SPR Newsletter

August 2016

In this Newsletter:

Upcoming Site Visit and Social Events

Olympic site revisted – p2
8 September 2016

Annual SPR Golf Day
16 September 2016

SPR Annual General Meeting – p3
2 November 2016

Upcoming Technical Events

European Real Estate Outlook – p3
13 September 2016

Industrial Seminar
22 September 2016

Recent Social Event and Site Visit Reports

Site Visit to Elephant Park – p6
28 January 2016

Winter Social: King Pin Bowling – p4
23 February 2016

Site Visit to Circular Point – p7
15 March 2016

Site Visit to the Tea Building – p8
7 April 2016

Annual Quiz Night – p5
14 April 2016

Ping Pong at Bounce – p5
18 May 2016

SPR Site Visit to Angel Building – p10
1 July 2016

SPR Summer Drinks – p6
14 July 2016

Recent Technical Event Reports

Peak Property– p11
8 February 2016

Real Estate and Business Costs – p12
9 February 2016

RE Women Joint Event – p13
24 February 2016

Arenas and Inner-city Regeneration – p14
9 May 2016

Big Data: Applications for Property Research – p15
26 May 2016

The Expanding Role of PRS – p16
15 June 2016

The Role of Commercial Real Estate Debt in the Real Economy – p17
29 June 2016

Society of Property Researchers

Upcoming Events

Property Portfolio Management using IPD Futures Course, 4 August 2016

Sponsored and hosted by: Course run by:

3rd Floor, 11 Westferry Circus Canary Wharf London E14 4HE, 9.00am - 12.30pm

SPR are pleased to offer members a complimentary training course, kindly sponsored and hosted by Eurex, the Derivatives Exchange owned by Deutsche Borse, which would normally cost £395 + VAT per person.

The course, run by Arca Property Risk Management, will cover the following topics:

- IPD Futures - Product Characteristics
- Getting set up to trade
- The Trade life-cycle
- Margining & cash flows
- Property Portfolio Management Techniques using IPD Futures

  - Optimising portfolio returns
  - Protecting capital values
  - Portfolio Re-balancing
  - Tactical Asset Allocation
  - Enhancing Risk Adjusted Returns
  - Short term market risk management

The course is intended for senior investment researchers & strategists and is only open to SPR members.

Olympic site revisted: Olympic legacy site visit, 8 September 2016

Get Living London Office, 5 Celebration Avenue, London E20 1DB, 9.00am

The East Village is located on the site of the former London 2012 Olympic Games Athletes' Village and is an example of Olympic legacy development in practice. The village sits on a 67 acre site adjacent to the Olympic park and has been transformed into 1,818 homes, opened to renters in 2013. It is one of the oldest developments in the purpose built private rental sector with just over half of the units privately rented by Get Living London, while the rest are owned and managed by Triathlon Homes offering a mix of social rent, shared ownership and intermediate rents. It has won awards such as 'Best New Place to Live' at the London Planning Awards and the Mayor's Award for Planning Excellence 2014.

SPR members have the opportunity to visit the village and a show flat and hear about the village from the perspective of Get Living London and a GamesMaker.

http://www.eastvillagelondon.co.uk/

European real estate outlook, 13 September 2016. Joint meeting with IPF
A two tier Europe: investment strategies, cities and sectors

Freshfields Bruckhaus Deringer, 65 Fleet Street, London EC4Y 1HT, 6.00pm

As a huge amount of global capital has flowed over recent years, a two tier Europe has been created with a small number of tier one cities attracting the majority of the money. This raises interesting issues around pricing and cycles of the major destinations and the longer term issues for the remainder of Europe's cities. The causes of this divergent investment will be addressed alongside the respective merits of strategies which invest in tier one or tier two cities. The concept of how alternative property types are defined and how that differs between tier one and tier two cities will also be considered in this context. The seminar will be followed by refreshments and an opportunity to network and continue the debate.

Chair: Matthew Richardson, Fidelity International

Speakers: Andrew Allen, Aberdeen Asset Management
Neil Parker, The Royal Bank of Scotland plc
Paul Guest, UBS Asset Management (UK) Ltd

Annual SPR Golf Day, 16 September 2016

Crazy Golf, Battersea, 20 September 2016

Industrial seminar, 22 September 2016

SPR Annual General Meeting, 2 November 2016

Red Lion 1 Eldon Street London EC2, 6.00pm

The Society of Property Researchers' 29th Annual Meeting is taking place at a new venue in Moorgate.
http://www.taylor-walker.co.uk/pub/red-lion-moorgate/c0837/

Come along and find out what's planned for the coming important and landmark 30th anniversary year of SPR and a report on the past twelve months.

