SPR Newsletter

July 2015

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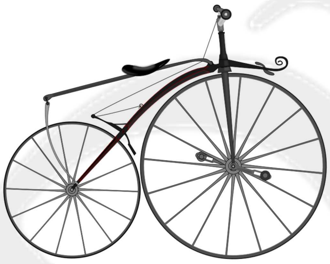
Upcoming Social Events



Upcoming Technical Events

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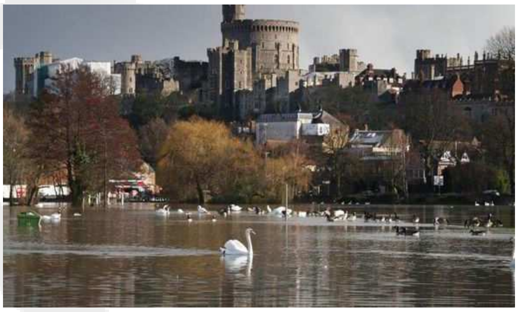
Recent Technical Event Reports

Society of Property Researchers

Upcoming Events

SPR Inaugural Cycling Day, 17 September 2015

Windsor, Berkshire



The route for the inaugural SPR Cycling Day will head west out of Windsor over some undulating countryside to the Thames river bank at Henley. Within a few miles of Windsor you will find yourself in green leafy lanes.

Crossing the river at Henley, you will head south to Playhatch and a lunch stop, then over the bridge at Sonning before another water stop at Sherlock row and then back to Windsor.

The total distance is 40 miles, with water stops at approximately 10 and 30 miles, and lunch at around 20 miles. At the water stops there will be a selection of quality cycling fare including sweets and bananas.

The ride will set off at 10 am, lunch will take place between 12.00 and 14.00, and the finish is due around 16.00 – depending on speed! This is based on a leisurely 10 mph – so that more speedy riders could leave later. It is planned to have everyone together at the lunch stop.

If you are interested in taking part, we will require you to make a non-refundable £10 towards organisation costs to secure your place.

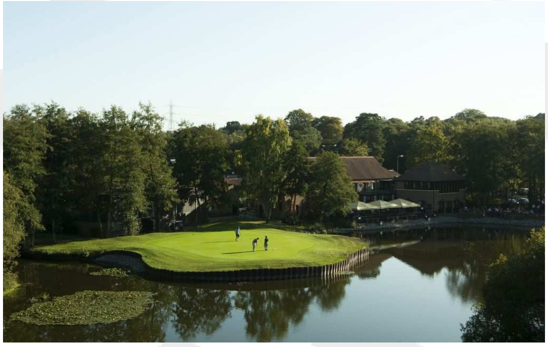
If you need to hire a bike, one possibility is http://www.stows.co.uk/hirebikes.asp They hire out road bikes at £30 a day plus a £220 deposit. You will need to book in advance.

SPR Golf Day 2015, 24 September 2015

Silvermere Golf Club, Surrey

Sponsored by:

The SPR Annual Golf Day is being held on 24th September and will involve breakfast, a relaxed practice session with PGA qualified coaches followed by 18 holes and a three course dinner.



https://www.silvermere-golf.co.uk/

The event is open to SPR members only and will cost £17 per person, thanks to the generous contribution of our sponsors and subsidies from the Society.

For further details and to register your interest, please contact Craig Wright at Standard Life craig_wright@standardlife.com. Cheques should be made payable to Silvermere Golf and Leisure Ltd.

The day will begin with a casual practice, with two PGA golf professionals on hand to help your long and short game. We will have the use of the new 2-tier driving range and the short game area, with range balls included. Following the practice session, you'll be able to try out your new tips on an 18-hole competition.

The usual format will apply, with generous prizes for the winner, runners up, longest drives and closest to the pin. Following the 18-hole competition, members are invited to the prize giving and a three course meal in the club house. The dinner will be a good opportunity for some more relaxed networking and a chance for fellow members to catch up.

