Society of Property Researchers

Newsletter

November 2022

In this issue:

Reports written by Tim Horsey unless otherwise stated

Upcoming events:

10 November: SPR Annual General Meeting (online)

17 November: SPR Annual Dinner, RAF Club – kindly sponsored by Oxford Economics

22 November: SPR Wine Tasting. Kindly hosted by Cromwell Property Group

30 November: SPR Roundtable: Metaverse. Kindly hosted by Columbia Threadneedle Real Estate Partners

10 January: SPR/IPF UK Property Outlook Seminar. Kindly hosted by Allen and Overy

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

Society News

Message from the Chair

Dear Members,

As I look back over the year at the helm of the SPR, one thing which has been reinforced to me is the importance and value that members place on the Society. Perhaps even more so in times of market turbulence. Both our in-person and online seminars have attracted great interest, and with it, great discussion, including a near full-house for the joint SPR/IPF European real estate outlook in September. We've also had great attendance at our social events too (a number of which have had waiting lists) and another fantastic suite of submissions for this year's SPR Research Prize (the U-30 and Open category finalists will be announced at the AGM and the winners announced at the Annual Dinner).

But above all, membership numbers have increased to a record high of close to 580! To me, this underscores the important role that the Society continues to play in our industry. It also suggests that the Society is going from strength to strength and the committee can be proud of what they have achieved this year.

An important element in the running of the Society is the AGM. It will be held tomorrow, Thursday, 10 November, starting at 1815. Due to tube strikes this will, unfortunately, now only be online. I encourage you to join online to discuss and approve the plans for the Society for the forthcoming year. As we require a minimum attendance to have a quorum, your participation and support is highly appreciated. If you haven't already registered, please do so here.

There are also have a number of other events lined up to close out 2022, including the Annual Dinner – a long overdue highlight of the year – a wine tasting evening and roundtable on the metaverse. The end of the membership year is also edging closer, so do keep an eye out for an email from Becci in the coming weeks about membership renewal to ensure you don't miss out on any of our events.

As my time as Chair comes to a close, I would like to thank the membership and committee for making the past year a great success and achieving our aim of getting members back together again. I would also like to say a special thanks to our sponsors and those organisations that have hosted events. Your support and generosity are gratefully received and hugely facilitate the smooth running of the Society.

I look forward to seeing as many of you as possible at the AGM and Annual Dinner and wish my successor and next year's committee all the very best!

Hamish Smith
SPR Chair 2022

Social Events

SPR Summer Drinks
The Alexander Hay, Hays Galleria, London SE1
14 July 2022

This year's annual summer drinks saw a return to the Alexander Hay (previously Balls Brothers). It was gratifying to see over 70 SPR members taking advantage of a lovely summer's evening to quench their thirst with a cold drink and discuss the big questions of the day with fellow researchers. The event was once again exclusively sponsored by MSCI RCA and Datscha. MSCI acquired Real Capital Analytics and Datscha in September of 2021 – both of the latter being prior sponsors of this event.

It was great to see both newer members and long-standing members enjoying catching up and socialising with their peers. With many people now living further from London and adopting a hybrid working week, the opportunity to meet in person was very much welcomed.

SPR Golf Day
Letchworth Golf Club, Hertfordshire
8 September 2022

The 2022 SPR Golf Day was a brilliantly inclusive day for novices and experienced players alike.

Having had a break for a number of years, it was great to see it reintroduced in the calendar this year at Letchworth Golf Club and thankfully the players didn't even get too wet!

The day was split between those who played a full round on the Heritage Course, and a group of beginners who hadn't played at all or much before. This was a great way to mix and include the experienced with the novices and introduce more new players to the sport. Five of the six novices were women, making it pleasingly diverse too.

The experienced group played a round of 18 holes in teams of three, led off by Mike Bessell. The course proved an enjoyable and suitably challenging outing for the established golfers.

- The best individual was Simon Mallinson with 35 points, ahead of two others on 34.
- The team prize (where the best 2 of 3 counted) went to Mark Long, Mike Bessell and Simon Mallinson, thanks to strong individual scores from each.
- The longest drive was won by Tom Carruthers.
- The nearest the pin was won by… no one, rather embarrassingly…

The novices' group, under the instruction of the assistant professional coach, started on the driving range, learning to hit the ball as far as possible (great fun but harder than it looks!). This was followed by sessions on the chipping and putting greens. After grasping the basics, they worked in teams to compete again each other in some fun games in each aspect of the game.