Recent Social Events

SPR Winter Social:
King Pin Bowling, 23 February 2016

All Star Lanes, 95 Brick Lane, London E1

Now in its fourth year, the event achieved the right mix of competition and conviviality. Six teams of seven players fought hard but enjoyed canapés between bowls.

CBRE emerged as the winning team with an impressive aggregate score of 789. This was a notably consistent performance, as each bowler achieved their century.

The best individual score of 145 was posted by Neil Chegwidden of JLL, closely followed by Greg Kane of PGIM Real Estate on 142.

Thirsty bowlers came together for further refreshment at the end of proceedings.

SPR Annual Quiz Night, 14 April 2016

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

As usual, the SPR Quiz proved hugely popular, with teams ranging across the spectrum of real estate research organisations, from academic institutions to investment managers and advisors.

The quiz, artfully constructed by Andrew Marston, included rounds on general knowledge, films, sport, “Euro-lympics” and music intro’s, as well a fiendishly difficult section on identifying cities from their street plans, which bamboozled many a geographer.

The winning Savills quiz team

Quizmaster Andrew Marston adjudicates

The SPR provided a slate at the bar and a selection of canapés, ensuring that the quizzers’ energies didn’t flag.

After a keenly fought couple of hours, the Savills team (‘Onward Quiztian Soldiers’) emerged victorious with a score of 106 points, thus taking the coveted SPR quiz trophy and a case of wine.
They were closely followed by the CoStar team, spookily entitled ‘And in Second Place’, on 99.5 points. Third, on 96, stood ‘Building the Cathedral’, the team from Coliiers International.

Most of the 14 teams put in a creditable showing, as reflected in the median recorded score of 87, and the fact that only one team – who shall remain nameless – scored less than 75.

Ping Pong at Bounce, 18 May 2016

Bounce, Old Street, London EC1

Sponsored by: DATSCHA

In contrast to last year’s equivalent event held at a similar time of the year, ‘Ping Pong Madness’ at Bounce in Shoreditch proved highly popular.

This may have been due to the rain (last year many chose to stay above ground in the sunshine) or the growing number of hipsters in the Society, but more than 30 members took the opportunity to play ping

pong on the three allocated tables, as well as socialise with real estate research colleagues.

Datscha's sponsorship of the event, following closely behind the opening of their London office this year, helped to fund the complementary drinks and canapés. Staff from their Stockholm office also attended, and commented favourably on the informal networking opportunities that this event offered.

Maria Wiedner takes her prize

A number of prizes were given to reward quality play on the ping pong tables. Grant Flynn of JLL received the award of 'Paddle Master', while the award for 'Biggest Slapper' was gratefully accepted by Kiran Patel of JLL. But most prestigiously, Maria Wiedner of RE Women took the prize for 'Most likely to go to the Rio Olympics'.

SPR Summer Drinks, 14 July 2016

Balls Bros, Hay's Galleria, London SE1

Sponsored by:

A healthy share of the Society mulled over the consequences of Brexit in the convivial surroundings of Hays Gallery, where the sun always shines.

A fine selection of drinks and nibbles were provided at the Summer Drinks, thanks to the sponsorship of Cobalt Recruitment and Real Capital Analytics.

Recent Site Visits

Elephant Park, 28 January 2016

Elephant Park, Elephant and Castle, London SE1

Organised by:

