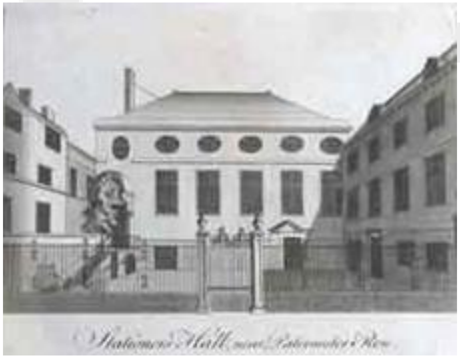
SPR Newsletter

January 2015

Society of Property Researchers

In this Newsletter:



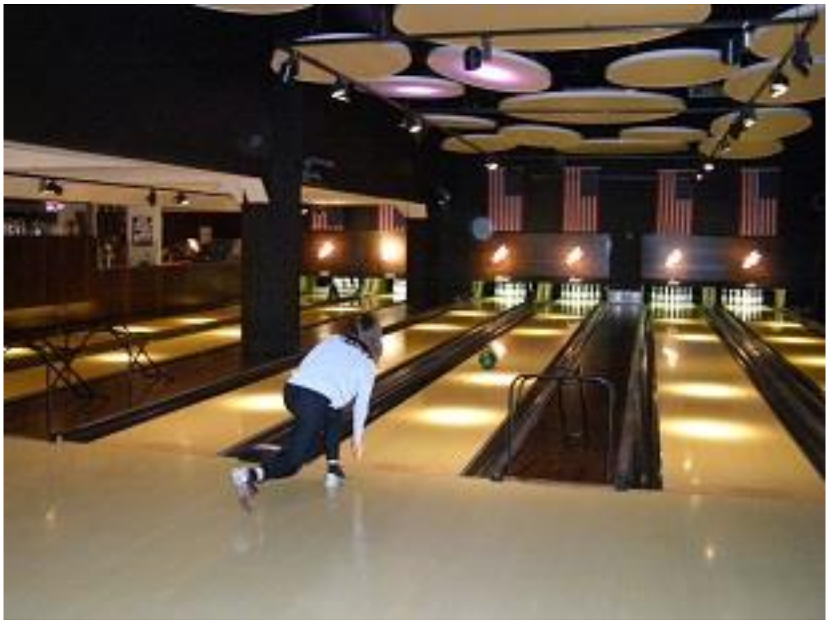
Upcoming Events

SPR Social: King Pin Bowling, February 3 2015

All Star Lanes, Spitalfields Arts Market, 95 Brick Lane, London E1, 6.30 pm

It's time to get those bowling shoes out of the closet because the 2015 SPR winter social is taking place on Tuesday 3rd February at All Star Lanes, Brick Lane.

This event is suitable for both king-pin professionals and those who just want to give bowling a go for the first time.



There will be food and drinks in the bar afterwards to regale 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.

Arrival: 6.30pm onwards (allows time for shoe change)
Bowling starts: 7pm
Food & drinks: 8pm onwards

PLEASE NOTE THAT THIS EVENT IS NOW FULLY BOOKED!

RICS/SPR Cutting Edge Conference
Time to reboot: How is innovation changing the real estate industry? February 10 2015

RICS, 12 Great George Street, London SW1, 10.15am – 4.30pm

The pace of innovation today is faster than it has ever been. New inventions are changing the way we live, work and socialise, and our preferences in terms of building locations and building designs are changing. This conference will review some of these changes and assess their impact on the real estate industry. Experts from a wide range of backgrounds will tackle how innovation is changing the business.

Conference Programme

10.15 Registration and Coffee

10.45 Welcome by Chair: Christopher Hedley*, MSCI*

10.55 **The changing nature of the workplace – the future of office space**
Rob Harris*, Ramidus Consulting*

11.40 **Innovation in Property Management - property and asset management is being squeezed, and is subject to change. Where will the change take us?**
Bob Thompson*, Remit Consulting*

12.15 **Energy Performance Certificates in the context of sustainability and the impact on valuations**
Martin Turley*, Liverpool John Moores University*

13.00 Lunch

14.00 **RICS Futures Programme. How will technology transform our sector?**
Dan Cook*, RICS,* Josef Hargrave, *Arup (Foresight & Innovation)*

14.45 **Innovation in fit-outs - Generation Y and TMTs are setting a new trend.**
Nicola Gillen and David Cheshire*, AECOM*

15.30 **Expert perspective: Technological change and its impact on property investment.**
Simon Martin*, Tristan Capital Partners, Visiting Professor at Henley Business School and Cass Business School*

15.45 Coffee Break

16.00 Panel Debate

Simon Martin, *Tristan Capital Partners*
Nick French, *Journal of Property Investment and Finance*
Kate Brown, *Grosvenor*
Dan Cook, *RICS*

16.30 Conference Close

PLEASE NOTE THAT THIS EVENT IS NOW FULLY BOOKED!

SPR Social: Annual Quiz Night, March 19 2015

The Hornimans at Hay's Galleria, SE1

Full details of how to enter will be available on the SPR website shortly.

