Society of Property Researchers Newsletter

August 2023

In this issue:

Society News
Message from the Chair

Social Events
SPR All Star Lanes Bowling
SPR Pub Quiz
SPR Summer Drinks

Site Visit
40 Leadenhall

Webinars/Seminars
SPR Seminar: Grid Capacity
SPR/RE Women Joint Seminar: How to Avoid Greenwashing
SPR Webinar: The Value of Mixed Use
SPR Seminar: The Cost of Capital
SPR/IPF/INREV Joint Webinar: Nick Tyrrell Prize
SPR Webinar: Impact Investing

SPR Roundtable
How Valuations are Changing

Upcoming events:

13 September: SPR site visit: Battersea Power Station

19 September: SPR Roundtable: Gender pay gap

20 September: SPR/IPF Joint Seminar: European Outlook 2023

28 September: SPR Golf Day, Letchworth Golf Club

4 October: Joint SPR/Society of Professional Economists Seminar: Prospects for the Housing Market: a Building Storm?

11 October: The future of hotels

16 November: SPR Annual Dinner, Royal Air Force Club, London

28 November: Wine Tasting

Sign up for events here
Catch up on past recorded events here

Reports written by Tim Horsey unless otherwise stated

Society News

Message from the Chair

Dear Members,

I hope you've had an excellent summer so far, and it's been great to see so many of you at our recent events.

At the beginning of the year, one of our key objectives was to hold more in person events following clear feedback from our membership as to the benefits of face-to-face networking and opportunities for learning/sharing experiences. So far this year, we have held 15 in person events, including seminars on life sciences, grid capacity, greenwashing, and the cost of capital, and the attendance rates and enthusiasm for these events has been fantastic.

We have more in person seminars planned in the final months of the year, starting with our outlook for Europe on 20th September, followed by the future of hotels, and the prospects for the housing market in October.

The SPR Roundtables have also been a great success with our new, relaxed format, and topics covering logistics, ESG data, sustainable valuation, and timber buildings proving extremely popular. Please do get in touch with any suggestions for future Roundtable discussions – we want to hear from you as to what is of greatest interest and relevance to your varied roles.

The SPR social events have continued to be popular, with high attendance at our bowling, and pub quiz events, as well as our winter and summer drinks. The social offering will continue after the summer with our annual golf day on 28th September – this is a very inclusive event and will have something for everyone – whether you are a seasoned golfer or have never picked up a club before (or somewhere in between!) We also have our ever-popular wine tasting in the diary for 28th November. This is the perfect pre-Christmas SPR event from both a social and research perspective ensuring that you can talk confidently about a wines' BLIC (Balance, Length, Intensity and Complexity), which I think is the real value us researchers can bring to all parties over the festive season!

We recently released the findings of our latest salary survey. This report brings real insight into the pay structures around real estate researchers and highlights some glaring issues. The gender pay gap in particular has risen to 14% from 9% two years ago. This will be discussed and debated at our next Roundtable event on 19th September.

You will no doubt have also heard the very sad news that Ian Cullen, a fellow and long-term supporter of the SPR sadly passed away in February. His business partner Rupert Nabarro held a memorial on 5th June, which was attended by many across the membership. He was a leading figure and contributor to the real estate industry who will be greatly missed.

To pay tribute to Ian and in recognition of his significant influence across the industry, as a committee we have decided to rename our annual SPR award for research as the Ian Cullen Research Prize. The winner of which will be announced at the next Annual dinner on 16th November.

Tickets for the dinner will be available to book from 18th September. The event is very popular and I would encourage you to block out your diary, set up multiple laptops and phones to ensure you get a spot!

A final date for the diary is our AGM which will be held on 9th November. This is an excellent opportunity to hear the upcoming plans of the SPR, and to give your own thoughts.

Thank you again for the continued support and engagement with the SPR. It has been a fantastic year so far and I am very much looking forward to the excellent schedule of events over the coming months.

Alex Dunn
SPR Chair

Social Events

SPR Bowling
All Star Lanes, 95 Brick Lane, London E1
2 March 2023

Kindly sponsored by CoStar

A mixture of new faces and seasoned bowlers got together for the traditional SPR springtime fiesta that is All Star Lanes bowling.

On an evening that proved to be competitive – but not too serious – the team Savills A just came out on top, narrowly squeaking past the team from Oxford Economics. With the scores calculated as the average of the individual players, the difference was 96.00 vs 95.86.