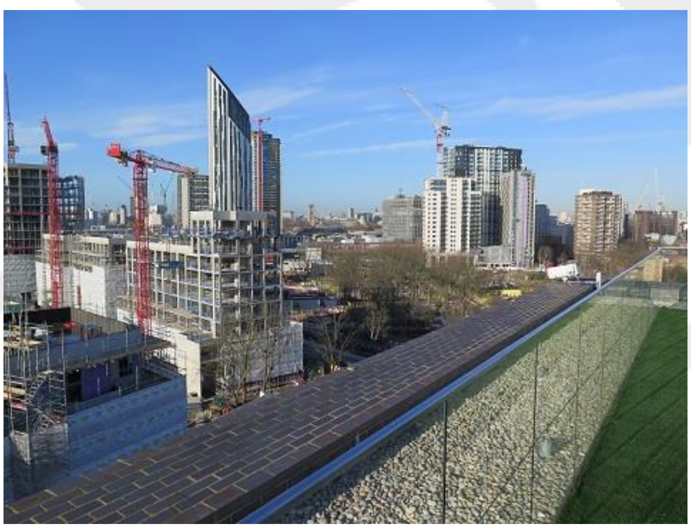
Lend Lease

The scale and vision of LendLease's Elephant Park development proved to a revelation to many of the 50+ SPR members attending this first site visit of 2016.

After a welcoming breakfast of coffee and pastries, Edward Mayes, LendLease Development Director for Elephant and Castle, gave a detailed presentation of the whole scheme. He set out the various phases of the scheme through to 2025, incorporating more than 3,000 homes, a significant share of which will be affordable, together with 17,000 sq m of retail and restaurants, and 45,000 sq m of new public realm.

The project has strong sustainability credentials, with far lower CO2 emissions than existing housing on the site, and extensive cycling provision.

For those who were able to stay longer, there was then the chance to walk through the site and have a close look at one of the first parts of the project to be completed – the relatively low-rise Trafalgar Place block. **Elizabeth Randall**, Development Project Manager for LendLease, led two small groups up to the shared roof garden, with views of the City and Westminster that are testament to the exceptional location of this project.



Elephant Park

Circular Point, 15 March 2016

Circular Point, Highams Park, Chingford, London E4

Organised by: BLACKROCK

Even if slightly less glamourous and colder than MIPIM, which took place the same week, this visit to an East London industrial park attracted strong interest from SPR members.

Blackrock began by explaining the investment rationale behind speculatively developing a facility that includes a mixture of warehouse, light industrial and trade counter units, well situated less than one mile north of the North Circular Road.

The tour of the site included a visit to the largest unit in the project, let to Argos. Two of the Argos managers provided insights into how these distribution premises fit into their overall business model, which is now far more internet-driven than was the case until recently. They also explained how the warehouse is managed in order to achieve rapid delivery times across a wide swathe of North London.

The Tea Building, 7 April 2016

The Tea Building, Shoreditch High Street, London E1

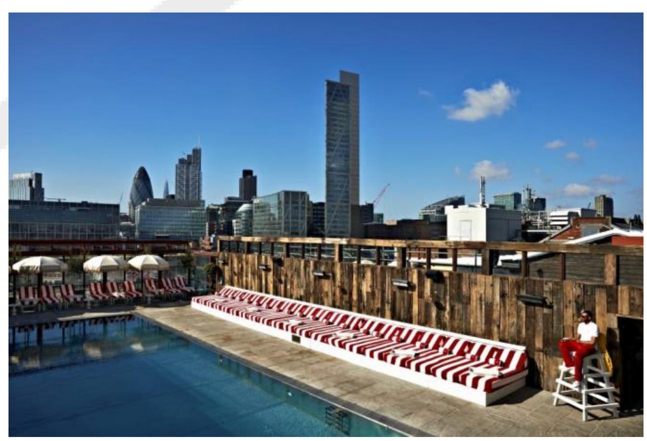
Organised by: DERWENT LONDON

This visit to a former tea warehouse just to the north of the City of London illustrated the potential that exists for adapting former industrial premises without resorting to full redevelopment.

Here the industrial character of the building has been a positive attraction for tenants like the advertising agency Mother, whose vast concrete table (below) forms the centrepiece of their offices.

SPR members were shown around a number of areas of the building, including the Shoreditch House club, with its swimming pool and restaurant overlooking the City.