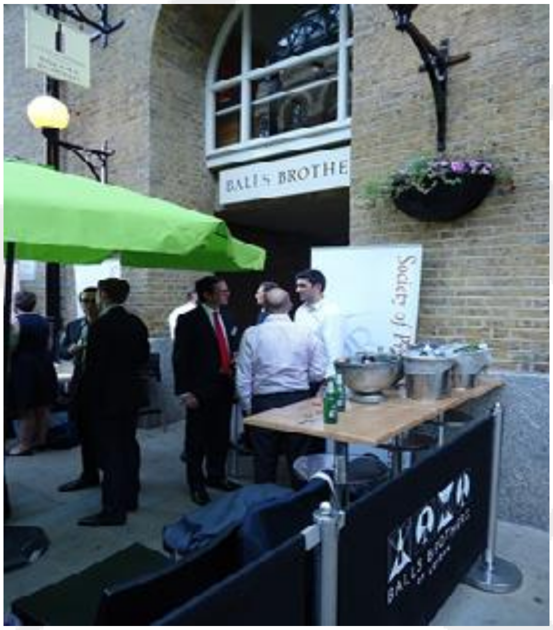
Recent Social Events

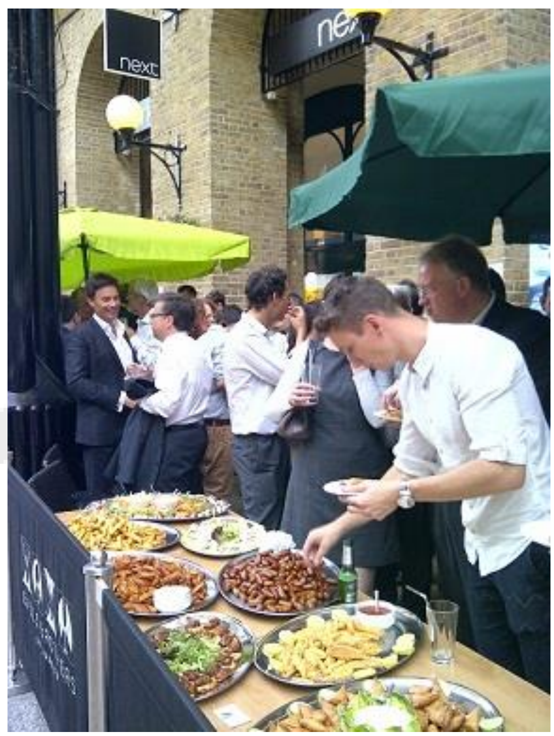
Sponsored by:

SPR Summer Drinks, 17th July 2014

Balls Brothers, Hay's Galleria, London SE1

We had a record turn out this year, with fabulous weather.





SPR Annual Golf Day, 11th September 2014

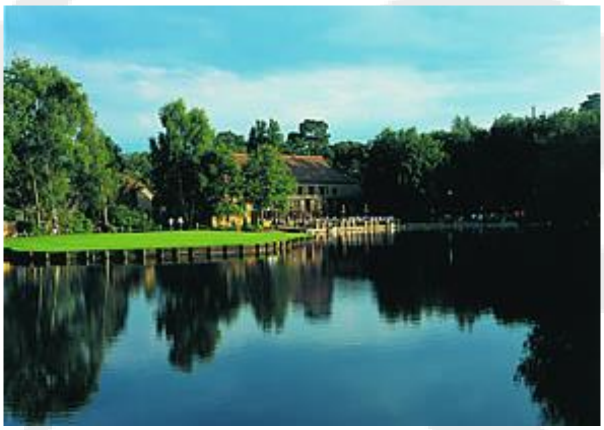
Silvermere Golf Club, Surrey

Sponsored by:

REAL CAPITAL ANALYTICS

PROPERTY DATA
www.propertydata.com

Report by Craig Wright



The 2014 SPR Golf Day was another very successful event, with 30 members participating from 19 different companies.

With the very generous sponsorship from Real Capital Analytics and Property Data, in conjunction with the support from the SPR, the event continues to be a great day for SPR golfers.

For the second year in a row, we favoured Silvermere Golf Club in Surrey, having experienced an excellent event there last year.

After bacon rolls and coffee, the participants were invited onto the new two-tier driving range for a practice session run by two PGA qualified coaches. In addition to the coaching, members were also able to try out some new software that tracks the trajectory, range, speed and spin of every shot on the range. The results were pretty mixed, but the equipment went down extremely well.

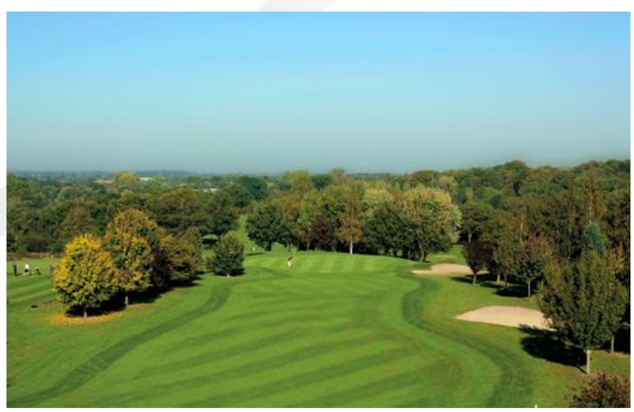
After the practice session, the 18-hole competition began. With a broad range of handicaps from 6 to 36, and with conditions dry for a change, the trophy was everyone's to play for. With that in mind, play was fairly slow, as every duffed tee-shot into the trees was painstakingly hunted down and every ball sliced into the rough was never a lost ball! Nevertheless, play soon sped up as participants found their form and some punch scores were being handed in back at the club house.

With the team event up for grabs, heroes and villains were born on the 17th and 18th holes over the lake. With each splash celebrated by those watching from the safety of the clubhouse, there really was no place to hide.

The 18-hole competition was followed by a hearty three course meal and the prize giving. This year's winner of the coveted SPR Golf Trophy was Jason Beedell from Smiths Gore, who, off a handicap of 11, scored a very respectable 39 points. In second place was Craig Wright, who successfully shrugged off the stress of organising the day to score 37 points. At well over 300 yards, the longest drive was comprehensively won by Chris Bullock.

Once again, a huge thank you to our sponsors Real Capital Analytics and Property Data, and of course to the SPR, for making the day a great success.