The Savills A team was made up of Andrew Blennerhassett, Corranne Wheeler, Mike Barnes, Alistair Walters, George Roberts, Will Holford and Victoria Bajela.

The victorious Savills A team

Three members of the team – Walters, Barnes and Roberts – posted scores in excess of 100 points, as indeed did 15 players across all six teams participating, who also included teams from CoStar and BNP Paribas.

Following on from his success last year, Dan Hill, a member of the other Savills team competing in the competition, was once again the highest scoring individual, with 151 points. Next came Alistair Walters (145) and Warren Campbell-Johnson of Oxford Economics (144).

Shehryar Qazi and Dan Hill

The evening was rounded off with complementary drinks and canapés, during which SPR committee member Shehryar Qazi handed out the coveted bowling prizes.

SPR Pub Quiz
26 April 2023
The Tokenhouse, Moorgate, London EC2

Kindly sponsored by CoStar

Once again, we returned to the Tokenhouse in Moorgate for our annual quiz night. As popular as ever, 11 teams were put to the test by the formidable quizmaster, Andrew Marston.

Quizmaster Andrew Marston (CBRE IM), Ruth Hollies (CBRE), Mark Stansfield (CoStar) and David Inskip (CBRE IM)

The questions covered everything from sport, music and popular culture to history, current affairs and the natural world. The music round was eclectic, featuring questions on a Burt Bacharach theme, in honour of the composer who sadly passed away this February, through to 2010s drum and bass, via Prokofiev's Peter and the Wolf.

Report by Becci Williamson

This year's event also included a picture round as well as a "Who Am I" round, the latter giving the teams the opportunity to earn up to 8 points if they correctly guessed the celebrity's name from the first clue.

In spite of a strong performance, PMA were not able to hold on to the trophy for the second year running, with the honours instead going to the team 'Détente', with a score of 65. Ruth Hollies, CBRE and Mark Stansfield, CoStar gladly accepted the trophy on behalf of the team whose members also included William Muldoon and Lisa Dean, CoStar, Neil Blake, CBRE, Daniel McKegney, Heitman and Jeremy Marsh, Schroders. Second place went to 'Quiz Akabusi' and in joint third place came last year's winners PMA and 'In the Can'.

Drinks and refreshments at the quiz were kindly sponsored by CoStar, as well as by the Society.

SPR Summer Drinks
13 July 2023
Devonshire Terrace, London EC2

Kindly sponsored by MSCI and Income Analytics

This year the SPR Summer Drinks returned to Devonshire Terrace in the City of London, albeit in a separate section to before. Once members had found the right place – in some cases after crashing other organisations' parties – they arrived at a suitably secluded combination of indoor and outdoor space, ideal for relaxing on a summer Thursday.

As always, the event proved a highly popular opportunity to catch up with Society colleagues and on this occasion for sharing stories of the somewhat challenging six months for the real estate business that had passed since the Winter Drinks. Still, spirits were high, not least due to the enticing array of drinks and canapés available on a complimentary basis.

Thanks were particularly due to sponsors MSCI and Income Analytics, the latter sponsoring this event for the first time.

Site Visit

40 Leadenhall
17 May 2023

Kindly hosted by M&G Investments

Twelve SPR members had the privilege to join the second visit by the Society to 40 Leadenhall, one of the latest towers to emerge on the City of London skyline. It was a particularly exciting – and rare – opportunity to enter such a project in its construction phase, which really brought home the complexity of developing this kind of building in the cramped streetscape of the City.

The visit began with a brief video featuring architects Make, which emphasised that this redevelopment of a substantial site between Leadenhall Street and Fenchurch Street will create a whole new neighbourhood, not only encompassing office space for 10,000 people but also retail and hospitality. The building will incorporate the existing Grade II listed former shipping exchange at 19 - 21 Billiter Street.

Aaron Pope of project developers M&G, who led the tour, then presented highlights of the scheme using architectural models and a CGI presentation. Due for final completion in March 2024, the building's top floors are already prelet to US law firm Kirkland & Ellis. In one of the models, drawers were magically opened to show the 1000+ bicycle spaces and a vast array of changing facilities, all tying in with exemplary sustainability credentials as witnessed by the targeted BREEAM excellent and NABERS 5 star certifications.