Following a break for lunch, they then got a chance to experience a taster of real golf by playing two rounds of the 6-hole par-3 academy course, playing a Texas Scramble format in teams (going off the best placed ball in their team each shot). The prize for the most enthusiastic novice went to Lucy Greenwood, who has promised to keep working on her game, so watch out next year!

Thanks to Mike Bessell, Paul Stewart and Damian Harrington for making the event happen and to Mike fantastic organising and hosting on the day.

Report by Lucy Greenwood

Webinars/Seminars

SPR Webinar: New Data, New Insights: How new data sources and techniques are changing property research
18 July 2022

Potential and pitfalls

The digital revolution has opened up a potentially huge quantum of data relating to real estate demand and supply, but this webinar stressed that such rapid expansion can bring its own challenges. New sources of geographical and political data can undoubtedly now be accessed much more cost effectively than in the past, to the benefit of those analysing property market conditions and trends. But there are also big questions about the confidentiality and ownership of individuals' data, particularly significant when mining behavioural information. In the area of new data, property researchers can have an important role to play ensuring that the data collected is truly useful and statistically robust.

This webinar explored a number of angles on a topic that moderator **David Inskip** of CBRE Investment Management admitted is a very broad one, encompassing as it does areas like big data and open data. But the importance for property researchers in their day jobs will be in how it can help their organisations to make better decisions.

Dr. Chlump Chatkupt of PLACEMAKE.IO touched on some of this potential with examples of novel analytical techniques that can harness existing data in new ways or access new sources of data. One possibility is analysing rental growth based on railway station catchment areas, which intriguingly can sometimes mean higher readings nearer to the station, but sometimes lower. In another example of highly granular locational analysis, he showed ways to identify dynamic data variables that could identify micro areas of London that are ripe for gentrification. And a data source that few would have considered for real estate prospects is government-generated indices of deprivation - these can give an indication of where there is potential for commercial improvement in a locality.

In his short presentation, **Simon Hayter** of Knight Frank then highlighted some aspects of property-related ESG data that are evolving rapidly, particularly in the 'S' and 'G' space, where trends are often seen as less quantifiable than for environmental factors. He noted that while some of the social data relating to buildings is demographic or perhaps transport-related, collecting information on individuals' behaviour can soon run into privacy issues.

This was a key theme of **Tom Wainwright**'s presentation, too. The Associate Professor at Royal Holloway sees this not just a potential problem for members of the public but also for commercial organisations in terms of reputational risk. He observed that in the ongoing data 'gold rush', which has a primary goal of making better financial decisions, ethical dilemmas can get overlooked.

While the data trails that individuals leave may potentially provide some highly useful analysis, for instance on spending habits in different locations, the individuals concerned are often unaware of how this data could be used. AI models can also sometimes build in discriminatory patterns, which mean that the conclusions they generate may not be objective.

In the panel discussion that followed, the question of who owns the data created by individuals inside buildings they are visiting emerged as an ongoing bone of contention, with no clear consensus on whether it is the building owner, the individual or the organisation ultimately holding it. Responsibility for the accuracy of data is another minefield, as there are no consistent standards in place across the board. Wainwright suggested that a lot could be learnt from the open data community, where there is a constant questioning of the rights and standards to apply, while Chatkupt emphasised that data providers should rigorously test the statistical foundations of their models, with the relevant technical discipline brought to bear.

There was however agreement that using the most appropriate data depends on asking the right questions in the first place and not just generating masses of data for its own sake, which has often happened with proptech start-ups. This is clearly part of the role of property researchers, whose place should not be seen as under threat from a deluge of AI driven data, although there may well be a need for greater understanding of data science. Likewise, the 'expert professionals' who tend to dominate the real estate business will continue to be important. Hayter argued that data cannot always replicate experience in such a complex field.

SPR/IPF European Property Outlook
Cushman & Wakefield, 125 Old Broad Street, London EC2
14 September 2022

Time to pivot?

