Society of Property Researchers Newsletter

June 2021

In this issue:

Society News
Message from the Chair

Social Events
Coffee & Conversation
Virtual Art Class

Site Visit
Virtual – Red Lion Street, London

Webinars
Joint SPR/IPF UK Property Outlook 2021
Repurposing Retail Parks
The Future of Cities
Nick Tyrrell Research Prize: Real Estate in Mixed-Asset Portfolios
Repurposing Shopping Centres and Department Stores
SPR Research Prize: Last Hour Logistics
Residential Demand in a Post-COVID World

In Conversation
Andrew Smith, Hearthstone Investment Management

Reports written by Tim Horsey
These events were all held online

Upcoming events:

11 June: In Conversation with Bill Hughes, LGIM
23 June: Risk management re-examined webinar
7 July: Mini Golf at Battersea Park
3 September: In conversation with Yolande Barnes, UCL
14 September: Joint SPR/IPF Global Property 2021 webinar
16 September: Summer Drinks at Devonshire Terrace
September tbc: SPR Research course
7 October: SPR Quiz at The Tokenhouse
4 November: AGM (virtual or hybrid)
11 November: Annual Dinner at 116 Pall Mall (IoD)

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

Society News

Message from the Chair

As the year progresses faster than many of us could imagine, getting to meet people inside again feels like a real start to a return to normality. Getting to go out to lunch with colleagues when heading back to the office has been fantastic and made me realise that I hopefully really will be able to see all of you in person again before too long.

We have been making plans to get some socials in the diary when we can meet in person. This year we have booked a date in September to hold Summer Drinks which we hope will be a good chance to catch up with other members once we are all vaccinated and confidently getting out and about again.

In the interim we have mini golf lined up in Battersea Park in July. Being outdoors and lending itself to social distancing anyway it is hopefully an easy introduction for those who want to be pioneers in in-person SPR social activities again!

Later in the autumn we have more in-person events planned including the Pub Quiz and Annual Dinner so keep an eye out on the website here and for Rita's emails for more details and to book in.

Aside from socials we have some more webinars coming up before the summer break and others planned from September giving us a chance to pick up interesting relevant topics from wellness to comparison of global cities. We also have some more 'In conversation' sessions planned to find out more about what makes some of our experienced researchers tick.

It has been great to celebrate the research prize winners from 2020 with their participation in recent webinars; SPR Research Prize: Last Hour Logistics and Residential Demand in a Post-COVID World. And we welcome new entries for the 2021 competition (entries close 31st July).

Thank you to all of you for completing the survey to help us understand what events we should run for you and what formats you prefer. We are using the results to plan for future events and activities. In addition to this, you will have received the link to the Salary Survey the SPR runs every other year. Please complete the survey to ensure we can get the best results from it. It gives a really useful insight into the industry and is hopefully useful to both you and your bosses.

I hope as things open, you get the chance to take some holiday and catch up with friends and family. And in due course I look forward to catching up with you all. As ever, do remember you can catch up on events we have recorded on the website here.

All the best,
Lucy Greenwood,
SPR Chair 2020-21

Social Events

Coffee and Conversation

From January 2021 ongoing

The SPR launched its 'Coffee and Conversation' initiative at the start of 2021, offering members the chance to virtually meet a randomly chosen SPR member using one of the online meeting platforms. The coffee part of the arrangement wasn't compulsory, and the short meetings could be held at any time of the day that was convenient for both members.

The idea was to take a small step towards filling the gap left by the lack of face-to-face networking available to SPR members during the pandemic, given that all the Society's events have now been transitioned to web-based media. One of the main benefits of SPR membership has always been the possibility of a chance encounter with another researcher who has a different perspective on an issue or is able to shed light on how their career has developed.

'Coffee and Conversation' has now been held twice – in each of the first two quarters of 2021 – and has proved popular, with 64 members registering to participate in Q1 and 75 in Q2.

The feedback from those involved in the first two rounds of the initiative has been overwhelmingly positive. Members appreciated the chance to talk with someone that they might not ordinarily have met and share thoughts and ideas with them. In an environment where it's impossible to build up a professional network in the normal way, 'Coffee and Conversation' was seen as a boon. It also provided an interesting diversion to the working day and a chance to share experiences of working through the lockdown.

Based on its initial success, the SPR plans to hold further 'Coffee and Conversation' meetings over the next two quarters. Look out for the next email sign up if you are interested.

Virtual Art Class

9 March 2021

The pandemic has provided a challenging environment for SPR social events, but it has also inspired a number of innovations. Following last year's online quizzes and wine tasting, this virtual art class, delivered via Zoom, proved both enjoyable and educational. Artist Fareena Hussain led a small group of SPR members – most of whom hadn't put pencil to paper in a while – through a number of practical exercises as well as presenting some insights into the theory of picture composition and a historical view of how portraiture has developed. Some hidden talents were unearthed in the space of an hour!

