Society of Property Researchers

Newsletter

July 2022

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Upcoming events:

14 July: SPR Summer Drinks – kindly sponsored by MSCI Real Capital Analytics & MSCI Datscha

15 July: In Conversation with Robin Goodchild

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

8 September: SPR Golf day, Letchworth Golf Club

14 September: SPR/IPF European Outlook for Property seminar

11-12 October: SPR Research Course - Property Research in the Real World: Practical Applications

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

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

Society News

Message from the Chair

Dear Members,

It is often said that real estate is a slow-moving business. However, I am sure you will agree that the first half this year has felt anything but slow! In fact, it's been remarkable how much has changed in a short space of time. While most recent market attention has focused on the impact of rapidly rising inflation and surging interest rates, lest we forget, we started the year in the grip of the Covid-19 Omicron wave and Russia's invasion of Ukraine. All told though, it's moments like now that make it a great time to be involved in property research and to be able to really add value. I suspect the second half of the year will be just as interesting.

With the easing of Covid restrictions at the start of the year, the Committee has been able to organise more in-person seminars and socials. And judging by attendance I have a real sense the members have enjoyed the ability to get together again. The SPR Pub Quiz was a particular highlight for many, even if the 'masked singer' round raised a few eyebrows, while a number of us enjoyed the time to take creative photographs (see below) and talk about real estate as we wandered along the Thames during the Photography and Walking Tour – which I would like to thank Remit Consulting for organising and hosting.

It was also pleasing to report that after a bit of a hiatus due to the pandemic we were once again able to host a lunch for the SPR Fellows. What makes this year more special is that 2022 is the 35th anniversary of the Society. So, it was particularly nice to be able to get together and share ideas about how we can ensure the success of the SPR for the next 35 years.

Big thanks must go to the committee for all their hard work so far this year and for putting on a number of events in areas which might once have seemed niche, but are quickly becoming mainstream – cold storage, social value in real estate, tokenisation, real estate debt and timber buildings. Our final webinar before the summer break (18 July) will be looking at how new data sources are changing property research and July wouldn't be July without the SPR summer drinks on the 14th, which are kindly sponsored by MSCI RCA and MSCI Datscha. I look forward to seeing many of you there.

We already have number of events lined up for the autumn, including the SPR golf day (8 Sep.), the annual joint SPR/IPF European outlook seminar (14 Sep), while October will see the return of the SPR research course aimed at people new to property research. Of course, we'll see the year out in style at the SPR Annual Dinner (17 Nov). Do keep an eye out for registration emails or visit the SPR website (sprweb.com).

Finally, don't forget the deadline for submissions for the 2022 SPR Research Prize(s) is 31 July. This is a great opportunity to be recognised by your peers for leading industry analysis. So don't delay in getting your entries to Becci before the end of the month.

Wishing you all a lovely summer break and I look forward to catching up with as many of you as possible over the coming months.

Hamish Smith
SPR Chair

Social Events

SPR King Pin Bowling
All Star Lanes, London E1
3 March 2022

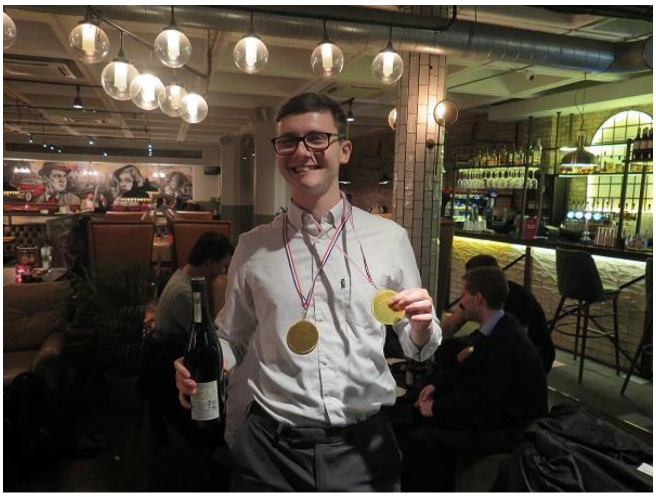
In the first social event of 2022, the SPR returned to the All Star Lanes in London's East End for a competitive evening of ten-pin bowling. With bowling off the SPR agenda for the two years of pandemic lockdowns, one or two claimed that their techniques had got rusty, but some impressive scores were still posted across the five teams – two from Savills, one each from Avison Young and CBRE, and a mixed team from Tristan Capital and UBS, among others.

A close-fought contest saw 'Savills A' edge past 'Team Transitory' (the mixed team) by 783 points to 781, with 'SBBS' (from CBRE) third on 610. The leading individual player was Dan Hill from Savills with 153, followed by Mike Barnes (also Savills) and James Purvis (Team Transitory), who tied in second place on 132. Fifteen players scored over 100, and the satisfying clatter of a strike was heard no fewer than 44 times.

Drinks were available to members free of charge throughout the evening, and an enticing selection of canapés was provided at the close, when committee member Shehryar Qazi also handed out the prizes.

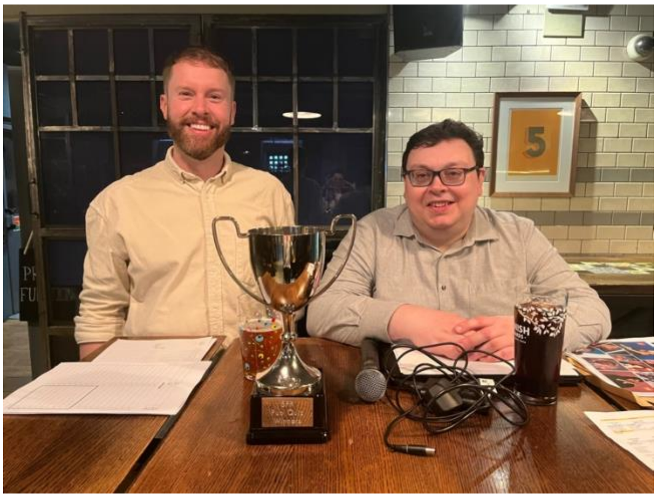
Savills A, the winning team: Mike Barnes, Dan Hill, Victoria Bajela, Simon Preece, Will Holford and Ed Hampson (not shown in that order!).