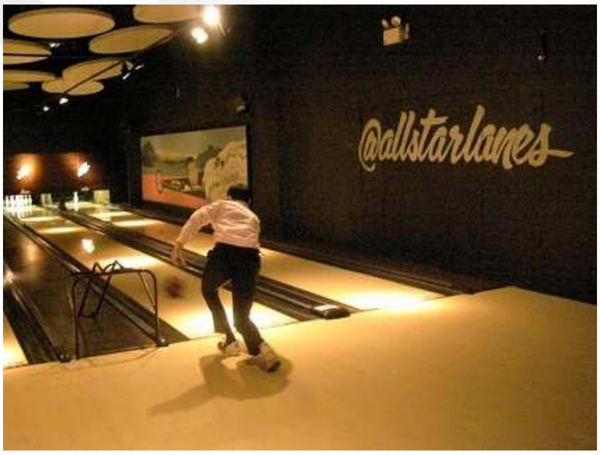
Recent Social Events

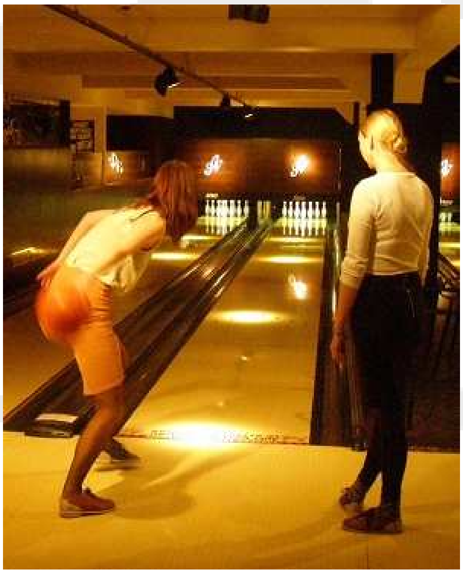
King Pin Bowling, 3 February 2015

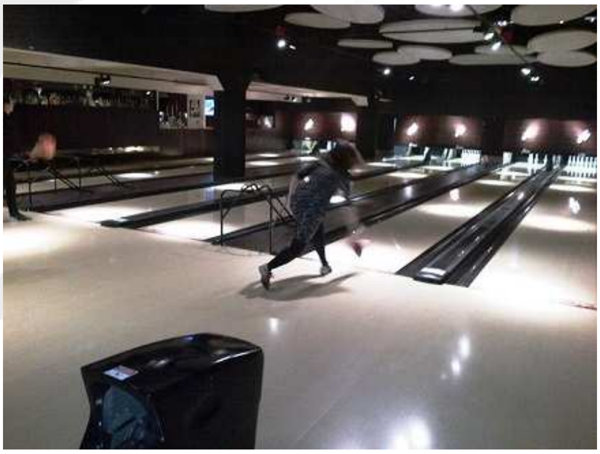
**All Star Lanes, Spitalfields Arts Market,
95 Brick Lane, London E1**

Held for the third time this year, the SPR bowling social once again proved very popular. All five lanes booked by the Society were occupied by a full team. The fiercely-fought competition was won by a multi-company team of George Armitage, Joe Kelly, Marie Hickey, Simon Wallace, Claire Higgins, Farhaz Miah and Greg Mansell.

Joe Kelly was also the highest scoring individual bowler, narrowly beating Fergus Hicks for that accolade.





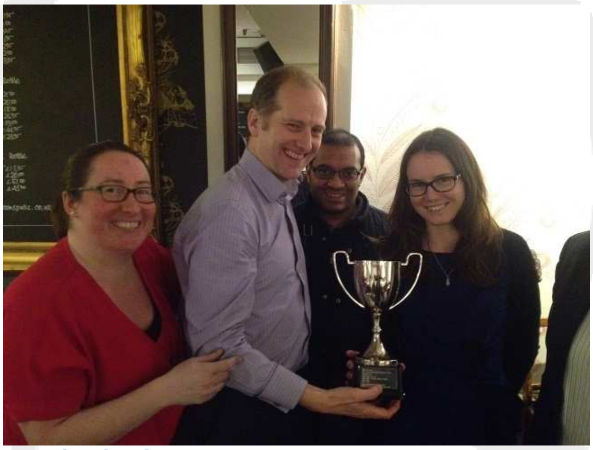


SPR Annual Quiz Night, 19 March 2015

The Hornimans At Hays, Hay's Galleria, London SE1

The ever-popular SPR Quiz was won this year by the team from MSCI, which also included a couple of ex-IPD recruits. Scoring particularly strongly in rounds on 'Hollywood Science' and 'Musical Connections', their total of 92.5 points pushed three other teams into joint second place on 84.

