SPR Newsletter

January 2016

In this Newsletter:

Upcoming Site Visits

Upcoming Technical Events

Recent Social Event and Site Visit Reports

Recent Technical Event Reports

Society of Property Researchers

Upcoming Events

SPR Site Visit to Elephant Park, 28 January 2016

Elephant Park Experience Suite, One the Elephant, 22 Elephant and Castle, London SE1, 8.30am

Lend Lease

ELEPHANT PARK

This is a fantastic opportunity for SPR members to visit the mixed use, Zone 1 regeneration scheme, Elephant Park. There will be a presentation by Lend Lease senior management and a property tour past existing and future developments.

http://www.elephantpark.co.uk/

There will be an opportunity for the early birds to network over tea/coffee and pastries!

Peak Property: have we passed the summit? Research briefing, 8 February 2016

Aberdeen Asset Management, Bow Bells House, 1 Bread Street, London EC4, 6.00pm

Joint Chair:
Andrew Allen, Global Head of Research & Strategy, Aberdeen Asset Management
Elisabeth Troni, Global Real Estate Strategist, Aberdeen Asset Management

Speakers:
Chris Urwin, Head of Global Real Estate Research, Aviva Investors
Kiran Raichura, Property Economist, Capital Economics

Panellists:
Simon Martin, Head of Research & Strategy, Tristan Capital Partners
Pan-European debt advisor/investor, TBC

The property press has increasingly featured articles and interviews calling the top of the cycle in recent months, from equity brokers to fund managers. So the question is; have we already reached the top of the cycle in some markets, or does this property bull market still have further to run? And, how can we determine where there might still be value in the UK and Europe? Are there lessons we can learn from parts of the market where the property cycle seems most advanced?

The presentations will examine these questions, before a panel session in which those active in the market will help provide more context around what they're seeing in pricing and activity and where they perceive there to be value.

Real estate as a proportion of total business costs: how much do property costs weigh on the bottom line of a company? Joint meeting with BCO, 9 February 2016

DAC Beachcroft LLP, 100 Fetter Lane London EC4, 6.00pm

The BCO recently commissioned MSCI and Ramidus Consulting to evaluate the proportion of business costs that is accounted for by real estate. The report highlights a simple rule of thumb by breaking down business costs into three main categories: 80: 10: 10 i.e. salaries: property: other expenses.

The speakers will summarise the key takeaways of the study followed by a panel discussion including a corporate occupier, providing insights from a tenant and business perspective.

Chair:
Bill Page, Head of Business Space Research, Legal & General Property

Speakers:
Andrew Hawkeswood, MSCI
Rob Harris, Ramidus Consulting
Corporate occupier - TBC

Real Estate Myths: Investments and diversity in Europe? Joint meeting with RE Women, 24 February 2016

Pollard Thomas Edwards, Diespeker Wharf, 38 Graham Street, London N1, 6.00pm

Chair: Maria Wiedner, RE Women

Speakers:
Teresa Borsuk, *Architect & Partner, Pollard Thomas Edwards* - "Before you build............"
Kim Politzer, *Director of European Research, Invesco Real Estate* – "Why the UK is not attractive to the European Investor"
Cleo Folkes, *Honorary Secretary of SPR* – "The only way is up! On the salary gap and other issues"

This seminar tries to break the mould a little bit by offering something slightly different in a wonderful building, away from the usual corporate hosting environment. At this seminar, a joint effort by SPR and Real Estate Women, we will focus on breaking myths. The evening will open with a presentation by Teresa Borsuk, an award-winning architect, who will talk about the design and construction process and its 'challenges' as they are euphemistically called. There is much to learn from her insights. The second speaker, Kim Politzer, firmly keeps her research hat on, and will reveal that, perhaps surprising to many, not every European investor is keen to buy in the UK. She will explain why and dish the dirt on which nation has the audacity! The final speaker, Cléo Folkes, an SPR officer, will pick up the theme on diversity within business and property in particular, with a touch of humour.

Modelling Investment Risk for Commercial Property Investors. SPR Course, 8 March 2016

12 Throgmorton Avenue, London EC2

Sponsored by:

BLACKROCK®

This course, the first in a series, is aimed at SPR members with a stronger quantitative background. A course for the 'average' researcher is in the planning.

