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Message from the Chair

Welcome to the latest edition of our quarterly newsletter.

The SPR has seen a busy start to the year with a number of seminars and social events and I would like to thank everyone involved – our speakers, panellists, (committee) members, sponsors and hosts – very much for their crucial support. Much of the work of the society is based on volunteers and your commitment is much appreciated.

I'm pleased to see that many of our events remain over-subscribed. As such, can I please remind you to let us know should you no longer be able to attend an event even at short notice so we can open it up to other members and help the organisers plan accordingly?

I'm also very much looking forward to a number of upcoming events and you'll find a list of already confirmed events below.

Behind the scenes, the committee is busy confirming a number of additional events, seminars and site visits. So, stay tuned and look out for e-mail announcements once these events are open for registration. We hope to see you soon at one of our events!

Finally, I'd like to encourage you to get in touch if you have suggestions or ideas for future events or comments.

After all, it's your Society!

Warm wishes,
Oliver Kummerfeldt, Chair

CONFIRMED EVENTS

15 May 2019 – 2018 Inaugural SPR Research Prize Presentation

22 May 2019 – Annual Pub Quiz

11 July 2019 – Summer Drinks

14 November 2019 – AGM & Annual Dinner

Please visit the website at www.sprweb.com for further details.

SOCIAL EVENTS

Flight Club Shoreditch – 6th February 2019

Sponsored by: DATSCHA

In a new event for the SPR social calendar in 2019, around 20 members played darts at the Flight Club venue in Shoreditch. This is a technological step up from the pub darts some of us remember. As their website says, they have 'reinvented darts for the twenty first century, with fast-paced multiplayer games, ground breaking dart-tracking technology, instant scoring and a slick and intuitive user interface. With multiple throw lines to level the playing field, even a complete beginner can win.'

Beginners or not, the top six SPR players on the night were:

1. James Anderson, The Local Data Company
2. Ronald Nyakairu, The Local Data Company
3. Ben Raywood, Savills

4= Kristina Andersson, Datscha
4= Pol Marfa Miro, CBRE
4= Robin Honeyman, CBRE

Ronald Nyakairu, The Local Data Company

Datscha's sponsorship included drinks and tasty pizza during play.

King Pin Bowling, All Star Lanes – 20th March 2019

All Star Lanes in Brick Lane once again welcomed six teams of property researchers for King Pin Bowling in the second SPR social event of 2019.

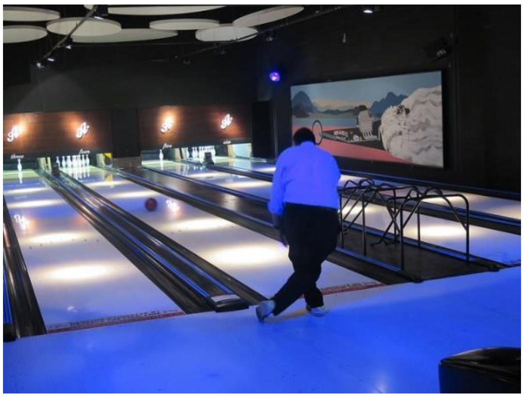
The winning team this year was Tristan Capital & Co., who were followed by CBRE and 'Bowl to Let', the team from Savills.

Tristan Capital & Co. received their prize during the post-match refreshments.

SPR Treasurer James Purvis won the prize for the leading individual bowler, with Simon Brown of CBRE second.

Cleo Folkes of Property Overview shared the prize for the highest number of strikes – three – with James Newitt of Savills.

Cleo and team-mate Yi-Wu from Cass Business School



Simon Marx shows his clinical bowling style

Team Winners

1st Tristan Capital and Co
2nd CBRE
3rd Bowl to Let (Savills)

Individual Winners

1st James Purvis - Tristan Capital
2nd Simon Brown - CBRE
3rd Simon Marx - LaSalle Investment Management
4th Paul Wellman - Savills
=5th Pol Marfa Miro - CBRE
=5th Daniel McKegney - CBRE
=5th Cleo Folkes - Property Overview Ltd

Most strikes (3 each)

Cleo Folkes - Property Overview Ltd
James Newitt - Savills

SITE VISIT

Travis Perkins/Unite Development – 9th April 2019
Travis Perkins, 13 St Pancras Way, London, NW1

Some 20 SPR members took the chance to join a tour of the Travis Perkins/Unite mixed use project in Camden.

The building, which combines warehousing with student accommodation, featured in an SPR seminar on mixed industrial/residential developments held last year. Travis Perkins are the largest builders' merchants in London, with more than 180 branches across the capital.