Dan Hill, the individual top scorer

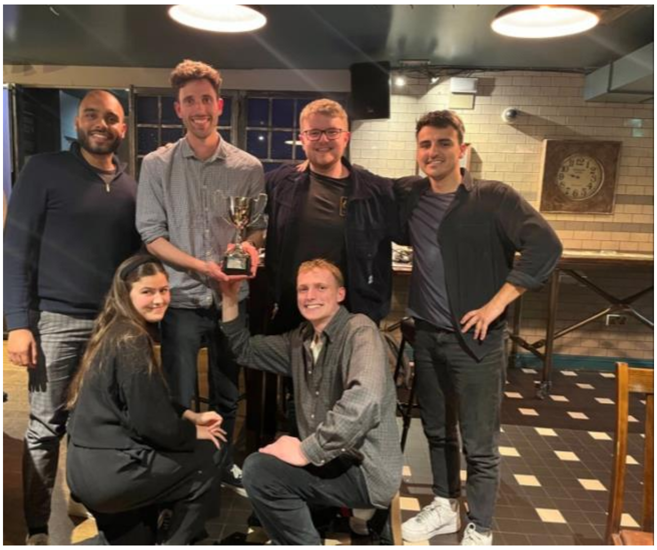


SPR Quiz Night
The Tokenhouse, London, EC2
4 May 2022

This year the SPR Pub Quiz returned to the Tokenhouse in Moorgate, where a large private room was taken over by ten teams of eager SPR quizzers. As the Society's second face-to-face social event of 2022, this marked another milestone on the road back to normality in the wake of the pandemic.



Quizmaster Andrew Marston had put together a set of questions that ranged from the relatively straightforward to the challenging and a few that were beyond most participants, on topics spanning sport, music, popular culture, history, current affairs and the natural world. Notably, devotees of *The Masked Singer* were rewarded with a fiendish picture quiz linking the singers' faces to the alter egos used in the show.



That knowledge helped the team from PMA finish the quiz at the top of the pile, their score of 72 significantly overhauling teams from Carter Jonas in second place (63.5) and JLL in third (60). At the end of the evening, the winning team of Mike Variah, James Shirt, Shadi Fakhouri, Tom Kynaston, Joe Elliott and Joe Gregory were presented with the prestigious SPR Quiz Trophy by committee member David Inskip.

But this was an occasion where the old saying 'everyone's a winner' really held true. Once again it proved a great opportunity for some friendly rivalry with other organisations, helped on by the complementary refreshment provided by the Society.

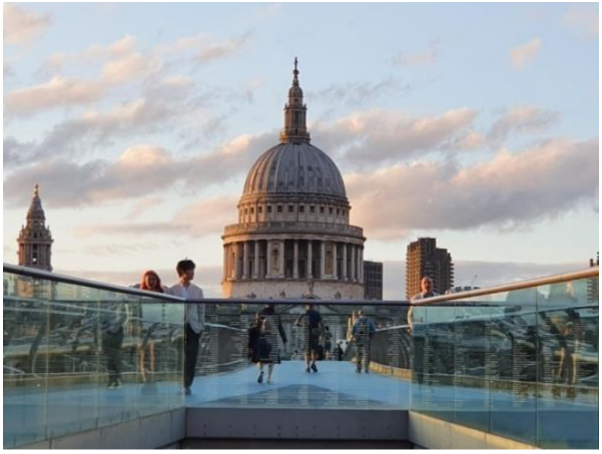
SPR Photography Walking Tour and Photo Competition
South Bank, London SE1
12 May 2022

This innovative SPR event, kindly hosted by Remit Consulting, proved that with the technology now available on mobile phones, anyone can be a creative photographer. For most, the one missing ingredient for reaching this level is an understanding of some basic photographic principles – but an introduction was kindly provided by three keen photographers from Remit Consulting: Andrew Waller, Kai Allen and Charles Woollam. At the start of the evening, Andrew highlighted a few key concepts, such as where the main subject of the shot should appear in this framework, which is not necessarily at the centre.

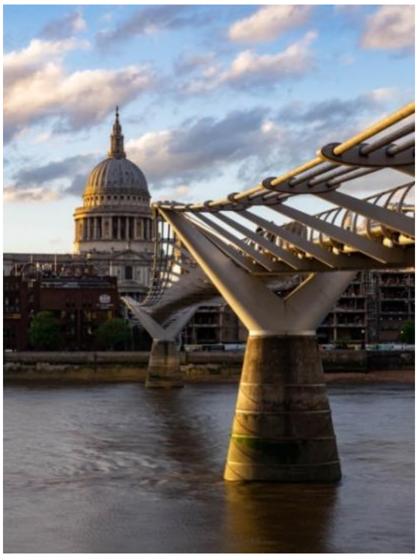
The group of a dozen or so SPR members then made their way to the start of the walk, close to the London Eye. On the route, which followed the Thames Path along the southern bank of the river, participants were encouraged to compose photos for a competition that Remit also organised for the event, with entries under three headings: symmetry, bridges and 'in conversation'. Members were encouraged to quiz the experts on any aspects of the photographic process as they headed out along the river.

The event turned out to be a highly absorbing and relaxing way to spend a late spring evening, which went from drizzly to glorious sunshine over a couple of hours and offered a range of lighting conditions. Walking at 'a photographer's pace', as Remit's helpful notes put it, gave the opportunity to see familiar sights in new ways and to develop a deeper visual perspective than that of the average tourist. It also offered the possibility of conversation in a traffic-free environment, not easy to achieve in a city that is now coming back to life. The event ended with drinks on the walkway outside the Anchor pub close to the Tate Modern gallery.