Simulation modelling is now recognised as the only way to properly measure risk in property investment and lending. Based on recent teaching at Cambridge and Reading Universities for the MPhil and MSc courses in Real Estate Finance, Radley & Associates provide training courses whose objective is to help participants to define and measure CRE lending risk using cash-flow simulation techniques.

Attendees will learn the latest industry leading techniques and methods that are transforming the industry. These courses are practical and hands-on. Participants will build a variety of Excel models which can then be applied immediately in their real life projects.

Please note that this event is now fully booked. A second workshop is however planned for the end of April. Look out on the SPR website for details!

SPR Site Visit to Circular Point, 15 March 2016

Highams Park, Chingford, London E4, 9.30am

Sponsored by:

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Join the SPR for an informative guided tour of Circular Point, located a 5 minute walk from Highams Park Station, courtesy of BlackRock.

Circular Point is well situated in North London less than one mile north of the North Circular Road, three miles of west the M11 and six miles south of the M25. This provides the asset with unrivalled access to Central London, Greater London, Essex and the Eastern Counties.

Circular Point comprises a 100,000sq ft new build Grade A industrial facility completed in Autumn 2014. The facility delivers a mixture of warehouse, light industrial and trade counter units. This site tour provides a rare opportunity to see first-hand the evolution of urban industrial accommodation and its increasing focus on logistics and retailing.

http://www.circularpoint.co.uk/

Recent Social Events

SPR Annual Golf Day, 24 September 2015

Silvermere Golf Club, Surrey

Sponsored by:

Meeting report by Craig Wright.

The 2015 SPR Golf Day was a great success once again, with 28 members taking part. Conditions were surprisingly calm and dry – not a scenario SPR golfers are used to. The golf day happily attracted some new faces this year, including Kevin Mofid, who made a well overdue debut.

The day began with members catching up and networking over bacon rolls and coffee, before taking to the driving range and the short-practice area for professional coaching and a warm up.

Technological advances mean the driving range now measures the distance of your shots – an added benefit which seemed to bring the drivers out of the bags early on and the competitive spirit out of the participants. Indeed, competition got the better of one over-excited participant (who will remain nameless), who put their back out trying to be the next Tiger Woods.

Over a tasty three course lunch (admittedly the ploughman's option was a little heavy on the cheese), members took part in a quiz – a new and popular dimension to the SPR golf day. The winner of the quiz and the first prize of the day was Phil Tily, who scored an impressive 13 out of 15.

The weather held in the afternoon too, though judging by the scores neither the conditions nor the earlier coaching were proving helpful to performance. Nevertheless, everyone made it round in one piece, despite most having lost a few balls in the water on the last two holes.

This year's outright champion, with a score of 34 Stableford points, was Ben Durrant of TH Real Estate. His first victory was well deserved, as he has been a regular on the SPR golf circuit for a number of years. Ben took home a new Odyssey putter, £50 of golf shop vouchers and the weighty SPR Golf Day Trophy. Runners up included Steven Lang of Savills and former champion Neil Chegwidden of JLL. The team event was won by Simon Mallinson, Phil Tily, Gary MacNamara and last year's champion Jason Beedell.

Kevin Mofid in a bunker

The longest drive prize was virtually a foregone conclusion, with Chris Bullock of Property Data winning for the second year in a row (contrary to last year's write-up). The prize for closest drive to the pin was a little more closely contested, but Tim Barber-Lomax of JLL won, his shot stopping less than two feet from the hole. Many congratulations to all the prize-winners!

Once again, on behalf of the players and the SPR committee, a big thank you to the sponsors Real Capital Analytics and Property Data for their generous support. Without everyone's support and participation it would be a less enjoyable event.

We look forward to another great day in 2016!

SPR Annual General Meeting, 4 November 2015

St Brides Tavern, 1 Bridewell Place, Blackfriars, London EC4

Reporting on its activities over the past year, the Chairman, Mark Clacy-Jones, noted that the membership of the Society has remained quite stable at 549. In line with the objective of increasing its international reach, the Society is now a member of the European Real Estate Society (ERES), with a position on its Board and discounts on its events and published papers for SPR members.