Four members of the winning MSCI/ex-IPD team: Caroline Jones, Jeremy Marsh, Kam Daraji and



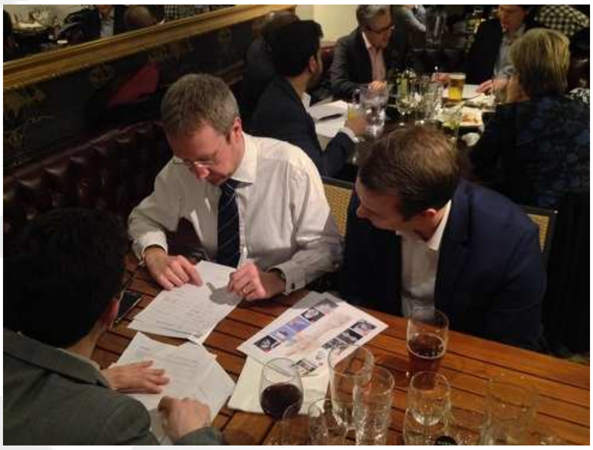
Angela Sheahan

Andrew Marston asks the questions

The three runner-up teams were entitled "the Barbours of Savills" (also winners of the honorary best name contest), "Deutsche-Star", and "I'm a researcher get me out of here".

It is rumoured that most of the winners' prize – a case of wine – is still sitting under Jeremy Marsh's desk at Schroders. His fellow winners should claim their reward before it disappears.

Don’t let anyone tell you it’s not serious



SPR Summer Drinks, 16 July 2015

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

Large numbers of Society members overcame the heat of the Northern line and the London real estate market to attend the SPR summer drinks.

Sponsored by: REAL CAPITAL ANALYTICS

cobalt recruitment

Recent Technical Events

Meeting reports written by Tim Horsey unless otherwise stated.

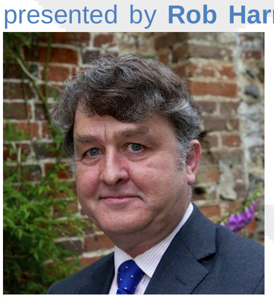
RICS/SPR Cutting Edge Conference: *Time to reboot: How is innovation changing the real estate industry?* 10 February 2015

RICS, 12 Great George Street, London SW1

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. At this conference experts from a range of backgrounds reviewed these changes and assessed their impact on the real estate industry.

In the morning session, three longer papers were presented on innovation affecting the UK investment and occupational real estate markets. **Christopher Hedley** of MSCI, chairing the event, emphasised that these changes need to be understood by all those wanting to maximise the financial rewards from their involvement in the industry.

The first paper, on the changing nature of the workplace and the future of office space, was presented by **Rob Harris** of Ramidus Consulting.



He sees dramatic changes in the way occupiers are working, with the digital revolution giving rise to a sea change in the connectivity and agility of organisations. Work forces are now multi-generational, but all expect more choice in their working lifestyles. The property they occupy has a major role to play in facilitating this change; the debate about efficiency in space use has largely run its course, and the quest is now for a positive contribution to productivity. Harris admitted that occupiers still find this impact difficult to measure, but the demand for more flexible space is already leading to a wider range of leasing structures and service levels, particularly aimed at smaller scale businesses in the IT, media and communications sectors. A notable example is WeWork, the US high quality serviced office provider, which has just taken 160k sq.ft in the City of London.

Responding to a question from the audience, Harris noted that the revival of urban centres across the UK has gone hand in hand with these changes. Increasing commercial demand has been accompanied by residential expansion, leading to growing pressure for change of use. London is witnessing a "hundred-year change", he argued, but this has begun to mean smaller enterprises are getting priced out of former fringe locations that were recently affordable.

Bob Thompson of Remit Consulting followed with a paper on Innovation in Property Management.

Defining innovation as "fresh thinking that creates value". He suggested that, as a service, innovation in this area may well be less tangible than for the physical fabric of buildings. Property managers are being squeezed by financial pressure from asset managers on one side, while tenants tend to regard the function negatively. Still, as in many other areas, digital innovation is making its mark, in particular with the advent of building information modeling (BIM) and building management systems (BMS), even if the latter is seen more as part of facilities management. However the culture of property management is often thought to be innovation-averse; but quite simple steps such as using direct debits for rent collection can prove very significant in practice.

Thompson proposed that innovation in management would only happen when asset managers demand it, and that the UK lease structure works against this, as it does not encourage tenants and landlords to work together. He also agreed with **Sarah Sayce** (Kingston

University) who commented that the three-way division between asset, property and facilities management makes it difficult to implement innovation.

In the final paper of the morning, on Energy Performance certificates in the context of sustainability and the impact on valuations, **Martin Turley** stressed that building sustainability is an area where innovation is being encouraged by public policy. Turley, Senior Lecturer in the Built Environment at Liverpool John Moores University, looked at the perceived effects of the Energy Performance of Buildings Regulations 2012. These stipulate that by 2018 all let buildings must have an Energy Performance Certificate, with those rated F or G not allowed to be relet. In these circumstances the owner would be obliged to upgrade the building, often at considerable expense, while there is also a risk that the upgraded building might be worth less than the original, if for example improved insulation leads to a reduction in internal area.