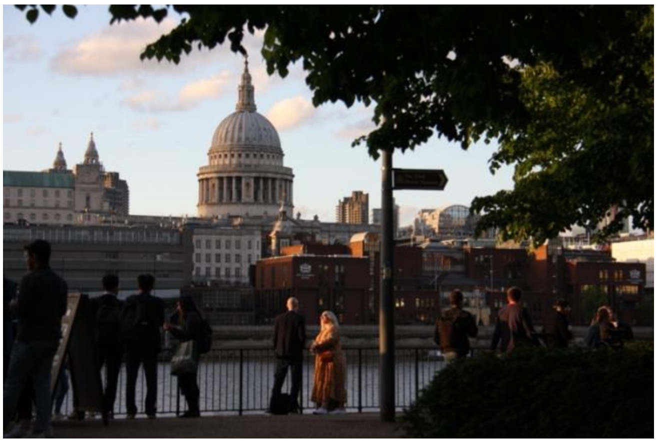
Remit judged the three winning photos to be:



Symmetry – Cleo Folkes



Bridges – Neil Blake



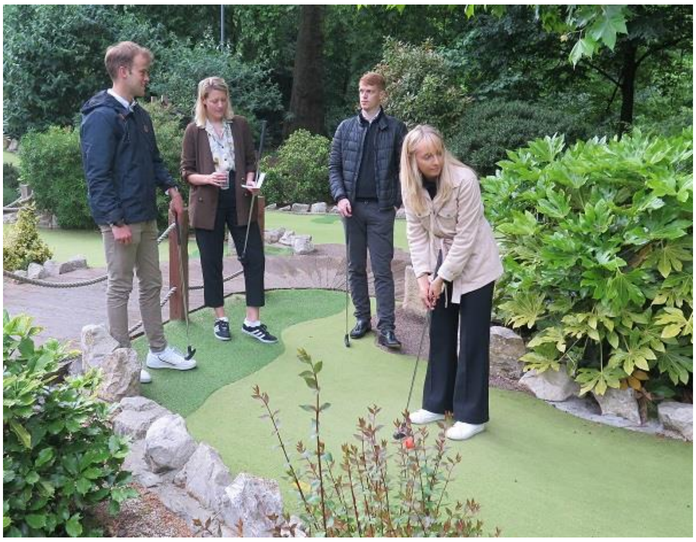
In Conversation – Hamish Smith

NEWSLETTER

SOCIETY OF PROPERTY RESEARCHERS

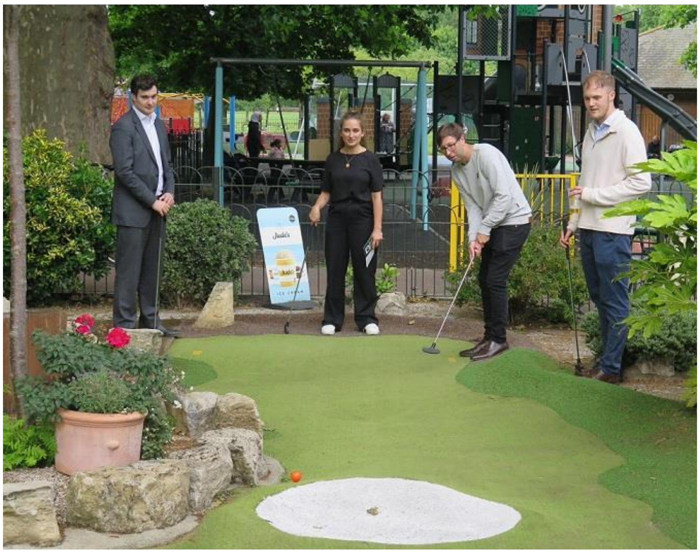
SPR Crazy Golf
Putt in the Park,
London SW11
9 June 2022

Golf doesn't get much crazier than this!



The heavens opened just before 5.30pm on this Thursday evening, but fortunately for the four SPR groups that had signed up for crazy golf, the rain eased, and they were spared the indignity of playing in brightly coloured ponchos. They did however have to contend with the distraction of screams from the Go-Ape customers clambering through the trees above.

On what proved to be a thoroughly enjoyable evening, the team of Oli Green, Bryndis Sandler, Callum Barrett and Emma Barnstable came through with the lowest score for four players of 180 after completing all 12 holes. The team of Hamish Smith, Kiran Raichura, Andrew Wishart and Hansen Lu ended up in second place. The two other teams were in also contention but unfortunately were diverted by the lure of pizza before they could complete their scorecards.



Webinars/Seminars

SPR/IPF Outlook for UK Property 2022
10 January 2022

In a world before Ukraine

Before the threat of a Russian invasion of Ukraine was fully appreciated, the investment landscape looked rather different. However, this start of year showcase event did identify some risks that have gone on to impact markets, including inflation and the continuing effects of Brexit. For real estate, 'Beds, sheds and meds' had moved into the ascendancy in terms of sector prospects, although logistics remained strong, with rental growth expectations appearing to justify their low yields. At the same time, the relatively high income from real estate was thought likely to keep the asset class in favour with investors, particularly as the wider 'alternatives' sector establishes a permanent uplift in multi-asset allocations.

Introducing this start of year showcase event, **Chris Perkins** of M&G noted that UK property performance in 2021 had turned out much stronger than many dared to expect, with a mid-teens total return buoyed by the industrial sector and some parts of retail. Meanwhile trading volumes had proved robust at around £55 bn, a similar figure to that seen in 2019.

But what lies in store for 2022? **Liz Martin** of HSBC painted a generally bullish picture of prospects for the global and UK economies, with the V-shaped recovery of 2021 set to bed in and most countries even promising to exceed their pre-pandemic forecasts - such has been the effectiveness of government interventions. For the UK, pent-up consumer demand resulting from higher saving during the pandemic means there is potential for a big boost to spending, while confidence appears high despite the dampener of Omicron.