Much of Pope's presentation stressed the high level of amenity in the design, including a full-scale library, a courtyard with cafés and a Peleton-based gym, all for the exclusive use of the tenants. There will also be a 'club' style area for tenants on Level 11 with an extensive roof terrace, while Levels 13-14 will include a rooftop bar and restaurant open to the public.

Following the presentation, SPR members donned engineer boots and hard hats to go up for a view of one of the terraces still under construction. The bright spring weather made for some stunning vistas towards the Tower of London, the Shard and Canary Wharf, which will no doubt be enough to entice prospective tenants for the remaining few floors of the 900k sq ft building that are still unlet.

Webinars/Seminars

SPR Seminar: Grid capacity
Knight Frank, 55 Baker Street, London W1
14 March 2023

Joining the Dots

Grid capacity is often overlooked when considering the transition to a low carbon economy. Speakers at this seminar suggested that the UK grid could be more than a decade behind where it needs to be, with big implications for businesses, consumers and the real estate industry. As things stand, grid capacity is restricting the potential for installing heat pumps in residential developments and charging electric vehicles domestically, for example. One particular problem is the queuing system that electricity distributors have devised for connecting new developments to the grid.

On the road towards a low carbon future, headlines often focus on either the consumption or production of electricity, but far less attention is typically paid to the grid that connects them together. However, as **Marija Simpraga** of LGIM Real Assets, one of the two panellists at this SPR seminar explained, issues relating to the UK National Grid are having big implications for energy supplies reaching consumers – both business and private – over the next few years, and by extension for real estate investors.

Although renewable electricity production is progressing well – particularly in offshore wind – there is now a mismatch between these sources of supply and the layout of the grid, which historically has been largely determined by the needs of fossil fuel generation. This was starkly illustrated by mapping shown at the seminar:

Michael Lock, Associate Director in Energy, Renewables and Infrastructure at Savills, suggested that with much of the grid infrastructure still dating from the 1930s and 40s, the UK is probably 10-15 years behind where it needs to be for the cabling needs of offshore wind. There are also problems with finding the space to build new distribution sub-stations in the highly developed areas where demand tends to be concentrated.

One of the most serious issues this has thrown up for real estate is the queuing regime that the electricity distributors have devised for connecting new developments to the grid. Lock described this as like waiting to be served at a coffee shop, with each customer dealt with in turn, even if they have problems paying and irrespective of their potential importance to the local economy. It is therefore essential for developers to apply for connection well in advance of completing the planning process, even if there are cost implications such as the risk of losing the connection deposit.

Lock also explained that the grid capacity available to a property can have a huge impact on its value, particularly for the most energy intensive assets. In one example, the availability of a 500kva rather than a 250kva connection effectively doubled the value of the property.

In the audience Q&A that followed the initial discussion, both of which were led by **Lucy Greenwood** of Savills, the panellists agreed that grid-related problems could be partially mitigated by onsite power generation, although Simpraga noted that there were technical limits on putting power back into the grid. Lock suggested that PV cells on roofs could work well in offsetting demands on external supply, but problems with battery storage still limited the potential benefits.

It was clear from the responses to many of the questions that grid-related issues are holding back the net zero transition, even if the UK's position is not much more backward than other European nations. In one example Simpraga indicated that while air source heat pumps are now 'fit-for-purpose' for new residential developments, a relatively small number can breach the supply capacity in place; a similar situation often applies for charging electric vehicles domestically. Meanwhile, at the other end of the supply chain, Lock described how much of UK offshore wind capacity already constructed will not be able to come on-stream until after 2030 due to connection issues.

So, what can be done to speed things up? Lock noted that the GLA tried to encourage some streamlining in the queuing system for around 40 projects last year, although this was an isolated case. However, he did imply that local authorities have an important role to play. Otherwise, potential growth in market segments such as life sciences may be curtailed, at least in the short term.

SPR/RE Women Joint Seminar: How to Avoid Greenwashing
Freeths, 1 Vine Street, London W1
18 April 2023

Transparency is everything

Greenwashing, the practice of painting an organisation's policies or actions as being greener – that is, more in line with an ESG agenda – than they really are, is nothing new. But with climate change, biodiversity and social responsibility ever more important in the eyes of investors, the pressure to be seen to be green can be intense. All speakers at this joint SPR/RE Women seminar agreed that the best way to avoid greenwashing is via greater transparency.