Turley also stressed the potential difficulties that landlords might face in obtaining dilapidations payments from tenants at lease-end if they occupied an F or G rated building. These payments are based on the difference between the current value with damage rectified and the value without rectification. If the value after the required EPC improvements were lower than previously (as described above), then by definition no dilapidations liability could exist. **Nick French** of Oxford Brookes University commented that these implications were not widely recognised, and so landlord-tenant negotiations at the end of a lease could be quite unpredictable. This was compounded by the failure of UK owners to provide running cost information to the occupiers of their buildings, creating further distortion in the marketplace.

Lunch was followed by three short papers on the likely impact of new technology on the property sector. **Dan Cook** of conference hosts RICS set out some thoughts based on the RICS Futures project, which aims to identify key changes for the real estate sector over the next 20 years. Beyond the effects of demographic, environmental and social change, real estate will undoubtedly be affected by the greater connectivity, increasing use of mobile devices and big data associated with the latest phase of the digital revolution. While there are substantial differences in attitudes to these trends between generations, some groups of real estate professionals look particularly vulnerable: residential valuers, brokers and quantity surveyors, may see their jobs at risk as a result..

Josef Hargrave explained that architects Arup see having an understanding of future trends as vital for their continued success. Leading these at present are the potential for smart and reactive technology, both within buildings and in the external built environment of cities. This will partly stem from the ever greater adoption of mobile devices, and partly from the existence of and ability to analyse vast swathes of data. These will not only lead to a better understanding of consumer demands and more accurate modelling of climate change, but also allow for the design and adjustment of buildings for the health and well-being of their users.

Richard Donnell described how Hometrack have already benefitted from the digital revolution, being a business which provides automated valuation modelling as well as data analysis for investment decision making in the residential investment sector. In most cases these services use data that clients already possess, but without having the skills to analyse it themselves. Part of the challenge for Hometrack is to ensure that the analysis gets back to the people that need it.

In the subsequent discussion, real estate's requirement for a changing skill set was emphasised. Josef Hargrave noted that while

Arup's structural engineers had declined in number, its demand for psychologists had increased. It was also stressed that all real estate sectors are now in flux, with residential moving back to city centres while out of town retail looks under increasing threat.

In a joint presentation entitled Innovation in fit-outs - Generation Y and TMTs are setting a new trend, **Nicola Gillen** and **David Cheshire** of AECOM began by looking at building innovation from the perspective of occupiers. 'Generation Y', broadly those born between 1977 and 1991, has been identified as a key group in terms of their increasing influence within organisations, but Gillen stressed that there are now four generations, all with varying expectations of their workplace. Fulfilment, happiness and well-being are considered to be increasingly important aspects of work across all generations, implying that their experience of the built environment is having a greater impact on both loyalty and productivity.

Building sustainability is a key element, especially for the younger generations. Cheshire focused on sustainability in building construction, where the advent of the 'circular economy' is characterised by the use of recyclable materials such as cardboard both for external structures and fitting out.

Gillen concluded the joint presentation by emphasising the need for flexibility from space providers. Start-ups often favour co-working environments, while pop-up space is also emerging as an option. "The next generation of workspace will be like a hotel or city quarter," she proposed. "Work will happen anywhere, anytime."

Simon Martin of Tristan Capital Partners, who is also Visiting Professor at Henley Business School and Cass Business School, reflected on some of the issues that are most relevant to investors. In the five years since the Financial Crisis many tenants have been failing to maintain the standard of their space, particularly in the retail sector. Tristan often acquires this kind of buildings from 'distressed creditors'. And when investors want to upgrade or redevelop space, inertia is often institutionalised by the planning system, making it difficult for investors to keep pace with changing technology. Looking to the future, Martin asserted that change is now the only constant, with manufacturing in particular set to be transformed by robotics, having substantial impacts on the demand for labour. Energy supply and use are also likely to be key factors for international investment, having both economic and political implications.