However, there are a number of risks as well. Supply bottlenecks in both materials and labour are holding back economic growth across the developed world, even if there could be compensation in the form of a later catch-up. These bottlenecks are also contributing to inflation, which looks set to squeeze real incomes over the year – wages would probably have to rise by 6% to negate this effect. Working from home has also proved to be a double-edged sword: although it has allowed people to keep working though the pandemic, its continuation means less activity in transport and hospitality, for example. And Brexit is undoubtedly exerting a negative impact, with UK exports and manufacturing output recovering much slower than in the Eurozone.

Will Nicoll, CIO of M&G private and alternative assets took a multi-asset approach to the investment landscape, stressing that while government bail-out policies through the pandemic had given consumers a high level of solvency, the excess liquidity already seen in investment markets pre-Covid had now been 'turbocharged'. Given that equities have already had a strong run and bonds are providing negative real income, real estate is likely to continue in favour for investors, especially as the wider 'alternatives' sector is establishing a permanent uplift in multi-asset allocations. The illiquidity premium to real estate has also clearly grown, though this could decrease if it becomes easier to transact within the asset class, say via tokenisation.

What of the return prospects for UK real estate sectors? **Andrew Jones** of LondonMetric proposed that much will depend on how the structural trends accelerated by the pandemic now play out, as these are having divergent effects for different parts of the market. 'Beds, sheds and meds' have clearly moved into the ascendancy, but there are also parts of the retail and office markets that could fare relatively well. Occupational demand remains very strong for logistics, so that low yields can be justified by the prospect of continuing rental growth – for instance an average 6-9% is predicted for London over the next five years. Warehouse occupiers may also need more space due to growing inventories as 'just in case' comes to supplant 'just in time', with supply chains continuing to be threatened by geopolitical disruption.

In a wide-ranging Q&A during the last half-hour of the meeting, Jones suggested that he would be looking for a 'copper-bottomed' 7% return from his real estate investments going forward, though this was clearly more of a long-term target than a forecast for the year to come. Repurposing assets from one sector – especially retail – to another was set to be a growing trend, not only for urban logistics but also health and education. Asked if retail was itself on the point of becoming an 'alternative' property sector, Nicoll said this was unlikely, as there is still too much retail in investment portfolios and it is not yet cheap enough. But perhaps most intriguingly, Martin accepted the premise of one questioner that consumption patterns could be weaker in the future as the climate agenda takes hold – although there is likely to be a return to pre-pandemic levels of demand in the short term.

The Rising Star of Cold Storage
23 Feb 2022

Cold storage is warming up

In the current 'Age of Everything', when speed of delivery and convenience are at a premium, the cold storage subsector of logistics is coming into its own. Underpinning this trend, the frozen food sector is growing rapidly in the UK, while pharmaceuticals and horticulture have also started to emerge as significant uses. But although it is gaining recognition as an institutional asset type, investors are just starting to learn the specifics. This partly relates to the high energy use of these facilities, which has big ESG implications, as well as their different locational characteristics to standard logistics.

Cold storage facilities have clearly existed for a long time, but this webinar heard that they are now starting to be recognised as an institutional investment asset class, or at least a subset of logistics.

Answering one of many questions from the audience, **Kevin Mofid** of Savills suggested that around 70% of UK cold storage assets are now rented, with the remainder in owner occupation.

In a joint research project with the Cold Chain Federation from three years ago, Savills identified 678 cold storage units of more than 50,000 sq ft in the UK, accounting for 134 million sq ft in total. He noted that the geographic spread of these assets is somewhat different to the overall logistics sector, with higher weightings in Yorkshire, the North East and East Anglia. This reflects the relatively high level of food production and processing in these areas. These locations do however contain more smaller units compared to the retail distribution facilities which are spread more widely across the country. He highlighted that cold storage includes different types – for example, frozen and chilled facilities are different animals.

However, Mofid sees cold storage as a 'buzz sector' for investors with strong growth potential and long-term income. **Tom Southall** of the Cold Chain Federation, a trade association for the sector, agreed that our current 'age of everything', when speed of delivery and convenience are at a premium, means that its time has come. The frozen food sector is growing rapidly in the UK, while in addition to food storage, pharmaceuticals and horticulture have also started to emerge as significant uses during the pandemic.

The demand for larger, automated facilities is expanding, he stressed, particularly due to their stronger sustainability credentials, which are becoming increasingly important for occupiers. Cold storage is very high-energy, accounting for more than 1% of UK consumption, placing a premium on reducing electricity usage. Several facilities now incorporate wind turbines or solar panelling, but government targets for energy use will only get tougher.

Another theme that emerged from the webinar was the increasing consolidation now being seen among specialist cold chain operators, with a number of foreign companies moving into the UK market.

Dominic Burke of CBRE noted this as a key market driver in his presentation focusing on the valuation of cold storage assets, along with the 'mission critical' role they play for occupiers. Valuing these properties is often challenging as there tends to be little comparable evidence in a locality and facilities have often been 'built to suit'. For this reason, valuations often adopt a profits-based method along similar lines to hotels.

Questioned about the pricing of cold storage properties during the audience Q&A, moderated by **Florian Richter** of PGIM Real Estate, Burke suggested that historically there had often been a discount compared to conventional logistics, sometimes because locations are close to production sources with little obvious alternative use. But more recently, yields may have narrowed somewhat due to a realisation of these assets' critical place in the supply chain. Mofid concurred, noting that there is an education process taking place among investors – particularly for the more specialised production-related facilities, where there may be the compensation of a highly secure income stream.

The meeting closed with a brief discussion of cold storage for pharmaceuticals. Southall noted that the low temperatures required for the Pfizer vaccine had brought this function to the media's attention – but the premises required are very different from food storage. Mofid had heard anecdotal evidence of growing occupational demand, particularly in the Oxford-Cambridge corridor, but this was yet to translate into institutional investment.