Over the course of the pandemic the SPR has been developing a range of online social events – the latest of which was a virtual art class. Taken by Fareena Hussain, a professional painter and designer, the class provided an absorbing and relaxing interlude to the working day for the 15 or so SPR members that participated.

No-one knew what to expect, but the class went straight into hands-on activity. Fareena asked us to draw circles on a sheet of paper and then to take a minute studying a still life photo of a china tea cup, a biscuit, a rose and some chrysanthemums. The first exercise was to draw this tableau from memory with eyes closed, then to do a similar thing again but with eyes open and keeping the pencil touching the paper.

For those of us who hadn't put pencil to artist's pad in many years, this was quite a challenge, though others showed enough talent to suggest an alternative career in creative design might beckon. In any event, Fareena encouraged us to be brave and hold up our efforts to the scrutiny of the Zoom camera with her positive comments.

She then took up her own pencil for a while, illustrating the idea of perspective by drawing a picture of a house, some trees and a lane stretching back towards a vanishing point.

We then tried to put this into practice in the next exercise, drafting our take on a rather surreal scene of a female figure sitting on the edge of a glass with her feet dangling into the water beside a vertical slice of lemon, with (what I'm told) was a Be@rbrick toy lurking in the background. This combined the use of perspective with some rudimentary aspects of life drawing.

The class then changed tack once more with Fareena giving a short presentation on the history of portraiture from its origins in the 13th century through to today, with examples from the likes of Picasso, Duchamps, Basquiat and Francis Bacon.

Taking the lesson that there is no right or wrong way to make a portrait, we were then asked to compose something of our own based on a recent photo on our phones. This was followed by the chance to draw from a further selection of human and animal figurines. Some efforts tended towards the abstract while others proved to be more realistic!

The hour passed very quickly and many of those present expressed enthusiastic thanks to Fareena at the end. The class provided a good balance of practical activity and learning, led by an engaging and approachable teacher. Hopefully we will get a chance to develop our creative sides even further in due course.

Virtual Site Visit

20 Red Lion Street, London WC1

4 March 2021

Kindly hosted by: MAYFAIR CAPITAL allsop

Forward-looking office space

The second SPR virtual site visit to be held during the pandemic gave a taste of the sort of office refurbishment increasingly demanded in the London market. This is likely to be even more relevant post-COVID, when many occupiers will no doubt look for a more flexible footprint and spec fit-outs in readiness for the return of their staff. Letting agents Allsops used 3-D graphics to guide SPR members around the building while also giving their perspective on lockdown marketing conditions – not all doom and gloom, at least for the right kind of space.

This virtual site visit to 20 Red Lion Street in London's Midtown was the second conducted by the SPR during the Covid-19 pandemic, following in the footsteps of last summer's event that focused on the Edinburgh St James development.

The tour was hosted by former SPR chair Tom Duncan of Mayfair Capital, owners of the newly refurbished office building, and led by James Proctor of Allsops, the letting agents for the space. The property consists of 37,000 square feet of space across six floors and the refurbishment involved stripping back to the frame, adding an additional storey and extending to the rear, as well as applying new facades and finishes throughout.

James used the interactive 3D graphics package developed for marketing the space to give a clear impression of its look and feel. Starting at the top of the building, it was possible to appreciate the views of the City from the terrace surrounding the 6th floor, even if we couldn't feel the cool March breeze. Access to the fresh air combined with the glass box construction of this floor adds a premium of £5+ per square foot over other parts of the building, he noted in response to an audience question.

While the lower floors have now all been let to tenants including Swiss Life and co-working providers Work.Life, the upper floors are still being marketed. Some of these units – like one covering just under half the 6k sq ft floorplate of the third floor – have been pre-fitted with reception, breakout areas and desk seating as this is demanded by some prospective tenants, James explained.

We then dived down to view the changing rooms, lockers and showers in the basement, which are likely to be seen as even more essential in light of post-pandemic working requirements. In a market that is now gradually starting to revive, albeit from a very low base, there is evidence of a split between 'tier one' space, where deals are happening, and the second tier, which remains largely moribund. Since Christmas Mayfair have seen on-site viewings – socially distanced of course – becoming more frequent.

The high specification of the building is reflected in its Wiredscore platinum rating, which indicates first-class digital connectivity and smart technology credentials, and a BREEAM sustainability rating of very good/excellent.

Interest in the remaining unlet areas of the building has come predominantly from organisations already located in the Midtown area, said James. Perhaps surprisingly given current speculation about how much space occupiers will need post-Covid, most are looking to upscale their space – in some cases increasing the share allocated to meeting areas as opposed to desk use. The presence of Work.Life has added to the attraction of the building by contributing flexibility for the other occupiers, allowing them adjust their footprint at the margin.