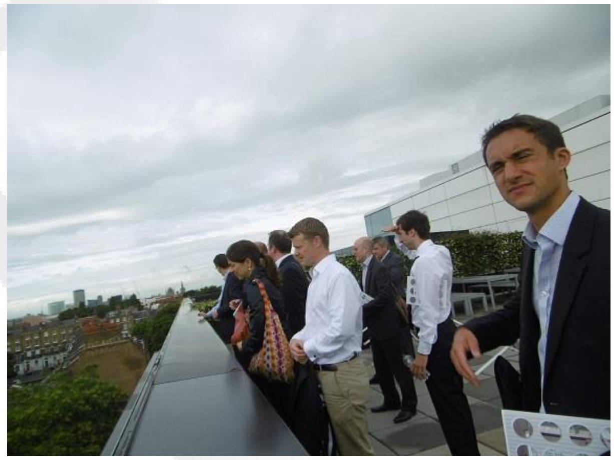
Shoreditch House does not allow visitors to wear ties, in keeping with its aim "to assemble communities of members that have something in common: namely, a creative soul," which meant that some SPR members had to rapidly undress.



Angel Building, 1 July 2016

407 St John Street, London EC1

Organised by: DERWENT LONDON



Launched in late 2010, the Angel Building is Derwent London's largest completed redevelopment. Designed by AHMM architects with elegant and robust modern detailing, the six-storey office building is playing a role in regenerating its local area, which is 10 minutes from Kings Cross Station. The building was shortlisted for the RIBA Stirling Prize 2011 and has won awards from RIBA London, the British Council for Offices and New London Architecture. Full occupancy of the BREAM excellent rated building was achieved in 13 months.

This SPR was kindly led by Jon Hall, Investor Relations & Research Manager at Derwent London. A dozen SPR members heard that half the building's space is let to Cancer Research, who are considering taking additional space in adjacent Derwent buildings. Other tenants in the building, where average rents range from £43 to £60 per square foot, include Expedia and the Design Council. These rents include a premium for the right to use the roof terrace, which also formed part of the SPR tour.

Recent Technical Events

Meeting reports written by Tim Horsey unless otherwise stated.

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

Aberdeen Asset Management,
Bow Bells House, London EC4M

The meeting was jointly chaired by **Andrew Allen,** Global Head of Research & Strategy, and **Elisabeth Troni,** Global Real Estate Strategist, both of Aberdeen Asset Management

In his opening presentation, **Chris Urwin,** Head of Global Real Estate Research at Aviva Investors, agreed that this had become a pressing question for everyone in European real estate, so much so that in the previous year Aviva have developed eight research indicators of late-cycle risk.

Some of these – for instance yield levels and disinvestment by counter-cyclical investors – seemed to be suggesting that the market is in danger of overheating. This message was reinforced by the growing interest in alternative property sectors and even a doubling over one year in the numbers of people attending Propski, he proposed.

But attractive pricing relative to other asset classes and a lack of debt overhanging the market pointed towards the potential for further growth. Most European markets continued to look fair value, but far fewer would do so by 2017. And most parts of the UK were already close to or past their peak.

Kiran Raichura, Property Economist at Capital Economics, largely supported this positive view, despite some recent negative press headlines, particularly in the UK. His organisation expected some further yield compression across the continent, supported by some rental growth. Based

on income yield, real estate was still fair value against a basket of assets. London and Oslo were the only two European financial centres to be over-valued, while there was potential for two more years of growth in most other places, albeit more slowly than before. And secondary yields could decline twice as much as prime.

In the subsequent panel discussion, **Simon Martin**, Head of Research & Strategy at Tristan Capital Partners, picked up on some conflicting signals. He suggested that the debt market was now slowing, but that there was an increasing interest from investors in assets with rental growth potential. At the same time some distressed players were withdrawing from the market.

Chris Holmes, European Director and Head of UK Debt Advisory at JLL, noted on the negative side that the momentum in the market for portfolio sales had been disrupted. But more importantly, the long rebuilding of its balance sheets meant that the traditional banking sector was now in good health. There was far less systematic risk in the system than in the last boom. “Debt isn’t a ticking time bomb,” he reassured the audience.

In response to a question from Liz Troni asking whether in this cycle interest rates were set to stay lower for longer than previously, Holmes agreed that this would indeed be the case across Europe, meaning that cash-on-cash real estate returns would look attractive for some time to come.

Urwin however also agreed with her suggestion that the deteriorating macro-economic situation was a cause for concern.

Asked by the audience about potential value plays in Eastern Europe and alternative property types, the panel generally sounded circumspect. Raichura highlighted political risks in Hungary, for example, which he suggested were difficult for investors to assess, while Holmes noted that assets with a significant operating element were more likely to frighten away lenders.