After the afternoon refreshment break, a panel discussion brought the conference to a close. Here **Simon Martin** and **Dan Cook** were joined by **Nick French**, Professor at Oxford Brookes University and editor of the Journal of Property Investment and Finance and **Kate Brown,** Group Sustainability Director at Grosvenor. Thinking about the future of real estate as a business, French suggested that core roles were often considered uninteresting, limiting the supply of talent coming in. Brown agreed that real estate has a tendency to be backward looking, making it important to work with other industries to understand how the demand for property is changing. Responding to a question from Professor **Karl-Werner Schulte** of the University of Regensburg, there was agreement on the panel that academia is failing to produce the kind of research needed by the business, most of which now being done by practitioners themselves. Such research is not always widely disseminated. On a more positive note, it was suggested that small firms are often responsible for innovation in real estate, and that even if there is a trend towards agglomeration, it is also common for senior professionals in bigger firms to branch out on their own, bringing adaptations based on a strong understanding of the marketplace.

SPR Research Briefing: *Dispelling myths on residential*, 23 April 2015

Strutt & Parker, 13 Hill Street London W1J

Kindly hosted by:

Residential remains a hot topic with house prices now out of reach for most would-be first-time-buyers. This has resulted in the growth of the private rented sector (PRS), while institutional investment in this huge asset class is also on the point of return after decades of absence.

Duncan Salvesen, Director of Residential at Dorrington, opened the briefing from the chair. He proposed that UK's housing crisis has been worsening for at least 25 years with little social housing built and the recent rise of inward migration. Now some 240,000 houses need to be built each year to relieve this crisis, with home ownership out of reach for many and rental costs also escalating, despite the growth of the private rented sector (PRS).

Thomas Grounds, Senior Analyst at Strutt & Parker, set the scene with some thoughts on the future of private rental demand. He noted that this is currently strongest among the relatively young working population, although couples with families also form a growing proportion. Many of those who rent are not satisfied with their accommodation while most aspire to home-ownership, desiring bigger and better quality space, as well as more secure tenure. Yet the cost of renting, particularly in London, is increasingly unaffordable: average private rents are at least a third of take home pay in every borough. One solution could be 'micro mansions' that use the available space more efficiently. But for institutional investors the quandary remains: yields are very low, especially when accounting for the high cost of management.

Yet some larger scale UK residential investors have been able to square this circle. The most important lesson is that "residential is an asset backed operating business, where the 'reality' is that operating skills affect at least 25% of the net operating income," according to **Charles Fairhurst**, Managing Director of Fairbridge Residential Investment Management. In a sector where net yields are relatively low and leases tend to be short, eliminating voids is the most effective way of maximising investment income. This means that the relationship between the asset manager and the property manager is key. And while yields may be low, the level of demand and relative ease of reletting should mean the cashflow risk is significantly lower than for commercial real estate.

Andrew Stanford, Residential Fund Manager at LaSalle Investment Management is in a unique position to give the public sector view of PRS, having until April led the DCLG's Private Rented Sector Taskforce. He began his presentation by emphasising that his new employers fully support the aim of getting more institutional investment into rented housing, as the sector's fundamentals are very strong and its performance has historically shown low correlations with other asset classes. Stanford noted that all three major political parties had been positive about greater institutional involvement in the sector before the election in May, although it did not figure prominently in any manifestos. This was partly due to the current lack of evidence that PRS boosts housing supply – which was their main pre-election concern. Stanford suggested that evidence gathering is vital in this area, and that industry bodies like the SPR have an important role to play. Local authorities also need to be more positive about allowing private rented space to be developed, but this should happen since long-term tenants produce more stable communities, and therefore constitute a potential new source of local tax income.

Panellist **Michela Hancock**, Development Director, Build to Rent at Grainger plc, compared the private renting markets in the US and UK, noting that the convenience of renting is viewed more positively in America. This is partly because its reputation for quality is stronger, as the UK market is dominated by small buy-to-let owners, who have brought down the overall level. In addition, US institutional owners often take a longer-term approach than is the case in Europe, where the option to sell off units to their occupiers is often considered an important source of profits.

There was an opportunity to network over drinks after the seminar.

Joint Meeting with IPF Next Generation: *The General Election: what will be the consequences for the property industry?* 27 May 2015

Osborne Clarke, One London Wall, EC2Y

Joint event with:

At this first event for newer members of the real estate investment communities to be held jointly by the IPF and SPR, political consultant **Nick Keable** looked back to the General Election in May.

He proposed that it was an event of historic proportions, particularly in terms of the relative standing of the political parties. The Conservative overall majority was not only unexpected by the pollsters, but also remarkable for a governing party in the achievement of increasing its share of seats in the House of Commons, the first time this had happened since 1900.