Webinars

Joint SPR/IPF UK Property Outlook 2021

12 January 2021

Looking beyond COVID

With the UK's vaccination programme underway, speakers at the annual curtain-raising event for UK property were keen to accentuate the positive. Real estate's inflation-related cash flows should see it in good stead for multi-asset allocations as the government unwinds its pandemic economic support. But the structural trends now disrupting real estate – particularly relating to technological and climate change – are likely to bring 'relevant' property increasingly to the fore, while obsolescent assets look set to underperform in an increasingly bifurcated market.

Neil Slater of Aberdeen Standard Investments chaired the latest edition of the annual curtain-raising event for UK real estate. In his introduction he set the scene by identifying four key influences on property in this era of intense global change. First, technology is having a sustained impact on how we work and inter-relate via the potential for connecting digital devices across the globe. Second, ESG is set to become even more important with the zero-carbon agenda becoming the primary influence on investment strategy within two or three years. Third, the repricing of property income risk may well accelerate with more CVAs and flexible lease structures emerging. Finally, global capital flows into the UK will be influenced by views of the country's changing political and legal risks, a context that has long proved beneficial for UK property.

Turning to the UK economy in her opening presentation, **Melanie Baker** of Royal London Asset Management proposed that the advent of coronavirus vaccines means that the UK economy is expected to return to growth in the second half of 2021. The shape of the recovery will however depend on whether the UK's 'crisis underperformance' in global terms means there is room for a stronger bounce-back than elsewhere, or if it has caused lasting long-term economic damage. GDP remained well below its level at the start of 2020, but at least business confidence had revived. Much also depends on how the government looks to unwind its fiscal expansion – too fast could be disastrous – and how households use the savings they have built up during the lockdowns. This could give a boost if consumers don't prove too cautious, although the danger of inflation always lurks in the background.

Bill Dinning of Waverton Investment Management agreed that inflation could be 'the endgame', particularly if recent indications from US inflation swaps data were borne out elsewhere. In his presentation on prospects across the asset classes, he noted that inflation would effectively take bond returns negative and end their long bull run. As for bonds, stock values also looked elevated based on their long-term PE ratio trends, although this was more pronounced in the US than the UK, where 'there is a lot of bad news' already in the price – much of it relating to Brexit – he proposed. The so-called '60-40' portfolio's stunning performance of 7.4% pa since 1994 may therefore be set to take a dip. Still, all of this bodes well for allocations to real estate with its inflation-related cash flows, as well as the possibilities for investors to pursue their increasingly important societal goals.

The social role of real estate was uppermost in the mind of **Chris Taylor** of Federated Hermes, who emphasised the importance of 'transformative urban regeneration' for allowing investment in the sector to achieve its full potential. He emphasised that given the dramatic structural trends now disrupting the asset class, especially in terms of technology and climate risk, 'relevant' property looks set to outperform obsolescent assets in an increasingly bifurcated market. This means that investors will need to be agile in order to prosper, but also that it is important for capital to be 'patient' when seeking to make a social impact and to invest in 'places rather than buildings.'

In the audience Q&A, Taylor suggested that investing responsibly did not have to mean sacrificing financial performance, citing the example of Hermes' HPUT portfolio, which had outperformed as well as reducing its carbon emissions by 9% over 10 years. Given the government's levelling up agenda, another questioner wondered if real estate would be able to compete with infrastructure in the private assets space. Dinning and Taylor agreed that it would, with plenty of room for both in the portfolio as investors reallocate away from bonds. Indeed, infrastructure often supports real estate investment, noted Taylor – for instance, this would be the case when Crossrail opens.

Political risks remain on the horizon, notably the possibility of Scottish independence and further disruption from Brexit. But Baker's biggest concern for the near term was that Covid vaccines might not be as effective as hoped in protecting against new strains of the virus.

Opportunities and Challenges in Repurposing Retail Parks

20 January 2021

Retail parks going back to the future?

Although retail parks have performed relatively well during the pandemic compared to high streets and shopping centres, securing their long-term future is likely to mean moving away from purely retail use. The webinar discussed how more services are already starting to appear on many parks, while there could be the potential for including logistics, manufacturing and even residential elements. This would however mean a new approach to planning and integrating retail parks in the urban fabric – only then are they likely to embrace the multi-use formats that were part of their original conception back in the 1950s.

Retail parks could now start moving back towards their original conception of a multi-use format, as first intended by their original US designer Victor Gruen, suggested **Olivia Paine** of HLM Architects. She was speaking at the second of three SPR webinars on repurposing retail property.

Today UK retail parks are 'one size fits all', she proposed, existing as their own commercial bubbles with visitors arriving in their own motorised bubbles. Making retail parks work better in the future will mean breaking down this car-dependence and providing stronger links to other transport infrastructure and the urban centres that they support.

At present retail parks are often left out of urban plans and almost treated as dead space. Revitalised retail parks could include elements of residential and co-working spaces as well as more services like healthcare and vets, she proposed. But this would mean big design changes to make these attractive locations rather than car park-dominated developments.