Urwin was much more positive about prospects for UK industrial and regional offices, as well as industrials in Benelux and Germany. Martin indicated that Tristan likes “motivated sellers”, and was also attracted by possibilities for developing in Paris and some German cities, where there was a shortage of Grade A space.

But both agreed that the UK private rented residential market was now past its peak, Urwin saying that it was now impossible “to make the numbers work.” However levels of interest in the market continued to be high.

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

DAC Beachcroft, 100 Fetter Lane, London EC4

Joint meeting with

Report by Monika Sosnowska

This evening workshop, held jointly by the British Council of Offices (BCO) and the SPR, presented the findings of recent research by MSCI and Ramidus Consulting on the share of business costs accounted for by real estate. The research was commissioned by the BCO.

The research highlighted the fact that firms often do not appreciate the level and impact of property costs involved in operating their businesses, suggesting that there may be big potential savings to be made if these costs can be identified and measured more accurately.

The main findings of the research were presented by **Rob Harris**, Principal at Ramidus Consulting (pictured, left) and **Andrew Hawkeswood**, Vice President, Global Occupiers at MSCI. They emphasised that besides property costs often being much greater than occupiers would expect, there is also a lack of consistency in measuring these costs in accounts, particularly across national markets. There is little agreement on the categories of cost that should fall under real estate, and these costs are often bundled together with other operating expenses, making them difficult to extract.

To get a ballpark estimate of the level of property costs incurred by UK businesses, Ramidus and MSCI used the Annual Business Survey, which provides data on turnover, purchases, gross value added, capital expenditure and employment costs for two-thirds of the UK economy. Given the huge amount of data to digest, the analysis was restricted to four sectors - Information & Communications; Real Estate; Professional, Scientific & Technical; and Administrative & Support Services.

After going through the complex process of identifying those costs relating to occupying property [see slideshow on SPR website for more detail], the research identified an average property cost level of about 15% of total costs.

Speaking from the viewpoint of the occupier, **Charlie Wade**, UK Managing Director at VTS, confirmed that there is a great deal of variation in the way businesses assess their level of property costs, depending on the industry, size of organisation and location. Following a comment from Harris and Hawkeswood that US firms tend to have a more all-embracing view of real estate costs, Wade suggested this made it easier for them calculate costs per employee and adjust their use of space accordingly.

In the subsequent panel discussion, chaired by **Bill Page**, Head of Business Space Research at Legal & General Property, it was agreed that although the overall impact of property charges on the balance sheet is critical, it is also important to be able to split total costs into more detailed categories. Cost breakdowns will differ for start-ups, SMEs and larger organisations, for example, and it is crucial to understand this when analysing such information.

During the Q&A session which followed, Harris and Hawkeswood again emphasised the difficulty of reaching definite conclusions in this area. This was partly due to the relatively limited granularity of the available data, and to also problems in verifying the correctness of the results. They admitted that there was some debate about the best methodology to use, with previous reports identifying levels of property costs ranging from 15% to 28% of total expenses. Given the amount of uncertainty surrounding the topic, the authors are very happy to make the report available to anyone interested, and are keen to receive further feedback.

Joint Meeting with RE Women: *Real Estate Myths: design, investments and diversity in Europe.* 24 February 2016

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

Joint meeting with:

This meeting was held jointly with RE Women, an organisation dedicated to gender equality and diversity in the real estate industry, through informal education and networking opportunities.

The three presentations each investigated a particular 'myth' prevailing in the real estate world.

Perhaps the most provocative was that by **Cléo Folkes**, Research Manager at St Martins Management Corporation and Honorary Secretary of the SPR, on "Diversity in employment". She argued that although the situation had undoubtedly improved in recent years, there was still substantial gender inequality in the real estate industry as a whole and property research in particular.

She based her arguments on last year's SPR salary survey, which showed that women in property research on average earned 15% less than men, or £8,539 in money terms, despite having a similar level of work experience. This pay gap starts early in researchers' careers, with men earning 6% more than women after just one or two years' employment. The difference is however biggest for the most experienced individuals. For those with more than 21 years in the industry, the gap is over 17% at £13,695.

These figures are however less dramatic than for the real estate industry as a whole, with a recent Estates Gazette survey identifying a male-female pay gap of 23%.