Clacy-Jones highlighted the successful running of the Property Research Course, aimed at members of the Society relatively new to the industry. The course, which is intended to be held every two years, was led by Andy Baum, Robin Goodchild and Paul McNamara.

He also reported that progress was being made towards appointing an events co-ordinator, a subject which was picked up in Charles Conrath's presentation on the Society's plans for 2016. Conrath emphasised the number of technical events planned for the year, such as seminars with Datscha, CBRE Debt Analytics and DealX, while two site visits are also scheduled for early 2016. On the social side, an evening of crazy golf at Swingers London is planned, and the possibility of a cycling day will be reconsidered.

There was considerable discussion of a view expressed at the SPR Fellows meeting that real estate research is not now progressing or innovating as it once did. It was proposed that this issue might be taken up at a new conference to replace the Cutting Edge and RealWorld conferences. This could focus on the importance of big data and new technologies in the industry, while also highlighting those areas where innovative research is now emerging.

At the end of the formal agenda, Mark Clacy-Jones thanked those committee members leaving at the end of 2015: Irene Fosse, Kevin Mofid, Henri Vuong, Marie Hickey, Catherine Stevenson, and in particular Richard Gwilliam, who was the SPR Honorary Treasurer in the past four years.

SPR Annual Dinner, 12 November 2015

Stationers Hall, Ave Maria Lane, London EC4

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OXFORD ECONOMICS

As usual, the SPR Annual Dinner was very well attended, with 152 sponsors, members and guests present this year.

Peter Damesick, who was made an Honorary Fellow of the SPR in 2015, addresses the Annual Dinner.

The keynote speech was given by Bill Hughes, Head of Real Assets, Legal and General Investment Management. He stressed that he was a strong believer in property research, so long as researchers were bold and had the courage not just to be one of the herd. 'Disruptive' research had recently played an important role at L&G, he suggested, particularly in leading the firm into new real asset sectors. Hughes also gave credit to the pioneering researchers who had taught and inspired him early in of his career, including Peter Evans, Honor Chapman, Gerry Blundell and Susan Hudson-Wilson. He recalled Hudson Wilson's dictum that research should produce "news that you can use".

The formal dinner closed with the raffle, this year in aid of the UNICEF Syria Children's Appeal, for which a record sum of £1,300 was raised.

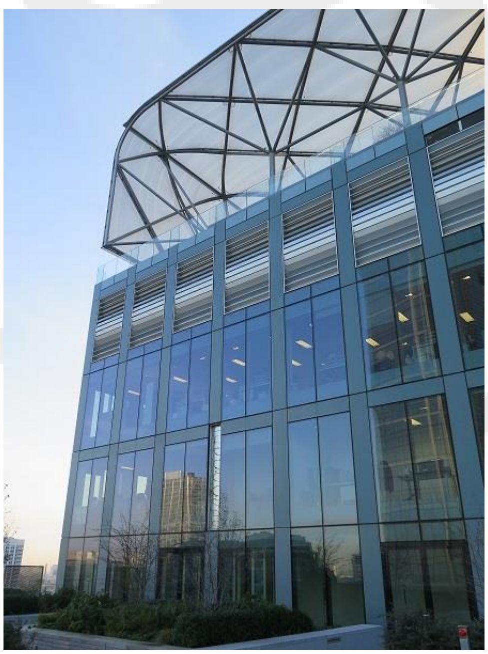
Recent Site Visit

6 Bevis Marks, 26 November 2015

Bevis Marks, London EC3

Organised by:

BLACKROCK



6 Bevis Marks, designed by architects Fletcher Priest, provides 160,000 square feet of high performance office space adjacent to the Gherkin building in the City of London. Organised over 16 floors, it incorporates private terraces and a roof garden on the upper floors.

The building, which was completed in 2014, has strong sustainability credentials, being BREEAM 'Excellent' rated, due to the energy efficient aspects of its design and building materials.