Jonathan Bayfield of Aviva Investors suggested that with the inroads now being made into retailing by e-commerce, signs of a positive reaction are already visible in some of the more forward-looking retail parks. For instance, the park Aviva manage in London's Old Kent Road includes more service-oriented units like Halfords and Pets at Home, the latter having a veterinary element. Aviva have also received planning permission to build 1000 flats on the site.

Bayfield earlier described how Next are evolving their approach to using retail parks by having bespoke designed units and attractive landscaping to give them a more unique presence, moving away from the monotonous one-size-fits-all concept described by Paine. Recently Aviva's out-of-town retail portfolio has performed better than its in-town holdings, and he emphasised that the portfolio was also becoming 'more nimble' in this context, for example with shorter leases coming to the fore.

David Ebbrell of M7 real Estate agreed that as we've moved in and out of Covid-related lockdown conditions, retail parks have not been performing so badly, at least compared to their high street and shopping centre counterparts, although there is also a growing premium for customer experience and convenience. Nevertheless, as pricing converges with that for other land uses, alternative sectors like residential and logistics may prove increasingly attractive in these locations. Indeed, retail warehouses can in many cases be easily converted to logistics warehouses.

In the subsequent discussion led by **Cleo Folkes** of Property Overview, the panel was asked how retail parks would look in ten years' time. Paine replied that this would very much depend on the particular location, but that there would be a premium on sites that established a strong brand of place. There would undoubtedly be a greater emphasis on uses such as creative co-working and logistics, but care would be needed not to let this prevent the creation of an attractive environment.

Ebbrell agreed that moving towards a bigger logistics element was likely, especially as there is the potential to convert existing retail warehouses to such uses, but much would depend on relative rental growth expectations. Retail warehouses can now yield as much as 8% while logistics are typically more expensive at 4-6%.

Responding to another audience question, Bayfield proposed that the best locations for retail park investment are either in London and the South East, where there is likely to be the biggest demand for alternative uses, or in places that have an extensive and prosperous catchment. Meanwhile Paine proposed that to be open to the most effective repurposing, parks need to be relatively accessible for existing urban settlements rather than isolated on the wrong side of distant ring roads.

The Future of Cities

3 February 2021

Build in haste, repent at leisure

Time spent away from the office has given many of us the chance to think about how we'd like cities to look in the future, but speakers at this webinar cautioned against acting on snap conclusions – the consequences could be with us for years to come. Home-working may not end up so far from pre-pandemic levels, while many UK cities have already been struggling to keep up with the needs of the modern economy. Different solutions are likely to be needed from one place to another, but it was agreed that the idea of investment value needs to be broadened to encompass meaning, purpose and public good if places are to succeed in the longer term.

We all need to be wary of some of the more dramatic claims being made about how cities are likely to change in the wake of the pandemic, suggested **Andrew Carter**, Centre for Cities, speaking at this SPR webinar. Even if more than 60% of UK office employees are now home working, there is little reason to think this will prevail in the long-term – a level around 20% is likely to be more realistic. London has particularly suffered during the pandemic, but this partly reflects how successful it had been previously. Many other UK cities have been struggling to adapt to the modern economy for much longer and these problems will remain once relative normality has returned.

Chris Murray, Core Cities UK agreed with this thesis, arguing that no completely new trends have been thrown up by the pandemic itself. The real challenge for the long term will be to work out how urban centres can be reactivated, which will vary from place to place. There will undoubtedly be a pent-up demand among people for using cities to reconnect after all the lockdowns, but it will be important for urbanists, designers and developers to take time to determine what will meet the needs of each location.

One such developer, **Paul Sargent** of Queensberry Real Estate, observed that a major question will be how these changes get financed, not just to create new buildings but also to make the spaces between them, ultimately forging new communities. Many UK towns and cities have been through a long period of deterioration, something he particularly noticed after working in Europe a few years back. Central and local government needs to address this, particularly at a time when people have had the chance to reflect on the lifestyle they really want. These changes will also have big implications for investment portfolios and the types of real estate that are worth holding over the long term.

Siena Golan of DWS Group drew on research that her organisation has done during the pandemic on the attitudes of employees and employers to working from home and the potential demand for office space across ten European gateway cities, looking at what this is likely to mean for these locations in the future. For example, Barcelona looks relatively well-placed, due to its relatively short commute times and inexpensive office space, while London is seen positively by employers, as it has been possible to increase working densities and therefore reduce costs per head, but less so by employees due to longer commute times.

Audience member Simon Durkin, Blackrock questioned whether the new requirements of cities mean that ideas of investment value need to change. Sargent referred to the concept of 'gross value add', which he said needs to account for secondary factors such as public good. Carter agreed that it is important to take a broader view of value than some do at present – the RICS Green Book has some useful pointers in this direction.