Jessica Pilz

Jessica Pilz of Fiera Real Estate and **Katie Whipp** of Trustek both asserted that to avoid greenwashing organisations need to emphasise transparency, providing as many metrics as possible to give a clear view of what they are doing in the ESG area and where their strategy is heading. All the speakers agreed that the risks associated with greenwashing can now be massive, not just legally due to increasing regulation, but perhaps even more important reputationally. An example of this was the recent case of H&M, where apparently detailed statistics on the sustainability of products were found to have been used in a misleading way.

Iona Silverman of Freeths noted that even when firms want to make honest claims about the sustainability impacts of their activities, there is still a danger that they could be inadvertently misleading. As **Sophie Taysom** of Keyah Consulting suggested, this can often stem from a genuine lack of understanding of the issues involved – for example, there may be an overt commitment to achieving Net Zero emissions by a

Iona Silverman

certain date without having a plan of how to achieve that or even a realistic measure of current emissions.

However, Pilz and Whipp also highlighted that concerns about the risks linked to greenwashing have led some organisations to over-react by resorting to 'green-hushing', that is consciously not trumpeting their ESG-related achievements for fear of the reputational risk of possible exaggeration. Taysom stressed that another issue was that success could be difficult to measure in areas like social impact, but that here too transparency in describing activities is key.

In the ongoing discussion led by SPR chair **Alex Dunn**, considerable attention was paid to the effect on real estate of the EU's SFDR regulations, which are aimed at eliminating greenwashing from private vehicle information. Pilz proposed that the regulation has ensured that the issue is taken seriously by real estate managers, although many of the provisions have not been developed with real estate in mind. Whipp noted that it does little to address the key issue of transitioning assets to become more carbon efficient or the importance of reflecting the impact of carbon embodied in buildings.

Katie Whipp

Answering a question from the audience, Taysom admitted that there remain difficulties in working out precisely where a property lies on a path towards Net Zero, partly because the definition of carbon neutrality keeps changing as more metrics become available. However, the speakers all agreed that that organisations should do their best to embrace sustainability and be transparent about what they are trying to achieve. Real estate CEOs are clearly focusing ever more strongly on ESG as one of their principal performance targets, although financial performance remains paramount.

Sophie Taysom

Wrapping up the session, Dunn asked what is the most important step that firms can take in order to avoid greenwashing. Silverman stressed the need to be specific when claiming to be green rather than making broad potentially meaningless statements, and to back up claims with relevant data. Taysom emphasised the importance of having a clear strategy and also a willingness to listen to employees who call out greenwashing within the organisation – there could be a temptation to ignore such comments. Whipp suggested that it was crucial to understand your own portfolio as each real estate asset is unique, and also to bring in the right talent to enhance that understanding. Pilz concurred, noting that even smaller organisations can afford sustainability expertise if they are willing to be imaginative, perhaps recruiting on a part-time or consultancy basis, as had been the case with one of her recent positions.

SPR Webinar: The Value of Mixed Use
26 April 2023

More than the sum of their parts

The panellists at this SPR webinar emphasised that mixed use projects can add value by creating a sense of place and providing greater functional flexibility, particularly in difficult economic conditions. Such schemes often require collaboration between many partners over a long period, but the benefits can justify the effort. This has been evident in London's Stratford City and Kings Cross developments. Key hurdles in advancing such large projects include assembling the land required and finding the financial resources to manage common amenities over time.

In this webinar, the moderator **Cleo Folkes** of Property Overview asked whether large mixed use schemes are good value from the viewpoint of the investor and wider society, or whether their complexity can mean that they are often not worth the bother.

The overwhelming view of the speakers – all of whom have been involved with this kind of project – was that they are resoundingly worthwhile.

Polly Plunket-Checkemian of Aletheia, a veteran at managing and improving a variety of mixed use estates, proposed that such schemes can be effective for value protection as well as value creation, given that they can often prove flexible over time. The best mixed use projects are more than the sum of their parts, and she cited the examples of Stratford City and Kings Cross as bearing this out. Key to their success has been planning an estate management model at the outset which can foster ongoing adoption of their facilities by the community. This is something that can only evolve organically and requires a governance model with flexibility built in.

In her presentation. **Elizabeth Wright** of Muse Developments suggested that an important element of mixed use value creation lies in the potential for placemaking, which in many cases means bringing together a wide range of partners from both the private and the public sectors. This is critical not just for the initial funding of a scheme but also its ongoing evolution, with local authorities often playing a key role in making more affordable projects (for tenants) financially viable. Like all the speakers, Wright also emphasised the fundamental importance of building-in both environmental and social sustainability across the construction and subsequent management of the scheme.