Liam Le Roux, Vice President at BlackRock, who are joint owners of the property with AXA Real Estate, kindly led the SPR tour of the building. As well as explaining many of its physical aspects, he shared a variety of insights on the state of the City market with those fortunate enough to attend.

The tour included a look at the space on the 10th floor, one of the last areas still available, and Le Roux said that the building should be fully let in 2016. We were also shown one of the roof terraces with its views across the ever-changing cityscape.

Recent Technical Events

Meeting reports written by Tim Horsey unless otherwise stated.

Joint Meeting with IPF: *Europe's role in the global real estate investment market,* 15 September 2015

Freshfields Bruckhaus Deringer,
65 Fleet Street, London EC4

In the meeting's opening presentation, **Sabina Kalyan**, Senior Director & Global Chief Economist,

CBRE Global Investors, proposed that although Americans often think the European economy never grows, there were no other regions where she would rather invest at the moment. China's recent problems have contributed to a fall in commodity prices, impacting much of the Asia-Pacific, while in the US the likely rise in interest rates is combined with sluggish fundamentals, particularly in manufacturing.

In contrast, the UK is still strengthening, while Continental Europe has just started QE. This should mean that asset prices, including real estate, reflate. At the same time European occupiers and consumers are demanding more credit, so tenant demand should expand. Overall, global GDP prospects fall within a narrow band, but Europe has the advantage of a lagging asset price cycle.

Simon Mallinson, Executive Managing Director, EMEA & APAC, Real Capital Analytics, focused on investment trends. He suggested that there is no shortage of capital globally, a considerable proportion of which is targeting real estate. In the past year transaction volumes have risen more than 30% in both Europe and America, though they are slightly down in Asia; the overall level is now closing in on the 2007 peak. Europe is now attracting more than half the world's cross border investment, but America is rising in popularity, particularly with the prospect of tax changes on the horizon.

Mallinson noted a number of signs that the European market is heating up. Investors are targeting more peripheral markets, like Spain, and also alternative sectors, in the search for value, while the growth in land transactions also reflects greater risk taking. Yields are below their long run averages across the continent, and private equity funds, who often lead investment trends, are selling out of core markets like the US, Germany, UK and Japan, and moving into the Nordics and France.

Jorge Duarte, Director of Fund Management at Cornerstone Real Estate Advisers, began the panel discussion by proposing that based on experience, European prices still have some distance to rise before the next slump. Supporting Kalyan's view, he suggested that rental values should grow over the next 4-5 years, with conditions in the UK and Germany looking particularly promising. Europe also benefits from its limited exposure to the Chinese economy, though it could be vulnerable to some other systemic risk event.

Nick Cooper, Deputy Chairman of Palmer Capital, struck a more cautious note, saying that US capital has given strong support to the European market, but this could change once a suitable exit route appears. Rental prospects may not be as positive as others believe, and in a number of markets, like the Netherlands, vacancy remains stubbornly high.

Asked where they would invest now in the global arena, only Simon Mallinson favoured Asian markets, especially those locations where cap rates still have the potential for growth. The other panelists were most positive about Europe, but each stressed the importance of choosing carefully between markets and sectors. Both Cooper and Duarte noted the resurgence of city centre markets across the continent, potentially bolstering both the mixed use and logistics sectors. Kalyan ended this discussion with a wild card: shopping centres and offices in Romania.

Joint meeting with SLA: *Redefining Convenience: Retail, leisure and real estate perspectives,* 28 September 2015

Savills, 33 Margaret Street, London W1

The meeting chairman **Jonathan Reynolds**, Director of the Oxford Institute of Retail Management, began by noting that joint research by the SLA and Planet Retail had recently found convenience of location to be the single most important factor for shoppers' choice of retailer in developed countries, outstripping both the range of goods available and the brands on offer. But what does convenience really mean, particularly when not just thinking about food shopping?

Tom Whittington, Director of Retail Research at Savills, answered this question from the viewpoint of the 'Convenience Trip'. The financial crisis precipitated change in the retail sector, making shoppers more prudent but also more frivolous. The rise of online shopping has been central to this, bringing a greater emphasis on competitive pricing and convenience of access. An upshot was the theory that a UK national retailer needs just 80 stores to cover the country.