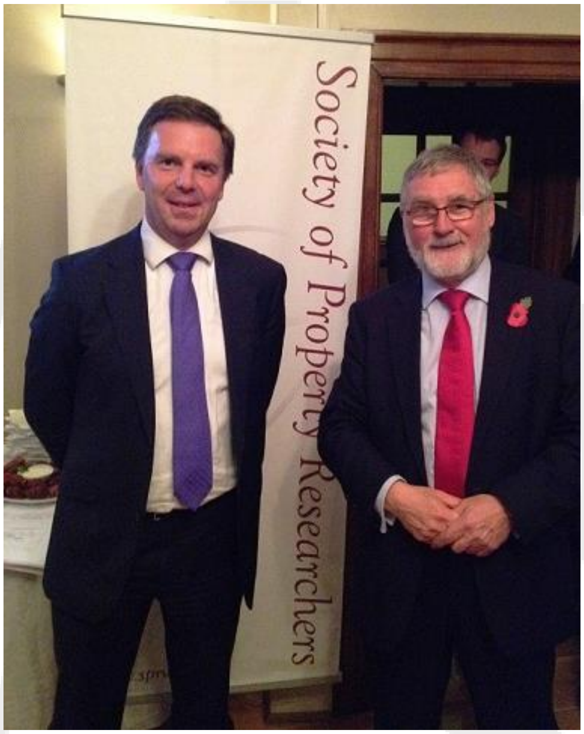
Details of the 2015 SPR Golf Day will be announced in the coming months.



SPR Annual General Meeting, 6th November 2014

St Brides Tavern, 1 Bridewell Place, London EC4

After seven successful years as President of the Society of Property Researchers, Robin Goodchild stepped down at the end of the year.



At the meeting the SPR elected a new President, Andrew Smith, and a new committee for 2014-2015. Mark Clacy-Jones took over the Chair from Cléo Folkes, and Annabel Harmsworth became Honorary Secretary.

In the discussion which followed, Mark Clacy-Jones explained that the SPR plans to take on a part-time events co-ordinator in 2015, for the administration of events, particularly organising venues, badges, logistics and ensuring that they run smoothly on the day.

Other proposed initiatives include an increasing international focus for SPR seminars and more collaboration with equivalent research societies abroad. It is also hoped to make the Society more attractive to students, for example by holding at least one students-only event through the year.

SPR Annual Dinner, 13th November 2014

Stationer's Hall, Ave Maria Lane, London EC4

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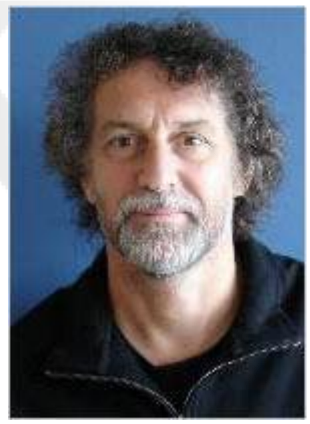
OXFORD ECONOMICS

At the dinner Professor Neil Crosby was appointed a life Fellow of the SPR.



The raffle held at this year's dinner raised £1,248 for Daisy's Dream, in memory of one of the Society's past Chairs, Jonathan Bray.

Daisy's Dream supports children and their families who have been affected by the life threatening illness or bereavement of someone close to them.

Recent Technical Events

Meeting reports written by Tim Horsey unless otherwise stated.

Joint SPR/CPPS Seminar: *Is Overseas Investment Fuelling a Bubble in the London Residential Market?* 10th June 2014

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

Sponsored by

NABARRO
CLARITY MATTERS

Residential prices in the UK, and particularly London, have consistently defied predictions of price falls, driven by low supply, high demand and the availability of cash, especially from foreign investors. In recent years this overseas capital has increasingly originated in Asia, with both institutions and private investors targeting London residential. Not just focusing upon established prime locations such as Knightsbridge and Mayfair, Asian investors have flocked to new residential developments in areas such as Battersea, Stratford and Canary Wharf.

It was therefore fitting that the first formal presentation of the meeting was given by **Mr Li**, General Business Development Manager at Greenland Group, the Chinese state-owned property developer, which made its first two London acquisitions in 2014. These projects, the Ram Brewery site in Wandsworth and the Hertsmere Tower site close to Canary Wharf, each cost around £600m to acquire. Both are predominantly residential, and represent key milestones in the Group's strategy to diversify beyond mainland China into global markets, also including France, Singapore and Canada.

Jason Presence, Senior Director in the Real Estate Finance Team at RBS, began his presentation by highlighting some of the more lurid headlines that have appeared on the topic of London residential investment in 2014. These have moved on from just noting that Asian investors have started buying up big chunks of prime London real estate, to the implication that they are pricing British buyers out of the market and often developing residential units designed solely for overseas non-resident owner-occupiers. Presence agreed that overseas capital was undoubtedly playing a growing role in the top-end London residential market, fuelled by London's position as Europe's leading city-economy. But he suggested that the extent of this invasion was open to some debate, with a sizeable majority of prime London purchases still ending up in the hands of UK investors, according to recent Knight Frank research. However, this was not to say that there isn't a bubble in the London residential market, in the main due to a scarcity of housing supply – something that only reforms to the planning system could put right.

Speaking on the basis of Savills' research on overseas investment in the London residential market, **Sophie Chick** and **Jacqui Daly** concurred that there is a problem of development undersupply at the lower end of price spectrum, particularly for space valued at less than £450 per square foot. This is a part of the development market in which overseas capital has been reluctant to get involved. Foreign buyers have been much more attracted to the prime Central and South West London markets, where prices have risen by over a third since the previous market peak, but they too stressed that even here domestic rather than overseas capital continued to predominate. Prime London residential still looks good value compared to other global cities, but foreign investors are likely to be selling much of the space they have developed over the next few years as the cycle moves in favour of other UK regions. They may also get more involved in building for the private rental sector in London as that market matures, albeit slowly.

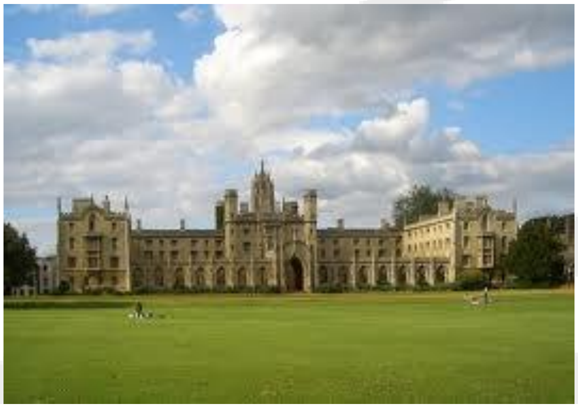
Sophie Chick

The meeting concluded with a panel discussion including **Ken Xiao** of CBRE, who is also president of the Chinese Property Professionals Society. Networking drinks were kindly provided after the meeting by sponsors Nabarro.