Martin Meech, Group Property Director, Travis Perkins, began by giving a presentation on the project. He explained its origins during the financial crisis, when a need for cash encouraged Travis Perkins to enter an agreement with Unite to use an existing builders' yard for the creation of a new student residence with warehousing underneath.

The project took four years to complete from the initial agreement, in part because of difficulties negotiating planning permission with the Borough of Camden, which did not want to lose any of the existing industrial floorspace. Construction was also challenging due to the need to provide enough space for lorries to turn between the columns supporting the student block.

Meech noted that this is still seen as an unusual project, even though it is nearly five years old. Developers are now showing more interest in doing similar mixed used projects around London, but he stressed that the costs involved mean they are only likely to be feasible where land values are high. Nevertheless, growing demand in the capital both for residential space and last mile delivery facilities should make a number of such projects financially viable.

Nick Pinney, Divisional Property Director – General Merchanting, Travis Perkins joined Meech showing the SPR group around the warehousing area. They explained that enclosing the yard has made it quieter for local residents. There have been no noise complaints from any of the students living above, many of whom probably don't realise the amount of lorry and van traffic going on beneath them.

A tour of the student accommodation followed, led by **Peter McColm**, Services & Sales Supervisor at Unite. McColm enthused that all the flats are reserved well into the next academic year. The central and well-connected location of the building, which houses 572 people, is proving highly popular, especially among foreign students.

Travis Perkins kindly provided a sandwich lunch to the SPR group at the end of the visit.

TECHNICAL EVENTS

Meeting reports written by Tim Horsey unless otherwise stated

Joint SPR/IPF Seminar on the Outlook for UK Property in 2019 – 15th January 2019

Kindly hosted by: ALLEN & OVERY

UK Property Set to Remain Attractive in 2019

Although this event took place at the same time as MPs were passing through the Westminster lobbies to reject Theresa May's Brexit deal, the speakers were overwhelmingly positive that UK real estate would continue to attract substantial levels of investment in 2019.

Chris Ireland, UK Chief Executive, JLL proposed that money going into UK real estate in 2019 would rival the figure of £60 billion seen in 2018, even if further Brexit tribulations could mean that investment is more subdued in the first half of the year. Over the longer term, UK property would continue to be in demand from overseas investors, particularly as rental growth takes hold – at the top end of the sector spectrum, JLL predicts that prime South East industrial rents will rise by 20% over the next three years. Positive leasing trends should also continue in the major office markets, building on the strong take-up levels seen in both London and regional centres through 2018. And even in retail, pockets of value may begin to emerge towards the end of the year.

Ireland noted a number of emerging trends that he believes are set to continue into 2019. One is the rise of alternative investment assets, which in many cases may benefit from an element of counter-cyclicality, while also including an operational aspect, which could prove attractive to some investors. Another is the expansion of co-working and flexible space in the office sector, even if this had faltered somewhat in 2018.

He also proposed that the recent convergence of yields between the real estate sectors could reverse in 2019. Asked to expand on this by moderator **Helen Gordon**, CEO of Grainger, he thought that in the short-term retail yields would move out relative to industrials – this was reflected in the IPF consensus forecasts of total returns for the year: around zero for retail, 9% for industrial, 4% for offices and 6-7% for alternative sectors.

UK real estate should stay attractive to domestic pension funds, suggested **Simon Pilcher**, Chief Executive for Fixed Income at M&G, including those supporting defined benefit (DB) schemes. Taking the example of long income funds, he noted that such real estate investments remained favourably priced compared to government and corporate bonds, even if the asset class may now be seen as highly priced relative to its own long-run averages. Of course, much depends on how bond yields are likely to change, but he stressed these have proved notoriously difficult to forecast in the past. And potential returns from UK real estate also look attractive to many foreign investors – particularly those from Asia – against the levels promised by their own markets.

Given the near-term uncertainties surrounding Brexit, **Paul Guest**, Lead Real Estate Strategist at UBS Asset Management directed his comments more towards longer-term prospects, where he sees UK economic growth returning to its long-run average around 2% p.a. in real terms over the next three years Nevertheless, this is likely to be held back by the negative effect of Brexit on fixed capital formation, which will affect future growth potential, even if this is being offset by private consumption – which has been holding up relatively well, based on a strong labour market and the lowest unemployment for a generation. UK real estate should thus be underpinned by a rate of growth that compares favourably with most other G7 markets, and London's economy looks set to lead the UK regions once again in 2019.

Guest did however emphasise that the uncertainty surrounding Brexit has led to a lack of consensus among UK economic forecasts, with a wide range of predicted outturns for both "deal" and "no deal" scenarios. He also stressed the continuing poor level of productivity in the UK, even if it has picked up somewhat of late – this is difficult to explain given weak recent investment.

