# SPR Newsletter November 2011

## 24th SPR Annual Dinner and AGM

## Thursday 10th November 2011

Don't forget your tickets for the most popular event in the property research social calendar

One Great George Street, Westminster

AGM at 6.00pm
Pre-dinner drinks at 7.00pm
Dinner at 7.45pm

Kindly sponsored by

OXFORD ECONOMICS

REAL CAPITAL ANALYTICS
Transactions. Trends. Tools.

cobalt recruitment

Tickets: £50 per head or £500 for a table of 10

Cheques should be made payable to SPR and sent to Fiona Trott by Friday 4th November.

## In this Newsletter:

Click on titles below to reach article

### Social Event Reports





### Technical Event Reports



SPR

Society of Property Researchers

# Recent Social Events

## SPR Quiz Night, 17th March 2011
**The City Flogger, Fen Court, London EC3.**

This year's hard-fought quiz was won by OMG GVA. The Grimley team's score of 131 points narrowly beat Andrew's Last Hurrah, the team from King Sturge on 126.5 points. Last year's winners, BNP Paribas, in a  new incarnation as Le Petit Equipe, came third with 118.5 points.

The charity raffle at the quiz was dedicated to the fund set up to support the family of Gordon Cousland of CACI, who was killed in the Moscow Airport bombing earlier this year. £456.64 was raised to support Gordon's fiancée and baby daughter.  GVA Grimley showed great generosity in donating the money intended for their winners' prize – a case of wine - to the cause.

## SPR Golf Day, 26th May 2011
**sponsored by PropertyData**
**Aldenham Golf & Country Club, Herts**
Report by Craig Wright

In what is becoming true SPR Golf Day tradition, the weather took centre stage at this year's event. However, in stark contrast to last year, the sunshine was nowhere to be seen. Instead, a mixture of heavy rain, sleet and strong winds battered the 30 participants on the course, finally resulting in the abandonment of play midway through the afternoon. Needless to say, this did not dampen spirits and an entertaining and enjoyable day was had by all.

**Joseph Kelly of Real Capital Analytics takes cover during a hail storm**

A number of new faces were amongst the crowd at Aldenham Golf Club this year, with a total of 17 companies represented by at least one participant. The morning competition went ahead as planned and some very competitive scores were handed in, despite the difficult conditions. The pairs trophy was ultimately shared by Paul Stewart and Zachary Gauge and Michael Moran and Kenny Wynn with all four taking home a selection of prizes kindly sponsored by PropertyData.

Over an excellent ploughman's lunch, the players nervously watched the weather deteriorate further. Nevertheless, all of the groups managed to pluck up the courage to venture back out. The dog-leg left on the first tee traditionally causes some difficulty, and the weather certainly contributed to some mixed drives this year. All players made it through to the 9th hole of the afternoon competition, before it was decided that waving metal clubs around in a thunder storm was not the most sensible thing to be doing! Retreating to the clubhouse for hot drinks (or beers of course) seemed a far better option and here the scores were tallied and, after careful deliberation, the organisers announced Alex Vaughn-Jones of Gerald

Eve as the SPR singles champion of 2011. His prize was the cherished trophy to keep on his mantelpiece for 12 months together with a magnum of champagne to celebrate with.

Further prizes were awarded thanks to our sponsor – in some cases for the mere achievement of surviving the storm or making a daring putt through a lake – to ensure that virtually no one went home empty handed.

Keep your eyes peeled for details of next year's competition!

[Click here to return to list of newsletter contents]

## SPR Summer Drinks, 7th July 2011

**Balls Brothers, Hays Galleria, London SE1**

The SPR Summer Drinks, which as always attracted a broad swathe of the society, were once again kindly sponsored by Cobalt Recruitment.



Everyone had a good time and made use of the opportunity to catch up with old colleagues and make new contacts. The event again provided an opportunity to chat with lots of people throughout the research community, from the top researchers who've been in the business for decades to young recent entrants. A few drinks help to level the seniority playing field!