At the same time the election was a huge setback for Labour, who will need an 8.5% swing to regain power, rising to 12% once the electoral boundaries are redrawn during this parliament. And while the SNP has become the party of choice in Scotland, the Liberal Democrats have gone back 40 years. Meanwhile UKIP, despite winning a substantial share of the popular vote, will be searching for a role once the EU referendum is over. This outcome was very different to what would have happened under proportional representation, which would have given them enough seats to form a coalition with the Tories.

Little media attention was given to the local elections held on the same day, but here too the Conservatives did surprisingly well, gaining control of 32 councils – contrasting with the normal pattern in which the governing party loses seats. District councils were the bodies where they had greatest success.

The biggest talking point of the election was the failure of the opinion polls to predict an overall Conservative majority or the possibility that they would increase their number of seats. This resulted in an enquiry by the British Polling Council, but in reality most polls were accurate within their stated margin of error. Part of the problem was that YouGov dominated the media coverage due to the sheer number of polls they ran, whereas seven outlier polls did predict a Tory win. A key factor in the polls' overall inaccuracy was the phenomenon of 'Shy Tories' – Conservative voters unwilling to admit their intentions, particularly in phone polling.

So what are the implications of the election result for the future? Keable suggested that the government will be keen to get most of its main legislative business out of the way in the first two parliamentary sessions, as its small majority is bound to get eaten away over time, mainly due to by-elections. Meanwhile Labour and the Liberal Democrats face a long period of soul searching in the quest to find more effective leadership. Labour are unlikely to regain power without reclaiming the political centre ground, but Andy Burnham, the current favourite, looks unlikely to move far in that direction.

Considering the implications of the election result for property, Keable proposed that the government's intention to build over 200,000 homes through this parliament means that the planning regime will need to be more flexible than previously. However, the current number of outstanding residential consents suggests that it may be possible for the target to be met.

SPR Peer Review: *The Tenant as Customer: does good service improve the performance of commercial real estate?* 11 June 2015

AXA REIM, 155 Bishopsgate, London EC2

Kindly hosted by:

SPR Peer Reviews provide an opportunity for researchers to discuss new and often unpublished work with a small group of their peers in the Society. Although they tend to follow a similar structure in each case, these are relatively informal meetings where the author can get feedback and suggestions that can contribute to their work.

This particular meeting focused on the research of **Danielle Sanderson**, a PhD student at the School of Real Estate and Planning, Henley Business School, looking at the relationship between occupier satisfaction and financial performance for UK commercial property. The research used a number of different statistical techniques to investigate the relationship between occupier satisfaction and the outperformance of IPD benchmarks for 273 properties – shopping centres, offices, retail parks and industrial estates – over the period 2003-2014.

The research concluded that there were some positive relationships between occupier satisfaction and outperformance, but that these were generally too small to be statistically significant. However, the correlations were strongest for the retail sector, particularly in the years just after the financial crisis, suggesting that "attention to satisfying the needs of occupiers may act as a hedge during periods when property supply exceeds demand", Sanderson proposed.

In the discussion that followed Sanderson's presentation of her research, **Tony McGough**, moderating the meeting, wondered if some of the limitations of the results might have been due to the relatively small samples of properties used, particularly when analysing at the market segment level. Sanderson had previously explained that the work was dependent on data from four REITs, which had agreed to make their property-level performance data available for the research.

Greg Mansell of AXA Real Estate suggested that it might be revealing to examine not just the income and capital elements of the relative return, as had been done in the research, but also the yield and rental value elements of capital growth. This might shed some light on how tenant satisfaction was being reflected in the valuation process. **Oliver Kummerfeldt** of Schroders Real Estate Investment Management queried whether different lengths and form of leases might be associated with varying degrees of tenant satisfaction.

Richard Holberton of CBRE thought that occupier satisfaction was likely to vary depending on the state of the market at the time. When occupier markets are relatively weak, with higher levels of vacancy, tenants should be in a stronger position to demand good service or to vote with their feet.

The analysis in this research was mainly performed at the market sector and segment levels. In the discussion it was proposed that there could also be interest in extending the analysis to compare the different landlord portfolios. This might show if some space providers give better service and are thus able to keep their tenants more effectively, or at least to attract demanding tenants. Another factor could be whether a property owner uses a managing agent, and if so which one.

Joint Seminar with APL. *Where next for Real Estate lending?* 1 July, 2015

Taylor Wessing, 5 New Street Square, London EC4

Sponsored by: TaylorWessing

In association with: apl The Association of Property Lenders

This breakfast seminar, kindly hosted by Taylor Wessing, took a Europe-wide view of the current real estate lending landscape.