In practice multiple retailers' behaviour has contradicted this idea. Firms with more than 100 stores account for 77% of all multiple outlets in the UK, and their number of outlets has risen over 10% since 2009. Mass and value retailers like Peacocks and Argos each have more than 400 stores, while Boots has more than 2,000. This indicates the importance of convenient locations, including secondary and tertiary High Streets, for these companies.

Whittington identified the characteristics of the convenience trip: essential, functional, frequent and value-oriented. Convenience retailing is dominated by grocery, retail services and convenience food and beverage, with the recent addition of affordable fashion and homeware. This offer comprises anything that is disposable, consumable or replaceable. Click and collect is increasingly part of the convenience landscape, and can help support other unrelated retail activities.

The implication for property is growing demand for a variety of outlet sizes in convenience locations, as well as change of use to office, residential or leisure – but this is not necessarily bad for retail. As long as convenience retail can offer the kind of service that has supported the most successful aspirational brands, secondary and tertiary High Streets should have a positive future.

Alex McCulloch, Associate Partner for CACI, approached the question from the angle of 'what makes the convenience shopper?' implying that convenience shopping may not necessarily be confined to specific types of location. CACI's consumer surveys identify the motivations behind shopping trips, along a spectrum from 'desire' to 'require'. 'Desire' is more likely to lie behind big trip destination shopping, whereas 'require' will generate more local and purpose driven trips. 52% of UK shopping trips are now locally driven, with 21% destination-led and 27% purpose driven. Of the locally driven trips, 20% involve local neighbourhood shopping and 19% are just killing time, for example waiting for trains or on lunch breaks.

Across the country, local neighbourhood trips tend to have a relatively low spend and only involve two or three shops, as well as some low value catering. They tend to be dominated by less wealthy and older shoppers, though this pattern changes for London, where more executives and mature money take part. London is also unusual for the number of convenience centres each person visits, 21 per year compared to the national average of nine. Top brands for local neighbourhood shopping include Next, Costa, WH Smith and Primark.

Another driver behind convenience retail is the emergence of click and collect. 60% of such visits take place on ‘locally driven’ trips, with only 19% ‘destination led’ and 22% ‘purpose driven’.

McCulloch concluded that convenience retail is in a robust place, with little reason to think that this will change, as shoppers are always going to want to get some things very quickly. People also like to feel part of a community, and High Street retailing is now key. Convenience retail will continue to evolve, with the trend for local independents to sell local produce particularly important. The all-day café phenomenon is also part of this.

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

Joint Meeting with ULI: *Global cities: identifying investment opportunities beyond safe haven markets,* 1 October 2015

Nabarro, 125 London Wall, London EC2

Kindly hosted by: NABARRO CLARITY MATTERS

Moderating the meeting, **Mike Keogh**, Associate Director of Research & Strategy at TH Real Estate opened by proposing that the challenge for today’s investors is to find markets where it is still possible to deploy and withdraw capital relatively easily.

Richard Holt, Chief City Economist at Oxford Economics, gave the main presentation, explaining that OE forecasts cover 770 cities worldwide on a consistent basis. He noted that the forecasts themselves often look rather less exciting than the reality turns out to be.

Oxford Economics are now forecasting that Surat in Gujarat, India will be the world’s fastest growing city, with double digit rates predicted up to 2030. Potential investors should however be aware of its dependence on two industries: textiles and diamonds. Given these sorts of risk, the fastest growing markets may not be most suitable for real estate investors.

The largest cities by GDP may be a better bet for investing. Currently the USA has 31 of the world’s top 100 cities, while China has only 19. By 2030, smaller cities in developed countries, like Cleveland and Birmingham, may well have slipped out of this list. Within 15 years there are likely to be more Chinese cities in the top 100 than European, reflecting a tectonic shift towards emerging markets.

The overall level of global GDP growth in OE’s forecasts may look rather modest at just shy of 3% p.a., but this is significantly above the level for advanced economies alone, which is less than 2%. This partly stems from advanced economies’ high level of debt.