Discussion led by Maria Wiedner of RE Women

As this meeting had mainly attracted a female audience, Folkes concentrated her attention on the steps women could take to improve their position. Women should be and act confidently and get out of their comfort zones when considering available roles and tasks, she proposed. They should also negotiate strongly in pay discussions, in the way that most men would. Women should use their networking abilities to gain support within their businesses and the wider profession, as well as helping other women's careers when they are in positions of influence. Personal brand is also critical – looking and being professional.

Folkes' presentation followed that of **Kim Politzer**, Director of European Research at Invesco Real Estate, on "why European investors are not investing in the UK". She argued that the UK may not be quite as attractive – particularly for other Europeans - as many of us tend to believe. This was not just because of the possibility of Brexit, but also the volatility of UK markets, the need to hedge currency, and the difficulty of predicting net operating income under UK leases. These concerns help explain why European investment has made up less than 20% of overseas capital inflows in recent years.

The opening presentation of the evening had been given by **Teresa Borsuk**, Architect & Partner, at Pollard Thomas Edwards, who also hosted the event. She looked at the difficulties facing those looking to build for the private residential market, despite the growing demand in the sector. She stressed the complexity of the design process, planning hurdles, and the skills shortage in construction, as being most problematic.

The end of the meeting saw a great deal of discussion on the gender balance in real estate research. **Rachael Unsworth**, a former chair of the SPR, argued that it was vital professional bodies focused on this question. Men should be encouraged to play a greater role in child rearing by their organisations, with greater possibilities for working part time after the 'parental leave' period had ended. **Ruth Hollies**, also a former chair, suggested that women could further their careers by using a child- rearing work break as an opportunity for vocational education.


Conversations continued over drinks

There was broad agreement in the audience that women could do more on their own behalf, for example by building confidence among their own female colleagues. But striking a note of caution, Politzer emphasised that women needed to earn their position commercially and that ideas like quotas of women in senior positions could backfire.

Research Briefing: *Arenas as a catalyst for inner-city regeneration.* 9 May 2016

AECOM, MidCity Place, 71 High Holborn London WC1

The meeting was chaired by **Giles Barrie**, Managing Director, Strategic Communications, at FTI Consulting

John Rhodes, Director of Entertainment & Sport at HOK, explained the concept and potential benefits of arenas in his opening presentation. As venues that are considerably smaller than stadiums, generally seating between 8,000 and 12,000, arenas can host a much wider variety of events, and are likely to be easier to integrate within an inner city environment. They also have the potential to become destinations in their own right, for example if retailing development is included in the same complex.

To maximise their usage and benefits, arenas need to be designed for flexibility, so that events like conferences and exhibitions can take place there. It is also important that they are designed for efficiency of use, for instance with ease of access for loading.

Andy Preece, Sports Director at AECOM Economics then considered the business case that can be made for adding an arena to a location, and the economic benefits that can result. The arenas business has mainly been driven by the change in the music industry from a recordings-based to live performance-based income; sport is less important than music.

The Echo Arena in Liverpool has been estimated to have generated an extra £1bn of spending in its region over the last six years. But research in the

US has indicated that many arenas are less successful than this, and they can also displace activity elsewhere in their area. Arenas are probably better located in inner cities, with strong transport links, he proposed. A good choice of development needs to be market led: the right project in the right locality that has the right overall vision.

The discussion then widened to look evidence on investment returns for leisure real estate, with a presentation by **Vanessa Muscarà,** Senior Research Analyst at M&G Real Estate. Leisure expenditure has grown strongly in the UK recently, and forecasts for the future are also positive, particularly in terms of foreign visitors. Leisure real estate has significantly outperformed all UK property according to M&G/MSCI figures, particularly compared to the dominant retail and office sectors, with less volatility. It has also shown relatively good diversification benefits against other property types.

These returns could theoretically justify as much as 40% of a portfolio being allocated to leisure, she proposed. But she cautioned that leisure masks a mix of property types including cinemas and theatres as well as more traditional leisure parks. This means that it may be difficult to replicate average levels of performance.

In response to subsequent questions from the audience, both Rhodes and Preece suggested that arenas should prove resilient to competitive threats, for example from other music venues or from sophisticated forms of home entertainment. But it was clearly true that not all arenas could be as successful as the London O2 and the Manchester Arena, two of the earliest movers in this space.