Daryl Perry of Avison Young, who chaired the webinar, suggested that another key question for investors will be the kinds of property assets to be needed in the urban centres of the future. Sargent identified a 'holy trinity of culture, health and education' as the 'cornerstone of footfall', though there remained questions about how these could be made financially viable for investors. Golan suggested that the death of retail may have been exaggerated in that the right kind of retail – typically independent outlets – could still make a big contribution to revitalising town centres. Carter emphasised the need for investors to think carefully about their decisions, as their effects could be with us for a long time to come – some of today's biggest urban problems stem from decisions taken in the 1960s and 1970s. Meanwhile Murray stressed the need to keep a broader definition of place in mind, including meaning and purpose.

Nick Tyrrell Research Prize 2020: Real Estate in Mixed-Asset Portfolios for Various Investment Horizons

9 February 2021

Core funds can play a major role in growing real estate allocations

The prize-winning paper examined the role that can be played by different forms of real estate – non-listed funds, direct and indirect – in mixed asset portfolios including stocks and bonds. Based on US data, it concluded that over time horizons of 25 years plus, direct real estate has justified an allocation of at least 20% of a multi-asset portfolio, but that due to high transaction costs it would not have a role to play if the time horizon was less than 2.5 years. The research also showed unlisted core funds to be 'an excellent substitute for direct real estate', with advantages over direct real estate for shorter time horizons.

Marking its tenth anniversary in 2020, the latest Nick Tyrrell Research Prize was awarded to joint authors **Jean-Christophe Delfim (above right)** and **Prof. Martin Hoesli (below right)**, both of the Geneva School of Economics and Management, University of Geneva. As a result, Hoesli became the first to win the prize on two separate occasions.

Opening the webinar on their paper, 'Real Estate in Mixed-Asset Portfolios for Various Investment Horizons', **Andrew Smith** of Hearthstone Investments noted that it was the best among a number of papers that would have been worthy of winning the prize, combining as it did academically rigorous research with practical applicability to real life situations. While real estate's role in the multi-asset portfolio is an evergreen topic, Smith emphasised that this paper brought an updated approach to an area often beset by the use of outdated methodology, and a breadth of coverage that is often lacking.

Hoesli explained that the objective of the paper was to examine the role that could be played by different forms of real estate – non-listed funds, direct and indirect – in mixed asset portfolios including stocks and bonds, taking the investment horizon into account. A secondary aim was to consider how including other alternative asset classes might modify the role of real estate in the portfolio. The work tested the ability of desmoothed series to provide results close to those reached with transaction-based series, which proved possible in practice.

Delfim noted that past research, though thin on the ground for unlisted real estate, suggested that the share of direct real estate in portfolios should increase with the investment horizon, to a level usually between 10% and 20%. The current research used a framework developed by Campbell & Viceira (2004), relying on VAR models. Coefficients and covariances were applied to estimate the term structure of returns, risk and correlations. The work used a large array of macroeconomic and financial state variables compared to previous studies, and also took transaction costs into account.

Based on US data from NCREIF and other index providers, the paper concluded that over long time horizons of 25 years plus, direct real estate has justified an allocation of at least 20% of a multi-asset portfolio, but that due to high transaction costs it would not have a role to play if the time horizon was less than 2.5 years.

The research meanwhile showed unlisted core funds to be 'an excellent substitute for direct real estate', with advantages over direct real estate for shorter time horizons. However, the model implied a minor role for value added and opportunistic funds, due to their high management fees and relatively high risk.

The paper also contradicted the conventional wisdom that REITs are a good substitute for direct real estate over the long term, instead finding that they could act as a useful complement to core funds. Alternative asset classes like commodities and hedge funds also had the potential to raise returns and reduce risk in the portfolio, but again with a subsidiary role to real estate.

Responding as a panellist, **Peter Epping** of Hines suggested that the finding that core funds are good substitute for direct real estate was particularly relevant now as many investors, even larger ones such as pension funds, have been finding it increasingly difficult to access real estate directly due to lack of available product and competitive market conditions.

Thushka Maharaj of JP Morgan, also on the panel, took a multi-asset perspective. She proposed that the research was particularly useful as it takes liquidity into account and puts public and private markets on the same footing. Investors are already considering real estate as larger part of their allocations given the growing uncertainty around real bonds returns and this paper gives further support to its potential role in the portfolio.

Repurposing Shopping Centres and Department Stores

11 February 2021

Retail, but not as we know it

Even before the pandemic, it was clear that there is too much retail in the UK, by as much as 20% according to one speaker at this webinar. At the same time many shopping centres have become irrelevant to their locality, often feeling bare and characterless. For shopping centres to have a sustainable future they will therefore need to re-invent themselves, perhaps adopting a hybrid model including non-retail uses such as co-working, maker spaces and living. Diversification strategies could also include building alternative uses into retail units or allowing for community-oriented activities in centres' common areas.

The scale of the challenge facing retail centres was starkly outlined by **James Child** of EGI in his scene-setting presentation at the last of three SPR webinars on repurposing retail real estate. The UK is now reckoned to have 20% too much retail space, with 27m sq ft of space falling vacant between the start of 2018 and Q3 2020. This has now gone even further with the demise of Debenhams and Arcadia, among others. Over the last two years there has also been a net loss of over 8,000 trading stores. Thinking longer-term, retail rents have fallen by 16% in real terms over the last ten years, while average lease lengths have declined by 28% on average.