When contemplating the merits of different cities, investors should be as concerned about their risks as their growth prospects. Oxford Economics have therefore begun to model the resilience of cities in terms of political stability, social cohesion and environmental sustainability, combining them with other factors to produce a single index. This shows that faster growing cities are often also riskier, while larger cities tend to have comparable levels of resilience.

It is revealing to compare pairs of cities within regions in terms of this growth-resilience relationship. For example, Copenhagen and Amsterdam are closely located, with many similarities on the surface, but the Danish city emerges as the more resilient, particularly due to its readiness for environmental challenges.

Margot Adele Orr followed with a short presentation from the perspective of Atkins, who play an advisory role for a number of cities on their long-run development. They work with both the public and private sectors to produce a masterplan, balancing economics, environment and social justice.

With the help of a film, she described the application of this approach in Modderfontein, a suburb of Johannesburg, South Africa.

Guy Sheppard, Senior Research Analyst at M&G Real Estate, outlined recent research on the level of innovation associated with particular cities, based on their number of patents, and then relating this to their real estate performance. The research found Eindhoven to be Europe's most innovative city. Innovation tends to be linked to the presence of universities and R&D activity. In Germany, Mittelstand firms have also proved to be an important driver of innovation.

From the viewpoint of real estate, the research identified a positive relationship between the level of innovation and rental growth from 2005 to 2014, with, for example, Cambridge standing out particularly strongly. At the same time a negative relationship was seen for yields at the end of 2014, suggesting that investors are pricing in rental growth expectations.

In the discussion that followed, Richard Holt noted that trade could be viewed as important as innovation in producing economic growth. This has been the main driver of growth in China, for example.

Joint Meeting with CPPS: *Where are the opportunities for Asian investors across Europe?* 14 October 2015

Nabarro, 125 London Wall, London EC2

Meeting report by Cléo Folkes

Stephen Barter, UK Chairman of Real Estate Advisory, KPMG, gave the opening presentation of the meeting. He explained that the type of Chinese organisation investing in Europe has progressed from the likes of CIC, who initially invested through JVs or funds, to private entrepreneurs, and most

recently financial conglomerates like Resolution Property. These are buying assets and platforms directly, with their own corporate M&A operations. Although London and New York are still the biggest targets for investment, their attention is increasingly focused on regional markets as their confidence, familiarity and knowledge increase. At the same time there is a growing emphasis on cross-border investment within Asia, which now accounts for more than half of the transactions undertaken by Chinese investors. They also have many other European countries in their sights.

Barter emphasised that to work successfully when investing in China itself, investors need to understand where the Chinese are coming from. "To earn the future, you need to go to Asia, read your history books, take time to build a relationship and learn their culture, but you will get loyalty in return," he proposed. This may mean working with a partner, particularly if you are considering development. Grosvenor, for example, initially worked with partners before going it alone in the Chinese market.

In the panel discussion that followed, **Nick Hendy**, Senior Director, EMEA Capital Markets at CBRE emphasised that Asian money has been attracted to the European market by its relative stability compared to their domestic environment. This interest has now spread from London to core European cities like Paris, Frankfurt and Munich, and recovering locations such as Madrid and Milan. Meanwhile capital is now not just coming from Korea and Malaysia; more than half came from China and Taiwan in 2014, and increasing amounts flowed in from newer players like Indonesia.

Hendy then discussed some of the deals with Chinese investors – such as Ping An, Ginko Tree and Fosun - that CBRE have been involved with, explaining how these organisations have tended to move up the risk curve and use more complex methods of acquisition, from JVs through to the purchase of whole companies. He presented a case study of Fosun's transaction process for the acquisition of Piazza Cordusio in Milan.

He concluded with a prediction that more Asian capital is likely to reach Europe in 2016, with investors' overall allocations to real estate increasing from the current average of 2%, most of which is held domestically. Financial market volatility is likely to increase the desire for diversification, even if this restricts outflows in the short term.

José-Luis Pellicer, Head of Research at Rockspring, took a rather different approach, focusing on some of the cultural aspects of working with Korean investors. Koreans first entered the European market in 2008, initially investing through funds to gain knowledge and understand local practices. They have generally been looking for income, low risk assets and a specific level of return. Most active in 2010 and 2011, they have been less prominent recently as potential returns have fallen.