After more than a decade of benign property market conditions, speakers at this seminar agreed the cycle is now set to bite. The energy crisis is affecting the whole of Europe, but the implications differ from country to country, potentially impacting real estate performance to varying degrees, in the short term at least. At the same time longer term structural trends are also coming to the fore, meaning that property investors may need to pivot into the sectors that look set to benefit from technological and demographic change, including logistics, residential and 'next generation' segments like life sciences. Real estate should benefit from having not built excessively in this cycle – but investors shouldn't expect it to be completely inflation-proof.

At the Society's first face-to-face seminar of the Autumn, **Sabina Reeves** of CBRE Global Investors admitted that this was a very difficult time to be presenting a real estate outlook for Europe, with so many aspects of the market reaching a 'pivot point'. Capital markets are being hit by substantial interest rate rises after 15 years of a 'privileged position' for investment, presaging an end to cheap money, while the world's economies appear to have passed peak-globalisation. At the same time inflation is increasing the cost of meeting the ESG agenda, and technology has also brought occupational markets to a pivot point, with the result that retail and office space is now 'effectively infinite.'

For Reeves, the implication is that investment choices could benefit from following demographically based structural plays across the continent, including logistics, residential, 'next generation' sectors such as life sciences, sustainable mixed use and 'smart, amenitised offices.' She also suggested that near-term market volatility could bring long-term opportunities, while the listed market appears good value, having been 'oversold.'

Innes McFee of Oxford Economics had painted a picture of short-term economic pain in his opening presentation, with the prospect of recession for Europe in the first half of 2023 almost certain given the escalation of gas prices over the month before the seminar. The precise impact of the energy crisis would depend on climate conditions through the winter – a cold winter would bring the need for detrimental 'hard rationing,' while a warm winter should see gas prices fall. Supply chain problems are generally easing, but labour markets are likely to be the key area of concern, with central banks determined to clamp down on inflation whatever the cost to the economy in the short term. Still, McFee predicted that the recession should be relatively short-lived compared to that of 2008-9.

Callender

Joining the panel discussion led by **Mark Callender** of Schroders, **James Chapman** of Cushman & Wakefield acknowledged that as a capital markets representative, he is 'hard-wired to be positive.' He observed that there is still activity in the marketplace, while occupiers are sending an increasingly clear message about their needs for investors to focus on.

Chapman

Changing interest rate expectations should not come as a surprise, he suggested, and investors should have had a strategy in place for this for a long time now.

Kiran Patel, CIO at Savills Investment Management, also on the panel, suggested that the outlook could be glass half empty or glass half full. Most are prepared to accept that real estate goes through cycles, and we are now seeing the inevitable adjustment after a long upswing. Positively, real estate has not overbuilt this time around, but the new level of interest rates could find a lot of owners with difficulties refinancing once funds terminate. Nevertheless, some sectors such as logistics should remain strong.

In the subsequent audience Q&A, Reeves proposed that real estate may not be as good a hedge against inflation as many believe, because indexation is lease-dependent and there are often caps in place; moreover, residential rents are likely to be subject to growing political and regulatory constraints. Innes expected wholesale gas prices, one of the main drivers of inflation, to fall by around 20% in 2023, with alternative energy sources for electricity generation, such as nuclear in France, playing an increasing role. He also noted that wage expectations are relatively limited in Europe compared to the US, hopefully meaning that inflation is less entrenched.

Asked by Callender whether there is still potential for diversification across European markets, the consensus of the panel was affirmative, although Patel suggested that the large quantity of rapidly produced data that is now available means that differences in national returns tend to be in basis points rather than percentages. Chapman emphasised that Germany was going through a 'shell-shocked' phase, with the safe haven status of its markets brought into question. Reeves concurred, proposing that there could be big differences in country performance in the near-term, which would mean that investors need a strong 'energy narrative' to steer a good course. She also noted it was not inconceivable that the UK might face a balance of payments crisis over the next few years, a risk that many investors may have pushed to the back of their minds.

SPR Seminar: Making Residential Property More Sustainable
Savills, 33 Margaret Street, London WI
10 October 2022

If there's a will there's a way

Making the housing stock carbon neutral is a huge challenge, especially in countries like the UK where many buildings are old. However, technologies are emerging that will allow even older buildings to use heat more efficiently and cope better with hot weather. There are also important innovations in building materials that can reduce the amount of embedded carbon in housing, such as wood and hemp. This seminar was striking for the detailed quantitative approach taken by the speakers, tying their proposals for retrofits and newbuilds closely to Net Zero targets. However, one implication was that such innovations will not come cheap.