Retail centres may be in big trouble, but this should be seen as an opportunity rather than a threat, argued **Tom Whittington** of Savills. And even if the pandemic has hastened the repurposing of retail, especially via the growth of home-working, Covid-19 did not start these trends. In order to have a sustainable future, he proposed, a new hybrid model of retail centre needs to emerge including other uses such as co-working, maker spaces and living – the latter not just for the young, but across the generations.

Matthew Soffair from Legal & General Investment Management suggested that many shopping centres had become irrelevant to their locality, often feeling bare and characterless. There is clearly too much retailing in the UK, which means that diversification is now needed in order to bring the right mix of content to each location. This implies a more active role for those investing in town centres, most of whom are relatively passive at present, and includes developing the right operational framework of leasing arrangements, with a closer relationship to turnover.

With so much retailing now happening online, the challenge is to make the real-life experience more enticing, suggested **Patrick Abrams** of architects Applied Studios. Part of this could be to build in alternative uses into specific types of unit, for example working areas into restaurants, or to allow for community-oriented activities in centres' common areas.

Each of the speakers cited recent repurposing use cases. Whittington noted the STOK project in Stockport, which has repurposed a former M&S premises into workspaces, responding to the lack of office space in the vicinity. Soffair referred to Kingland Crescent in Poole, a previously uninspiring shopping parade that has been transformed by bringing in new local businesses with strong eco credentials and a mix of uses ranging from restaurants to a wet fish shop.

The panel discussion, moderated by **Joanna Turner** from Canada Life Asset Management, highlighted the importance of investors taking a financially flexible approach in order to make large-scale repurposing possible. Child proposed that there would need to be a 'rebalancing' to reflect how retailers are no longer prepared to pay the rents required to support current levels of valuations. Whittington suggested that although rents would undoubtedly need to fall to attract a wider range of uses, some of these – say in co-working – could allow for much longer lease terms.

The possibilities of creating social value were explored in response to a question from **Matthew Hopkinson**, Didobi on the example of a shopping centre that had been demolished and replaced by a park. Creating amenity value in this way could help boost investment value for the retail assets that remained and also making adjoining residential property more attractive, suggested the panel. The trick is to work out how to finance such a drastic measure – this would likely mean local authority involvement.

SPR Research Prize 2020: Last Hour Logistics

14 April 2021

Logistics research follows in retail's footsteps

The research that won the 2020 SPR Open Category Research Prize focused on the 'last hour' part of the logistics market. Relating the 'spending reach' of postcodes in the UK and Germany – based on one-hour delivery drive times – to granular rental data, it identified those locations in the sector with better value occupational markets. This was based on an approach originally used in retail markets. Although such under-priced locations are inevitably close to large conurbations, there can be wide variation in rents within relatively short distances. Supply-side constraints are often a major reason for pricing variation: For instance, the availability of city centre sites tends to be restricted.

Wallace

Miah

Introducing the paper for which he won the latest SPR Open Category Research Prize jointly with **Farhaz Miah** of Hines, **Simon Wallace** of DWS explained that the germ of the idea emerged at an ICSC shopping centre conference in 2016. He had aimed to console a mainly retail audience with the thought that even if logistics were starting to perform strongly, everything was not necessarily rosy in the sector. Some assets were already showing signs of being overpriced, while others undoubtedly still had strong growth potential. But how to tell the difference? One answer could be to apply drive-time methods of analysis from the retail market to logistics. This was what the research went on to do over the next couple of years.

Miah explained that the research was focused on the 'last hour' part of the hub-spoke structure that has evolved in the logistics market. Relating the 'spending reach' of postcodes in the UK and Germany – based on one-hour delivery drive times – with granular rental data, it proved possible to identify those locations in the sector with better value occupational markets. For example, the area of Barking and Dagenham in East London had strong growth potential due to its relatively low logistics rents compared to its catchment area's online spend. Inevitably such locations tend to be in or close to large conurbations, but the research found that there can be significant variations in pricing within relatively short distances. This was equally true for the Ruhr as for Greater London.

In the panel discussion that followed, which was moderated by **Siena Golan** of DWS, Miah noted that supply-side constraints were often a major reason for pricing variation in the last hour segment. For one thing, the availability of city centre sites tends to be restricted and vacancy rates in such locations extremely low. Supply limitations have become even more severe as the pandemic has taken hold, so that less constrained locations like East London have benefitted, with Barking and Dagenham rents rising more than 10% in the second half of 2020 alone, for example.

