SPR Newsletter
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With economic conditions currently prone to change on a monthly basis, this meeting not only represented the widest possible perspective on property market prospects, but also served as an update on economic health some six months after the SPR/IPF meeting on the Outlook for UK Property held in January. Full report on page 6.

Site Visit Report

The Kings Cross development site is one of the largest and most important in the capital. Full report on page 9.

Nick Tyrrell, 1959-2010

Nick Tyrrell, formerly Managing Director and Head of European Real Estate Research and Strategy for JP Morgan Asset Management in London, sadly died on the 12th of August aged 51. He will be fondly remembered by a large number of friends and colleagues in the real estate research community as a highly intelligent, passionate and honest analyst of our asset class who was able to relate complex ideas in an intuitive and straightforward way.

Nick was a relatively late arrival in real estate research. After gaining a first in PPE at Oxford, he worked for 15 years as a macro economic forecaster in both the UK and Switzerland. His real estate career started in 2000 at Deutsche Bank in London where he was tasked with the development of the European real estate research group and the integration of economically driven market views with the real estate investment process. The resulting publications were influential both internally and across the industry, setting the standard for real estate research both within Europe and globally.

In 2004, Nick was recruited by JP Morgan Asset Management as a cornerstone member of a new European Real Estate team. As Head of European Research and Strategy, Nick had a key role in setting the strategy, focus and allocation guidelines of the group's funds and in establishing the visibility and credibility of the business. His new role gave him an enhanced input into investment decision making and allowed him to move beyond market analysis and forecasting to explore broader portfolio management issues such as asset allocation, hedging and leverage.

While the Deutsche Bank role established Nick's reputation as an insightful applied economist and analyst of real estate markets, his role at JPMAM allowed him to develop a broader portfolio management role and gain a reputation as an innovative strategist focused on real estate's role in a multi-asset portfolio.

Despite a senior and demanding role at JPMAM, Nick was able to find time to work with a number of industry bodies, particularly the IPF and INREV, on a wide range of research projects. He was a member of numerous IPF project steering groups and served as Chair of the INREV Research Committee. He was also an active and valued member of the Society of Property Researchers, with a particularly strong record in the annual SPR team quiz!! In addition, he cultivated links with the academic community and actively sought to interpret sophisticated and often quantitatively complex work in finance, economics and portfolio theory for a real estate audience.

Nick was extraordinarily generous with both his time and ideas. His desire for intellectual debate and stimulus led him to engage in correspondence with fellow researchers and strategists and his openness and intellectual curiosity will be long remembered and cherished. With a good eye for talent and intelligence, Nick had an important influence on the careers of many people.

Throughout his career Nick was an outstanding ambassador for the property research community and for real estate as an asset class. His work helped investors to see real estate as a global asset and to understand its role in a multi-asset portfolio. In addition, he helped to establish the case for real estate research as an integrated and essential part of portfolio management process.

Away from business Nick was passionate about music and was an avid motorcyclist. He read widely and could often surprise with detailed knowledge on a broad range of esoteric topics. In both his business and private life Nick was a renaissance man, a true individual and a gentleman. We are privileged to have been able to call him a friend. His wife, Joanne, survives him. He will be greatly missed.

Dr Paul Kennedy and Tim Jowett

The SPR are currently discussing a potential memorial seminar in Nick's honour for early 2011. Initial discussions have been held with a number of industry bodies and an announcement will be made later this year. If you are interested in discussing our plans, or contributing, please contact Dr Paul Kennedy via paul@pjkennedy.co.uk or on +971 2 415 6206.

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Upcoming Technical Events

Retail Research Briefing
Thursday 30 September 2010
Grosvenor, 70 Grosvenor Street, London W1
After addressing the office and industrial sector earlier this year, the SPR aims to come full circle by addressing the retail sector at this event, kindly hosted by Grosvenor. Richard Barkham, Grosvenor's Group Research director will chair the event, which will include three speakers well-equipped to address the occupier and investment dynamics prevalent in the retail sector in the UK and Europe. Neville Moss (CBRE) will cover the wider sector and Beatrice Guedj (Grosvenor) will provide insights on the niche high-end of the retail market. The remaining speaker will be confirmed shortly.