Social Value in Real Estate
7 April 2022

You don't have to wait for all the numbers

This webinar showed that some real estate market players are already finding it worthwhile to create social value across a variety of UK locations and sectors, even if it is difficult for them to measure the financial benefits such interventions could have. Creating more inclusive and sustainable communities can clearly make for more attractive places to live, work and visit, but often mainstream investors find it difficult to justify such activity due to the lack of relevant historical data. However, the data is coming, and first movers could emerge as the ultimate winners.

The effects of the pandemic and the onset of high levels of inflation are raising the importance of social value, noted **Matt Soffair** of L&G, who led this webinar. But real estate is still working out the role it should play in this area.

In the first of three presentations at the event, **Mariana Goncalves** of Savills identified three main drivers for real estate organisations to embrace social value: creating value for stakeholders, shareholder expectations and employee satisfaction. But despite this impetus and a mass of publications that have been generated on the topic, there is still little agreement on how it should be defined. Even so, there has been some consensus around a process that in the first instance involves identifying local needs and then establishing what social value outcomes might be targeted, after which a strategy can be implemented and monitored for success. She stressed the pressure for achieving social value in construction, an activity often perceived to have negative effects, but the idea is also taking hold on the operational side of real estate.

Ellandi, which undertakes retail asset management across 28 UK town centres, is one such organisation implementing a social value agenda. According to board member **Tim Corndon**, the objective is to create 'more sustainable and inclusive communities' by making centres more attractive places to visit, in turn generating a stronger sense of worth among local populations. This ambition has gained growing interest from investors over the past five years or so, and Ellandi has also placed increasing emphasis on the need to measure outcomes, for instance in seeking to put a monetary value on the benefits gained by the local bodies and firms with which they partner. These are considered within the TOMs (National Themes, Outcomes and Measures) framework developed by central government for measuring social value.

In another example of a business that is looking to enhance social value within communities, **Gareth Jones** described the objectives of his organisation Town Sq as 'building communities of like-minded people across the UK'. With a focus on creating co-working spaces to foster an eco-system of entrepreneurs in ten locations around the country, they provide start-up clubs and accelerators as well as admin support, in effect achieving a broader defined version of co-working that can help people, places and communities to thrive. The firm has recently gained B Corp certification, which means that it has been verified as meeting high standards of social and environmental performance, transparency and accountability.

In the panel discussion that followed, Jones suggested that real estate investors are starting to understand the importance of creating social value in local communities as part of the requirements of a successful investment, but that they still have a lot further to go. Corndon agreed that investors are starting to see alignment between their own and social objectives, but that it is often difficult to persuade them to make a commitment in some of the locations where Ellandi work. These may not be the most fashionable places but making this kind of social impact can bring a lot of value in the long run.

The difficulty of measuring how investment can affect social value is clearly a concern for investors, and each of the speakers agreed that this is a problem. Goncalves said that one reason is that different communities have different needs, while social effects tend to be longer term and less tangible than environmental ones. But Soffair proposed that investors shouldn't see problems with measurement as a reason not to be active in this area; Corndon agreed, stressing that the ability to measure social effects should improve over time.

Tokenising Real Estate Assets
Pi Labs, 2 Stephen Street, London W1
21 April 2022

An innovation looking for a big fish to bite

Holding real estate in a digital format – as tokenisation is usually understood – has now become technologically possible but is yet to take off on any scale. One reason is that no big 'institutional' market players have yet taken the plunge. Once this happens, the technology could have a big future in real estate investment. Applications are already starting to emerge in land registration and the fund business, but the holy grail will be applying the innovation to single assets. Hurdles include not only confidence in the technology but also getting regulation up to speed.

A new platform for fractionalising and tokenising real estate seems to be announced every few days, suggested **Andrew Baum**, the main speaker at this seminar. In his presentation, he focused on digital real estate using tokens – that is, holding property in digital form so that it can be divided into relatively small unts. This kind of tokenisation is often promoted as a way of democratising investment in real estate and opening it up to all. Platforms developed for this purpose are usually based on the kind of blockchain technologies that also lie behind cryptocurrencies, but it should be remembered that fractionalisation in the broadest sense is an idea that has been around much longer.

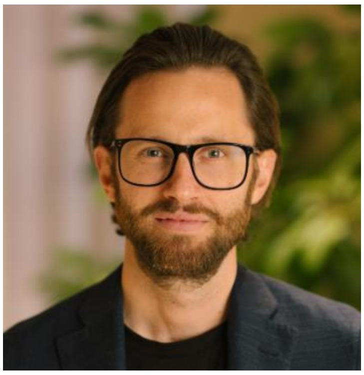
Baum referred to a 2020 Oxford University report on real estate tokenisation in Europe that he had authored, which identified 17 separate instances of its use up to that date. However, relatively few of these were for tokenising individual assets, and he was sceptical about tokenisation taking off in this area – property owners want to keep control of their buildings, while crowdfunding hasn't really made much headway in real estate investment. Any property that is tokenised will in any case need to be held within some kind of trust structure, which means there is always an intermediary involved. And for this to succeed, real estate investors will have to gain confidence in platforms and their promoters, not to mention the blockchain technology itself.

Real estate tokenisation is far more likely to prove successful for funds, noted Baum. Here investors can benefit from the 'free lunch' of diversification and regulatory and holding structures are already in place.

An area of real estate activity where tokenisation looks to have strong potential – and one that does not involve fractionalisation – is that of residential conveyancing and registration. In the panel discussion at the seminar, **Eddie Davies** explained that the UK Land Registry, his organisation, has been pursuing the use of digital tokenisation as a way of accelerating this process in its 'Digital Street' project, which seeks to employ blockchain technology for exchanging rather than for holding property. In one simulation shown on the Land Registry's website, the time taken for transacting a basic apartment was reduced from three months to ten minutes. But Davies stressed that these are very early days for the concept, with 'cultural resistance' in the market likely to be a much bigger hurdle than technological feasibility.