Due to its geographical position, South Korean society has always had a militaristic character, Pellicer suggested. This is reflected in the rigidity of their business hierarchy, which in turn depends on an individual's level of educational attainment. Korean education places particular emphasis on the importance of maths and logic, which means that any real estate investment proposal needs to be substantiated by facts and figures from a valid source. It is also important that the deal ultimately performs as promised. These requirements make the role of the real estate researcher particularly important – a factor which has greatly increased the demands on Pellicer's time.

A general discussion followed, and then the opportunity for networking with the many CPPS members in attendance.

Joint Seminar with INREV and IPF. Nick Tyrrell Memorial Seminar: *Do foreign buyers compress office real estate cap rates?* 3 November 2015

Winckworth Sherwood, 5 Montague Close, London SE1

Joint meeting with:

INREV IPF Investment Property Forum

Paul McNamara, Chair of the Nick Tyrrell Research Prize Judging Panel, opened the meeting as moderator, declaring that the stature of the prize is still growing. 36 papers were submitted this year, more than ever, and the judges were delighted with the quality of the entries. The judging panel was made up of Martin Hoesli, Nick Mansley, Brenna O'Roarty, Neil Turner and McNamara himself.

Dr Anupam Nanda, Associate Professor in Real Estate Economics at the Henley Business School, presented his winning paper entitled 'Do Foreign Buyers Compress Office Real Estate Cap Rates?', explaining that the co-author, **Professor Pat McAllister**, was unable to attend due to illness.

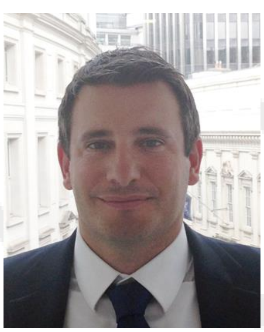
This was the second of three papers the pair have produced on international real estate, following the first on the 'Determinants of cross-border real estate flow' (2013/14) and preceding the final instalment headed 'Causes, sources, measurement and consequences of international RE market liquidity', which was due to be presented at the IPD/IPF Conference later in the month.

The first paper had proposed a gravity framework for modelling cross border capital flows, finding that market size was the most important factor in determining their volume. The second, prize-winning paper went on to look at the impact of these flows on pricing in the destination market, using DTZ/Cushman & Wakefield data on 9000 transactions in 28 European cities over the period 1999-2013. More than 75% of these transactions were in five cities: London, Paris, Frankfurt, Madrid and Brussels.

The research explored the relationship between changes in prime office investment yields and the share of foreign capital entering each of these city markets, isolating the effect of the 'unexplained variation' not explicable by other factors. Using this technique, the research identified a "small but statistically significant negative effect of foreign investment on office cap rate," with the overall implication that a 10 percentage point increase in the foreign share of market investment would lead to a 30 basis point fall in the cap rate.

Dr Nanda proposed that the main story from the research was that foreign capital tended to chase the better assets in each market and thus drive up prices. However, he cautioned that the concentration of the data in five cities had made the modelling exercise difficult.

Neil Turner, Head of Property Fund Management at Schroders, a panellist in the meeting and one of the prize's judges, suggested that this year's papers were the best that had ever been submitted, and were outstanding for their topicality, analytical rigour and applicability. Commenting on the winning paper, he noted that the effect of foreign capital on yields was very much a two-way street: foreign capital can just as easily be withdrawn from markets, as was witnessed in the Stockholm market of the 1990s or in Italian logistics more recently. These capital movements added to the volatility of prices in such markets.



Daniel Kinnoch, Director - International Capital Markets at Cushman & Wakefield, the second panellist at the seminar, explained that his response was very much based on experience in the marketplace rather than specific research insights. He observed that it is often difficult to identify the ultimate sources of capital entering a market; for example much of the current Sovereign Wealth interest in the Spanish market is being channelled through REITs, which are viewed as domestic players. He also noted that the effect of foreign capital can often be to price out local investors, as has now become the case in most of the Central London markets.