SPR / IPF European Property Outlook seminar
Tuesday 19 October 2010 (5:30 pm for 6 pm start)
Freshfields Bruckhaus Deringer. 65 Fleet Street, London EC4Y 1HS
Hosted at Freshfields offices in a prime location in London's Midtown, the annual European Outlook seminar is due to take place in a couple of weeks. This year, the focus will be on European property investment in a multi-asset context, for which we have been able to secure some prominent names. Sabina Kalyan, Head of Strategy at CBRE Investors, will look into the economic prospects in the Eurozone, followed by Bill Dining who will address property from the multi-asset perspective as he is responsible for asset allocation at AEGON. Finally, Dennis Lopez of AXA REIM will provide a fund manager's perspective on where the opportunities and threats lie within the European property markets. The event will be followed by networking drinks provided by Freshfields.

IPD Real*World* Conference 2010
22-23 September St John's College, Cambridge

The IPD Real*World* Conference – sponsored by the SPR - brings together property research and the property investment industry

Real*World* returns to Cambridge this year with a strong investment focus. The event provides a great opportunity for property researchers, whether investment professionals or academics, to get together and discuss the most pressing property issues. It is the only event in the UK that marries property research to its practical applications. **Real*World*** also provides a great opportunity for young researchers to network with their peers with a reduced rate for those under the age of 30; and **SPR members** also benefit from a 15% discount on all advertised rates.

The financialisation of property – into forward or reverse gear? Finding the right structures for global property investment

Real*World* 2010 focuses on the financialisation of property – the application of financial engineering to the asset class – taking a research perspective on what has been learnt and where we are going. Through the last global boom property investment went a considerable distance down this road, but financial and economic conditions slammed on the brakes. So where next for debt, securitisation and derivative instruments? For full programme see [IPD website]

Speakers will include:

Bryan MacGregor	University of Aberdeen
Tony Key	Cass Business School
Rob Martin	Legal & General Property
Richard Payne	Barclays Corporate
Christian Aufsatz	Moody's Investor Services
Andrew Baum	Henley Business School
Malcolm Frodsham	IPD
Paul Richards	Mercer
Alistair Dryer	Aviva Investors
Alan Patterson	AXA REIM
Isabelle Scemama	AXA REIM
Alex Moss	Macquarie Capital
Gianluca Marcato	University of Reading
Amanda Rowland	PricewaterhouseCoopers
Richard Gwilliam	PRUPIM
Dominic Reilly	King Sturge

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Recent Social Events

SPR Golf Day, 24th May 2010
Report by Craig Wright

The 2010 SPR Golf Day was a scorching success, as 33 competitors took to the Surrey National Golf Course, in 32 degrees heat. Many will remember the day for the golf, the networking, the jokes and the prizes. Others will recall the sunburn and the dehydration! The leader of the latter group was Alex Vaughan-Jones of Gerald Eve, who had left the clubhouse looking a fairly normal pale colour, only to return 4 hours later glowing fluorescent pink! Needless to say his liquid based prize for "Most Burnt Participant" was very welcome.

The morning started in traditional fashion with bacon rolls, coffee and the 9 hole warm up round. Some hefty points scores were handed over to the organisers, with a few eyebrows raised! The perfect conditions meant that some excellent golf was played and only a handful of strokes separated the eventual 9 hole winners from the rest of the competitors, with Craig Wright of Aberdeen Asset Management and Patrick Bone of Schroders taking first place.

After sandwiches, chips and hot soup (many opted for a cold pint of beer instead), the first competitors began to head out for the main 18 hole event. Following a physically gruelling first 9 holes in the morning sun, this was no easy task. Nevertheless, everyone seemed to remain high spirited while applying lashings of sunscreen at the first tee. In the first group out was SPR golf debutant Greg Kane of Pramerica, playing off a respectable handicap of just 4. Despite being the lowest handicapper on the day, he managed to pick up an impressive number of points, enough in fact to earn him the coveted SPR Golf Trophy for 2010!