[Click here to return to list of newsletter contents]

# Recent Technical Events

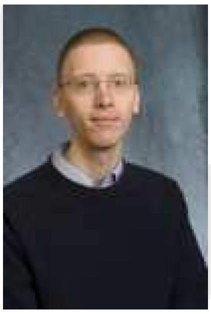
Meeting reports written by Tim Horsey

## SPR Peer Review: Transactions-linked Indices

**8th June, 2011**

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

At this seminar, chaired by **Ian Cullen** of IPD, **Steven Devaney** of the University of Aberdeen Business School presented his work developing transaction-linked indices. This work was undertaken in collaboration with Roberto Martinez Diaz, now of Aviva Investors, but formerly with IPD, whose data has been integral to the research.



Devaney explained that the work aimed to overcome some of the problems associated with valuation-based indices, in particular their tendency to smooth patterns of market performance and to lag turning points in the market. Methods of 'de-smoothing' valuation-based indices are well-known, but these may not adequately reflect the behaviour of the market in periods of low transaction volumes, such as the time around 2008 in the UK when this project began.

The work aimed to produce a credible transaction-based index that could still make use of the information contained within IPD valuation based indices. The technique used was an 'assessed value approach', based on hedonic modelling, whereby valuation movements would be substituted for all the assumptions normally made within the hedonic model. Transaction data was used where available, but for all those properties not sold in a given quarter, coefficients were generated to produce new 'price' estimates; regressions from the sold sample were thus used to 're-appraise' the held assets.

A Heckman 2-step procedure was used to improve the representativeness of the sales for the held properties in a way which was sensitive to the size of the properties transacted, but this had the drawback of depending on a large number of transactions in the market.

Devaney explained that given this need for a larger number of sales, it was unsurprising that the most successful results were achieved for the UK, where the model was applied to the IPD Quarterly Index for the period 2001 to 2010. However this was only possible down to the three sector level. The most effective application of the technique outside the UK was for data on France and the Netherlands.

The transactions-based model generated a level of volatility greater than that of the valuation index by a factor of 1.4. But it did not appear to lead the valuation index, an observation which somewhat surprised Devaney, who commented that this perhaps suggested valuations were improving!

Devaney concluded that the UK modelling process had proved useful, but was still undoubtedly open to refinement. The biggest benefit was likely to be in the evidence generated on the true volatility of property, which would have important applications in risk-modelling and asset allocation. It had also already proved useful in the Solvency II debate on the capital funding requirement for insurance fund property investments.

**Fotis Mouzakis** of Cass Business School, a panellist at the seminar, congratulated Devaney on the work, which he commended for its transparency. He suggested that the methods used might have an inherent bias – which was well documented in the literature; there might also be a bias in the sample of sold properties, which were a group of properties that might be expected to have performed well in the past.

Mouzakis queried the potential of using such an index for benchmarking, though it was not clear how this might be possible.

Speaking in the Q&A which followed, Paul Kennedy of ADIA commended the work for the light shed on market volatility and turning points, which should help real estate defend its allocation levels against other asset classes in future.

Click here to return to list of newsletter contents

## IPD RealWorld Conference, 15-16th September 2011
**St John's College, Cambridge**

The IPD RealWorld Conference, which this year took the theme of *Can we read the market: Turning points, pricing and capital flows*, once again attracted a large number of SPR members amongst more than 150 delegates. Attendees benefited not just from a full and thought-provoking conference programme, ably chaired by **Matthew Richardson** of Fidelity, but also from many opportunities to network with their property research peers. St John's College provided an inspiring environment for discussion as well as a venerable setting for drinks and dinner.

The conference opened with a session on forecasting and economic modelling, introduced with from a historical perspective by **Joe Valente** of JP Morgan, who questioned the rationality of real estate pricing; not only at the height of the boom, when yields of 5% were sometimes justified on the basis that the asset had become "risk free", but also today when such levels of yield have again become commonplace. **Sotiris Tsolacos** of PPR/CoStar and **Tony McGough** of DTZ followed with a more technical examination of what can still be achieved by using modelling and forecasting processes – concluding that they can add value to strategic decision making, but should not be used in isolation.