Emmanuel Lumineau of Arkkticc Technologies is an entrepreneur who has played a significant role in introducing tokenisation to real estate, particularly through his involvement with the Brickvest platform, which has syndicated both single assets and funds. During the panel discussion he explained that one of the main challenges in the fund space has been marrying the technology with the regulatory framework of AIMFD, two areas where few

practitioners have combined expertise. And even if you have crossed that bridge, there is still the hurdle of getting your platform to be accepted among fund managers, who often think they should be able to structure everything themselves. Lenders are also often reluctant to take the step forward.



The third panellist at the seminar, **Luke Graham** of real estate venture capital firm Pi Labs, said that they find a lot of tokenisation platform start-ups coming to them. Among those likely to be perceived as at the riskier end of the investment spectrum, these have included platforms targeted at tokenisation in the Metaverse. Coming closer to the real world, Graham suggested that products with a short potential term, such as many in the real estate debt space, could be better suited to crowdfunding approaches than more traditional long-term equity holdings.

In the Q&A that wrapped up the meeting, which was led by **Yi Wu** of Reading University, SPR Chair **Hamish Smith** asked what would need to happen for tokenised real estate to be accepted by institutional investors. Baum thought that it would take a big player like a Blackrock or a Blackstone to tokenise a fund in order to establish the level of confidence that is now needed in the marketplace. Large single asset tokenisation might follow as others take advantage of the clear efficiency and cost benefits of transacting and holding property in this way.

The Past, Present and Future of Real Estate Debt

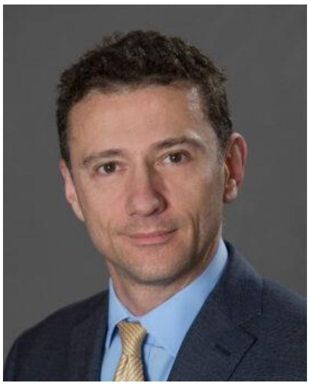
PGIM, 1-3 The Strand, London WC2
26 May 2022

Report by Cleo Folkes

This in-person event aimed to provide a better understanding of debt as a real estate investment class. Providing debt can currently deliver a more attractive return than equity in some UK situations, but risks are building: the prospects are now for weaker growth, higher inflation and rising interest rates, which could potentially mean pressure on returns, narrower spreads over bonds and reduced liquidity in debt markets. Still, over the longer term, non-bank lending to real estate could reach parity with bank lending in the UK.

The session was expertly chaired by **Stefanie Hanstveit**, who looks after property debt syndication at Wells Fargo, and opened with **Dominic Smith**, a debt researcher at CBRE Investment Management, who commented on the huge range of returns available, ranging from 2.25-3.75% at the lower end of the risk spectrum to 9-15% at the top.

Currently, investors in RE debt can earn favourable premium to equity and to fixed income on a risk-adjusted basis. CBRE IM modelled how much of the equity return a credit investor ought to receive at different levels of risk to help understand what types of loan would provide relatively good value. The sector analysis for 2022-2026 showed we have returned to a phase where forecast credit returns sometimes exceed equity returns, especially for more complex assets or more risky types. Also, in 2022 the average total cost of debt started to exceed the MSCI UK average NIY.



Peter Cosmetatos, Chief Executive of CREFC Europe, discussed how RE debt provision has changed over the years. While the securitisation of loans via CMBS has all but disappeared in Europe since the GFC, in part due to the effects of Solvency II, the wider debt provider landscape has diversified significantly in that time. Regulators acted on concerns that lending was taking place at the worst time in the market cycle, causing banks to pull back from the riskier end of the spectrum, a gap quickly filled by non-bank lenders (NBL). The attractive risk-adjusted returns provided by RE debt have proved especially attractive in an environment with chronically low interest rates and returns, and investors increasingly on a search for yield.

Mathew Crowther, a seasoned RE debt fund manager at PGIM Real Estate, then set out the outlook for the debt market. The last decade was an incredible time for lenders due to a supportive interest rate environment. The future offers weaker growth, higher inflation and rising interest rates. This will place pressure on returns, narrowing the spreads available over bonds, and reduce liquidity a little, raising a number of questions. Can rents grow enough to cover rising interest rates? Is it still accretive for borrowers to borrow? Inflation-linked income offers some insulation against inflation. Logistics, living sectors, data centres and life sciences benefit most from long term structural trends.

Crowther highlighted the ESG focus in the sector. ESG drives demand for certain office assets, providing selective tactical opportunities, but is also a big risk factor. Legislators do not seem to understand the RE market well enough.

Liquidity is expected to drop only a little, as there is a significant amount of dry powder looking to invest in RE equity and debt, limiting the decrease of spread over bonds. Looking across the main sectors it was noted that spreads were widening in Q1, with residential, office and logistics yielding the highest debt cost margins in the UK, Northern Europe and the Nordics respectively. The UK is bit more insulated from upside pressure on property yields, which are more elevated here due to Brexit. In continental Europe the reset is starting to hit now, with lower yield spreads and low-to-negative bond rates – a key concern is where interest rates are going. In the panel discussion, Smith added that we are less levered now than pre-GFC, so ‘it will be different this time’, but distress will come to those on floating rates.

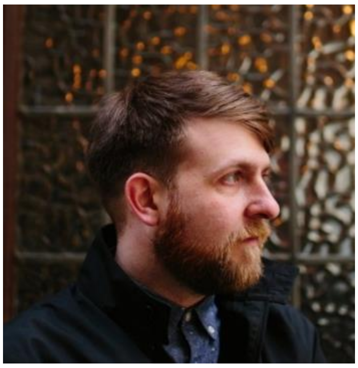
Apwinder Foster, Head of Product Strategy, DRC Savills Investment Management, who joined the panel discussion suggested that, like the US, NBL in the UK can reach parity with bank lending in the next 15 years as the credit market here is still relatively immature. She predicts NBL will focus on transitional assets, and banks on stabilised assets, with collaboration between the two sectors for required asset upgrades. Dominic Smith has calculated that 15-35% of value needs to be spent on capex for such upgrades on 60-75% of stock across Europe to reach an EPC B rating.