While Greg deservedly took first prize, congratulations must go to all the participants on the day, who made it such a successful and enjoyable event. Keep your eyes pealed for details of next year's SPR Golf Day!

SPR Summer Drinks, 22nd July 2010
Balls Brothers, Hays Galleria, London SE1

The SPR Summer Drinks was a fabulous evening with some really big names there and a raft of very proud property people showing off their freedom passes! And possibly telling tales about all the property booms and busts they have seen.

The event was very well attended; perhaps with people working so hard at the moment they really enjoyed getting out and having a bit of a socialise.

Ruth Hollies; photos © Rebecca Graham

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Recent Technical Events

Unless stated otherwise, meeting reports written by Tim Horsey

SPR Research Briefing on the UK Office Market, 5th May 2010

CoStar, 40 Portman Square, London, W1

Meeting report by Ruth Hollies

Stephanie McMahon of JLL began the event, which was chaired by **Adelaide Gray** of Legal & General Property, by discussing possible developments in the economic backdrop and the likely implications for office demand. McMahon emphasised that occupiers were behaving differently now compared to the recent past. Through 2009 they generally had no money to spare and occupational decisions simply reflected the need to survive. But now business conditions were beginning to pick up, office occupiers were more prepared to invest in order to obtain good space – with the intention of attracting employees, using space more effectively and reducing costs in the longer term.

Hugh Mulcahey of Cyril Sweett provided the view from the occupiers' side, describing how they had fared in the recent downturn and the strategies they had put in place to survive. His presentation was based on work that the BCO (British Council of Offices) has commissioned. Occupiers generally believed that the landlord-tenant see-saw had recently tipped in their favour and that a new paradigm had emerged by which they had more faith that property would meet their requirements. He spoke about the 4 property quadrants in terms of sensitivity to costs and economic conditions, noting that occupiers were trying to free up capital to become more productive in the current climate.

Mulcahey suggested that occupational tendencies may have changed forever, in the sense that the concept of a desk per person is probably a thing of the past with home working and flexible space use patterns becoming the norm.

James Roberts of Knight Frank concluded the formal presentations by discussing the development cycle and how this has been impacted by the recent economic downturn. This was set in the context of historic activity levels, with many City of London projects pulled as the financial meltdown unwound. In the current climate little new space is coming through, and many developers are not inclined to start projects in the absence of a pre-let. However, Roberts cautioned that pre-lets may influence market supply dynamics unexpectedly as tenants could take the decision to sublet some of the space to which they are committed.

But in general supply conditions are continuing to be constrained, in part because financing has been difficult to obtain for development projects.

The subsequent Q&A began with a discussion of the geographical dimension of office trends, with all the speakers agreeing that most activity in the sector was taking place in London, but that this would slowly filter out to the regions as economic recovery takes hold. Public transport access was also set to gain importance as a determinant of successful UK office locations, with the implication that business parks likely to fall out of favour, especially if they have insufficient parking or and lack good public transport links. Companies wishing to improve their environmental credentials would rather locate near public transport.

The potential impact of cuts in public sector spending was also discussed, with the implication that this would be less damaging for the London area as there had already been a shift away from the capital since the Lyons review in 2003. In terms of the effect on the overall supply of space, it was suggested that the public sector often occupied cheaper fringe space in any case - which might be redeveloped for other uses if left vacant.

There was some discussion of changes in the cost of replacement with the shortening of development cycles. It was noted that in the City 1980s stock is now being replaced, which might suggest that the development cycle may shorten with replacement occurring every 15 years in the future. The development cycle is also likely to be influenced by changes in the costs of building inputs - steel, concrete, and energy - which were all increasing. Although UK demand for construction materials may currently be weak, global demand is pushing up costs.

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Industrials / Logistics Occupier Briefing, 8th June 2010

BNP Paribas Real Estate, 5 Aldermanbury Square, London EC2

Bob Thompson of the **RETRI Group** chaired a wide-ranging discussion of trends in the UK industrial and logistics markets.