The importance of taking a rounded perspective on a development was also emphasised by **Elad Eisenstein** of Aecom in his opening presentation; he quoted Aristotle's comment that 'a good city exists for a good life.' To fulfil this objective, he proposed that mixed use schemes need to pay particular attention to the ground floor of their buildings, which is where economic and social interaction mostly takes place. He also advocated a 'slow city' model as typified by Amsterdam, where people move mainly by bicycle or on foot, as ideal for reinforcing these connections. At the same time proximity to regional transport nodes, as with Stratford and Kings Cross, can provide a further boost. With Stratford, the value of the ground floor extends more widely to include the public spaces. Although created for the purpose of hosting events, the Olympic Park is now much more integrated with the needs of the local community.

Although they were overwhelmingly positive about the potential of large mixed use schemes for creating value, there can be significant hurdles to overcome to make it happen. Plunket-Checkemian noted that different uses might not always be natural bedfellows, particularly in terms of meeting the needs of residential and visitor populations, while finding the financial resources to manage common amenities could also be challenging in the long run. Wright proposed that assembling land required for big schemes can be a major hurdle, as is building a partnership with a strong long-term vision. Once this has been achieved, there is then the challenge of keeping everyone focused on that vision as the project evolves – which can be deflected by political shifts, for example.

Yet complexity can itself bring advantages. Plunket-Checkemian suggested that having a choice of exit points can help de-risk cash flows for individual investors. It can also provide greater resilience than single use in a difficult business climate and allow for the flexibility to react to emerging economic trends.

SPR Seminar: The Cost of Capital
AEW Europe, 33 Jermyn Street, London SW1
11 May 2023

Extend but not pretend?

The audience at this SPR seminar learned that a significant gap has emerged between the lending available from banks, institutional lenders and other debt market players compared to the volume of loans needing to be financed or refinanced. This partly reflects the fall in asset prices through 2022 but also a reduction in the LTV levels that lenders are willing to provide. The panellists agreed that finance providers could be persuaded to extend existing arrangements for the time being, on the basis that more 'normal' market conditions would soon resume.

In this seminar on finance costs and lending conditions across the UK real estate markets, **David Dahan** of

David Dahan

CREFC Europe set the scene with a review of trends in market sentiment among the lending community. He noted that overall sentiment has improved significantly since a low point in Q4 2022, which was heavily influenced by the Truss-Kwarteng experiment, with sentiment also improving for debt availability and new business volumes. However, sentiment regarding debt pricing and lending terms has proved stickier and remains negative overall. Offices and retail are the sectors where sentiment is weakest.

Negative sentiment is reflected in the funding gap for real estate across the UK, France and Germany, which has now increased to an estimated €51 billion, according to **Hans Vrensen** of AEW Europe. This measure of the difference between the lending available from banks, institutional lenders and other debt market players at current rates and LTVs compared to the volume of loans needing to be financed or refinanced has been mainly driven by the fall in asset prices through 2022. The problem has been exacerbated by a reduction in the loan-to-value (LTV) ratio at which lenders are willing to finance real estate from around 60% to 50%, given the perceived increase in risk. He suggested that over time the funding gap would be bridged by a combination of equity top-ups, junior debt, loan extensions and restructurings, although there would also need to be some loan write-downs and discounted loan sales.

Lushan Sun

Lushan Sun of LGIM Real Assets agreed that market participants were starting to adjust to these challenges, with lenders willing to extend loans and accept lower LTVs for limited periods. This inclination to 'kick the can down the road' was based on the assumption that more normal market conditions would return reasonably quickly. She proposed that this could prove to be a favourable time for non-bank lenders such as Legal & General to enter the market, as banks' activities were likely to be severely curtailed. But for her organisation, new lending would be selective on sectors and restricted to high quality, prime assets. Refinancing weaker properties, particularly offices and retail, could be a much bigger problem.

As Vrensen had previously explained, funding costs for UK commercial real estate mortgages are now hovering around 6%, based on lending margins and swap rates, although they are somewhat lower in the EU. In his presentation, **Peter Papadakos** of Green Street suggested that the long-term effects of higher interest rates and borrowing costs were looking 'fairly discouraging' so far. Peter predicts that European pricing is likely to head a little lower over the next 12 months to hit a peak-to-trough decline in private property pricing of 30%.