SPR/IPD RealWorld Conference, 10th - 11th July, 2014

St John's College, Cambridge

Accessing the inaccessible



Report by IPD

Sponsored by

MOODY'S ANALYTICS REAL CAPITAL ANALYTICS

Alex Moss, Founder of Consilia Capital, opened the conference as chair, introducing **Roger Urwin** of Towers Watson who gave an overview of how real estate is currently viewed in the multi-asset portfolio, with 50/30/20 as the new 60/40 asset split, allowing alternatives to take a 20% share in global portfolios. As funds reach for returns in a risk averse and increasingly regulated environment, real estate has an important role to play, provided the correct product is available. The shift from defined benefit to defined contribution pensions also has its challenges and opportunities for real estate.

IPD Research Managing Director, **Peter Hobbs**, followed by delving into the issues real estate must tackle in order to make the best of the potential opportunities for increasing allocation within the multi-asset portfolio. Improving transparency must continue if real estate is to gain an equal footing with equities and bonds as a mature investment asset class. Relevant benchmarks can help investors to understand whether they are successfully implementing their strategy and risk models can help investors understand the effect of adding real estate to the portfolio.

Simon Mallinson, EMEA Executive Managing Director at conference sponsors Real Capital Analytics, told the story of recent capital flows, concentrating on those into European cities. Simon highlighted the resurgence of domestic capital but acknowledged that large global players, especially asset owners from Asia and the Middle East, are still impacting pricing in major cities by deploying large chunks of capital at low yields. Meanwhile US players are picking off huge portfolios of distressed assets and debt. The pricing in many capital cities is leading capital to move into secondary locations and secondary stock. One prediction for the future was the impact of a potential change to the US FIRPTA law which could make the US more attractive to investors, which in turn could reduce pressure on European prices.

Co-sponsors Moody's Analytics followed with their outlook for the European economy, highlighting their city level forecasts. **Petr Zemcik** ran through the current European economic situation with some predictions on the upside for the UK and Central Europe, emphasising the disparity in growth expected across different regions in Europe for the next few years. Large metro areas are growing at a faster pace than smaller cities across the continent. **Steve Cochrane** identified the drivers behind different cities across Europe, with Moody's Analytics showing cities with single economic drivers to be more stable than those with multiple drivers. For those with single drivers, industrial focused cities are more stable than those which are office based. The overall outlook for European cities was positive, with a small number of exceptions including Athens, which is expected to continue to lag, and Helsinki.

Day two of the conference was opened by **Nick Mansley** of the University of Cambridge, who discussed the various ways of accessing real estate exposure, covering traditional options such as buying direct real estate

outright through to joint venture structures, buying real estate equities or units in unlisted funds, pooling capital in open-ended or close-ended funds, investing through private equity funds, investing in debt funds or taking derivatives exposure. The key to deciding which blend to take must be closely linked to the investment strategy, but building exposure across multiple options is a growing trend and offers flexibility. Regulation and a shift from defined benefit to defined contribution pension schemes are likely to impact on the exposure taken on as added liquidity is in demand.

Robin Goodchild from LaSalle IM, **David Hutchings** (right) from Cushman & Wakefield and **Charles Ostroumoff** of Arca then debated the merits of the various product offerings, concentrating on unlisted fund, direct property and derivatives respectively. They concluded that a blend of listed and unlisted funds was the only way to get truly global exposure for all but the largest sovereign wealth fund; those investing directly are having to move up the risk curve to secondary assets or secondary locations in order to hit return hurdles; and derivatives are a good tool to deploy capital quickly whilst direct assets are selected, while they can also be used to mitigate sector exposure.

All topics covered were then on the table for discussion at the grand debate, where real estate investment strategists **Rob Martin** from LGIM, **Kiran Patel** (pictured left) from Cordea Savills and **David Skinner** from Aviva Investors were joined by **Phillip Saunders** from Investec to bring a multi-asset dimension to proceedings.

The discussion concluded that real estate professionals understood their own asset class better than multi-asset allocators, but that the former could improve their understanding of what real estate does to a multi-asset portfolio. Regulation continues to gather pace, fuelling demand for risk based allocation strategies. As increased liquidity demands should be incorporated into product strategy, it was recognised that fees need to be sensible, even if real estate is a human resource intensive asset class.

Attendee participation helped bring the conference to a close, with a round of questions concluding with the majority of the audience believing interest rate rises will not negatively impact real estate investment, and that capital flows into the UK from overseas will continue to increase. Whilst there is theoretical interest in derivatives as a risk management tool, the feeling was that they are unlikely to become more prevalent in portfolios in the near term. The audience also believed that stock selection rather than market allocation would drive returns and, overwhelmingly, that infrastructure investment would not eat into real estate allocations.

SPR/IPF Joint Meeting: *European real estate outlook*, 9th September 2014

Freshfields Bruckhaus Deringer,
65 Fleet Street, London EC4

Simon Martin, Partner at Tristan Capital Partners and Professor of Real Estate Finance at Henley Business School, opened the formal presentations with a view of the long-term forces driving European real estate, under the title *Re-drawing the borders of Europe*. His theme emphasised that while Europe's political borders have been prone to constant change, some key trends are set to influence investment performance across the continent.

Martin stressed the significance of European bank deleveraging and consequent deflation as the predominant condition affecting real estate up to 2020 at least. Attempts by central banks to reduce its impact have taken the form of blunt money market interventions, causing greater volatility in asset prices. Further ahead, energy resources (eg Poland's shale gas bonanza) and robotics (bringing industry back to Europe) could prove important. For real estate, the transfer of bank assets to other types of financial institution may well add to the problem of under-capitalised secondary buildings, while sharper but more correlated cycles are likely to engender different approaches to risk management.