Tolga Necar of CACI, the organisation providing the bulk of the data supporting the research, gave further insights into what makes particular micro-locations more suitable for last hour logistics. One important consideration is having the right kind of workforce nearby, especially because storage facilities are getting more and more sophisticated, often demanding employees with higher skill levels. He also stressed that online spending estimates have been changing rapidly through the pandemic as logistics has gained market share from retail stores – making it necessary to recalibrate the figures for this sort of research on a monthly basis.

Much of the remaining discussion focused on how the balance between logistics and retail would evolve post-pandemic. Miah suggested that the borderline between the sectors would increasingly blur in the future as, for example, click and collect gains further acceptance among shoppers and stores play a growing role as shop-windows for e-commerce. This in turn raises the question of how the promotional function of stores can be measured and valued by retailers and investors: Necar proposed that external footfall and 'showrooming' should be accounted for in such calculations.

Summing up, Wallace stressed that the research showed the importance of realising the value of the data that you have, particularly for newer sectors where information may be thin on the ground. Meanwhile Miah and Necar emphasised the continuing relevance of this kind of analysis in today's market, as conditions for last hour logistics are changing as fast as ever.

The Impact of Demographics on Residential Demand in a Post-COVID World

29 April 2021

A world of changing expectations

The pandemic has undoubtedly changed the UK's relationship with its homes, but this webinar showed that the potential implications for residential property are complex. Transactions activity for owner-occupied housing has been higher during the pandemic, and people have moved further than previously, but is unclear if such lifestyle-driven changes will continue longer-term. Meanwhile, rented sector evidence suggests tenants may want to be closer to city centres as economies open up to limit the need for using public transport. There could also be a tendency to 'live local, love local', with a shifting emphasis towards amenities and hospitality venues when choosing where to live.

The Covid pandemic has thrown up a myriad of potential futures, especially in the realm of residential real estate. How will we use our homes tomorrow and where will we want them to be?

Speaking at this SPR webinar, **Ed Hampson** of Savills (winner of the 2020 under 30's SPR research prize) said that their research not only showed transactions activity in owner-occupied housing 63% above its 5-year average during the pandemic, but also that people have been moving further than usual in the period of lockdowns. Hampson suggested that this related to a fundamental shift in lifestyle choices, although it was mainly seen at higher price bands and among those who had already built up residential equity. Those moving were increasingly driven by a desire to be close to open spaces and family considerations compared to pre-pandemic preferences. Reflecting these trends, the East and South East of England have shown the biggest price increases over the last year compared to smaller rises in London and the Midlands.

For private rented sector (PRS) occupiers, **Michael Adefuye** of LGIM noted that the pandemic has brought a somewhat different set of priorities to the fore. Media expectations of a flight from the suburbs have not been realised, at least for LGIM's residential portfolio, although access to open space has certainly been at a premium. The growth in working from home has lent even greater importance to Broadband speeds, not just in privately-occupied spaces but in the common areas of buildings as well.

Allied to this, Adefuye has seen a rise in enquiries about providing community working facilities within their properties. And in terms of locations, if anything there has been greater interest in being closer to city centres, with the potential to avoid using public transport by walking or cycling once offices open up again.

Drawing on UK-wide research, **Tolga Necar** of CACI agreed that people will still need to be connected to regional hubs, even if the preferred office week is now just 2.8 days on average. A tendency to 'live local and love local' may bring a willingness to accept longer commutes, but he proposed that younger workers in particular are keen to return to the office. Still, local amenities – eg for leisure and hospitality – are likely to become increasingly important in choosing home locations in future. But Necar emphasised that it is the better off – those whose incomes haven't been adversely affected by the pandemic – who are most likely to be able to follow through on these choices.

During the panel discussion that followed, led by **Lucy Greenwood** of Savills, it was agreed that both government and market actors are making more use of research data in their residential strategies. Hampson noted that developers are seeking research on demographics and moving habits to inform decisions about their schemes, building on the work he produced jointly with Gaby Foord, which showed buyers are willing to move further to new-build properties than second-hand ones. Necar has seen government making greater use of CACI data to identify the specific localities where different types of housing are in demand, while Adefuye stressed that although local authorities have often used this kind of data, Covid has made them pay even more attention to housing.

Operational Real Estate: Evolution or Revolution?
19 May 2021

An idea whose time has come

Operational real estate can be defined as having a return directly linked to the success of the business conducted in the building. This kind of property has recently been growing in importance for investors, due to the increasing demand for 'alternative' sectors, shortening leases in the traditional sectors and the growth of 'on demand' space providers. The rise of operational real estate is placing new demands on property professionals including valuers and researchers, who now need a greater understanding of the businesses underlying such assets.

Speakers at the first of two SPR webinars on operational real estate agreed that the COVID pandemic has accentuated its potential importance relative to traditional property sectors.

Caleb Parker of 'Space as a Service' provider Bold, argued that since March 2020 there has been a revolution in the office sector, with companies realising that their staff no longer need to be there. Office providers will need to shift from a B2B to a B2C mentality – in effect 'selling superpowers to people'.