In the panel discussion led by **Camila Moreno** of Chatham Financial, there was agreement that the cost of debt across Europe has yet to peak, with this likely to happen in the next 12-24 months. Responding to a question from the audience, Vrensen suggested that the limited availability of debt for development finance was not a bad thing, although Dahan proposed there were still some legitimate demands for development funding in the residential sector. For existing secondary assets, Vrensen thought the need for heavy capex to meet sustainability requirements might have been overstated, though he did admit that portfolios of non-performing loans on such assets could appear on the market in a few years' time. Even more negatively, Dahan wondered whether equity investors had already taken their returns from this kind of assets and were willing to write them off completely.

SPR/IPF/INREV Webinar - Nick Tyrrell Prize: Approaches for Prudent Property Valuations across Europe
2 June 2023

To value or to model?

The prize-winning paper by Neil Crosby and Aart Hordijk investigated the subject of prudent property valuation as advocated by Basel III banking regulations. This is proposed as a new valuation basis for bank lending to real estate, to be used in addition to market value. At this webinar, they explained the theory behind the idea of 'prudent value' before exploring how it might be implemented in practice – the main substance of their paper. They concluded that developing a market analysis approach incorporating a 'through-the-cycle' pricing model would be preferable to a valuation approach.

Iryna Pylypchuk, Director of Research and Market Information, INREV chaired the webinar for the 2022 Nick Tyrrell prizewinning paper. Investigating the topic of Prudent Property Valuations in Europe, authors **Neil Crosby** (University of Reading) and **Aart Hordijk** (Tilburg University, retired) not only presented the findings of the original research which was completed in 2020, but also additional evidence assembled since then.

Crosby explained that the research looked into a new basis of value that emerged in 2017 as guidance for Basel III banking regulations, 'prudent value'. Both the EU and the PRA in UK are set to adopt this as a basis for valuations for bank lending, possibly as

soon as 2025. This will supplement market value, and will represent a major change to the valuation regime.

The original impetus for the work came in the wake of the GFC, when the idea of 'long-term value' was being mooted. The idea of 'prudent value' reflects what Crosby described as a 'wish list' among regulators and differs considerably from market value. Some of the requirements are sensible in his view, including that it should be 'adjusted to take into account the potential for the current market price to be significantly above the value that would be sustainable over the life of the loan' and that 'if a market value can be determined, the valuation should not be higher than the market value'.

However, he considered the proposal that the valuation 'must exclude expectations of price increases' to be 'nonsense' and most likely stemmed from the regulators not consulting with the real estate community before arriving at such a requirement.

Taking over the presentation, Hordijk explained that the aim of the research was to provide guidance for implementing the concept of prudent value across European markets, which the regulators intend to leave to domestic valuation authorities.

Three possible responses to 'prudent value' were considered: arguing that market value is prudent and appropriate; developing a new valuation method at the individual asset level; or developing a market analysis rather than a valuation approach. The research found that the latter was the preferable course of action.

This would mean establishing a 'through-the-cycle' pricing model with prudent value defined as the lower of market value or long-term value. But because this was not a market valuation model but rather a 'market analysis', its generation should be 'institutionalised' – ie produced at market level through collaboration between the market regulator and the national real estate industry, though excluding the lenders. Crosby suggested that attempting to produce prudent value at the individual asset level would lead to 'inconsistent carnage'.

Hordijk explained that the most significant hurdles to taking this approach outside the UK were data issues, especially in establishing historical time series of market values. There is enough recent data to produce rent and yield series for capital cities, but based on his experience in the Netherlands, going further back can be a real problem, although it did ultimately prove possible to assemble such a time series there.

Looking to the future, the paper advocated that over the longer term, EU regulations should set out the broad principles for arriving at prudent value, backed up by additional guidance and valuation standards. The biggest hurdle according to Hordijk would be to make it equally applicable in every national real estate market. This would imply the need for additional training for valuers and those involved in the banking sector.

But in the short term, realism dictates that the existing right to choose between the two bases of Market Value and Mortgage Lending Value should remain. And at the same time as the prudent value framework is 'institutionalised', it will be necessary to identify sources of historic data and also establish process for obtaining the indicators for major cities from brokers.