Sally Bruer, Partner at **Gerald Eve**, suggested that multi-let industrial estates down the Midlands spine of the UK are likely to perform more strongly over the next three years than those either to the east or west of this area.

Presenting a Gerald Eve's survey of the UK's multi-let industrial market, Bruer explained that in the past estate performance has only really been driven by two factors: regional geography and the existence of a strong business focus within the estate. The research found that those estates with a strong presence of local or regional tenants have done well, while those with no majority tenant type have fared poorly. Unsurprisingly those estates with high vacancy rates also underperformed, over one, three and five year periods.

The research also provided some interesting findings on leasing patterns in the sector, with smaller units generally seeing longer lease terms and also higher void rates. Bruer noted that industrial lease lengths have continued to decline since the survey average of 11.5% was identified in 2008. The research was based on 665 estates across the UK worth £3.7bn, or some 25% of all such industrial property covered by IPD.

In 2010 the UK Big Shed market will see "a slow return to growth", according to **Anna Behan,** Principal Research Analyst at **King Sturge**, although the year as a whole is likely to see a fall in rents. Over the longer term, Behan identified the move towards ever more global sourcing of goods and the consequent extension of supply chains as a key trend, with

Gazeley Park, Rugeley, Staffordshire

sustainable distribution solutions like those pioneered by Gazeley, and the growth in online retailing also likely to be influential.

Behan emphasised that retailers were still the most important occupiers in this sector despite a somewhat lower share in take-up in Q1 2010, but they were currently making a limited impression on the supply of UK Big Shed space, which was at an all-time high. Speculative development had now ceased and was unlikely to return in the near future.

Waste and recycling activities in the UK will need an extra 50 million sq ft of floorspace by 2015, representing one-third of new industrial demand. This was the striking assertion of **Kevin Mofid**, Logistics Analyst at **BNP Paribas Real Estate**, in the concluding presentation of the briefing.

This potential opportunity for industrial investors was being driven by UK legislation and EU initiatives to limit the use of landfill sites, explained Mofid; this would result in the need for far more extensive recycling facilities. This will have implications for existing warehouse stock, which will be in demand for use as material recovery buildings, and also for new structures to be used for energy and product creation. High beam warehousing should also be demanded for pyrolisis - a form of incineration that chemically decomposes organic materials - and gasification. These kinds of premises should prove attractive for investors since leases are likely to be significantly longer than the current institutional average.

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SPR Global Market Outlook Meeting, 30th June 2010

CASS Business School, 106 Bunhilll Row, London EC1

With economic conditions currently prone to change on a monthly basis, this meeting not only represented the widest possible perspective on property market prospects, but also served as an update on economic health some six months after the SPR/IPF meeting on the Outlook for UK Property held in January.

In his opening presentation, **Adrian Cooper**, CEO of **Oxford Economics**, reminded the meeting of how far conditions had changed over the preceding 12 months, before which a 1930s style recession appeared to be a very real danger. Now most countries around the world have entered their recovery phase, and the BRIC economies are forging ahead once more. Fiscal policy support for economies remains as strong in most countries this year as last, while consumer confidence is reviving widely and corporate cash positions are strong. At the same time the global trade multiplier is starting to work positively.

Nevertheless, noted Cooper, economic forecasts still fall within a wide range, reflecting some big questions about the security of the global economic revival. In particular, deleveraging in both the private and public arenas has barely begun. Private saving ratios are still weak and household debt high, especially in the US and UK, while banks continue to have high levels of outstanding debt and many governments are running unsustainable fiscal positions. The drastic fiscal tightening now planned for 2010-11 across Europe is likely to mean unemployment will go on rising and the recovery itself will be on a knife edge, even if inflation and interest rates should not prove too problematic.