How are investors adapting to these trends? Speaking on *Cycles of Liquidity in Europe*, **Kieran Farrelly**, Portfolio Manager Europe for the Townsend Group, proposed that investors need to be flexible in their use of capital given the shorter duration of cycles, which means that good opportunities often appear suddenly but then rapidly become expensive. Many leading locations have now been through the recovery stage and offer limited growth potential, but investors' risk tolerance has generally risen, making secondary plays more attractive.

In practice, investors from different parts of the world are taking varying approaches to European markets. Institutions from within Europe tend to take a more holistic approach to the market, favouring diversification and widening their nets to reach beyond core assets to higher risk assets. US investors tend to see Europe as a land of opportunity investment, and thus focus on the higher yielding end of the spectrum. Meanwhile sovereign wealth investors and those from Asia are continuing to target high profile prime assets, often in very large lot sizes.

As alluded to by Simon Martin, Farrelly noted that deleveraging banks remain major sellers in the market, with C&W estimating that €584bn of bank real estate assets were still awaiting disposal mid-year. It was therefore unsurprising that global opportunity funds formed another key group of acquisitive market players though the year.

The UK, Germany and Spain were the most popular locations for investment in 2014 (CBRE investment intentions survey), but Poland declined significantly in popularity. However, across the continent, improving investor sentiment was supporting most markets.

Marcus Roberts, Head of Student Investment at Savills focused on his specialist market, explaining that the European continent has so far seen limited investment compared to the rapid growth witnessed in the US and UK. Continental student accommodation is probably 20 years behind the UK in terms of institutional investors' involvement, due to a combination of factors including the tendency of more students to live at home, the low level of rents and planning constraints.

But Roberts suggested that this could all change in the near future, with the number of foreign students at continental European universities set to increase substantially in the years to come and their courses proving more attractive to Asian students, with English teaching – a crucial benefit – gaining ground in many places. Opportunities are starting to emerge from the deterioration of publically-owned stock, in some instances spawning redevelopment partnerships between universities and private bodies.

After these presentations the audience was able to ask questions during a panel discussion. Networking drinks, kindly sponsored by Freshfields, were provided after the seminar.

SPR Research Briefing: *The regional office market recovery*, 10th September 2014

JLL, 30 Warwick Street, London W1

Hosted by:

Networking drinks sponsored by:

Jon Neale, Head of UK Research at JLL, began the briefing by examining *The Urban Tendency* – that is, the increasing attraction of UK city centres for businesses and residences. While this trend has been most widely recognised in London, it is also increasingly apparent in larger regional centres. Surveys show that city centre locations are expected to see strong growth in occupier demand, with business parks in contrast likely to be less favoured.

City centres are viewed positively as workplaces because they can provide a large and diverse pool of labour. Meanwhile, agglomeration effects can arise there from the sharing of both infrastructure and knowledge, and knowledge based industries are now showing the strongest growth. Outside London, Manchester, Birmingham and Leeds see the biggest concentrations of these kinds of business.

At the same time, the areas with the fastest growth in young and middle aged educated people are almost all urban. The growth in renting rather than buying homes has contributed to this, as most rental stock is located in inner urban locations. City locations also tend to be more sustainable due to strong transport links and the more intensive use of space, while government policy has tended to favour urban rather than out-of-town development.

All this means that offices in the larger and more successful city centres are likely to perform more strongly than those in smaller centres or out of town.

CoStar's new building quality rating system allows for extensive analysis of market trends across the spectrum from prime to tertiary and beyond. **Mark Stansfield**, Senior Real Estate Analyst, used this framework to examine regional pricing and areas of opportunity across property in the UK's six leading cities.

He noted that the demand for 5-star and 4-star premises has increased over recent years, to the extent that there is now almost no vacancy in prime space. But 4 and 5-star properties only represent 10% of stock in the top six UK cities, with 3-star accounting for around 50%. For the first time in recent years, tenant demand is now spilling out into the 3-star category, reflected in positive net absorption.

Average office yields are still showing considerable variation from centre to centre, and choosing where to invest regionally will depend on the investor's risk profile, Based on the star ratings for the properties in each centre relative to yield levels, rental growth forecasts and other occupier market variables, Stansfield proposed that Edinburgh, Leeds and Manchester were likely to prove most suitable for core investors, with Leeds, Birmingham and Glasgow best for opportunistic investors. But each of the six major regional centres was likely to fare better than smaller ones.

Bill Page, Head of Business Space Research at Legal & General, discussed the long-term demand dynamics for local office investment markets, using a research model developed by L&G. This model analyses the long-term drivers of employment growth, focusing on six 'attractiveness' variables: education and human capital; entrepreneurship; agglomeration and density; population; amenity; and housing. L&G has found these variables to have strong explanatory power for future employment growth.
Applying this model to UK local authority areas, L&G has found that eight of the ten top-ranking

locations lie in Greater London, although there is also a range of well-placed areas outside the South East. The top-25 ranked locations include Cambridge, Stratford-upon-Avon, Edinburgh and Aberdeen.

The three speakers were joined by **Guy Sheppard**, Property Research Analyst at M&G Real Estate, in the panel discussion and audience Q&A which followed. Much consideration was given to the implications of the forthcoming Scottish independence referendum. Bill Page indicated that L&G was still committed to its Scottish investments, although whatever the result, the referendum would be followed by “two years of uncertainty”. On another tack, Guy Sheppard suggested that UK regional centres should be capitalising more on London’s ‘world city’ status, something that only Manchester had so far begun to do.