The panellists were critical of the incentive structure for banks to lend on shiny new buildings – with all the related embodied carbon issues – rather than on assets you can take from ‘brown’ to ‘green’ by upgrading. Currently ‘brown’ to ‘green’ investments do not qualify under SFDR article 9, which is the opposite to what is required. NBL are likely to lead the charge to improve sustainability.

Timber buildings: the environmental solution real estate needs
21 June 2022

Timber framed, but not as we knew it

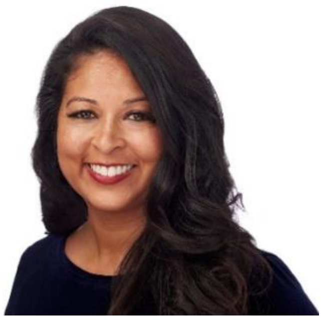
Timber framed buildings could play an important role for real estate in its quest to meet net zero targets. The technology may sound rather quaint, but the reality is that timber can now replace steel and concrete in many construction formats, even some of the larger ones. Indeed, such buildings may not only be timber framed, but also use compressed timber panels for walls and floors. Using wood as the principal raw material not only offers the possibility of much more climate friendly sourcing, but also the potential to demount after the building comes to the end of its useful life.



Speaking at this SPR seminar, which was moved online due to the national rail strike, **Dave Lomax** of architects WTA revealed that timber-framed buildings now have the potential to replace conventional steel and concrete in many situations. Key to this development is cross-laminated timber (CLT), which can form thick panels that are far stronger and more adaptable than traditional timber. Creating forests for such timber will actively reduce the carbon in the atmosphere, rather than adding to it like most other raw material extraction and processing.

Lomax presented some impressive case studies of timber constructions designed by WTA, including Dalston Works, a block of 121 apartments and 35,000 sq ft of commercial space that on completion was the largest such structure in the world. Brick-clad and with plastered interiors, the building has a conventional appearance but with the additional advantage of being demountable when no longer needed. This effectively provides for a one-third reduction in subsequent carbon consumption, to add to the third-lower footprint of the initial build.

The importance of reducing the carbon embedded in buildings on the journey towards net zero was emphasised in **Marylis Ramos**'s opening presentation. The director at Savills Earth Advisory noted that the UK's commitment to reach net zero by 2050 implies a reduction of at least 40% in new buildings' embedded carbon by 2030, a target that will mean much more re-use of the materials in existing buildings as well as new technologies like wood. She suggested that investors are now focusing more on the full property life cycle and not just the operational challenges of zero carbon, but that this revolution is still not happening fast enough. Timber construction could certainly play an important role in reducing buildings' embedded carbon along the road to net zero.



In the panel discussion led by **Alex Dunn** of Cromwell Property Group, who chaired the event, his colleague **Danya Pollard** proposed that the biggest hurdle for investors to overcome in accepting the benefits of modern wood construction is their lack of education in how far the technology has advanced, particularly in relation to fire and damp risks. Lomax explained that these can now be dealt with in a similar way to concrete and steel structures, where they can still be a problem – there is no reason why wood should be regarded any differently in this respect.

Thinking about the fund investment landscape in which she works, Pollard believes that such vehicles are relatively well placed to take a view of longer term ESG issues given their lifespan, with values and returns set to be increasingly influenced by the risk of asset stranding, something that is being reinforced by regulation. For Lomax, this all works in favour of timber construction, which he just hopes will be given the chance of a 'fair hit' – this should lead investors to ask the question 'why not?' rather than 'why?'.

SPR Webinar: Obsolescence: an increasing risk for real estate?
6 July 2022

A mountain to climb

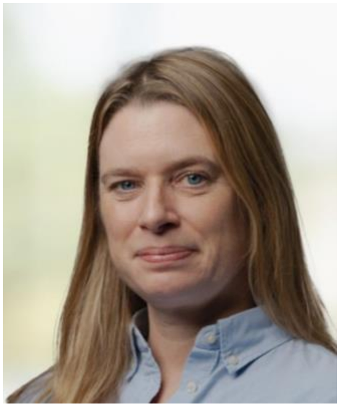
Researchers speaking at this webinar explained how climate-related obsolescence looks set to have a big impact on costs for real estate going forward. With the majority of investment market players now embracing the need to meet net zero targets at an accelerating pace, the related building obsolescence can also only accelerate. At the same time, the costs of remedying the situation have risen substantially.

In his opening presentation, **Mark Unsworth** of Oxford Economics suggested that the costs of extending the range of an asset's life by 15 years to meet evolving regulatory and occupational requirements will range from 7-30% of value, with hotels the most expensive to align. This implies that for City of London offices, current market pricing and cost levels mean that 6% pa rental growth will be needed to make such renovation projects stack up, much more than the 1% pa growth seen of late. Moreover, if yields move outward over next two years, costs will be even more difficult to justify.

This analysis reflects the recent acceleration in governmental efforts to align with net zero targets for real estate. Minimum energy efficiency standards (MEES) are likely to require a minimum B EPC rating for commercial buildings by 2030, while there are also wider influences including EU disclosure standards and IFRS requirements that will impact listed property companies. In her presentation, **Clare Bailey** of Savills said that an 'astonishing' amount of money will be needed to get UK office buildings up to EPC B by 2030, given that 1bn sq ft of stock now has a lower rating. And even if this isn't legislated for, occupiers are likely to demand it anyway.

There is clearly a flight to quality among occupiers, she suggested, which is attracting a rental premium, even if many are taking less space post-pandemic. In the panel discussion moderated by **Robin Goodchild**, **Lee Bruce**, a valuer at CBRE, proposed that the premium could be as much as 6% for offices. He indicated that valuers were now reflecting EPC data for buildings as well as other ratings like BREEAM, with clients increasingly demanding energy use to be taken into account – this is now being incorporated into valuers' training.

