing at more than 200 bps. New lending in this arena would be taking place at LTV ratios that would typically provide decline cushions of over 40% for senior debt, and 20-30% for mezzanine. The level of debt yields is also important when taking the decision to invest.

Nick Tyrell Memorial Seminar, Joint Seminar with IPF & INREV: *Are REITs Real Estate?* 24th September 2013

Berwin Leighton Paisner, Adelaide House, London Bridge, London EC4

Elias Oikarinen, a lecturer at the Department of Economics, Turku School of Economics, Finland, presented his paper entitled "Are REITs real estate? Evidence from International Sector Level Data". This paper, which was jointly written with Martin Hoesli of the University of Geneva, won the first Nick Tyrell Research Prize in 2012. Martin Hoesli was unfortunately unable to attend the event due to illness.

Oikarinen introduced the paper with the observation that the jury is still out on the question of whether REITs perform more like real estate or equities. The existing literature suggests that REITs perform more like stocks in the short-term, but more like real estate over longer time horizons.

The new research looked at quarterly data from the US, UK and Australia over a four-year time horizon, using observations for both listed and directly-held assets across the four major property sectors. Using impulse-response analysis techniques, it was found that a tight long-run relationship emerged between direct property and REITs in most markets, with REITs acting as a precursor of direct property performance. After the Lehman's crisis it was observed that REIT prices adjusted much more quickly than direct property, but the latter did follow a similar pattern in due course. This relationship was borne out at other points in the cycle.

The implication, Oikarinen explained, is that REITs and direct real estate offer similar diversification benefits against other asset classes over 3-4 years.

The panel discussion that followed was moderated by **Peter Hobbs**, Managing Director, Research, at IPD. **Hans Op 't Veld** of PGGM commended the research for its useful contribution to the debate. Given that REIT performance is ultimately dependent on cashflows from direct properties, a similar performance profile over the longer term was to be expected, he commented.

Matthias Thomas, CEO of INREV, said that the research suggested unleveraged REITs would make a useful addition to the investment armoury. In a later part of the discussion, Roger Urwin and Andrew

Baum endorsed this idea. Thomas also proposed that the research indicated that a combination of REITs and unlisted holdings could lower the volatility facing indirect real estate investors.

Roger Urwin, Global Head of Investment Content at Towers Watson commented that the research fitted well with the trend among investors to pay greater attention to the underlying drivers of asset returns. Most asset owners do, however, still tend to include REITs in their equities allocation for management purposes, though this may change.

Andrew Baum, Honorary Professor of Real Estate Investment at the University of Cambridge, indicated that his experience advising CBRE Investors had shown him the difficulties of combining REITs with unlisted real estate; the results had been 'disastrous', in part because the performance advantages of REITs had been exaggerated in the past. He also suggested that readers of the research under discussion should be clear that it was comparing REIT prices with indices of direct market performance, which were likely to lag the true market; those who wanted to move out of REITs after a rise in that market were unlikely to be able to buy into the direct market at the prices suggested by indices.

Oikarinen accepted this point, explaining that the second stage of the research was addressing this issue.

After further questions from the floor, Peter Hobbs handed over to Paul Kennedy, who announced the winners of the 2013 prize: Aleksandar Andonov, Piet Eichholtz and Nils Kok, for their paper entitled "A global perspective on pension fund investment in real estate", which came first out of the 18 papers submitted for the prize.

SPR/CPPS Joint Seminar: *Asian Capital into European Real Estate Markets*, 25th September 2013

Nabarro LLP, Lacon House,
84 Theobald's Road, London WC1

In association with

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Nowhere has the growth of Asian capital flowing into European real estate been more evident than in the London market. **Kevin McCaulay**, Head of Central London Research at CBRE, explained that this has resulted from growing demand as Asian economies have matured. On the one hand, ageing populations have encouraged the development of pension funds; on the other, local investment opportunities have rapidly become saturated and their pricing uncompetitive. At the same time pricing in European markets has grown relatively attractive through the downturn, with continued limitations on debt finance ensuring that local demand has been constrained.

Stephen Pearson, Senior Director at CBRE, focused specifically on the attractiveness of London for Asian investors, highlighting its transparency, liquidity and safe haven status, both in political and economic terms. Large-scale investors overwhelmingly favour gateway city locations, and, within Europe, London has benefited from the additional advantage of a weaker exchange rate since 2007. London looks well placed to build on these benefits in the future, with strong economic growth forecasts compared to the rest of Europe, which should feed through into rental growth; these factors have been reflected in continuing strong capital flows from Asia over recent months.

Asia-Pacific capital is now starting to spread beyond the Tier 1 cities like London and Paris, according to **Simon Mallinson**, Executive Managing Director at Real Capital Analytics. He also emphasised that Asian investment is moving into other areas of Europe. The growth in Chinese investment into European property has been a key factor in the directly-owned market over the last two years, and this has played a major role in the UK market, where 69% of deal value in the first half of 2013 involved cross-border capital – a staggering proportion. Mallinson struck a note of warning at the end of his presentation, commenting that sovereign wealth capital tends to be accompanied by a high level of political risk; regime changes may cause capital flows to be reversed in some circumstances. This is something that conventional forecasts often fail to take account of.