Joint SPR/SLA Meeting: *Right space, right place? The future of retail real estate,* October 14th 2014

CBRE, Henrietta House, Henrietta Place, London W1

This wide-ranging seminar on the future of retail real estate was opened by **Neil Saunders**, Managing Director of the Conlumino retail consultancy, who painted a view of the current and future retail environment. External conditions are improving, he suggested, with retail spending expected to grow by 2.6% in 2014; but long-run growth has been steadily declining since the 1970s. Consumers are now highly indebted and deleveraging, limiting the potential for spending growth, while confidence is fragile.

At the same time the Internet retail revolution means that consumers can source goods from anywhere on the planet, with a vastly expanded range of choice. They are also now prepared to consider a much wider set of price points between budget and luxury for their purchases. All of this means that consumers are demanding more ‘touchpoints’ – for retail inspiration, transaction and collection – in turn implying that retailers’ costs are increasing and their offer needs to be better targeted but also more flexible.

Mark Disney, Executive Director at CBRE Shopping Centre Development & Leasing then explored the implications for retail development, which is currently at a very low level historically: less than 1m sq ft of shopping centres were due to open in 2014 compared to a high of 6m in 2008. The rise of the Web has led to consolidation among retailers and more ‘category killers’, while a presence in no more than 80 UK centres is now required to cover the market.

For the future, developers are set to focus not just on the largest UK cities, but also historic cities and affluent towns. Existing major malls are likely to be renewed and extended, while access to public transport will be at a premium. Meanwhile local authorities should play a stronger role integrating retail within their communities. The successful developments will be those where experience is allied with innovation to produce convenience and amenity for shoppers.

Stewart Colderick, Head of Retail Capital Markets at CBRE indicated that despite the upheavals taking place in consumer behaviour, investment demand is relatively buoyant. In 2013 UK shopping centre transactions were at their highest since 2006 at £4.2bn, with 2014 likely to eclipse this. This has been founded on the improved availability of debt and strengthening prospects for the Eurozone, with demand growing from a variety of investor types: UK REITs, Sovereign Wealth, private equity and institutional, each with its own specific risk perspective. Colderick however was relatively cautious about 2015, predicting that capital appreciation likely to slow and the polarisation of locations to continue. **Andy Brown**, Central Operations Director at Argos Stores explained how his organisation is “re-inventing itself for a digital future”. This means using stores increasingly for the collection of internet purchases, a strategy that has led them into partnership with eBay, for whom it now provides collection points. At the same time Argos is expanding its range of products as well as aiming at a wider clientele, particularly younger shoppers. Its 750 stores are being reconfigured to form a 'hub and spoke' network, with many of the smaller premises now taking on more of a distribution role. They are also opening small outlets within Homebase warehouses, again principally for distribution purposes.

After a short refreshment break, **Simon Wallace**, Vice President at Deutsche Asset & Wealth Management, considered investment opportunities in the retail sector. Broadly speaking, he suggested that the share of UK investment portfolios in retail, currently the largest sector, were likely to decline, as the prospects for retail performance appear less promising than for other parts of the markets. However, there are still set to be opportunities to outperform in the sector, particularly outside defensive low-yielding prime stock and in urban convenience locations. The UK is expected to underperform Continental Europe over the next few years, but should reach a new equilibrium thereafter.

Echoing the importance of local convenience retailing in the years to come, **James Lowman**, Chief Executive for the Association of Convenience Stores, gave the closing presentation of the afternoon. Turnover in the convenience segment has grown from £19bn in 2000 to £37bn now; it has become a vital amenity in urban, suburban and rural locations, he proposed. Occupiers include both larger multiples and smaller independents, but owner-occupation remains the norm. Lowman noted that the government has focused considerable attention on the High Street in recent years, but problems remain in terms of burdensome business rates, restrictive planning and prohibitive parking arrangements. Things are moving in the right direction, but stronger local leadership is needed if communities are to get a healthy level of retail provision.

After the presentations, the audience were given the opportunity to ask questions. Thanks are due to Jonathan Reynolds, Director of the Oxford Institute of Retail Management to chairing the discussion, and to CBRE for providing networking drinks both during and after the seminar.

SPR Research Briefing: *Using short-term indicators to predict when markets will start to rise or fall*, 20th October 2014

CBRE, Henrietta House, Henrietta Place, London W1

This technical seminar discussed a paper by Professors **Anthony McGough** (BCA Research & University of Ulster, pictured right) and **Sotiris Tsolacos** (Henley Bus. School, University of Reading, pictured below). This was originally presented at the ARES conference. The paper, their first joint research for more than ten years, looked at the potential usefulness of leading indicators, such as business expectations and sentiment measures, in predicting turning points in real estate markets.

The theory underlying the research is that oscillations in real estate yields and pricing are largely caused by changes in investor sentiment and attitudes to risk, changes that are likely to be reflected in expectations indicators.

The specific objective of the research was to assess the predictive ability of BCA research sentiment and risk indicators for short term trends in US cap rates, as shown by the NCREIF All Property Index. The indicators used covered the US bond and equities markets, in relation to risk, liquidity, momentum and sentiment. The leading properties of these indicators were assessed using Granger Causality Tests, and dynamic regression models were then formulated.

Of the indicators considered, the BCA equity sentiment indicator proved to be the most useful in terms of its predictive ability, being able to predict turning points in market cap rates three quarters ahead in 85% of cases. For example, the indicator movement in Q2 2007 predicted the cap rate rise in Q1 2008 after many quarters of falling cap rates. The implication of the research is that valuable information on market movements can be gained from these sentiment indicators, even for short term shifts in real estate yields. But whether this information can be used to re-weight real estate portfolios in practice may be more questionable.

It was noted that the equity sentiment indicator had dipped recently, suggesting that real estate prices might be nearing a peak.

In the panel discussion that followed, both **Greg Mansell**, Senior Strategist at AXA REIM and **Neil Blake**, Head of UK and EMEA Research, CBRE agreed that the approach looked promising and that the level of accuracy was impressive. The method has the advantage of being relatively transparent and easy to model, commented Mansell. Blake wondered if the consistency in the lag of three months reflected some underlying driving force in the market, perhaps related to the time taken to enact real estate transactions.