In this seminar hosted by Savills, two architects set out detailed roadmaps for reducing the carbon emissions from residential property. **Marion Baeli** of PDP explained how it is now possible to retrofit older stock to retain heat much more efficiently, while **Sunita van Heers** of SuReal explored some of the materials and technologies that could revolutionise the sustainability of newbuilds – both in terms of the embedded and operational carbon emissions.

Before the meeting moved on to the potential solutions, **Millie Todd** of Cushman & Wakefield summarised the scale of the challenge in the UK, where homes account for 13% of greenhouse gas emissions, based on 2019 data. Although there has been a gradual improvement in energy performance this millennium, 54% of homes are still rated D or below on the EPC scale, and while rented accommodation looks set to be mandated C or better in 2025, owner occupied assets are a far bigger issue. There are some promising trends, with homeowners starting to give greater priority to energy efficiency in their buying decisions and new homes on average achieving a B rating, but the cost of upgrading existing buildings is deterring many from doing so. The cost of retrofitting to reach a C rating averages nearly £8,000 for those UK homes failing to meet that level, a big outlay in current inflationary conditions, and there are also serious limitations on the workforce available to make such improvements.

Baeli then spoke about the possibilities for retrofitting in the UK owner-occupied sector, where the country's Net Zero ambitions suggest that energy use for heating needs to fall by two-thirds from the current 150kwh/m2/year, a massive challenge when much of the existing stock is old – for instance, 21% of homes are Victorian in origin. Presenting a number of case studies, she showed that even older properties can gain a huge benefit from effective wall insulation and vacuum-glazed windows, by making them airtight, and by improving ventilation; together, such improvements should help make it possible to use electric heat pumps rather than fossil fuel systems for heating.

Van Heers' presentation took a continental European perspective on developing new residential buildings and focused on a test case measuring the carbon performance – both operational and embodied – for houses adopting various more sustainable technologies over their life-cycle. The presentation was striking for its quantitative approach to measuring emissions, comparing each technology in terms of tonnes of CO2 emitted over the 60 years of a dwelling's assumed lifetime. She particularly stressed the potential from using natural construction materials, including wood for walls and hemp-based screed in the floor, as well as applying different energy sources. At the same time she stressed that sustainability is not just a question of carbon emissions, but also the comfort of residents in terms of air flow and background noise levels, for example.

Dr **Kat Martindale** joined the panel discussion and audience Q&A, which was chaired by her Savills colleague **Emily Williams**. Martindale commented that it was likely to be easier for large scale housing investors and social housing owners to retrofit buildings because of their strong purchasing power in relation to suppliers. Along somewhat similar lines, van Heers later suggested that local authorities might arrange for retrofitting services to be available across whole streets, thereby gaining economies of scale.

The cost of upgrading was clearly a major concern among the audience, with Baeli explaining that retrofitting older houses along the lines she had suggested could cost between £80k and £250k, dwarfing the £8k initially mentioned to reach EPC level C. It was however noted that such upgrades could look less expensive when viewed in the context of refurbishments that were already deemed to be necessary, while financial incentives (eg zero-rated Stamp Duty or VAT) could also push individuals in the right direction. But Martindale felt such changes to be unlikely in the current UK political climate.

In Conversation

Robin Goodchild
15 July 2022

Riding the Cycles

In the final SPR 'In Conversation' talk of 2022, Dr Robin Goodchild, Visiting Professor at the University of Aberdeen Business School and former Head of European Strategy at LaSalle Investment Management, spoke to SPR Chair Hamish Smith about his career in real estate research and fund management.

Among property researchers, Robin Goodchild is probably best known for his work analysing the similarities and differences between UK real estate cycles, and it was clear from this In Conversation interview, which was conducted by SPR Chair Hamish Smith, that volatile periods in the market have also had a big role in shaping his distinguished career.