Jessica Hardman, Head of UK Transactions at Deutsche Asset & Wealth Management,

explored the increasingly regional aspect of Asian investment further. Although this has undoubtedly been growing, much of the demand has been in locations connected with the capital, for example logistics hubs in the South East. She noted that a major stumbling block for potential investment in the regions has been the lack of stock with sufficient lot size in office markets, while for retail centres a joint venture approach with a local player was often preferred – something which could be quite difficult to arrange. There were also question marks amongst international investors over the economic growth potential of the UK regions.

Sue-Lin Heng, Executive Vice President at JLL wrapped up the formal presentations with a view on Asian investment into EMEA hotels, which she suggested was set to exceed expectations in 2013. Here too activity was focused on London and Paris, but a significant growth of interest was apparent in Spain and Portugal, where ownership laws had recently been opened up for foreign investment. Singapore, Hong Kong and India were among the most important sources of capital in 2013, but there looked likely to be an increasing role for China and South Korea in the future.

SPR/RICS Cutting Edge Conference: *International Standards and Investment,* 22nd October 2013

RICS, 12 Great George Street, Westminster, London SW1

Organised with

RICS

The 2013 Cutting Edge Conference was once again kindly hosted by the RICS, fittingly at the global headquarters in Great George Street, Westminster. If Westminster is the site of the Mother of Parliaments, it can reasonably be argued that in the RICS it also houses the mother of real estate representative bodies, and international standards, in the sphere of investment amongst others, are one of its main concerns.

The event was chaired with typical enthusiasm by Tony McGough, Chief Global Real Estate Strategist at BCA Research and attracted around 70 delegates from both the SPR and RICS membership.

Ken Creighton, Director of Professional Standards at the RICS, gave the first of three keynote papers at conference, on the subject of

the RICS International Standards Vision. For the RICS, standards encompass many different professional areas, but fall under three broad headings: measurement, ethics and valuation. With a presence in 30 of the most mature real estate markets around the world, the organisation faces a huge challenge in seeking global conformity. However, he emphasised that the aim is to establish common principles in these areas rather than identical methods of doing things.

Much progress has been made in the related spheres of valuation, where international valuation standards (IVS) have gained many adherents, and the financial reporting of investments, where IFRS has been adopted in each of the 120 countries with listed property companies. Perhaps surprisingly, the measurement of buildings has proved to be the area where progress has been slowest, though in May 2013 a key milestone was reached when 22 representative organisations from around the world met in Washington and committed themselves to International Property Measurement Standards (IPMS). This missing link in standards – property floor area measurements may vary as much as 25% from place to place – thus looks to be drawing closer.

John Forbes, formerly head of real estate at PwC and now an independent consultant, then considered standards in the area of corporate governance for real estate investment. Governance has risen up the agenda of both regulators and investors since the financial crisis, he proposed, but the adoption of best practice has been patchy. AIFMD and Solvency II regulations have both placed an increasing emphasis on governance, although listed real estate companies probably continue to have stronger standards than the unlisted funds sector, where most question marks remain. Scandals like those involving MSREF and Henderson saw bad governance leading to adverse publicity for the organisations concerned and even for the industry as a whole. Forbes concluded by suggesting that the real estate investment management business was at a 'tipping point', with international fund managers originating in Europe and USA looking to attract pensions investors from emerging Asian markets. It is unclear whether current open and closed end fund models are fit-for-purpose in terms of their liquidity and investment timing profiles.

In the final keynote presentation of the morning, **Bob Thompson** of Remit Consulting talked about standards in the asset management, property management and facilities management businesses. He focused in particular on his organisation's REMark survey which provides benchmarks in these areas. It shows that the punctuality of rent and service charge collection in the UK both show considerable scope for improvement, and that there is a wide range of cost levels incurred for property management services, even if larger firms tend to be less expensive, apparently due to economies of scale. Thompson proposed that there are 'pricing issues' in the provision of these services, the bread and butter of the property industry.

The afternoon session, which took more of a research focus, **Stanimira Milcheva** of the University of Reading presented a paper on cross-border capital flows into real estate. The paper, which was jointly authored with Andrew Baum and Franz Fuerst, investigated the factors explaining levels of cross-border investment into and out of different countries. They found that a strong macro-economy, well-developed financial markets and a transparent credit market were key features of the markets that attracted most inward investment, while strong financial institutions were important in explaining the propensity of countries to invest in external real estate markets. The research applied a panel estimation technique on capital flow data obtained from RCA and DTZ, and examined a wide range of possible influences on cross border investment including market transparency and levels of investment return, but these proved less significant than the broader financial market influences which extend beyond the real estate market.

Olivier Mège, Deputy Head of Research at IPD, then returned to the theme of international standardisation with a view of the issues confronting investment performance measurement in this area. He noted that the types of data requiring standardisation across borders fall into two main groups – those which are a legacy of the way IPD systems developed in each national market where it operates, and those that reflect local differences in the way real estate variables, like appraised value and floor areas, are defined from place to place. Here there appeared to be substantial common interest with the efforts of the RICS described earlier in the conference.