Research Briefing: *Big Data: Sources & Applications for Property Research.* 26 May 2016

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

Kindly hosted by: Aberdeen

Joseph Kelly, CEO & Co-Founder of DealX, introduced the concept of Big Data in a short presentation. Big Data is the outcome of the exponential growth in computing power over the past 20 years. With the quantity of data in existence roughly doubling every two years, the challenge is to get some of this vast potential resource into usable structures. For real estate the most obvious structures are likely to be built at the asset level, anchored on the property's location. Layers of data may then be added on financial, environmental and social factors.

The rest of the meeting was taken up with a wide-ranging panel discussion, moderated by **Hans Vrensen**, Consultant Director – Research & Education at CREFC Europe.

He began by asking how advanced Big Data is in real estate. **Peter Wells**, Associate at the Open Data Institute, suggested that this could depend on its openness to access, but **Magnus Svantegård,** Head of Product at Datscha proposed that quality was more important. For example, the Swedish land registry has a business model that involves charging for data.

Vrensen wondered if there was a

relationship between the amount of investment data available in a market and the level of transaction activity. It was agreed that the JLL Transparency Index suggested this link does exist, though it was not just transparency that explained activity levels.

The final panellist, **Herculano Rodrigues,** Associate Partner, International at CACI, questioned whether 'Big Data' was really the most important idea to be considering. Property organisations were often quite poor at using the data available to them, so it was more important for them to have access to 'smart' data, information that was actually useful.

Wells countered by explaining that his charity often tries to help provide access to data sources that firms were not previously aware of, just to see what they can make of it. The Open Data Institute does this via Arup in the field of real estate. Rodrigues noted that many property firms find it difficult to develop the right software internally for harnessing their own data, and they therefore often resort to using products from external providers.

Kelly proposed that one of the most valuable uses of Big Data in the real estate arena was to identify the mispricing of assets, by taking account of a wider variety of factors than most other market participants. Fidelity were a good example of this, in their use of constantly updated tenancy rating data to assess the risk to their income stream. But there are often issues with the quality of real estate data that mean cleaning and interpretation can be complex. And transaction and leasing data is still relatively weak.

Svantegård suggested that data on equities and other publicly listed assets had the advantage of having been created digitally in the first place, whereas real estate data nearly always had to be produced manually. This means that there is a premium for those who can package this data in a useful form. But he also thought that international data standardisation isn't moving forward as fast as it should be; for example, floorspace data is still very inconsistent, for all the efforts of the RICS to remedy this.

Another important issue is data protection. Wells noted that the use of social media and mobile data, for example in monitoring shopping centre visitors, was coming under increasing scrutiny. There was a fine line between what is acceptable and what is creepy in this area. For this reason the EU, for one, is introducing restrictions on the share of revenue that companies can generate using private data.

Research Briefing: *The expanding role of PRS and opportunities in the current market.* 15 June 2016

Savills, 33 Margaret Street, London W1

Hosted by:

The seminar considered the current state of the institutional private rented residential sector (PRS) in the UK.

Andrew Smith, Chief Investment Officer at Hearthstone Investment Management, began by asking when PRS would become a mainstream institutional asset – would it be "this year, next year sometime or never"? He noted that while residential plays a much smaller role in UK investment portfolios than in many other countries, there are a number of positive factors favouring the its growth at present. These include the lack of other alternative asset types to invest in, strong market fundamentals, strong tenant demand and globalisation, which is bringing new interest in the market.

But against this he set out some caveats: UK institutions have pulled back from the sector in the past, there are considerable political risks in terms of tax, planning and government attitudes to home ownership, and issues of access to stock and scalability remain.

Nevertheless, Smith stressed that institutional investors' interest in the sector continues to grow, as testified by the annual IPF survey on PRS. .

Jacqui Daly, Director of Residential Investment Research & Strategy at Savills, confirmed this by showing a list of UK and international market players. A Savills survey of 35 investing organisations last year identified £30bn of capital waiting to enter the market, though much of this remains to be invested. Nevertheless 60,000 units are now being built or have received planning permission.

This interest reflects the growing role of private rented property in the UK housing market, she explained, amounting to an extra 250,000 new households per year since 2008; meanwhile the relative importance of owner-occupied and social rented housing has declined. In order to tap into this growing demand, investors have had to become developers, due to the lack of existing stock on a sufficient scale. Daly explained that development provides a wide range of risk options in the sector, stretching from core central London with a gross yield of 3%, very much a capital value growth play, to opportunistic projects like that recently instigated by L&G in Bristol, taking on all of the planning and construction risk.