Pylypchuk began the Q&A by asking how those continental markets, eg Spain and Germany, had reacted to these ideas. Crosby opined that Mortgage Lending Value is often so unreal that each element has to be prescribed. In Germany the cap rates are set by legislation. What is really needed is to be able to forecast markets.

Malcolm Frodsham (Real Estate Strategies) questioned whether the interest cover ratio (ICR) should be a more important area of focus. Crosby noted that LTV is still a major driver for the banking sector, with the UK PRA inclined to focus even more strongly on LTV than prudent value. But he agreed that value ultimately comes from income and that the concern with capital value is arguably excessive. Frodsham stressed that history has shown a focus on both income and capital

was needed to offer 'two ways out' of past banking crises.

In answer to another question, Crosby explained that the modelling was based on appraisal-based rather than transaction-based indices, but that this wasn't a problem because the objective was to identify long-term movements in pricing.

SPR Webinar: Impact Investing
20 July 2023

Making a Difference

This webinar explored various concepts of impact investing, a field in which it remains clear that 'no size fits all', whether it comes to the objectives of such strategies or how they can be measured. Measurement is clearly seen as an important aspect of this area, albeit one that is not universally applied. Challenges to finding an acceptable way of measuring impact include being relevant to local needs while also finding recognition more widely. Here the 'alphabet soup' of regulations and regulatory bodies that has grown up may also shed more heat than light. But it was agreed the most important thing is being able to show intentionality in achieving positive outcomes.

Charlotte O'Leary of Pensions for Purpose introduced the idea of impact investment, noting that this is taking hold among investors as they place greater emphasis on ESG considerations. In particular, she stressed that impact investing is not philanthropy: achieving impact doesn't equate to lower risk adjusted returns, but does need to encompass 'double materiality' – i.e. companies reporting on their impact on the world alongside financial information.

Shuen Chan, LGIM Real Assets emphasised that impact investing has many different interpretations. Her organisation espouses the concept of 'place-based social impact,' which they see as having four strands: community in the widest sense, not just the occupiers of the real estate portfolio; commercial, aligning with an organisation's commercial objectives; collaboration, developing a strategy with local partners; and catalytic, intentionally facilitating positive outcomes. Inclusion, health & wellbeing, and climate & nature are viewed as the three dimensions across which these strands are implemented. She explained that LGIM applies these objectives to all assets, some of which may be more amenable due to their function and location than others. **Amy Ingham** from The Good Economy reinforced the message that 'no size fits all', particularly when it comes to measuring social impact, which is a key part of her work with investors. She suggested that measurement is critical in managing and maximising impact, and more specifically to demonstrate intentionality, avoid negative impacts, tackle greenwashing and evidence additionality – that is, to show that the impact goes beyond what would ordinarily have been the outcome of investment. There is a tendency for many investors to focus on their activities rather than the outcomes, she proposed. The KPIs an investor sets to measure impact should take in the baseline position – what needs is the strategy aiming to meet at the outset?

In the panel discussion that followed, which was

chaired by **Melville Rodrigues**, Apex Group & AREF, it was suggested that environmental and social objectives can sometimes clash, even if both are seen as desirable in the long run. This is one reason why it is important to work with the local community, to build an understanding of the trade-offs that may be necessary.

Answering an audience question, Ingham agreed that standardising impact goals and their measurement is an important objective, but that there is a long way to go. Part of the reason is that impact needs to be relevant locally, and KPIs have to be set with this in mind. An 'alphabet soup of acronyms' has grown up, Chan suggested, reflecting the plethora of bodies and regulations that can add complexity to implementing impact investing.

Another question asked if there could sometimes be a problem with investors' values conflicting with those of the community. Chan noted that property relationships can sometimes seem 'feudal', something that can be helped by using more sensitive language, for example. O'Leary proposed that embracing social impact needs to go right up to the C-Suite, otherwise the organisation may be seen as still mainly profit-driven in its motivation, due to activities that might be happening in other parts of the business.

Improving data availability is another important area in the context of impact investing. Ingham recommended publicly available economic and demographic data, such as ONS, to help understand the local community. Meanwhile Chan suggested that publicly available standardised information such as that contained in the Thriving Places Index can help set the baseline for impact measurement by providing an assessment across different qualities. But, as O'Leary said, funds and their investors need to be cognisant of differing incentive structures and time horizons.