Economic recovery has led to rental growth emerging in some global markets in 2010, noted **Jeremy Kelly**, Research Director at **Jones Lang LaSalle,** in his presentation focusing primarily on office markets. With the supply of space generally having been restrained through the last boom, the JLL "property clock" is entering the bottoming out phase for most cities, and vacancy rates should be peaking soon, averaging around 15% for JLL's "Global 100" centres. At present the cities with the brightest economic prospects are often technology-led and generally outside Europe – but Kelly admitted in the subsequent discussion that such locations do not always see the strongest property returns.

This is partly down to investor sentiment, and the recent rebound in investment volumes has been strongly attracted to those centres traditionally regarded as prime, Kelly explained. So yields have come down substantially in European markets like London and Paris, in part due to their level of transparency. This is reflected in the latest JLL Real Estate Transparency Index, in which European office locations have held their own or even improved their rankings through the downturn.

Jeremy Plummer, Head of Global Multi-manager at **CBRE Investors**, believes that although property yields around the world currently look attractive against bonds, this reflects a low interest rate environment that may not be sustained. The overhang of lending to property is now beginning to be addressed by the banks, representing another major threat to market stability. The best areas to buy look like the US and Australia, perhaps with an emphasis on industrial or logistic assets, and prime, unleveraged stock if possible.

Plummer provided some real case studies showing that possibilities still exist for making money in the current difficult climate. These illustrated investments undertaken for investors demanding absolute rather than relative returns, but nevertheless with a significant aversion to risk. He explained how opportunities can be found, for example, by taking secondary positions in existing fund vehicles, particularly through preferred equity stakes which can add value by addressing their debt problems. Distressed debt funds can also be attractive, as long as the underlying property can be accessed; but Plummer emphasised that this type of investment needs highly specialist knowledge on the part of the fund manager.

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Recent Site Visit

King's Cross: Monday 10th May and Wednesday 12th May

Report by James Scott

The Kings Cross development site is one of the largest and most important in the capital. I have been watching its development from the canal side on my regular commute to and from the IPD offices and was eager to find out just what was occurring behind the scenes. Fortunately I was lucky enough to join several SPR members that were invited to visit the site in mid May.

The tour began at the German Gymnasium which acts as the main marketing suite for the project; a very interesting building in itself, constructed in 1864-65 and believed to be London's first purpose built gym. Here we could view the 6m x 3m scale model of the proposed development and get a sense of the huge undertaking that was going on around us. A presentation followed by one of Argent's joint chief executives David Partridge, who was to kindly act as our tour guide for the morning.

The presentation informed us of the overall plan for the area which is not your typical city development. The site, at close to eight million square feet in total, is intended to be more of a community, with many uses, not solely devoted to one sector. David also explained to the group the importance of retaining the history of the area and the extensive work that is being carried out in refurbishing the historic buildings and structures around the site. In light of this, Kings Cross Central has been listed by English Heritage as one of 'England's 20 best Heritage-Led Developments'.

One of the more striking features that used to dominate the skyline were the four large gas holder frames. These have been carefully dismantled, stored and are to be re-used in framing the construction of residential flats, as shown above.

The site is also to be home to 25 large new office buildings totalling 4.9 million sq ft and these will benefit from the excellent transport links that are on the doorstep.

The new retail areas prompted many enthusiastic conversations along the tour; as well as the more conventional 'Boulevard' and other High Street stores, the redevelopment of the 'Coal Drop' buildings was of particular interest. There are set to be up to 80-90 small units and kiosks in the area, which should attract a diverse mix of specialist and independent retailers along the two tier structure, with a cobbled open air section containing cafes, bars and restaurants. Retaining much of its heritage, the artist's impression suggested a canal side Covent Garden or a rejuvenated version of the market at Camden further along the canal.

It was also interesting to see that alongside the offices, shops, and residential accommodation there is also plenty of cultural value to be found within the new development. In 2011, the University of the Arts London will occupy the impressive 'Granary' building and some other buildings within the 'Eastern Goods Yard', with up to 6,500 students and staff, working and interacting around the new development. The area will also provide up to 50 arts and music venues, with permanent visitor attractions planned within the existing refurbished heritage buildings.

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