In the lively audience discussion that followed, **Peter Damesick** questioned the 30 basis point figure identified in the research, wondering whether this could have as much relevance for Budapest, where the sample was very small, as for London. Nanda stressed that the figure represented an aggregate view, and that it was indeed difficult to establish estimates for individual centres; but he still believed that the overall conclusion was valid. In answer to a question from **Robin Goodchild** on whether it would be worth examining the difference in the impact on yields when moving from 10% to 20% of market share as against from 60% to 70%, Nanda noted that the sample sizes for most centres would unfortunately make this difficult. Paul McNamara asked whether there was evidence in the time lag after which increased foreign investment could be expected to affect prices by the identified impact. Nanda suggested this was about a year.

Joint Meeting with IPF. *UK Property Outlook,* 13 January 2016

Allen & Overy, One Bishops Square, London E1

IPF Investment Property Forum

Escalating global uncertainty to beset UK property in 2016

The opening slide of the traditional SPR/IPF start of year meeting featured a photo of IMF head Christine Lagarde looking perplexed. Each of the three main speakers at the event – as well as the audience – confirmed that uncertainty was likely to be the natural state of economists, investors and their advisers alike as the year progresses.

James Knightley, Senior Global Economist at ING, shared Lagarde's apparent confusion about economic prospects, but was not pessimistic overall, seeing positive signs in Continental

Europe's improving growth rate and normalising conditions in the UK labour market. **Paul Jayasingha**, Global Head of Property Manager Research at Willis Towers Watson, while finding it difficult to be positive about immediate prospects for any of the growth-based asset classes, stressed that real estate still has a role to play for many different types of investor. Meanwhile **Andrew Creighton**, Head of Direct Property Europe at Aberdeen Asset Management, noted that virtually all UK property sectors are now over-priced based on market fundamentals, though insisting that his organisation does not rely on forecasts or predict market turning points.

Creighton's view of market conditions was borne out by the audience's reaction to one of his presentation slides, which showed the IPF UK consensus return forecasts for the next four years. Asked by moderator **David Atkins,** Chief Executive of Hammerson, to assess the consensus figure of 9% for 2016, nearly all thought it was either about right or excessively optimistic. As for the annual forecast of 5-6% for 2017-19, there was again some scepticism in the room that this level of return would be reached.

Creighton himself noted that the consensus forecasts suggested a soft landing for UK real estate, but stressed that this rarely happened in practice. Looking at the property sectors, he suggested industrials and logistics now appeared best-placed, given their rental growth prospects and growing importance for retail chains. In the Q&A that followed the formal presentations, he expressed the hope that rental growth would also start to materialise for other sectors as well, in particular offices, as this had been a long time coming. His presentation ended with the thought that 2016 could be the year for build-to-rent residential, with the number of renters still increasing, a trend likely to be boosted by the effect of higher interest rates on mortgage costs, while supply remains limited. This might not just be a London play, as conditions are also favourable in a number of regional cities.

Inevitably, interest rates featured strongly at different points in the meeting. Knightley thought that UK rates are unlikely to rise until the Brexit question is resolved and consistent wage increases have taken hold, feeding into inflation. However he suggested this was more likely to be relevant in 2017, by which time supermarket prices and fuel costs should have bottomed out.

Jayasingha, focusing on real estate's position in the multi-asset allocations of investors, emphasised its continuing appeal to many investors, particularly those funding pensions and requiring consistent long-term income streams. He noted a gradual move among investors towards international diversification and the importance of being aware of the different cycles affecting the four quadrants in real estate's public/private equity/debt matrix.

In an often highly entertaining presentation, Knightley had stressed that political risks could threaten the relatively positive outlook for Europe, with a Le Pen win in the French presidential election probably most worrying, while the UK's EU referendum was "too close to call". The biggest impact of a Brexit could well be on foreign investment, something that would be particularly relevant to property.

He also discussed the continuing imbalance between London and the rest of the UK, a regional structure he said mirrored the Philippines rather than that of a developed country. The threat of the Chinese economy "blowing up" was also a huge concern – for Knightley it is not a question of whether this will occur, but when, even if this is not for a few years.