Neil Blake

Irfan Younus, Associate Director, Cordea Savills, the third panelist, stressed that knowing how to interpret and act on the information was crucial. This could partly depend on whether the investor is looking at property yields in absolute terms or relative to other asset classes.

Contributors to the audience Q&A which followed emphasised that in the current market there is a distinction between core properties and the rest of the market, to the extent that these seem to have different cycles. It is important to be clear which kind of asset is being modelled. In response, McGough suggested that the lower-yielding prime assets might be seen as closer to bond-type assets, and therefore bond sentiment indicators could be more relevant for them.

Weaknesses in this approach might emerge if the data series employed were not robust, it was proposed. This could apply to sentiment measures for Continental Europe, which are not as well developed as in the UK. McGough also suggested that if the movements in the expectation indicators were only marginal, then the implications could be more difficult to interpret.

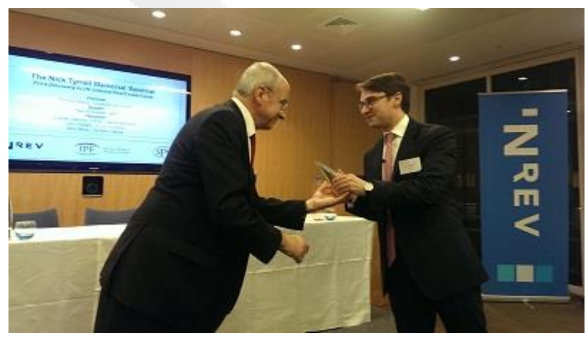
CBRE kindly provided opportunities to network over drinks after the seminar.

Joint SPR/INREV/IPF meeting: Nick Tyrrell Memorial Seminar, *Price discovery in UK unlisted real estate funds*, 27th November 2014

Sponsored by: Dechert LLP

Dechert, 60 Queen Victoria Street London EC4

In this joint SPR, IPF and INREV seminar, **Paul Schneider**, the winner of the third Nick Tyrrell Research Prize, presented his paper *Price Discovery in UK unlisted real estate funds*.



Paul McNamara presenting the Nick Tyrrell Prize to Paul Schneider

Paul McNamara welcomed delegates to the meeting, highlighting the fact that 23 papers had been submitted for the prize in 2014. He thanked **Dr Robin Goodchild** for chairing the judging panel, a role that McNamara himself will be taking on next year. Papers for the 2015 prize must be submitted by 30th May, with the winner to be announced in September.

Schneider, who currently works as Associate Portfolio Manager at QIC, explained that his paper represents the first documented research on pricing in the UK secondary unlisted real estate funds market. The three main questions addressed in this research were the relationship between the pricing of unlisted funds and that of REITs, the factors lying behind unlisted market pricing and what can be learned from current pricing regarding future market trends.

Schneider explained that the work draws on price data from CBRE-GFI Property Match and Jones Lang LaSalle Corporate Finance in the UK secondary unlisted market. These organisations acted as deal-makers for 846 transactions over the period 2007-13, with the great majority of transactions occurring since 2010. Secondary market pricing is likely to differ from fund NAV – which is used as the basis for open-ended fund pricing – since the latter is valuation-based whereas the former would be expected to give a better indication of the fair value of fund interests.

Coming back to the research questions, Schneider declared that he had identified a relationship between unlisted fund pricing in the secondary market and that of REITs, with a lag of about four months. This compares to the delay commonly found between REIT and direct real estate price movements of around six months.

To help determine the factors driving unlisted market pricing, Schneider used a panel regression methodology, which suggested that past returns, yields, rental income concentration and ownership concentration play a role. Past returns could be seen by investors as an indicator of manager quality, while yields and income concentration may reflect the importance of income security in the current investment climate. Ownership concentration showed a negative relationship, which might indicate a preference for funds with greater liquidity.

In the final part of the analysis, fund pricing was related to subsequent performance as measured by IPD total returns. Here a price premium to NAV was associated with stronger future returns, in contrast to the commonly seen relationship for REITs, where higher returns are generally preceded by discounts for price against NAV. This kind of relationship was identified for both closed and open-ended funds.

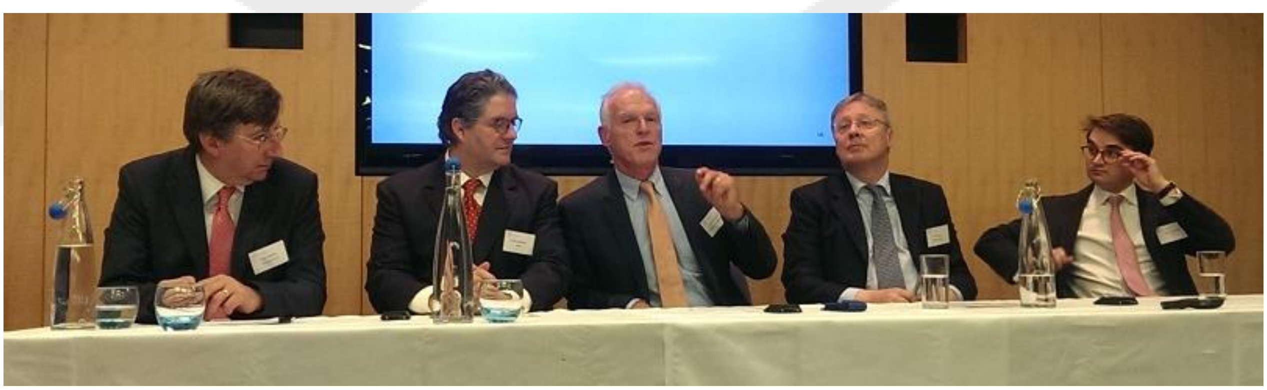
In conclusion, Schneider noted that investors appeared to be expressing their view of fair value in the secondary market for funds, and that reference to this information could be used to help estimate fair value for their fund interests in general.