Ollie Saunders, JLL, differed somewhat in emphasis, seeing this change as an acceleration of the evolution that had already started pre-pandemic. But as a valuer, he agreed with Parker that those in his field need to 'up their game'. Operational real estate requires new approaches including greater use of cash-flow analysis combined with an appreciation of capital market realities.

In his opening presentation, **Matthew Soffair** of Legal & General had given a wide-ranging introduction to the concept of operational property, which he defined as a real estate investment where the return is directly and deliberately linked to the revenues and profits from the business conducted in the building. He noted three major trends contributing to its rise: shortening leases in the traditional sectors, investors' growing demand for 'alternative' assets and the rise of 'on demand' space providers like WeWork and Airbnb.

As in the case of the valuer, increasing investment in operational real estate means the property researcher will need a stronger understanding of the business taking place in each asset. Asked by moderator **Joanna Turner** of Canada Life if researchers are likely to possess the right skills to do this, **Bill Page** of Legal & General was positive, suggesting that the main requirements are to analyse markets, data sources such as accounts, and risk.

Parker proposed that researchers would benefit if different types of real estate operator followed the example of hotels by providing transparent and consistent data. This could have helped identify the problems at WeWork before they became critical, he suggested.

In closing remarks, Page stressed that change would be coming, whether or not organisations were ready for it, and that researchers should try to be prepared. Soffair agreed, noting that the needs and desires of the end-user were becoming increasingly key, while Parker thought that brand will grow in importance as a way for providers to summarise the specific experience they are offering. Meanwhile Saunders proposed that those analysing this increasingly fast-changing environment would need to 'know their onions'.

In Conversation

Andrew Smith

29 January 2021

Don't stay in your comfort zone

In the third SPR 'In Conversation' talk, SPR President Andrew Smith spoke to Tom Duncan of Mayfair Capital about his career in real estate research, which began at Pearl Insurance and included a stint as Head of Investment Strategy at Aberdeen Asset Management. He is currently CIO at Hearthstone, the residential fund manager. Among many observations from his life in the business, he noted that researchers are often under pressure to support an existing viewpoint, when arguing against it could sometimes prove more valuable in the long run.

In the third SPR 'In Conversation' talk, SPR President **Andrew Smith** suggested that property researchers are often at their most valuable when they feel uncomfortable about the views they are expressing. Speaking to **Tom Duncan** of Mayfair Capital, Andrew recalled that when advising on transactions there could often be pressure to back up an existing viewpoint rather than arguing against it, which might sound negative – but if that criticism was based on sound data and analysis, it could prove to be valuable.

Andrew also noted how during his time at insurers AMP in the late 'eighties, research was key to their decision to invest in some of the earliest UK retail parks, helping the organisation to get ahead of its competitors, at least for a while.

Drawing on experience that began as an 'accidental researcher' at Pearl Insurance (later acquired by AMP) and included a stint as Head of Investment Strategy at Aberdeen Asset Management, prior to his current role as CIO at Hearthstone, he expressed excitement that research and researchers had played a big role in the changes that have transformed real estate as an asset class. Research has gone way beyond its initial focus on information gathering to have a major influence on investment strategy and decision making.

Andrew stressed that property research can take you in many different directions, making it important for those embarking on a career in the field to keep an open mind about where they might be heading, particularly as real estate is changing so fast. In part this stems from the trend to internationalisation that he has experienced through his career, but also from the emergence of new sectors. For example, he suggested that UK residential investment is an area of strong potential growth where research has been relatively limited thus far.

He proposed that data analysis is likely to remain a crucial skill for researchers, even if there are problems with the availability of market data, which he put down to the predominance of 'commercial' considerations. There had been calls for more data sharing since his earliest days in research, but progress has been disappointing, despite the fact that the tools for analysing such data have improved dramatically.

Asked by a member of the audience about how research can influence the development of places and the politicians mainly responsible for such decisions, he suggested this may be an area where academic researchers are best placed to make a difference. Sometimes the property industry isn't as effective here as it might be, in part because commercial organisations, particularly developers, are viewed by the public as predominantly pursuing their own interests.

The SPR also has an important role to play in this regard, as it acts as a community where researchers not only have the chance to network and socialise but occasionally to pontificate on how the industry needs to change, he proposed.

In another question, Andrew was asked about his most bizarre experience as a property researcher. He cited an occasion that had added to his suspicion of data sources: an asset manager for one of his organisation's shopping centres had claimed a dramatic increase in footfall, only for it to later emerge that the data had been severely corrupted by a spider that had set up home in the counting machine.

One research achievement that he is particularly proud of was developing the IPF Consensus Forecasts when he was on their research committee. There was a suggestion that the IPF should commission its own forecasting model to be the industry standard, but he didn't believe this was possible. He suggested it would make more sense to collect all the forecasts being done and analyse those. This was just an off the cuff suggestion from the discussion, a question of being in the right place at the right time, but it can be fulfilling when this sort of thing comes up in property research, he suggested.