The formal presentations closed with a look at the prospects for European real estate markets and the strategies that investors in these markets were likely to follow. **Monika Ward**, Deputy Head of Research at AXA Investment Managers, proposed that the consensus was that European markets were likely to begin to recover towards their long-term average growth rates, and that increasing opportunities were likely to emerge for growth assets and a move higher up the risk curve. At this stage, the UK market is offering more opportunities of this kind than the rest of Europe, and Ward noted that investment 'rotation' was starting to have an negative impact on the pricing of prime assets, even if this was not yet evident in published statistics. On the other hand, pricing is some of the more secondary reaches of Continental markets remained too high, suggesting that the “market accepting” phase had considerable distance to run. But there was value to be found in some places, for example fringe locations in some major German office centres.

These market themes were taken up in the concluding panel discussion, which Tony McGough opened by asking where was left for UK investors to go, given the weight of foreign capital that had flowed to London in recent years. **Michael Chadburn**, Senior Director at BNP Real Estate, suggested that there should be more opportunities for joint ventures with overseas investors, in particular sovereign wealth investors, who are becoming more open to investing in the UK regions. John Forbes suggested that Chinese capital was dominating the UK market and threatening domestic investors with accelerating decline. **José Pellicer**, Head of European Research at Rockspring, gave this a different spin, arguing that UK institutions have the luxury of working in the best real estate market in Europe. They should benefit from the effect on values of burgeoning foreign interest in UK regional office markets, for example.

Kevin Mofid from BNP Paribas, a member of the audience, queried whether investors will be pushed into private rented residential due to the weight of money flowing into the other sectors. Ward indicated that AXA believes in the case for investing in alternative sectors, but not so much for this reason as for their cash-flow characteristics. She noted that the tapering of Quantitative Easing is the real elephant in the room for investors, but proposed that this was likely to be a long process.

SPR/IPF Joint Meeting: OUTLOOK FOR UK PROPERTY 2014, 15th January 2014

Allen & Overy, One Bishops Square, London E1

Organised with

Trevor Williams, Chief Economist at Lloyds Bank Commercial Banking, provided the economic context for the year ahead. After the deepest recession since the 1930s, the UK was showing one of the strongest recoveries amongst the mature economies by the end of 2013, with a revival in consumer spending and even government expenditure providing something of a boost, for all the talk of austerity. The continued weakness of the Eurozone has, however, meant that UK exports have remained muted; forecast GDP growth of 2.6% for 2014, following the 1.9% out-turn in 2013, will once again therefore depend on domestic consumption, a trend closely linked with the resurgent housing market. Confidence has also been bolstered by some easing in credit conditions, a reduction in global economic risks and lower commodity prices.

Encouragingly, growth is being seen not just in the South East but around the country, and while the service sector has been in the vanguard so far, growing confidence in manufacturing and construction should mean they can pick up a lot of spare capacity. Low inflation should help real incomes, but the level of household debt remains high, amounting to some 140% of total output. This means that corporate investment needs to grow in line with the health of balance sheets if the recovery is not to be short-lived. Williams stressed that there are still substantial tail-risks for the global economy, but placed a probability of 60% on Lloyds’ central forecast being attained.

Despite the more favourable economic backdrop, asset allocators' decision-making remains beset with difficulties, according to **Paul Stanworth,** Head of Legal & General Group Treasury and Investments. Quantitative easing has proved a successful policy in restoring liquidity to financial markets, but has caused dislocations in asset pricing with bond yields driven to artificially low levels. Real assets have meanwhile begun to perform well, but it is difficult to know whether this is due to market fundamentals or rather to traditional bond investors looking for income-generating substitutes. This has certainly proved a force behind UK institutions' demand for property, with long leases and predictable cash flows at a premium. This has been reflected by a particular focus on student accommodation, social housing and mainstream residential. But despite these recent attractions, Stanworth believes it is hard to escape from the reality that we are still in a fundamentally low-return environment, given the structural weakness of the Eurozone and the weakness of the global banking sector. In the Q&A that followed, he suggested that a degree of complacency has emerged among investors.

Alex Jeffrey, CEO of M&G Real Estate, gave a positive view of UK market prospects in 2014, forecasting a total return of 12% for the year compared to the 10% registered by IPD in 2013. While the UK economy now appears to have achieved "escape velocity", the supply of new stock is very subdued while occupational obsolescence is accelerating requiring companies to look for new premises. This should mean relatively healthy rental growth prospects for the next five years, while there are signs of yield compression in a number of markets, including some secondary space.

Jeffrey suggested that UK regions should see stronger performance than the capital through 2014, though they were likely to be led by the South East outside London. Regional office markets appear to provide some of the best value, but retail is challenged and set to underperform overall; yet the situation is polarised with some retailers having managed to successfully embrace the internet. He echoed Stanworth's view of the increasing attractiveness of 'alternative' property types, with the possibility that institutionally-owned residential could regain its place as a mainstream asset. Speculative development is likely to grow, with institutions playing more of a role in meeting demand in the undersupplied parts of the market.