Thursday afternoon's second session sessions examined real estate yields in more detail, asking 'what's already in the price'. **Paul Mitchell**'s presentation concluded that there is a good historical case for arguing that yields capture current knowledge of market trends effectively, but on the other hand that big changes in the growth outlook are virtually unpredictable. He agreed with **Kim Politzer** of Invesco's thesis that yields are best used to identify areas of relative good value rather than to predict turning points in the market. **Will Robson** of PruPIM meanwhile suggested that property derivatives pricing could help identify short-term market information not yet picked up by valuations – but that such pricing does not constitute a forecast in the conventional sense.

Day 2 began with **Colin Lizieri** of Cambridge University's provocative suggestion that market pricing might not necessarily follow capital flows, as evidence currently available indicated the timing was virtually simultaneous. There is however little doubt that international market performance has become more correlated as capital flows, described in impressive detail by **Richard Yorke** of RCA, have become more and more global. **Malcolm Frodsham** (IPD) explained that the correlation between country returns had risen from 32% in the upswing of 2000-2007 to 73% in the subsequent downswing and recovery. The implication might be that investors should focus more on individual asset correlations than relying on geography to provide all their required diversification.

The RealWorld Conference closed with a forward-looking debate on the implications of regulation for the operation of the property market, and the predictability of the market from now on. The panel, which comprised **Ben Sanderson** (Hermes), **Ben Habib** (First Property), **Alex Moss** (Macquarie Capital) and **Tony Key** (Cass Business School), were broadly agreed that better financial regulation would have helped avoid some of the excesses of the last boom, and that it was not something for real estate investors to fear. If the effect of banking regulation were to limit the amount of debt available for property investment, that would be a price worth paying for greater stability and a better-functioning market.

The panel agreed that the property market had become less predictable and more like the equities market, as a result of globalisation, the wider range of players and target returns in the market, and shorter investment time horizons. Clearly the role of property research needs to be modified from its traditional forecasting-based role in these circumstances.

Asked by the chairman what would be the most useful tool that a property research team could now provide, Tony Key suggested that information which allowed investors to avoid buying when market pricing was more than 10% above its trend level would be very helpful. Ben Sanderson felt it was more important to see research as part of the overall investment process, allowing a better understanding of the risks being taken and mistakes that had been made in the past.

Top of Alex Moss's research wish list was detailed information on the level of capital flows taking place around the world linked to the different target rates of return they were. Ben Habib meanwhile proposed that all available information should be taken into account, with an open mind on what was likely to be important – as value can emerge in different areas and types of property. But in the long-term he proposed that income is always likely to prevail as the main driver of returns.

## SPR /IPF European Property Outlook
## 27th September, 2011

**Freshfields Bruckhaus Deringer, 65 Fleet Street, London, EC4**

This year's joint IPF/SPR 'European Outlook' event, which has now been running successfully for a number of years, took the novel approach of focusing on three national property markets – Germany, Spain and Turkey. These were taken as examples which reflected three contrasting market types: 'core growth', 'distressed' and 'emerging'.

Germany's experience through the Global Financial Crisis and its subsequent recovery have done much to re-inforce its reputation as one of the most stable and healthy European markets, according to **Kai Oulds** of CB Richard Ellis, who provided the first of three presentations at the meeting. GDP growth predictions for 2011 still look relatively strong, unemployment is falling, and economic sentiment is holding up well, even if it has taken something of a buffeting since August.

These strong fundamentals are reflected in the strength of the property market, Ould argued. Office rents across the major cities proved resilient through the downturn, and Berlin has begun to shrug off its reputation for sluggishness with significant rental growth over the last two years. In most locations take-up is recovering well, while the level of stock has been restricted by a limited development pipeline. Investment volumes are starting to match pre-boom averages, with retail parks and warehouse particularly favoured given their corporate bond income characteristics based on tenants like Aldi and Lidl.

Spain has clearly taken much more pain in recent years, but this means that it may offer opportunities for more opportunistic and counter-cyclical players like Orion

Capital Partners, suggested **Van Stults**. Stults, who has more than 20 years experience working in Spain, emphasized that the country's prospects should not be confused with countries such as Portugal, Ireland and Greece, as Spain's government bond yields still look relatively solid, and that the country's banking conditions compare favourably with the UK.