Opening the meeting, the moderator **Rodney Dukes**, Taylor Wessing, observed that the global real estate market has now surpassed its previous peak value, with the level of activity also at a long-term high. In the wake of the financial crisis, equity still continues to replace debt, but a wall of money has undoubtedly re-appeared, fuelled by both funds and lenders.

Justin Curlow, Commercial Real Estate Finance Investment Strategist at AXA Real Estate Investment Management, gave a scene-setting presentation which formed the cornerstone of the seminar. He proposed that the European debt market is now structured more like the US, with a number of insurance and pension funds in for the long haul. This restructuring has in part been driven by regulation, which has pushed these newer lenders towards private debt rather than CMBS. Meanwhile, although senior loans have seen loan-to-value (LTV) ratios consistent at around 65%, the weight of equity coming into the market has driven yields lower.

Questions are therefore emerging as to whether a market reversal is imminent. Curlow suggested that the position varies greatly between different European markets, but a number of warning signs have become evident, in particular the growth of proforma underwriting for transactions. The best time to originate debt is just after a crash, but now lenders need to be wary of mispriced term and default risk in some markets. This will depend heavily on assessments of potential economic and therefore rental growth.

Curlow proposed that debt yield – the ratio of property income to loan proceeds - is a very useful metric in mitigating the kind of risks associated with the loan vintage, and should ideally be considered in addition to LTV and debt service coverage ratios. Risks could be particularly high in markets like Southern Europe and the Netherlands, where there has been a history of oversupply. However, the bond yield gap remains favourable for real estate lenders, and should remain so for the eurozone with the ECB's quantitative easing strategy.

Rodney Dukes began the panel discussion, asking if regulation was dampening the real estate cycle. Curlow believes that it has made little difference, with a sudden drop in the demand for property still a potential danger. But **Michael Shields**, Managing Director, Head of REF Western Europe, UK, USA and Structured Products at ING disagreed, suggesting that the regulatory environment is certainly checking bank lending and making the cycle more prolonged, particularly as lending on speculative development is not feasible in Europe.

Asked which are the most attractive European locations for lending, **Richard Spencer**, Managing Director Real Estate Principal Investment Area, at Goldman Sachs, replied that it would depend on whether one is taking a short or longer term approach, as the Greek situation would provide some potential plays in Spain and Italy, while in the longer term market inflection points in France and the Netherlands could prove beneficial.

Rob Clayton, Partner, DRC Capital proposed that Spain's impending elections could raise risks

there relative to Italy, where core and core plus opportunities in the North are attractive.

Touching on lending possibilities in Eastern Europe, only Shields was at all positive, with Krakow offices his favoured location in terms of market conditions, though even here he suggested one should be aware of German competition and risks from the Ukraine. Spencer indicated that his organisation didn't have the market knowledge and local expertise to operate here. All the panellists agreed that such expertise is essential wherever one is lending, and the only way of ensuring deals are priced correctly.

In terms of attractive sectors, Clayton favoured UK regions against high-end London residential and offices, noting that sustainable valuations could help in assessing risks. Curlow suggested that more operational sectors like student accommodation, hotels and healthcare could prove advantageous, though Shields noted that the time to lend on hotels had probably passed, and his banking perspective was to keep to core commercial markets where funding costs are relatively low.

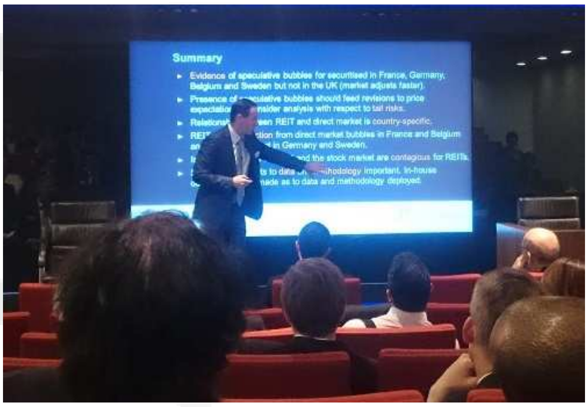
Turning to the new European Banking Authority rules on the shadow banking sector, the general conclusion was that the difficulty of navigating all the different types of regulation now in force tends to drive up the cost of capital – even if the underlying aim is to limit risk in the market.