In the final presentation, **Kurt Mueller**, Director of Corporate Affairs at Grainger, suggested that the market might at last be reaching a "watershed moment." Grainger have noticed a shift in UK tenant behaviour, with many now regarding renting as a positive choice, as long as the product is of good quality. Mueller presented the example of a recent Grainger acquisition, Abbeville Apartments in Barking, East London, which they bought in 2012 from Bouygues Construction. The apartments include a gym and offer a range of services including parcel collection and repair services. The investment has proved a financial success, letting rapidly and increasing in value by over 60% since acquisition. Mueller explained this success as resulting from a strong research input, which has led to the provision of space that meets local demand, particularly from IT professionals who value the easy commute into central London.

In response to a request for a show of hands from Andrew Smith, who moderated the Q&A that followed, about half the audience thought that PRS would become a mainstream investment "during this cycle."

Joint meeting with APL, CREFC Europe, INREV and ZIA. *The Role of Commercial Real Estate Debt in the Real Economy,* 29 June 2016

Taylor Wessing, 5 New Street Square, London EC4

Report by Mark Clacy-Jones

Rodney Dukes, Partner at Taylor Wessing, welcomed everyone to the meeting.

Dr Brenna O'Roarty of RHL Strategic Solutions then presented her paper entitled Commercial Real Estate Debt in the European Economy.

The paper highlights the fact that debt plays a hugely important role in the commercial real estate industry. Around half of property investment is debt funded, and it is especially helpful for smaller organisations as it allows them to use real estate collateral from in their business.

Commercial real estate accounts for 10% of fixed investment in Europe and directly employs 3.7 million people, around three-quarters of whom are construction workers – many with unskilled jobs that are important for spreading wealth. The sector is responsible for rejuvenation and innovation in the built environment. A building often starts its life as a core asset with bond-like returns, but as it ages it becomes more equity like, until it is obsolete when it represents an opportunistic equity play, open to redevelopment given the availability of sufficient capital. These situations are nearly always debt-funded.

Since the financial crisis UK banks have reduced their exposure to CRE lending, and other players have come in, producing a more diversified the lending base. In 2009 two-thirds of commercial property lending came from the top six banks. Today the banking sector as a whole accounts for less than two-thirds of the total, while one lender in six is an insurer.

Banking regulation has increased massively since the crisis, helping to keep loan-to-value ratios lower. At the same time insurers have been incentivised to lend on commercial real estate by Solvency II, but banks have been discouraged from lending by Basel III.

Going forward commercial real estate would benefit from a more level regulatory playing field between different types of lender, the report argues. This will mean a more holistic approach to lending regulation than in the recent past.

Jeff Rupp, Director of Public Affairs at INREV, then chaired a panel discussion including O'Roarty, **John Feeney**, MD & Head of Global Real Estate at Lloyds Bank, and **Barry Fowler**, MD, Alternative Income at Aviva Investors.

The panel picked up on the issue of fragmented regulation. It was agreed that Solvency II does not impact insurers in the same way that the Basel III slotting regime affects banks, but regulation has undoubtedly played its part in preventing the riskiest lending. But on the downside it can sometimes means that bank are unable lend to SMEs, even in situations where the real risks are relatively low, due to the requirement to place the loan in a particular slot. The current regulatory environment is also likely to be pro-cyclical, something that regulators would not have intended.

A positive outcome of current regulations is that different types of lender are now fulfilling different needs, with banks generally lending on shorter terms up to five years and insurers on longer terms up to 30 years. This is undoubtedly good for lending diversification.

Regarding the role of CMBS in the lending market, it was recognised that these are not attractive to insurers under Solvency II. They can however make the market more efficient, as trading these instruments helps to price the risk attached to loans, and they have more transparency than for balance sheet lending. Lloyds were the biggest syndicator of loans in 2015.

With this meeting taking place just after the UK's vote to leave the European Union, its potential impact on CRE lending inevitably featured in the discussion. The panel agreed that it was too early to tell what the long-term impact might be and that this uncertainty could continue for months or even years. But if the end result was dislocation in regulation across European markets, that could cause long term structural decline for the sector.