Nevertheless, he insisted that it is important to distinguish between Madrid and Barcelona, which are truly international markets with the liquidity that implies, and the rest of the country where risks are likely to be much greater. Stults also stressed that Orion considers every acquisition at the micro level, and will only look at opportunities with healthy long-term occupational demand credentials.

The Canada Pension Plan Investment Board has been investing in Turkey on a considerable scale since 2008, a decision based on the country's strong demographic and economic growth trends, according to **Sandra Hammond**. She suggested that retail was the most viable real estate market for accessing this growth potential, though even then it is essential to work with a partner that has a local presence and knowledge – which in the CPPIB's case was the developer Multi. Hammond explained that although investment has become easier with the relaxing of capital controls in the 2000s, the market is still prone to limited liquidity and a lack of comparable evidence on rents and yields upon which to base any transaction decision. But with 8.9% GDP growth recorded in 2010 and 8.7% expected for 2011, and rapid growth of operating income from CPPIB's investment, she believes that strategy to invest in Turkey should be vindicated.

Click here to return to list of newsletter contents

## Nick Tyrrell Memorial Seminar

An afternoon in honour of Nick Tyrrell

**Applying Research Insights to Real Estate Investment Management**

**12th October 2011**

**JP Morgan Asset Management, 60 Victoria Embankment, London EC4**

An impressive turn-out of SPR members joined other leading property industry figures in an audience of around 200 at this seminar which paid tribute to the life and achievements of Nick Tyrrell who passed away in August 2010. Tyrrell was posthumously awarded a fellowship of the SPR; this was received on his behalf by his widow, Joanne at the seminar.

**Paul McNamara** of PRUPIM and **John Gellatly** of Aviva Investors praised Nick Tyrrell's qualities as a property researcher in their eulogy, which they gave at the start of the meeting. McNamara explained that Tyrrell's intellect commanded great respect among his property research peers: if he was involved in any committee or meeting, then one could be assured that he would have a valuable contribution to make and give his full commitment. Tyrrell was always determined to explore and follow through the practical implications of research, particularly in the sphere of fund management where he came to prominence at Deutsche Bank, and latterly at JP Morgan. He had a very broad range of research interests, stretching from the furthest flung property markets around the world to fundamental issues such as the nature of real estate as an investment. McNamara praised Tyrrell's doggedness in sticking to a view which might run contrary to the prevailing trend – for example in his objections to arguments in favour of property index derivatives.

John Gellatly stressed Nick Tyrrell's willingness to share his expertise with others, whether it might be those in his own firm or researchers more generally. "He struggled to say no to anyone who asked him for his assistance," commented Gellatly, and those whom he assisted were likely to benefit from thinking that was often original. Tyrrell made important contributions to each of the professional bodies supporting this meeting – the SPR, INREV and the IPF -and he was also a founding member of PEPCIG, the European property research group.

Three new property research papers were then formally presented by **Guy Morrell** of HSBC Global Asset Management, **Mark Callender** of Schroders, and **Paul Mitchell** of PMRECON. Guy Morrell's paper, jointly authored by **Paul Kennedy** of ADIA, took the title *Do real estate investors get what they expect? How means of access affects performance outcomes.* The research looked at the performance out-turns for indirect funds over the past ten years and asked whether investment styles had generated the kind of performance that investors might have expected.

Data from the IPD Pooled Funds Index in the UK and INREV in Europe showed that specialist funds tended to be more volatile and less well correlated with the market than balanced funds, though this was often also connected with the small number of assets contained in such vehicles. Morrell presented a case study of the US investor CALPERS, which moved from a core/domestic investment strategy in the early 2000s to a more international and value-added strategy in the mid-2000s, creating a much more volatile portfolio in the boom-bust of the latter part of the decade. This was clearly not the desired outcome, and Morrell suggested that fund managers should in future make the likely performance characteristics of their vehicles more transparent.