After the presentation, a panel discussion was moderated by **Professor Andrew Baum** of the University of Oxford.

Opening the panel discussion, **John Gellatly**, Head of Europe for the Real Estate Multi Manager Team at Aviva Investors, who has been building portfolios containing both listed and unlisted property for a number of years, said that he found the paper interesting from the viewpoint of the arbitraging potential between pricing in these markets. He noted that secondary trades in UK unlisted funds now take about five days to enact, much quicker than direct market transactions.

The second panelist, **Graham Barnes**, Executive Director Corporate Finance at CBRE Capital Advisors, was previously involved with the Iceberg real estate hedge fund; there they traded on the kind of relationship that Schneider has described, and would have loved the liquidity that has now become available in the unlisted market, particularly with the 4-month lag relative to REITs, which would have given 'money for old rope', he suggested.Baum asked if this was a true pricing lag, or just a reporting lag. The panelists indicated that both REITs and funds are traded on 'stale' NAVs.

Alex Moss, Founder of Consilia Capital, noted that most of those trading REITs are generalist equity



investors, not just concerned about NAV but many other factors both in real estate and elsewhere. The research reflects the fact that the market is getting more fluid and therefore the listed and unlisted markets are coming together, he suggested. Barnes confirmed that activity levels are increasing, with a greater proportion taking place through broking platforms. This is partly because the market is in an upward phase, but also because people are getting more accustomed to using it.

Since the financial crisis, investors have become increasingly sensitive to the liquidity available in the funds market when making these kinds of investments.

Questioned as to why unlisted funds trade at discount but REITs at premium, Schneider explained that most of the funds covered by his study are open-ended, but these do have restrictions on liquidity, which would tend to mean that they trade at bigger discounts. Specialist funds also tend to trade at bigger discounts, most importantly because they generally employ more leverage.

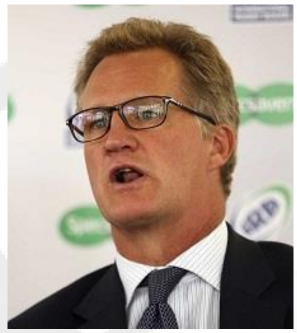
Baum questioned whether the work implied that investments in funds should be held at secondary market price rather than NAV. Gellatly thought not; his organisation holds open ended funds at the mid-point between bid and offer prices, and closed funds at NAV. Their clients generally have 3-5 year horizons, so are not too concerned about short-term variations in price.

In response to an audience question about taking the research forward, Schneider suggested that comparing secondary market pricing with the IPF Consensus Forecasts could be interesting, as this might confirm that the market is relatively forward looking.

The seminar concluded with networking drinks, kindly sponsored by Dechert LLP.

Joint SPR/INREV/IPF meeting: *Outlook for UK Property 2015*, 14th January 2015

Allen & Overy, 1 Bishops Square, London E1



This year's opening event was chaired by **Michael Lynagh**, Director for European Acquisitions and Bank Restructuring at VALAD Europe and Australian 1991 Rugby World Cup Winner, who addressed a packed audience.

Savvas Savouri, Chief Economist at Toscafund Asset Management, painted a relatively positive picture of the UK economic prospects for 2015. Although considering the deflationary conditions gripping the Eurozone alarming, he believes that this could work in the UK's favour as skilled workers migrate in substantial numbers.

Savouri suggested that the ECB had now missed its chance to head off the spectre of deflation, and that the Eurozone's outlook was even worse than the consensus view. The UK should however benefit from its strengthening relationship with China, which will not experience the hard landing that some expect, while the impact of the general election may not be great, as 'Threadneedle Street' now largely controls the economy, he believes.

Roger Sadewsky of Standard Life Investments (pictured below) gave a slightly different perspective in his presentation on asset allocation and the role of real estate in the portfolio, though agreeing that the UK would, with the US, be one of the two fastest growing western economies in 2015, its GDP increasing by about 2.6%. But he was not quite so negative about the Eurozone, suggesting that capital would return there once pricing had fallen enough. Real estate was currently occupying a 'sweet spot' for investors due to the difficulty for investors in diversifying through the conventional route of government

bonds, Sadewsky said. In this environment investors need to focus more on performance outcomes than on the traditionally-held views of asset classes.

In a global real estate context, Standard Life sees UK property as a 'neutral' play relative to other markets, with a 7.3% average annual return forecast for the next three years. While economic growth prospects are positive, valuations in some parts of the market have become 'a bit steamy', and there are also supply problems in certain locations.

Also looking to the prospects for UK property markets, **Bill Hughes**, Managing Director at Legal & General Property (pictured left) began by asking the audience whether they expected returns to exceed 10% over the year. A slight majority agreed, though Hughes himself was rather more bullish, predicting an out-turn closer to 15%.

Hughes explained this view in terms of an improving – if divergent – occupational environment across the sectors, and the fact that property continues to look inexpensive relative to bonds; though he conceded that any change in bond rates would be 'of critical importance'. He noted that while retail was experiencing upheavals due to the digital revolution, the 'alternative' sectors are growing rapidly in institutional portfolios, and would be expected to out-perform their traditional counterparts over the medium term.

'New urbanisation', meaning bigger and smarter cities, was another key trend identified by Hughes. This revival in city centres would increasingly move away from its starting point in London to benefit those regional centres which could nurture highly-skilled professions. Those with strong transport infrastructure would also be particularly well-placed, but those more dependent on the public sector would continue to suffer, with austerity cutting budgets further.

In answer to a question from Karen Sieracki in the audience discussion which followed, Hughes suggested that the biggest risks that might threaten his positive outlook could stem from an unhelpful attitude from the government after the election, perhaps prompting over-regulation or over-taxation of real estate. Roger Sadewsky however proposed that the biggest danger could lie in an 'overblown credit market', which could have similar effects as in 2007 if interest rates suddenly escalate, given the lack of liquidity in the financial system.

Opportunities for networking were kindly provided by Allen and Overy both before and after the main part of the event.

SPR