Joint SPR/INREV/IPF Seminar: Nick Tyrrell Research Prize 2018 Presentation – 28th February 2019

Kindly hosted by: TRAVERS SMITH

Optimal Composition of Hybrid/Blended Real Estate Portfolios

This year's Nick Tyrrell Research Prize was awarded to **Dr Frank Ametefe, Dr Steven Devaney and Dr Simon Stevenson**. Presenting the research at a joint SPR/INREV/IPF meeting, Devaney emphasised that it had grown out of Amefete's doctoral thesis, and that he should take most of the credit for the leg-work involved.

Devaney began by explaining the context for the research. In the wake of the UK Brexit referendum in 2016, liquidity problems affecting real estate funds once again made the news headlines. Even with significant cash holdings, most open-end funds investing in the UK were unable to meet redemption demands and forced to suspend withdrawals.

One way of increasing liquidity in open-end real estate funds – without adding the drag on returns caused by holding more cash – could be to hold more liquid assets, not just direct real estate and cash. The research explored this idea by testing the potential performance of hybrid portfolios made up of direct real estate together with small amounts of government bonds and equities.

Previous research by Alex Moss and Kieran Farrelly had investigated the possibility of combining non-listed and listed real estate, concluding that liquidity could be improved, but at the cost of greater portfolio volatility.

Presenting the award-winning paper, Devaney agreed that there were always a likely to be trade-offs of this kind to consider, but including small quantities of bonds and equities together with a limited cash holding could still be beneficial in a predominantly direct real estate portfolio.

The research tested the theory using Minimum Tracking Error optimisation techniques to determine the most favourable mix of direct real estate and listed real estate, other equities and government bonds of various maturities. This procedure was an extension of the classic Mean-Variance optimisation procedure and was implemented with and without a minimum return constraint in order to observe the most effective combinations of liquid assets in meeting portfolio objectives. The analysis was based on historical UK data for the 1987-2015 period, including MSCI data on direct real estate.

On this basis, the research found that return from a hybrid portfolio could have exceeded the market benchmark while still providing more liquidity than a pure real estate fund. If the main consideration is limiting the tracking error compared to the benchmark, there are benefits in holding a larger amount of cash (8% of the allocation) in the portfolio together with small amounts of listed real estate (1%) and general equities (1%). But holding a wider mix of liquid assets including equities (2%) and bonds (3%) can reduce the sacrifice in return from holding cash in isolation.

Devaney noted that this kind of portfolio could go some way towards meeting the needs of institutional investors such as UK defined contribution pension funds, which use open-end funds to gain exposure to the real estate asset class.

When he introduced the seminar, **Dr Paul McNamara** had stressed that the judges were almost unanimous in awarding the prize to this paper, even though the overall quality among the 14 entries received from America and Asia, as well as Europe, had been very high. McNamara particularly praised the paper's practical relevance to investment and its accessibility to the lay reader.

Paul Richards, Mercer and **Dr Alexandra Krystalogianni**, Allianz Real Estate led the panel discussion, lauding the quality of the research on this perennial issue. Richards did however wonder how including non-real estate assets in the portfolio could be achieved in practice, and in particular how the bond and equities investments would be made. This theme was taken up in the audience Q&A – could the investment process be made sufficiently transparent to investors, and would they think it diluted the overall real estate allocation?

SPR Joint Seminar with BPF, IPF, Cass Business School and CREFC, *From Build-to-Rent to Built-to-Rent: from Assumptions to Reality* – 26th March 2019

Jointly with and kindly hosted by:

Report by Emma Grew

Where would you like to invest in the Build-to-Rent sector? That was the opening question for attendees at the Build-to-Rent seminar. The response indicated London as the favoured choice by a wide margin. This view was backed up by research detailed by **Julia Middleton**, whose work at Dataloft suggested that London and Reading were some of the cities with the best outlook for rental growth. However, she emphasised that affordability was key, with affordability in London already stretched for lower earners. She also highlighted that renting remains a very local business, with most tenants tending to remain in the same sub-markets, particularly in London, where 60% of moving renters stay within a five-mile radius.

Jonathan Monnickendam, Development Debt Consultancy, considered the rental market from an investor/developer perspective, discussing early assumptions made in development appraisals. He suggested that important factors like the BTR rental premium and rental growth assumptions had been overstated, while the Gross to Net has likely been understated by the first wave of investors. He therefore questioned what the second wave of BTR would look like, asking whether the next set of developments would focus on the same type of product or whether it would no longer be feasible to create premium, city centre living when baking in new, more restrained assumptions.

Andrew Moffat, LIS Real Estate Consultancy, meanwhile suggested that a bottom-up approach was needed to make developments work and that investors needed to make management a much more integral part of the design process from day one. He echoed Middleton's comments by highlighting that investors needed to focus on the local markets and local competition, and, while rental premiums may not always be easy to find, net rent can be improved by offering additional services and improving spec relative to the existing local offer.