Mark Callender's paper, prepared jointly with his Schroders colleague **Neil Turner**, developed the topic of portfolio performance patterns, with a wide-ranging investigation of risk entitled *The contribution of research to portfolio risk management*. Callender began by discussing the effects of market risk, which are likely to depend on the variation in performance between different market segments. Attribution analysis, which is a key tool in understanding market risk, needs to develop to reflect the way the market is really behaving – for example identifying those parts that are more dependent on emerging market demand, which is likely to be more buoyant in current conditions.

Callender went on to propose that market risk is likely to be more important compared to individual asset risk for larger portfolios; smaller portfolios should be more open to the volatility associated with individual assets, for example through leasing risk, sustainability issues and development risk. Looking to where property research might make a difference with risk analysis in future, Callender highlighted the importance of gaining a better understanding of the characteristics of prime and secondary property, and also of the level of risk within retails – where shopping centres may limit tenant risk, but at the cost of very high location-specific risk.

The final set piece presentation, which delved deeper into issues of individual property asset risk, was delivered by **Paul Mitchell** of PMRECON under the title *Assets, risk and the implications for Property Investment Research.* The work, undertaken jointly with Paul McNamara, used data from PRUPIM's PYRAMID database on some 200 property assets which were broadly representative of the UK market. It was found that 70% of the properties had performance patterns which were dominated by movements in the market, and as a corollary thus had relatively low specific risk.

The remaining properties with more idiosyncratic performance patterns appeared to be principally affected by lease-related risks – either through dramatically changing cash-flow expectations in the run-up to lease expiries, or because the circumstances after lease expiry proved very different to what was expected. This could reflect either negative or positive outcomes, with the common factor being something "inexplicable, special or different" in the particular property's situation. Mitchell argued that these kinds of asset should attract a larger share of property researchers' attention in future.

In her comments during the subsequent panel discussion, **Lisette van Doorn** of ING REIM, and formerly CEO of INREV, suggested that there were still many questions about risk left to be answered, particularly for Continental European property. Van Doorn emphasised that most of the research presented in the seminar related to the UK, and that in many other parts of Europe such techniques were not possible given the data currently available. This needs to be put right quickly, she believes, because there is a growing danger that the business will be viewed as unprofessional in many countries. This particularly related to issues like lease analysis, where different practices in different countries may have a strong bearing on performance.

John Gellatly, also speaking in the panel discussion, proposed that property researchers should be developing a stronger dialogue with asset allocators about the risk characteristics of property, in order to give them a better understanding of where it should fit in the multi-asset portfolio. This could extend to a view on which property assets were likely to be liability-matching, and which growth-generating.

Thanks are due to JP Morgan for hosting this event in appropriately magnificent surroundings, and to Michael Giliberto of JPM for chairing a lively, provocative and valuable discussion – a fitting tribute to the career of Nick Tyrell.

**The Nick Tyrrell Research Prize**

The Nick Tyrrell Research Prize, funded by the Nick Tyrrell Memorial Fund, has been established by the IPF, INREV and the SPR to recognise innovative and high-quality, applied research in real estate investment. The prize will be launched at the Nick Tyrrell Memorial Seminar on the 12 October 2011, with all donations raised at the event and subsequently being added to the Memorial Fund. The Memorial Fund will be held by the IPF Education Trust, which has charitable status.

The prize recognises and reflects the work and industry contribution of Nick Tyrrell, who sadly passed away in August 2010. Nick was Head of Research and Strategy and a Managing Director in JP Morgan Asset Management's European real estate division. Prior to that, he was a Director of Deutsche Bank in London. His research work was characterised by a combination of academic rigour and practical relevance. In judging submissions for the prize, a panel comprising Dr Robin Goodchild (Chair), Professor Colin Lizieri, Dr Brenna O'Roarty and Dr Neil Turner, will be looking for a piece of research that reflects Nick's legacy.

In addition to a cash award of £2,000, prize winners will be invited to present at a major industry conference and encouraged to submit their work to the Journal of Property Research. The three supporting organisations and the judging panel will ensure that the prize is a prestigious and highly-regarded accolade, open to both junior and senior researchers focused on the application of academic rigour to practical problems in real estate investment.

For further details regarding donations or paper submissions, please contact Dr Paul Kennedy:paul@pjkennedy.co.uk

SPR

Click here to return to list of newsletter contents