Joint Meeting with EPRA. *Current research on listed real estate and its applications to the direct market*, 15 July 2015

M&G Investments, Governor's House, Laurence Pountney Hill, London EC4

In association with: EPRA

Hosted by: M&G Real Estate



Since the financial crisis, bubbles have become an increasingly popular topic for academic research. **Sotiris Tsolacos**, Academic at the ICMA Centre and School of Real Estate & Planning, Henley Business School made the opening presentation at this first joint SPR/EPRA meeting, and noted that the World Economic Forum had discussed financial bubbles at a recent conference. But what is a bubble? Tsolacos suggested that speculative bubbles occur when there is substantial divergence between price and fundamental value, and a pattern of fast-rising prices followed by a rapid reversal.

Tsolacos described his own latest research on bubbles in real estate markets, both direct and securitised, which uses objective statistical tests to understand whether the ratio of price to income indicates that prices are likely to rapidly reverse. Using a threshold of 30% above long-term value as a trigger point, he found that in some European markets (e.g. UK direct) this would nearly always hold true, whereas in others (e.g. Germany direct) no such relationship existed. The research covered the direct and REIT markets in UK, France, Germany, Belgium and Sweden.

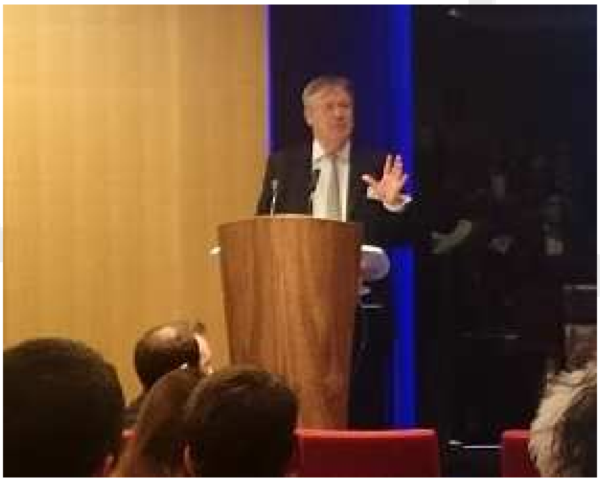
Tsolacos also investigated the possible transmission mechanisms between direct and securitised bubbles, noting that this appeared to vary greatly from one country to the next. He emphasised that it is important to bear in mind possible data issues that might affect these results, particularly for the direct markets.

Adam Alari, Senior Analyst at M&G Real Estate, followed with a presentation on his organisation's use of leading indicators for analysing real estate. He explained that this means identifying and monitoring pre-emptive factors which can assist in recognising market turning points. This effort has particularly focused on REIT markets, an intention which stems from past research suggesting that securitised real estate performs like direct property in the long-run, but deviates substantially through the course of the cycle. This divergence is likely to reflect equity market beta, liquidity issues and the speed of information transfer.

Alari explained that M&G's methodology applied in the analysis of REITs as leading indicators applies a number of different statistical techniques including regressions and vector autoregressive analysis (VAR) in order to carry out co-integration and Granger causality tests. The last of these found strong evidence for causality running from REITs to direct markets in the UK, as well as some evidence for an effect in the opposite direction. He stressed that this did not however mean that securitised markets caused changes in the direct market rather there was evidence that changes in the listed market have occurred prior to changes in the direct market. It was thought REITs generally lead the direct market by around two or three quarters.

Recent data on UK REITs suggests that the direct market should continue in a relatively benign phase for some time, Alari proposed, since REITs have been following a broad upward trend for a number of quarters. Although with recent discount information in the listed sector and pending interest rate decisions the market needs to be monitored carefully.

In the panel discussion that followed, the two speakers were joined by **Matthew Hodgkins**, Head of European Listed Real Estate at AMP Capital. Chairing the discussion, **Alex Moss** of Consilia Capital wondered if this research



shed any light on the role of debt in exacerbating bubbles, given that the current strength of market demand is largely equity driven. Tsolacos suggested that his research did not distinguish between markets affected by different demand factors. This means that an analyst should still be able to gain value from an awareness of the 'flags' produced by pricing in current conditions.

Paul Ogden of inProp Capital noted that in the past property derivatives had been considered as a possible leading indicator of the direct market. However, in reality it is more likely that the direct market is a lagging indicator of both derivatives and REITs, he said. REITs show changes in sentiment as they happen, while direct property experiences a trading lag of 3-6 months – the two quarters mentioned earlier.

Mark Callender of Schroders wondered whether the methodology used by Tsolacos would have been able to indicate a bubble like that of the late 1980s - a development boom mainly based on rising rental values. Tsolacos responded that the statistical techniques used in his research are quite blunt instruments, which need to be used in combination with other indicators of market conditions.