A more top-down view was provided by **Dr. Robin Goodchild,** University of Aberdeen Business School, who commented that the BTR market was finally getting some traction, with the PRS having existed as an untapped opportunity since as early as the 1990s. He ran through the major players and early movers, noting M&G Real Estate and Invesco as being the largest and most active in the market to date. He also noted some of the challenges and lessons to be learned that investors needed to consider, such as rental seasonality, getting the right mix of units and how to exploit economies of scale in terms of management.

Charles Fairhurst, Fairhurst Associates, also considered the evolution of the market, turning back to the topic of who is investing and how. He demonstrated that a wide variety of investors were investing or looking to invest in BTR, across different kinds of platforms, with a wide variety of management partners. Indeed, he noted that there was only one player in the market that was considering a multi-channel approach, with experienced players only going through one investment channel, whether listed or unlisted, generally focussing on institutional investment.

Such a hot topic provided the scope for a wide variety of interesting questions from the audience, with discussion highlighting the importance of gaining tenant loyalty and considering local competition, as well as underlining that investors should not understate the level of competition that is offered by the mainstream PRS. Data proved a key concern, with the panel agreeing that BTR needed better data to aid development and understanding of the market and questioning how this could be achieved. Ultimately the discussion showed that there is still a lot to learn in an investment class that, while at an early stage and not without its difficulties, is clearly attracting and will continue to attract significant interest in the future.

Joint SPR / ULI Seminar: Green Buildings - are there financial benefits? – 2nd April 2019

Kindly hosted by:

M&G Research Confirms Financial Benefits of Green Buildings

At this joint SPR/ULI seminar, **Vanessa Muscarà** and **Alex Lund** presented recent research by M&G Real Estate on the green buildings it holds. The research found that assets with environmental certification produced higher income for their investors than the other buildings they hold. This was in line with the results highlighted in the paper that won the Nick Tyrrell Research Prize in 2017, on 'the value effects of real estate investment,' by Dr Avis Devine and Dr Erkan Yonder.

Vanessa Muscarà, Associate Director, M&G Real Estate explained that the green certified buildings that they manage across six European countries – representing some 25% of their assets there – provided higher rental income than those without certification. However – again confirming the previous research – operating costs were also higher for certified buildings. So while the rental income from these buildings was 53 bps higher, the income available for distribution was a more modest 19 bps higher.

Alex Lund, Senior Associate, M&G Real Estate, noted that the financial benefits of green buildings are being increasingly recognised by European lenders, a number of which now apply 'green tagging' and offer loan discounts to borrowers of as much as 20 bps on such assets. These lower interest rates can further enhance the distribution yield provided by a fund that uses leverage, adding to the benefit of the higher income generated by the underlying assets. Banks are willing to lend at lower interest rates in these situations based on a belief that green properties have less systematic risk, due to more stable occupancy rates and less variation in operating expenses, in turn leading to more stable cash flows.

Lund stressed that it was not yet possible to test the income distributed by green buildings over a whole real estate cycle, as the process of certification is relatively new. However, M&G are convinced enough of the potential financial benefits that they intend to raise their holding of green certified buildings to 50% of assets under management by 2050.

Speaking in the panel discussion that followed, **Dan Grandage**, Head of ESG, Aberdeen Standard Investments indicated that ASI's own analysis showed that buildings with strong ESG credentials at least matched their rental benchmarks overall, even if they didn't necessarily outperform them. Their income also proved more stable than from other buildings. So, given that ESG is regarded by investors as an additional benefit, this should be good enough to justify their inclusion in a portfolio, he argued.

Lucy Winterburn, Director of Investments, Savills Investment Management, suggested that those who manage pension fund assets, as she does, are keen to build up the green credentials of their portfolios, particularly when developing new properties or refurbishing existing ones, as most clients now want this – but she emphasised that the financials still have to stack up.

The discussion, which was moderated by **Jon Lovell**, Director, Hillbreak, considered the process of green building certification at length. It was agreed that there needs to be greater standardisation between the various certificates in operation globally. It was also stressed that just because a building receives a green certificate when constructed, it may not always go on to be operated efficiently by the occupier. This could help explain some of the higher operational costs identified by the research.

Also sitting on the panel, **Abigail Dean**, Head of Sustainability, Nuveen Real Estate, emphasised that climate change risk was now the biggest environmental concern for most real estate investors over the longer term. At this point in the cycle, this could mean that some assets may be reaching their optimal value and would be better removed from the portfolio. The panel agreed that this is now an over-riding concern for investors.