Lucy Winterburn of Savills IM, also speaking as a panellist, said that the threat of climate-related obsolescence has become a 'massive minefield' for investors. As manager of an institutional pension fund, which she suggested was ahead of the market in this respect, her emphasis has been on buying assets at a level of pricing that allows for the upgrades needed to meet tenants' more challenging



demands. But she admitted this can be very difficult in sectors such as leisure and hotels, where leases tend to be long, which limits the possibility for restructuring and improvement. Green leases are essential to ensure that buildings are used in an energy-efficient way, she argued, though this needs to be as part of a collaborative approach with occupiers.

The overall thrust of the webinar was that the majority of investment market players are now embracing the need to meet net zero targets at an accelerating pace, which means that the related building obsolescence can also only accelerate. At the same time the costs of remediation have risen substantially – at least in terms of short-term construction costs; however, Unsworth noted that innovations such as modular construction and the use of alternative materials, like timber, could help ease the situation.

In Conversation

Andrew Baum
10 February 2022

Bridging the business and academic worlds

In the first SPR 'In Conversation' talk of 2022, Andrew Baum, Professor at the Said Business School, University of Oxford, spoke to SPR Chair Hamish Smith about his career in real estate academia and fund management.

Having enjoyed a stellar property research career in both business and academe, Andrew gave a highly authoritative view on the differences and synergies between the two worlds.

Interviewed by SPR Chair Hamish Smith in the latest 'In Conversation' webinar, Andrew suggested that the differences between the disciplines of the academic and business spheres can be exaggerated – the main difference being the reward structures in place. Success in academia very much depends on creating a body of published work, which may give the impression of a rather inward-looking approach, while business success mainly depends on achieving impact in the marketplace.

But he stressed that for real estate research there are synergies running from the academic approach to business, particular in terms of the rigour that it encourages. This includes basing the research on strong empirical information, applying an appropriate methodology and presenting the results in a clear and logical way. Conversely, business experience can lend a lecturer far greater credibility among students than they could hope for from a purely academic background.

Andrew explained that his ground-breaking role at the Pru followed ten years as a real estate academic at Reading University, a career path that he resumed soon after with a professorship at the same institution. However, he then missed the excitement of the commercial world, which led him to start a private portfolio strategy business with his fellow academic Brian Macgregor. This was at a time when the UK market had been booming and it proved to be hard work bringing unfavourable predictions to their new institutional clients, even if they were eventually proved right.

Asked by Hamish what makes a successful researcher today and how this may have changed over the course of his career, Andrew said that in recent times, outstanding researchers have been willing to 'blow the whistle' on the parts of traditional theory that don't work in the real world – for example, the idea of using regionally based diversification as a way of reducing portfolio risk.

He also noted that there is now much more respect for research on occupational markets than there was in the late 1980s when he led the newly formed property research team at the Prudential. At that time, it was seen as very much the poor relation of capital markets research in the team's quest to bring analysis methods from stocks and bonds into property.

Looking to the future, Andrew believes this is a time of fantastic opportunities for real estate research, with technology revolutionising occupier-owner relationships, particularly via the use of apps, while environmental and social impact investing looks set to transform the landscape. The needs of environment impact reporting could even spawn a new IPD, he suggested. But he also thinks that the potential effect of data science and AI on the information available to the researcher can be overplayed. Understanding the fundamentals of geography and land economics is far more important when addressing current topics like the future of cities, where the theory of agglomeration and knowledge sharing still holds good.

Kim Politzer
27 May 2022

Always ready to learn

In the second SPR 'In Conversation' interview of the year, Cleo Folkes (SPR committee member and former Chair) spoke to Kim Politzer, Director of Real Estate Research at Fidelity about her distinguished and varied career in property research. Kim began her real estate career at Tesco before assuming senior roles at BNP Paribas (formerly Weatherall Green and Smith) and Invesco.

Kim revealed that like so many property researchers, she had studied geography at university, where she gained an interest in the built environment, leading to a Masters dissertation on local consumer behaviour due to the arrival of the Brent Cross Shopping Centre. From there, she joined the graduate training scheme at Tesco, which she said provided a great start in real estate research; her first role in store location analysis gave a solid foundation in a number of key areas including demographics and planning. As well as enjoying some clandestine investigations of competing stores, she also benefitted from exposure to a lot of statistics and econometrics, which later stood her in good stead.

Kim's success has clearly been based on constantly broadening her spheres of expertise. This was accelerated by her move to head up retail research at WGS (later part of BNP Paribas), where the market crash of the early 1990s led to a reduction in team numbers and the extension of her role to cover offices and industrial too – showing that adverse market events rarely prove negative for everyone. In her 16 years at BNP, she was promoted a number of times, becoming head of occupier research and forecasting before she left.

In 2006 she changed tack, joining Invesco's investment research team under Paul Kennedy, whom she said had always impressed her. There, she continued to expand her skillset by taking a Masters in econometrics and forecasting and took over running the team in 2006 when Kennedy left to join Adia. The role was then Europe-wide, which meant gaining familiarity with a wider range of data, often of weaker quality – at least initially – than that available in the UK. Kim suggested that this need to adapt methods to use varying data sources is also relevant today, though more in relation to emerging market sectors and subsectors such as life sciences.

Kim's present position at Fidelity represents another change of direction, as they take more of a bottom-up approach to investment strategy across all asset types. This means a more thematic presentation of research to fund managers and more interaction with fixed income and equities colleagues on occupational market trends, which she enjoys. Looking back over her career, she has found investment research most satisfying, just because you are closer to the beneficiary of the analysis and can have an impact on financial outcomes for investors.

Going forward, Kim sees ESG as the major new area for property research, and another one where researchers will be in a position to make a real difference in the world. She has signed up for a CFA course on the subject later this year, reflecting her continuing quest to expand her level of knowledge. This professional inquisitiveness has clearly been a major reason for her success and is a trait she would encourage in others. Learning to think broadly about all the different influences on real estate can only prove beneficial in the long run. research in the team's quest to bring analysis methods from stocks and bonds into property.

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