This was particularly evident relative to the boom-bust of the late 1980s and early 1990s, when Robin's role heading Gerald Eve's recently created investment department was harshly cut short, as, in his words, it was 'hard to make a living from investment portfolios' in the bear market of 1990-91. Describing what was clearly a very difficult time in typically sanguine terms, he then had a period of private consultancy that meant he could continue on 'a rather lower cost base'. At this time, he undertook mainly academically focused projects, such as one alongside City University on compulsory purchase orders.

However, when it came to the roller-coaster market of Global Financial Crisis, Robin was able to exploit his hard-earned experience of earlier cycles to the benefit of his clients. As head of research at LaSalle Investment Management, his insights were a crucial influence on investment timing for one of the UK's largest pension funds, which sold assets in the upswing of 2005-6, then re-invested after the crash of 2008-9 and went on to realise big gains on a number of retail warehouse parks. He explained that the research input to these decisions relied on understanding how bank lending can exacerbate market volatility, often with the lenders themselves unaware of the effect of their actions.

Although Robin may be best known for his work on cycles, he said that he was proudest of his research on the residential sector, which has contributed to its recognition as a suitable asset for institutional investment in the UK. There have been significant challenges to overcome, including a lack of existing stock and the prevailing management structures, but a number of larger scale managers, including LaSalle, have come to recognise its relatively low risk and complementary patterns of performance to commercial real estate.

Robin began his professional career as a Chartered Surveyor, the third generation of his family to do so; but even if the profession was 'in his blood', this was clearly never going to be enough for someone with such an enquiring mindset. His interest in the impact of the Betterment Tax on property development instigated by Labour governments in the 1970s led to a research project in tandem with his surveying work at Gerald Eve, which evolved into a book and PhD thesis. In effect, he had embarked on property research when the field barely existed, at the same time as Russell Schiller started his explorations of the market at Hillier Parker.

Gerald Eve soon asked Robin to set up a research department, which had a wider remit than the market-related work favoured by other agents and also extended into the legal and policy areas that have proved to be a constant thread running through his career. It is striking how much property research as it now exists owes to the pioneers like Robin who were motivated more by a thirst for understanding than by commercial ambitions, and who have been prepared to explore a range of themes that have ultimately benefited the wider real estate industry.

Research Course

SPR Research Course
Bayes Business School, 200 Aldersgate, EC1A
11-12 October 2022

After several postponements due to the pandemic, the SPR was able to hold its long delayed research course, 'Property Research in the Real World: Practical Applications'. Twenty-one young researchers from across the industry undertook the two-day course, kindly hosted by Bayes Business School. Not only was this a great opportunity to develop their understanding of different facets of property research, but also an occasion to meet and network with other young real estate researchers.

Split into five modules as well as a site visit and practical exercise, the course started with **Andrew Smith**, SPR President and CIO of Hearthstone Investments looking at how property research has evolved and helped to shape real estate markets. Andrew also discussed some of the challenges faced by researchers, what makes good research and different career paths for researchers.

In the second session, **Professor Sotiris Tsolacos** from Bayes Business School looked at property cycles and how real estate interacts with the real economy. **Malcolm Frodsham** then took participants through a session on occupier and leasing markets, how markets are measured and what should be taken into consideration when analysing different metrics.

The first day concluded with a site visit and drinks reception at 22 Bishopsgate. Participants learnt about some of the challenges of the development and how research supported the decision-making process, before taking in spectacular views across London from the top.

Professor Andrew Baum kicked off day two by taking participants through the investment process and different investment strategies, before **Professor Yolande Barnes** from the Bartlett Institute spoke about how financial, environmental, social, technological and biological factors have influenced real estate over the centuries and how they will continue influence and change real estate, and how we analyse it, in the future.

To put their new-found knowledge to the test, the course concluded with a group exercise which saw participants analyse the pros and cons of an existing asset in a portfolio before making a recommendation to their investment committee, formed of Andrew Smith and SPR Committee members **Matt Soffair** and **Chris Dunn**, on whether the asset should be retained or divested.

Report by Hamish Smith

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Summer drinks

MSCI Real Capital Analytics
MSCI Datscha

Annual Dinner

Thank you to our event hosts

SPR/IPF European Property Outlook Seminar

SPR Wine tasting

SPR Making Residential Property more sustainable

SPR Roundtable: Metaverse

SPR/IPF UK Property Outlook Seminar

SPR Research Course