Roundtable Meeting

SPR Roundtable: How Valuations are Changing
Legal & General, 1 Coleman Street, London EC2
24 May 2023

Putting a value on sustainability

This SPR roundtable meeting discussed how property valuations are evolving in response to the challenges confronting the industry, in particular the need for buildings to reduce their carbon footprint as climate change becomes more pressing. Taking AREF's recent paper on sustainable valuations as a starting point, the discussion highlighted how it is taking time in the UK for buildings' carbon emissions to directly impact their valuations, but this may be more a reflection of market pricing than of unresponsive valuers. Ranging more widely, the meeting also considered the idea that discounted cash flow (DCF) should be the primary method of valuation as proposed in Peter Pereira Gray's recent report.

A dozen or so SPR members attended the third of the Society's roundtable events, on this occasion hosted by Legal & General Investment Management at their Coleman Street office in the City of London. Focusing on current valuation practices, the roundtable format followed those previously held by the SPR on the topics of ESG data and the Metaverse.

The latest roundtable also had a strong ESG theme, with the bulk of the meeting devoted to the recent AREF paper on sustainable value,

Sam Carson

(https://www.aref.org.uk/resource/sustainable-valuations-report-ukcre.html), which was presented by its author **Sam Carson** of CBRE.

Carson explained that the report surveyed AREF members for their views on how any 'green premium' to more sustainable buildings should be reflected in the valuation process, with the aim of setting some guidelines on the factors that need to be taken into account. Clearly, valuers would already be implicitly reflecting such factors – eg building configuration or obsolescence – in their practices; the important next step was to ensure that they are considered explicitly as well. Carson has already delivered over 1200 hours of training to CBRE valuer colleagues setting out these principles – which he suggested had been positively received – but the practical impact was likely to take time, particularly as ESG factors are only slowly starting to be reflected in market pricing.

A wide-ranging discussion then followed involving many of the audience, which is very much the intention of these roundtable meetings. Leading the discussion, **Cleo Folkes** of Property Overview noted that carbon emissions remain a minor influence in the pricing of buildings in many UK markets, where super prime rents often reflect the location and not so much energy efficiency. **Simon Durkin** of Blackrock suggested that investors are already starting to consider the liquidity risks associated with unsustainable buildings in their purchase decisions, but that these risks are difficult to price.

Sustainability certifications – most notably EPCs, BREEAM and NABERs – were discussed at length. Carson suggested that EPCs, although flawed, help sustainability to be considered and are helping investors to allocate capex, whereas in his opinion BREEAM is not sufficiently transparent to be useful. **Philip Walker**, himself a very experienced valuer, noted that an accurate reflection of potential capex can only come from discussing the valuation with clients. In general, this was considered a thorny area: can valuers realistically be expected to take such future

influences into account when they are just supposed to look at the building in its current state?

In another area of discussion, **Matt Soffair** of LGIM questioned whether social factors were considered in the paper. Carson commented that those aspects of a property relating to 'placemaking' would be considered in a valuation but were inherently difficult to quantify. Folkes suggested that the work of the Social Value Portal, which she recently joined, should soon be providing data measuring the social impact of buildings in financial terms, providing a valuable input in this context.

Moving on from sustainability considerations to valuation practice more widely, Walker gave a brief overview of the changes that had taken place during his working life. This started with the RICS Red Book, which made the services that clients could expect more explicit, while subsequent reports by Mallinson and Carsberg had taken this further. Meanwhile Peter Pereira Gray's recent report advocated more transparency and sophistication in identifying valuation comparables. Among his 13 proposals, one controversial point was for discounted cash flows (DCFs) to be the primary method of valuation.

Professor Colin Lizieri of the University of Cambridge, who joined the discussion online, questioned the assumptions on the definition of valuation inherent in this proposal. Specifically, where would the market comparables be found for a DCF? This was also an issue when considering EPCs or capex in a valuation, as both of these would lie in the future, while the role of the valuation is to reflect the current market. **Dr Cath Jackson** of the University of Sheffield, also online, concurred: DCF valuations still need a rent and a yield – where would the data for these come from?

However, Soffair noted that as real estate sectors evolve to encompass a variety of new uses, there may not be as much market evidence available – this could also apply to mixed use assets. **Ray Adderley** of Nuveen agreed that it was important to be transparent about the assumptions being made in such cases.

The session ended with many questions still hanging in the air and ripe for further discussion. No doubt the SPR will be returning to these topics in due course.

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